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Today Codelco faces a complex and critical scenario. It is probably one of the most challenging moments in its 45-year history. In this environment, we must strive to fully understand the challenges we face and, at the same time, we must have a leading role in restructuring, revitalising and strengthening our Company that has history.

Our mines have brought benefits and development to Chile, but our operations are up against several and difficult challenges. For example, the sharp decline in copper ore grades over the last few years. Additionally, many of our industrial facilities and infrastructure

have depreciated, they have been in operation for a long time, are becoming obsolete and, in many cases, do not meet the high mining standards of the 21st century.

In this scenario we face an enormous challenge: if we want to maintain our current production rates, we must implement an unprecedented investment portfolio of approximately US\$20 billion until 2019. If we do not do this soon, in just a few years Codelco would no longer be the world's top copper producer and the driving force behind Chile's development. The fall would be unstoppable and probably irreversible.

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Based on current estimates, if the investments to streamline and extend mine life of current operations are not implemented, our output rates would drop approximately 77% by 2030 compared to current rates. This would have enormous and devastating effects on the State treasury, local economies and thousands of people would lose their jobs.

Despite the huge task of investing in structural projects, we are not released from the obligation we assumed as a state-owned company: deliver profits today; this commits us to our shareholders-citizens, i.e., all Chileans.

In order to achieve this mission we have had to undertake two difficult, painful and complex, but essential adjustment processes to ensure the Company's future: by aggressively reduce operating costs and minimise capital expenditure.

It is a known fact that the high production costs caused by the copper super-cycle have affected the competitiveness of the world copper industry and, specifically, Codelco. In 2015, we anticipated this scenario and, thanks to strict teamwork, our cost reduction plan was 120% on target, by then end of the period we had saved US\$1.203 billion.

We earned a pre-tax profit of US\$ 1.075 billion (before extraordinary items), a remarkable achievement given our position in 2015. It also became evident, as probably never before, that our daily cost savings at

Codelco became resources for the State, used to finance infrastructure, education, pensions, health and social welfare.

However, this performance was down 65% compared to US\$3.046 billion in 2014. For this reason we must have a sustained and strict budget adjustment plan for 2016 and subsequent years because the Company's short-term goal is to be in the first quartile of the industry cost curve, and among the top 25% of the most competitive mining companies. The best insurance we have against long-term or marked declines in copper prices is to continue, in a disciplined manner, to be among the most efficient producers on the plant. Prices may fall, but as supplier and input markets adjust their costs and prices, only the most solvent shall survive by taking advantage of these opportunities.

During 2015, we reviewed our investment portfolio in order to optimise the use of resources, which will allow us to reduce investments by US\$1 billion in 2016 and US\$4.2 billion for the period 2016-2020. This measure and the capitalisation authorised by the Chilean State, has allowed Codelco to maintain its financial indicators within suitable limits, giving continuity to its long-term development.

Codelco has also set an operational goal for 2016, which is to save US\$240 million supported by the initiatives defined in our productivity agenda; our end goal is to save on management costs a further US\$2 billion by 2020. In other words, by reducing investments and saving on operating costs, our goal for the period 2016-2020 should amount to

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US\$6.2 billion, equivalent to saving US\$1200 for each of the more than five million households across Chile. If we can achieve these objectives we would be saving this money for our shareholders-citizens, while we maintain production rates, extend the mine life of our operations and continue to contribute to the State treasury.

Evidently, this implies hard work and total commitment. Our men and women, and especially those who today are transforming Chuquicamata – a hundred-year-old mine and the world's largest open-pit mine – into an underground operation; those who are developing new seawater desalination technologies at Radomiro Tomic; those who started operations at Ministro Hales Division, and those who strive to develop projects to extend the mine life of Andina, El Teniente and Salvador operations, and streamline operations to push the borders of what is possible in modern mining at Gabriela Mistral or continue improving our production and environmental performance at the Ventanas Smelter, everyone, without exception, should have a leading role in this enormous effort.

A profound change is needed. This unprecedented investment plan will be implemented with resources owned by all Chileans; we must develop the projects efficiently, on time and within budget; apply the best business plans and attract cutting-edge technology for our operations. These higher business standards go hand in hand with best practices and world-class standards of probity, transparency

and ethics. We have made progress, but we still need to do more. The wealth of Codelco is its people, and only with its workers, professionals and executives, will it be able to take a firm step towards tomorrow. We are talking about a breaking point that requires effort and concentration. To be part of mining in the 21st century does not only require developing these structural projects that will extend Codelco's productivity for another 50 years. Nor is it enough to adjust costs in order to improve our competitiveness. It urgently needs a cultural transformation. The people who form part of this company know (and if some do not, they must be soon convinced) that we must base our work on seven pillars: operational excellence, financial sobriety, economic efficiency, socio-environmental sustainability, scientific-technical innovation, socio-cultural diversity and corporate transparency.

In fact, we want to recover Codelco's operational excellence, i.e., always do things properly, in all aspects involved in management areas, such as: process efficiency, product quality, productivity, occupational health and safety, dealing with the environment, and supplier and contractor reliability. We want to be recognised as a company that implements its corporate strategy plan as best as it can and fulfils, in form and substance, its commitments.

Financial sobriety implies eliminating the ginormous mining model that has prevailed over the last few years, in the midst of economic growth. Today we are continuing our efforts to limit and to be responsible for

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our business, so that through sustainable mining, we can focus on our mission: generate earnings for the Chilean State. For this reason, in 2015 we undertook an exhaustive review of our investment plan, including our structural projects, in order to optimise the use of our available resources. We also focused on cutting down operating costs in related areas, such as energy, maintenance, machinery, spare parts and equipment.

However, in these difficult times, we need more than just stricter mining plans. Cost reductions must also involve economic efficiency. In 2015 we reached an agreement with our employees, set in the Strategic Agreement, to increase productivity 18% by 2019. These goals - operational excellence, financial sobriety and economic efficiency - aim to minimise the effects of declining copper prices on our contributions to the State and to Chile's development.

The Company's sustainability strategy to produce today with tomorrow's standards, in order to be part of an industry respectful and committed to the environment. For this purpose, we must improve our capabilities and knowledge, ensuring that environmental and sustainable development best practices form part of our way of. We believe that these areas are a must in our daily and ongoing performance. As the company of the Chilean State we are responsible for being leaders in this area. Specifically, in 2015 our goal was to go from "territorial intervention" to "territorial development" where our operations or investment projects are located, to build reliable, transparent and long-term relationships

with the communities. But we still have a long way to go towards a modern mining that prevents inequities in the community, seeks social stability in its environment and calls for constructive dialogue.

At Codelco we value imagination, intelligence and creativity to develop our business. We need to be innovative in all areas, precisely because we must, simultaneously and in a limited period of time, implement complex structural projects, to be competitive our employees to safety risks. We must focus on technical-scientific innovation, creating disruptive solutions in all key production processes, and on our objective to be part of a more virtuous, inclusive and sustainable business. This is why we have already opened up channels to contact our innovators in the field of science, entrepreneurial initiatives and engineering, who we challenge to help us conceive new businesses and consolidate our comparative advantages in several fields, such as robotics, communications, logistics, biotechnology and information technology.

We are also convinced of the benefits of increasing the Company's sociocultural diversity. Incorporating people from different ethnic and cultural backgrounds who live in the areas where we operate, as well as recruiting the world's best talents is the main source of innovative and creative skill exchange. Furthermore, we believe that - but we still have to do more - incorporating more female talent, views and skills into the business is of utmost importance. It is true that the number of female employees at Codelco (8.9%) is higher than the mining industry (7.7%), but this is not enough. We should not be satisfied with this

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number because we still have far to go to reflect the progress our society has made on diversity and even less so the kind of society we hope to become. At Codelco we are convinced that a diverse workforce is good for business, simply because companies with more female employees optimise productivity, women adapt better to changes and create a more stable workforce.

Finally, corporate transparency is reflected in our work towards a modern, professional and auditable management system. Our Company is committed to improving standards, to such an extent that in 2015 we developed policies to regulate lobbying and conflicts of interest, this was in addition to the measures approved in 2014 related to transparency, probity and good corporate governance. Now it is time for the people – who are more demanding, empowered and have stricter demands – to know about our efforts and value them. For this purpose, we shall move towards a more transparent culture with regard to managing information. In this context, we shall not only be available to answer citizen requests for information, but we shall also promote and create a culture of transparency where we must publish and disclose data, documents and files of public interest, in a proactive, voluntary, updated, accessible and understandable manner.

This is the critical challenge Codelco is up against: we must change the way we do mining. We have already faced this enormous challenge during our first years. After copper was nationalised, when there were

doubts about the capabilities of the country's workers and professionals to sustain operations, we were able to remain standing, to create the professional skills needed to lead new projects and to become a world-class company. Codelco was, is and will be a demonstration of what Chileans are capable of when we involve all our soul, mind and strength in the tasks we are entrusted by the country.

There are many reasons to be proud of our past success, but there are even more reasons to focus on our future challenges. At Codelco we are convinced that we shall continue to be part of mining in the 21st century. We shall use our knowledge and experience to transform our processes, to meet today's requirements and to continue to be ambassadors for the copper industry and Chile.

To accomplish this gigantic task, now more than ever, we need everyone's commitment and will.



Óscar Landerretche Moreno
Chairman of the Board