

Procurement



We purchased many goods and services, including energy and fuel, strongly revitalising the country's economy. In 2016 we did business with 3,227 suppliers, allocating more than US\$ 5.6 billion.

We have a procurement department that coordinates the goods and services we need with the best options available in the domestic and international market.

We have policies and standards in place that guide our supply chain operation, including purchases, logistics, accounting and custody of materials and goods; at the same time, we ensure our quality standards are applied in the definition, hiring and delivery of the services acquired.

In this context, in 2016 we did business with 3,227 suppliers; 3,001 were local suppliers and 226 were foreign suppliers. The total amount allocated was US\$ 5.651 billion; this amount also includes long-term energy and fuel supply contracts.

Supplier Development

Our challenge is to strengthen our competitive advantage, consistently and sustainably, and to do so we have to build reliable relationships with goods and services suppliers.

We are convinced that our suppliers, given their wide range of customers and experience, can expand their knowledge base to our Company, not only by providing techniques, equipment and goods, but also practices to improve process efficiency.

Based on these goals, in 2016 we implemented a series of initiatives to capture more and better suppliers, such as the following:

- **Probity and transparency:** we reported and strengthened our supplier base, our target to continuously improve transparency, data symmetry and process probity. We have also strengthened this with policies, controls and in-house management practices.

At the same time we communicate with more than 4,000 companies active on our database and explain how to report at ethics point at our website (www.codelco.com)

- **Competitive advantage:** we promoted competitive advantage and transparency in our procurement process. We reduced direct contract tenders, from 6.2% in 2015 to 1.9% in 2016; we also reduced the number of single source supplier contracts, from 6.6% in 2015 to 5.0% in 2016.

- **Supplier data traceability and symmetry:** currently all our tender processes are issued, published and documented on our electronic procurement at our web site www.codelco.com. Where, suppliers have access to all the process data.

- **New supply sources:** we have a Business Intelligence Department focused on different initiatives, such as providing incentives to domestic

and foreign suppliers to participate via different means, how to contact trade associations and chambers of commerce in different countries, in order to make our needs more visible and explore new alternative goods and services suppliers.

In this context, we have an office in Shanghai, China, to increase our competitive advantages in different management areas.

In 2016, Asian market suppliers participated in more than 100 tender processes carried out by the Shanghai office; transactions amounted to more than US\$ 100 million in products, directly from China or with the support from local logistics operators.

In November, at the Asian Copper Week held in Shanghai, Codelco CEO, Nelson Pizarro, stressed the important work undertaken by our office in China.

Our medium-term plans are focused on promoting the Codelco 2020 Productivity Agenda, to strengthen our competitive advantage through sustainable and quality products and services.

- **Inventories:** we managed to reduce materials inventory by 8.7% compared to 2015, which is consistent with our control strategy based on what order request and what we need to stock. This is to move part of our requirements towards a low-cost and more efficient process and for suppliers to commit to on-time delivery, quality and quantity.

In this respect, supplier on-time delivery performance was 79% in 2015 versus 80% in 2016, higher than the average standard of the local mining industry.

Business by type of assignment 2012-2016

Type of allocation		2016			2015			2014			2013			2012		
		Business contracts	Amount (US\$ thousand)	%	Business contracts	Amount (US\$ thousand)	%	Business contracts	Amount (US\$ thousand)	%	Business contracts	Amount (US\$ thousand)	%	Business contracts	Amount (US\$ thousand)	%
Government tenders	Investment	57	156,190	2.8%	13	6,901	0%	21	26,649	1%	135	136,122	2%	393	52,193	1%
	Operation	27,468	1,819,348	32.2%	30,624	2,085,489	30%	32,271	644,072	14%	29,701	2,370,355	33%	30,211	1,493,843	19%
Total government tenders		27,525	1,975,538	35.0%	30,637	2,092,390	30%	32,292	670,721	14%	29,836	2,506,477	35%	30,604	1,546,036	19%
Private tenders	Investment	638	2,380,429	42.1%	704	1,572,282	23%	706	1,249,180	27%	967	1,102,312	15%	822	2,503,210	31%
	Operation	2,966	706,954	12.5%	4,300	2,343,385	34%	3,904	1,958,185	42%	3,871	2,351,411	33%	3,957	2,924,384	37%
Total private tenders		3,604	3,087,383	54.6%	5,004	3,915,667	56%	4,610	3,207,364	69%	4,838	3,453,723	48%	4,779	5,427,594	68%
Total direct allocation	Investment	128	68,102	1.2%	231	326,332	5%	331	229,037	5%	512	375,030	5%	502	256,016	3%
	Operation	456	40,752	0.7%	1,094	104,434	2%	1,369	136,470	3%	1,435	298,395	4%	1,628	409,336	5%
Total allocation		584	108,855	1.9%	1,325	430,766	6%	1,700	365,507	8%	1,947	673,425	9%	2,130	665,353	8%
Other allocations	Investment	62	211,645	3.7%	149	47,296	1%	129	144,756	3%	155	97,266	1%	115	105,059	1%
	Operation	1,281	267,474	4.7%	1,361	459,316	7%	1,441	278,744	6%	2,183	406,862	6%	2,035	261,893	3%
Total other allocations		1,343	479,119	8.5%	1,510	506,613	7%	1,570	423,500	9%	2,338	504,128	7%	2,150	366,952	5%
	Investment	885	2,816,366	49.8%	1,097	1,952,810	28%	1,187	1,649,622	35%	1,769	1,710,730	24%	1,832	2,916,478	36%
	Operation	32,171	2,834,528	50.2%	37,379	4,992,624	72%	38,985	3,017,470	65%	37,190	5,427,023	76%	37,831	5,089,457	64%
Total		33,056	5,650,894	100.0%	38,476	6,945,434	100%	40,172	4,667,092	100%	38,959	7,137,753	100%	39,663	8,005,935	100%