

# Message from the Chief Executive Officer



Codelco's next 50 years demand that we always manage this business responsibly. This is a road with no return: only with financial prudence, innovation and adaptation to the new standards of the twenty-first century will Codelco continue to serve as a driver of Chile's development.

A handwritten signature in black ink, appearing to be 'N. Pizarro Contador', written over a white background.

**Nelson Pizarro Contador**  
Chief Executive Officer



For all us who work at Codelco, 2016 was one of the most complex years in our history. It will be remembered as a year of great achievements in the midst of adversity.

I would like to begin by noting that it was not, unfortunately, the year in which we were able to eliminate fatal accidents at our mines.

It was a painful year during which we lost four colleagues. This obliged us to continue striving to ensure that all our employees fully comply with our strict safety and occupational health standards.

In 2016, our global frequency rate (including direct and contractors' employees) was up by 3.3% on the previous year.

Our severity rate also increased. As a company, we are not happy with these results and, in response, have undertaken to consolidate the transformations we are implementing, starting with intensifying and improving our performance in this field. Care for life is and will continue to be our principal value and, as such, the factor around which our priorities must be organized.

## Copper market

During most of 2016, copper prices were low, giving an annual average of US\$220.6 ¢/lb, which represented a drop of 11% from an average of US\$249.2 ¢/lb in 2015. This was accompanied by exchange rate differences which also affected our results.

**But this crisis also became an opportunity to rethink the way we work and seek areas for improvement.**

Despite these complex conditions, we fulfilled our undertakings with the company's owner: we surpassed our target for production at our own mines which reached 1,707,000 tonnes of copper, 1.7% above the 1,678,000 tonnes agreed with the Finance Ministry.

For the third consecutive year, we also achieved a reduction in our direct cost (C1) which, at US\$126.1 ¢/lb, was down by 9% on the previous year. Under our Cost Reduction Plan for 2016, we had undertaken to save US\$399 million (a far more challenging target than the US\$242 million envisaged in the budget with the Finance Ministry) and achieved 108% compliance, with a saving of US\$433 million.

It was not easy for anyone in the first quarter of 2016 when, as in the last quarter of 2015, we reported negative earnings. However, over the rest of the year, we were able to turn round this poor performance and generate profits for the state of Chile, even

before the price of copper began to rise. Over the whole year, we generated earnings of US\$500 million.

In addition to these earnings, our contribution to the state of Chile included US\$942 million under the Reserved Copper Law and the Royalty Law and in the form of income tax.

## Year of collective bargaining processes

Over the course of the year, we negotiated collectively with 12 union organizations representing a total of 7,851 workers. In this sphere, our conversations were characterized by the responsibility and commitment shown by all the parties, including both the unions and the company, as a result of which it was possible to balance our employees' legitimate aspirations with what the company could realistically offer them.

## Human resources

Key milestones in this area included the preparation and publication by Human Resources of a new Norm on Filling Vacancies, with its corresponding recruitment and selection procedure. This established rigorous and objective criteria to ensure selection by merit and in strict accordance with the principles of equality of opportunity and non-discrimination in line with our values, particularly as regards the transparency and traceability of processes.

The company's succession system is a strategic process designed to ensure the availability of leaders capable of achieving excellence in our business performance. Successors have been identified for all our strategic critical posts, with a corresponding development plan. In the case of critical management posts and experts, coverage reaches 62% in line with plans for 2017 for succession alternatives at the transversal level.

## Capitalization and projects

The state approved a capital injection of US\$4,950 million for 2014-19 of which US\$1,575 million was already authorized in 2015 and 2016. This was good news, ratifying the confidence of our owner in the project we are implementing. However, these resources do not resolve the company's medium and long-term financing problem. Codelco requires a new deal from its owner, establishing a capitalization rule tied to the company's results.

For this reason, these capital injections are linked to the company's undertaking to continue to reduce costs, implement a more austere budget, maintain or reduce its current level of debt and optimize its investment portfolio.

In the case of the latter, we have adjusted our financing needs. This implied rescheduling investments so that, in the five years to 2020, they will reach US\$18,000 million whilst maintaining the current level of production.

In the case of company's structural projects, Chuquicamata Subterránea and Traspaso Andina progressed according to plan while the rest of the projects were programmed sequentially so as to guarantee better business cases and greater financial sustainability.

We are very much aware that it is imperative we once again meet our production, cost reduction and profits targets. These three factors are decisive for the credibility of our work and the support required to advance with the implementation of our investment portfolio. We will, therefore, persist in the process of reformulating and optimizing these projects so as to be better prepared when the time comes to implement these crucial decisions for Codelco's future.

### Sustainability Master Plan

In December, we launched a master plan for the company's sustainability, looking ahead to the long term and addressing the most complex scenarios for continuing to be a business that is profitable for the country, satisfies the needs of demand and responds to a society with increased expectations.

The six pillars of the Sustainability Master Plan are: to have a deeply embedded culture of safety and occupational health and raise standards of care for the environment; to build trust-based and transparent long-term relations with communities in the areas where we operate, with a target of zero community incidents by 2020; to strengthen corporate governance and maximize the value

of our mining resources, ensuring an average C1 cost that is in the second quartile by 2020; to be an organization with people capable of adapting to the industry's challenges and committed to the sustainability of the business; and to foster strategic innovation so as to use knowledge to create economic, environmental and social value.

As part of this Master Plan, we updated our Corporate Sustainability Policy, addressing the critical challenges for enabling the company's economic activity in its social and environmental context.

### Community development

Since November 2016, the company has been governed by a new corporate community investment norm (NCC 39) that establishes general instructions on procedures for implementing spending of this type, with internal mechanisms and procedures for making and reporting such contributions. Through transparency and accountability, it seeks to generate shared value with the communities.

Under the Master Plan discussed above, we have committed to a detailed review of our current standards and tools for the management of community relations. In line with this, we have begun inter-disciplinary work throughout the company to design a strategy, with medium and long-term indicators, to position Codelco as a reference for the industry in this field.

In 2016, we financed 68 community investment projects for a total of 4,744 million Chilean pesos. They focused principally on human capital, territorial development, socio-environmental undertakings and indigenous peoples.

## Environmental investments

Our four copper concentrate smelters achieved significant progress on the changes required for compliance with new environmental standards. As we have reported on a number of occasions, we will be investing US\$1,800 million between 2013 and 2018 in projects to comply with Supreme Decree N° 28 which will imply capture of 95% of emissions of sulfur dioxide (SO<sub>2</sub>) and arsenic (As).

The capture levels and chimney emissions limits already came into force for our Ventanas Division on 12 December 2016 when the necessary environmental projects also began operation.

## Values, transparency and probity

At Codelco, we have understood society's new demands as an opportunity to set ourselves apart and enhance our performance, achieving important progress as regards transparency, probity and good governance.

**We feel it is our duty to be more accountable for our tasks since we are certain that we do our work ever better; we want this to be known and therefore say so directly to our stakeholders and neighboring communities.**

In 2016, we launched the test version of a new website, [www.codelcotransparente.cl](http://www.codelcotransparente.cl), which contains information about the socio-environmental and community relations performance of our Andina Division. This new website will continue to grow until it encompasses the most important indicators of all our Divisions.

We have received a number of public and regulatory recognitions for our performance on transparency. In the Business Monitor of Corporate Reputation (MERCOR), we took first place among state companies and ranked 7th out of the best 100 companies in general. In addition, according to the Transparency Council, we achieved 100% compliance with the Transparency Law for state companies.

In the case of values, in June 2016, Codelco adhered to the UN Global Compact, a voluntary initiative through which companies

undertake to align their strategies and operations with ten universally accepted principles across four areas: human rights, labor standards, the environment and anti-corruption.

## Gender diversity

In the case of gender diversity and the harmonization of working, family and personal life, we obtained certification of our Head Offices, the Ventanas and Gabriela Mistral Divisions under Chilean Norm 3262. In addition, together with the Federation of Copper Workers (FTC), we drew up a Gender Diversity Policy.

The creation of mixed teams has called for adjustments in processes in the human resources area and the incorporation of measures such as those that seek to balance working and family life which benefit both men and women. Specifically, in order to better address this challenge, we have taken affirmative action that goes beyond what is legally required, including more flexible working times to facilitate achievement of this balance.

## Innovation

In 2016, through the creation of Codelco Tech, we laid the foundations for positioning innovation at the heart of our business. This new subsidiary will enable us to play a key role in the revolution of the mining industry of the twenty-first century whilst also addressing our own challenges better.

Codelco Tech's strategic mandate is to lead and foster research for the creation of a mining industry with a minimal environmental impact. Its objective is to generate technological breakthroughs that create value through solutions to problems such as the decline in ore grades, deeper mines, impurities in minerals, the scarcity of key inputs such as water and energy and stricter environmental norms.

At Codelco, we view innovation as a structural necessity of the business. In line with this, we are implementing an Innovation Management System that addresses all the spheres related to innovation and technological development and regulates the roles, responsibilities and powers of the different players involved, both within Codelco and in relations with Codelco Tech, partners, suppliers, universities, research centers and collaborators in general.

## Exploration

In 2016, brownfield activities predominated in exploration in a bid to improve divisional development plans by identifying opportunities for increasing their mineral resources. Over the course of the year, seven new exploration targets were identified of which six are greenfield and one is brownfield.

Given the maturity of exploration in Chile, Codelco's international exploration activities seek to broaden potential sources of mineral resources as well as to open opportunities for the company's internationalization.

These activities have focused principally on countries such as Ecuador that have geological similarities with Chile or those such as Brazil with high potential for new copper discoveries.

Out of the more than 20 prospects so far evaluated in Ecuador under the company's agreement with Enami EP, Mina Real (or Nanguipa) and Llurimagua are active. In Brazil, we have mineral resources at the exploration stage and with potential in the Liberdade project, which forms part of the company's association with locally-based Pan Brasil. Preliminary estimates of in situ resources are of the order of 242 million tonnes, with a copper grade of 0.77%.

### Suppliers, increased competitiveness, traceability and transparency

In 2016, we did business with 3,227 suppliers of whom 3,001 were Chile-based and 226 were overseas companies.

In 2016, we took a number of steps to incorporate more and better suppliers, including:

- **Probity and transparency.** We informed and emphasized to all our supplier base the imperative of continuously improving transparency, the symmetry of information and the probity of processes. This was also reinforced through policies, controls and internal management practices.
- **Competitiveness.** We boosted competitiveness and transparency in our procurement processes, reducing direct acquisitions from 6.2% of the total in 2015 to 1.9% in 2016.

- **Traceability and information symmetry.** All tender processes are now announced, published and documented on our electronic marketplace in [www.codelco.com](http://www.codelco.com).
- **New sources of supply.** We have a Business Intelligence Office which fosters the participation of local and international suppliers through vehicles that include contact with business associations and bilateral chambers of commerce as a way of increasing the visibility of our needs and exploring alternative sources of goods and services.

We are now certainly a better company than we were but we must still continue to improve. Codelco's next 50 years demand that we always manage this business responsibly. This is a road with no return: only with financial prudence, innovation and adaptation to the new standards of the twenty-first century will Codelco continue to serve as a driver of Chile's development.



**Nelson Pizarro Contador**  
Chief Executive Officer