

## Message from the Chairman of the Board



The crisis served as an opportunity to make Codelco a better company. Today, we have to repay the trust placed in it not only with profitable projects but also total accountability.

A handwritten signature in black ink, appearing to read 'O. Landerretche Moreno'.

Oscar Landerretche Moreno.  
Chairman of the Board



In 2016, Codelco stood out for its great achievements in the face of adverse conditions. Three variables of the mining business, over which we have no control, showed a deterioration that negatively affected our results: copper prices whose average was down by 11% on 2015; exchange rate differences whose effect on our liabilities in Chilean pesos was extremely negative; and our ore head grade which dropped by almost 7% on the previous year.

These adverse conditions affected all the copper industry but, at Codelco, we were able to offset their impact by improving our performance on those variables which we do control. In 2016, we exceeded our production targets and achieved direct costs that were below the average for private mining companies. In turn, these two results of sound management enabled us to exceed the savings target agreed upon with the state, generating profits that were higher than budgeted by the Finance Ministry and surpassed all expectations at the beginning of the year.

At the same time, we progressed in preparing the company for the next 50 years. Between 2014 and 2017, we will have implemented investments worth US\$12,000 million, positioning Codelco as the

company in Chile that is investing most. As we progressed along this road, our owner, the state of Chile, showed its confidence in the company's Board of Directors and senior management, approving first a capital injection of US\$4,000 million and then a supplementary capitalization law that extended the period for the capitalization and mobilized fiscal resources to support Codelco. This trust in the company to implement structural and divisional projects, which will in future generate resources to finance social programs and other state policies, is a gesture whose importance must be recognized.

Of course, these resources do not resolve the company's long-term financing problems. Over the past few months, we have explained to the country the nature of Codelco's financial relationship with the state and have underscored the need to normalize this relationship.

We have explained that the company, which belongs to all Chileans, requires a new deal from its owner, with a credible and responsible capitalization rule that is sustainable over time and tied to our results. We believe that, by doing its job well, Codelco earns the right to continue receiving resources with which to invest.

**The capital injections provided so far by the state are, in fact, tied to our undertaking to continue to reduce costs, implement a more austere budget, not increase our current level of debt and optimize our investment portfolio**

Materializing these investments whilst maintaining the company's current level of debt is no easy task. For this, the capital injection will not suffice and high-quality management will, above all, be required. Our undertaking is to achieve productivity gains that will mean a saving of US\$2,100 million by 2020 and a cash flow sufficient to service our debt whilst, at the same time, generating profits for our owner.

In 2016, we successfully optimized our portfolio of projects, adjusting the financing they will require. This implied rescheduling investments for a little over US\$2,250 million as compared to the original plan. As a result, the plan will comprise investments for US\$18,000 million over the five years to 2020 whilst maintaining our current level of production.

This means we will have to persist in efforts to reduce costs that began in 2014. We must be emphatic: if we are not able to maintain these savings, it will not be possible to implement part of our investment portfolio such as the structural projects. Each dollar we spend unnecessarily will be a dollar less to invest in these projects and, therefore, a dollar that will not be generated in the future as profits. If this occurs, Codelco will, in the not too distant future, be a smaller company that makes a smaller contribution to social policy, has a smaller impact on private mining suppliers and creates fewer jobs. That is not something which Chile can allow to happen.

Our goal is clear: to make Codelco a company with lower costs, projects that are better managed, a debt that is under control and higher profits. We will reinforce the policies we have implemented in order to guarantee that the company keeps to this road, striving to install structures that embed this approach institutionally.

As we have said before and will reiterate now, the crisis served as an opportunity to make Codelco a better company. Today, we have to repay the trust placed in it not only with profitable projects but also total accountability. That is why, over these past two years, we have significantly strengthened internal controls, restructuring

our comptroller and auditing areas, drawing up new norms and establishing a more demanding framework of corporate governance. Our corporate reforms seek to guard against corruption, control conflicts of interest and ensure probity. We want to guarantee all Chileans that Codelco is managed in the country's interest and is safe from the pressure of interest groups. Persistence is also required here. If there is any backsliding in Codelco's reputation and social credibility, it will be unable to pursue its investment and cost-reduction projects because its capitalization will be more difficult.

At Codelco, we have also opted for a more open communications strategy that reflects a real vocation for transparency. Our option is simple: to explain the challenges to all the interested parties, to set out our strategy for addressing them and to report on our progress in implementing it. And, when a mistake or difficulty occurs, we want to be the first to act before regulatory agencies or the press ask us to do so. We have promoted a culture of transparency, proactively, opportunely, accessibly and clearly disclosing information of public interest. When other state agencies with supervisory powers have requested information, we have opened our doors, answered their questions and used this as an opportunity to improve the institutional framework.

However, this increased transparency and probity will only serve their purpose if they are underpinned by a program of genuine improvements which, in our case, are designed to guarantee the good use of resources, higher productivity, control of costs and the decompression of our investment portfolio. That is what we have done and it has been noted by different audiences.

The latest Merco Empresas study of corporate reputation examined perceptions of financial results, talent attraction, ethics, corporate responsibility, internationalization and innovation, surveying directors and executives of 400 companies, financial analysts, NGOs, trade unions, consumers, academics and citizens. Codelco was once again among the top ten (7th) in the overall ranking and, for the sixth consecutive year, took first place among mining companies.

**We believe that the improvement in our reputation is the fruit of clear reporting and of submitting with humility to the scrutiny of all in the awareness that the media, leaders of opinion and citizens in general deserve full explanations of our actions.**

We have understood that, on our road to improvement, we must give priority to matters such as innovation. The mining industry's endogenous challenges include deposits that are more complex and, because of their lower ore grades, also have higher operating costs while its exogenous challenges include increased environmental and community relations demands which call for processes that are ever more efficient and friendly towards their area of influence. That is why we created Codelco Tech, the company's technological subsidiary, whose mission will be to give a new boost to innovation in the company. In other words, its strategic mandate will be to lead and foster research to create a mining industry that has a minimal environmental impact.

**Our workers are also changing. In young people, motivation and commitment are not the same as they were. Executives and supervisors must be able to lead and motivate these workers and elicit their commitment to the challenges we face today. At Codelco, we are aware that we must reinforce our capacity for dialogue and help the country's best talents, men and women, to relate to the variables of the business.**

We are also aware that the context in which we operate has changed. The present and the immediate future are more demanding as regards labor and socio-environmental matters. Today, operating permits are more restrictive and sustainability has become one of the pillars of competitiveness in our business. Moreover, access to critical inputs for the mining industry -energy, water and places for waste disposal- entails greater controversies and higher costs.

At Codelco, we do not complain about the changes arising from these increased citizen and institutional demands. On the contrary, we believe they call for perseverance in what we have been doing over the last two years. In this context, implementation of our projected investment of US\$1,800 million in our smelters is proceeding according to the plan for compliance with Supreme Decree N° 28, the air quality norm for copper smelters and other sources of arsenic and sulfur emissions. We have remedied the lags that existed in adoption of this standard because it is of the greatest importance to signal that Codelco will always comply with the law.

We have also progressed with the implementation of our Sustainability Master Plan under which we have undertaken to improve indicators of our safety, human resources, energy consumption and water use and reuse performance and, ultimately, the traceability of our processes.

All these advances demonstrate that the crisis was an opportunity to rethink the way we work and seek opportunities for improvement. There is still much to do but we can say that we have progressed towards being a company that is better prepared to address the challenges of the mining industry of today and the future. If we are able to persevere in this quest for greater productivity, financial prudence, corporate probity, operational excellence, project quality, investment realism, work with communities and our surroundings and innovation as essential for recovering competitiveness and fulfilling our mission to provide resources to the state of Chile, Codelco will continue to play a key role in Chile's development over the coming decades.

That is why we have said that, in 2017, we must once again win the battle with our deposits, with costs, with technological challenges and with the temptation to abandon austerity and again give in to the seduction of size that, in recent years, did so much damage to Codelco.

We are certain that mining will be good business only for those who know how to change and adapt to the standards of the twenty-first century. Our critical challenge is to convince ourselves that it is imperative we continue making transformations so that Codelco is competitive and, therefore, sustainable.

We must continue to change the way we conduct our business in line with an industry whose foundations have changed forever.

This is a road with no return: Codelco's next 50 years depend on us assuming our responsibilities today.



**Óscar Landerretche Moreno**  
Chairman of the Board