

Message from our CEO

Sustainability-related commitments

Materiality process

Context and relevant facts

Our company

Corporate governance

Work performance

Environment

Community relations

Verification letter

ICMM

GRI Index

Context and relevant facts in the copper market



The copper industry worldwide faces a complex scenario known as 'the end of the high commodity-price supercycle'

Global economic scenario

The copper industry worldwide is confronting a complex scenario known as 'the end of the high commodity-price supercycle' associated to lower economic growth in China, as main copper consumer, and an overstocked market as a result of new projects coming into operations. Consequently, important challenges lie ahead of us in trying to reduce costs and enhancing the efficiency in all processes while moving forward in matters of occupational health and safety, environment, and development of communities surrounding our operations.

Thus, in 2015, LME refined copper prices averaged 249 cents per pound of copper (c/lb); that is, 20% less than the previous year, when the average reference price was 311 c/lb.

However, the copper industry was affected also by other factors -such as the USA Federal Reserve announcing a rate increase from 0.25 to 0.5%, finally materialized in December, and the expectations of larger capital

flows coming into the USA from emerging economies- which had an adverse impact on the foreign currency of metal-producing countries like Chile, Peru, Brazil, and Australia. Also, the strengthening of the US dollar vis-à-vis the currency of other commodity-producing countries, helped deflate producer's cost curves, making room for raw material prices to plunge to lower copper prices.

In 2015, the hedge funds operating in commodity markets, mainly China, reported short net positions (sales higher than buys), in line with the gloomy mood prevailing among raw-material investors, with negative expectations regarding copper price.

On top of the above, the price of molybdenum, the main by-product commercialized by Codelco, dropped 42%. Thus, in 2015, and according to Metals Week, Mo was quoted at US\$ 14.7 per kilo. At the same time, gold and silver prices dropped 8% and 18%, respectively.

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Copper and molybdenum markets

As to refined copper markets, at aggregate level, total copper inventories soared from 316 thousand MT by the end of 2014 to 489 thousand TM by December 31st, 2015. According to regional inventory distributions, 264 thousand MT were accumulated in Asia as of December 31st, 2015; that is, 54% from total volumes. The US was next with 150 thousand MT between COMEX and LME warehouses. Then was Europe with 74 thousand MT in LME warehouses.

With respect to the global offer of molybdenum, the Chilean Copper Commission predicted negative growth rates of 12.9% and 8.7%, for the period 2015-2016, as against 2014, due to productions cuts and shutdowns of large deposits, resulting from low molybdenum prices that have affected, basically, primary producers' profitability.

In the face of this scenario, Codelco has continued to lead the development and implementation of a number of initiatives where elements such as promotion, protection, and innovation are combined with the purpose of opening new markets for copper and molybdenum. In Chile, this strategy is applied through the subsidiaries Molyb, PRM, EcoSea, and Codelco Lab; at international level, this is achieved by actively participating in the International Copper Association and in the International Molybdenum Association.

Copper inventories in official warehouses

(Regional distribution, % from the total)

