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President & CEO

Press Conference, 28 August 2015

# 2015 HALF YEAR RESULTS



# METAL MARKET ANALYSIS

## Costs & Production

# Metal Market

Chart 2: Commodity prices have fallen...

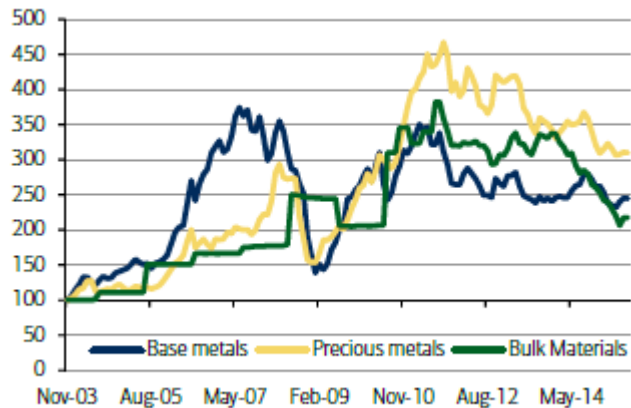


Chart 3: ... taking the miners along with them

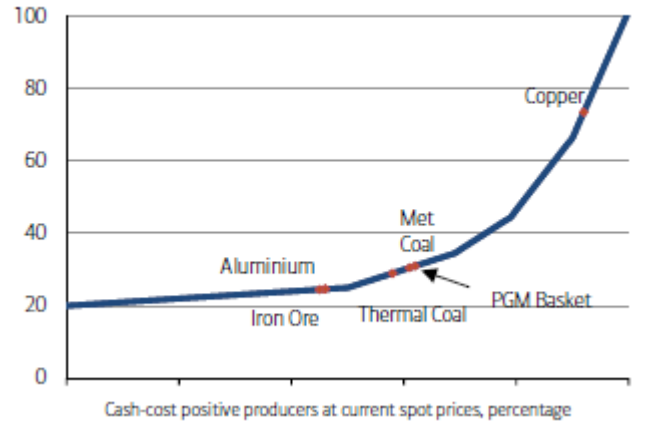


Growing signs of an economic slowdown in China, plus the appreciation of the US dollar, have corrected all commodities prices. **Copper prices have fallen 22%** over the last four months

The **stock market value** of mining companies is close to the **record low during the global financial crisis** in 2008

# Metal Market

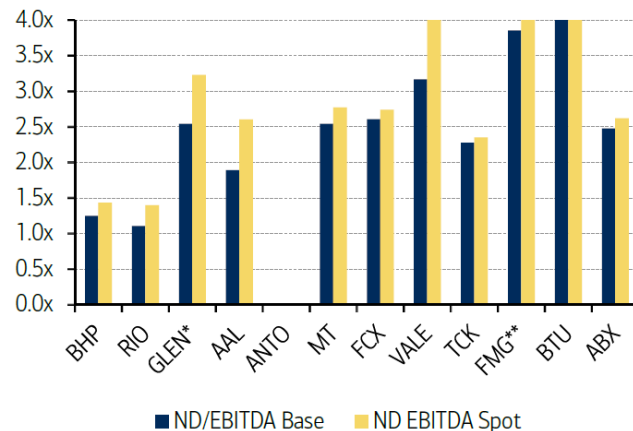
Chart 4: Prices have cut deep into the cost curve



With current commodity prices, most of the **production is under the cash cost.**

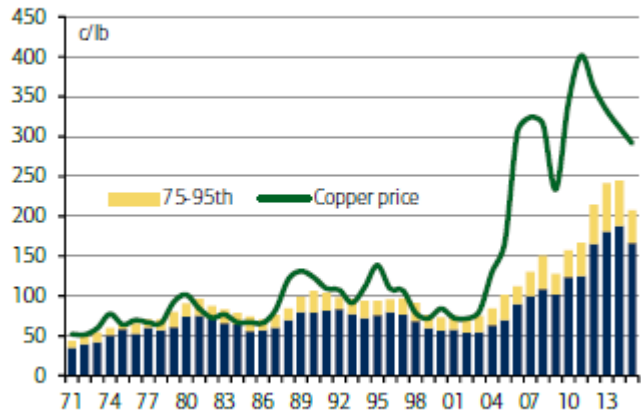
Therefore, the financial ratios of mining companies have deteriorated, mainly affecting heavily indebted mining companies.

Chart 9: Net debt/2015 EBITDA estimates calculated on our base case estimates & using spot metal prices



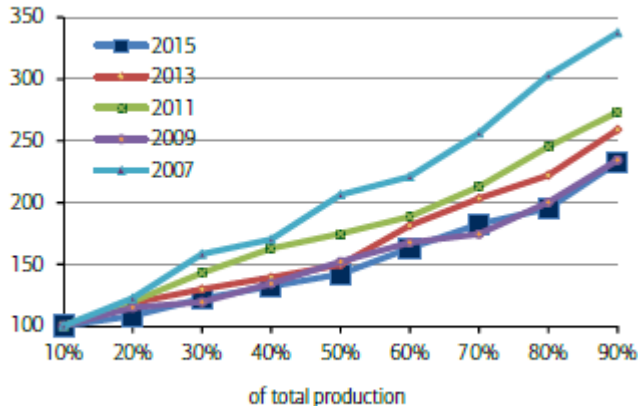
# Metal Market

**Chart 11: Lowering production costs has been a key tool to tackle margin compression**



Source: company reports, Woodmac, Bloomberg, BofA Merrill Lynch Commodity Research

**Chart 13: ... they have also flattened**



Source: company reports, Woodmac, BofA Merrill Lynch Commodity Research

The super-cycle significantly expanded margins, which were compressed as costs increased.

A sharp price correction has reduced margins.

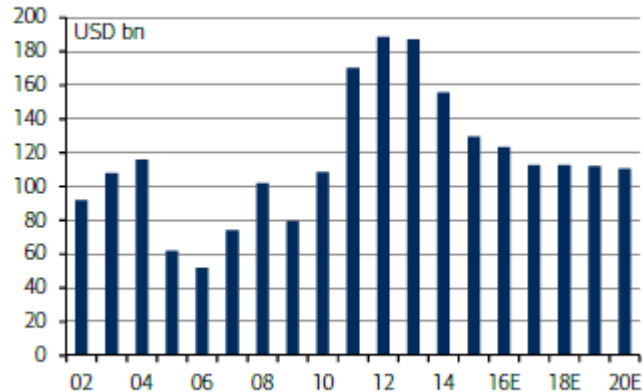
At current prices, estimates suggest that **less than 80% of copper production will cover its cash costs.**

The industry's main line of defence has been to defend its margin by lowering costs.

Therefore, the production curve has fallen and flattened.

# Metal Market

Chart 10: The world's top-17 miners have curtailed capex



Source: company reports, BofA Merrill Lynch Commodity Research

Chart 17: Mine supply growth is now gradually talling off; price related curtailments to accelerate the organic slowdown as peak capex runs off



Source: company reports, Antalka, Metal Bulletin, Woodmac, BofA Merrill Lynch Commodity Research

The industry has significantly curtailed capex to preserve capital and protect its financial position.

The sharp supply growth should end by 2017. This should set the **base for a new cycle of high copper prices.**

It is estimated that **there will be more risk and uncertainty in 2016**, which combines market uncertainty (China) and a production increase caused by a production surplus from maturing projects.

# RESULTS

# SAFETY, PRODUCTION & COSTS



# Work Safety

There were no fatal accidents during the first half of the year.

The Frequency Rate\* for the first six months **dropped 14%** over 2014. The **best frequency rate in company history**.

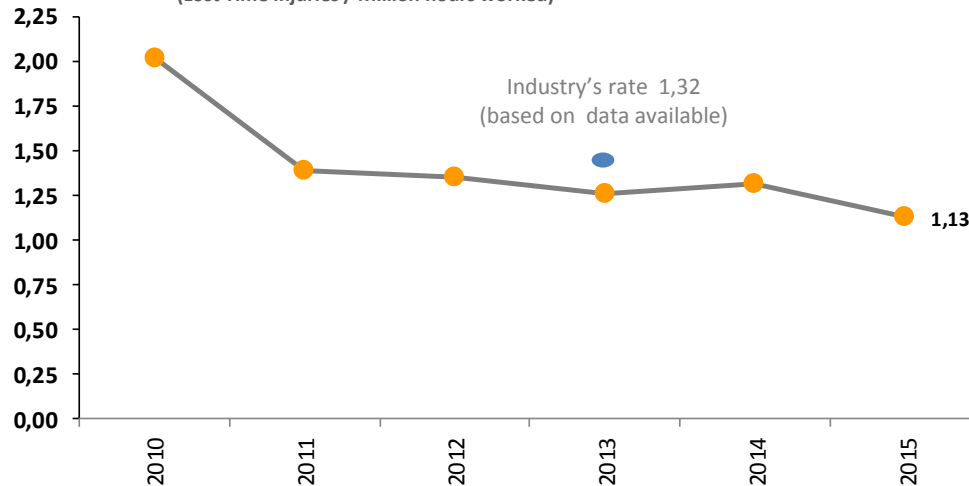
The Severity Rate \*\* **fell 16%**.

\*Number of total injuries per million man-hours exposed to risk.

\*\*Number of lost days per million hours worked

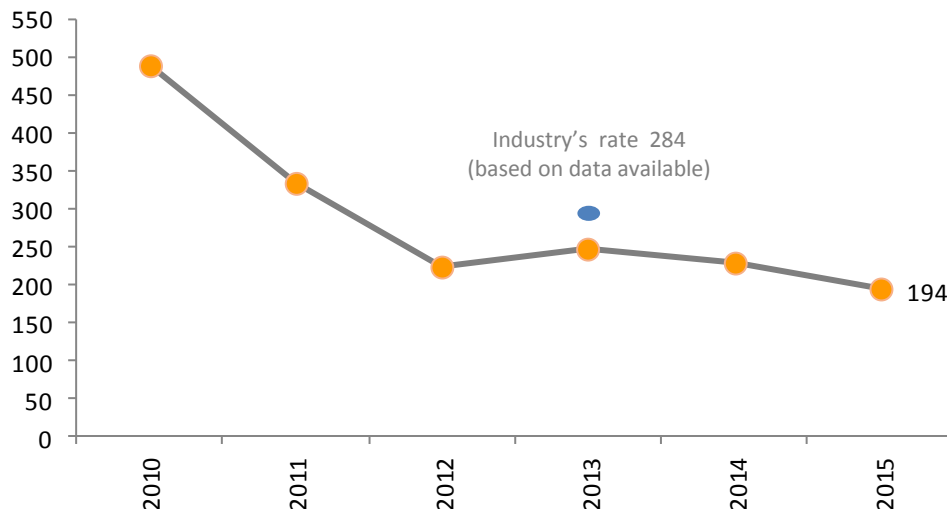
## Frequency Rate –Staff and Contractors

(Lost Time Injuries / Million hours worked)



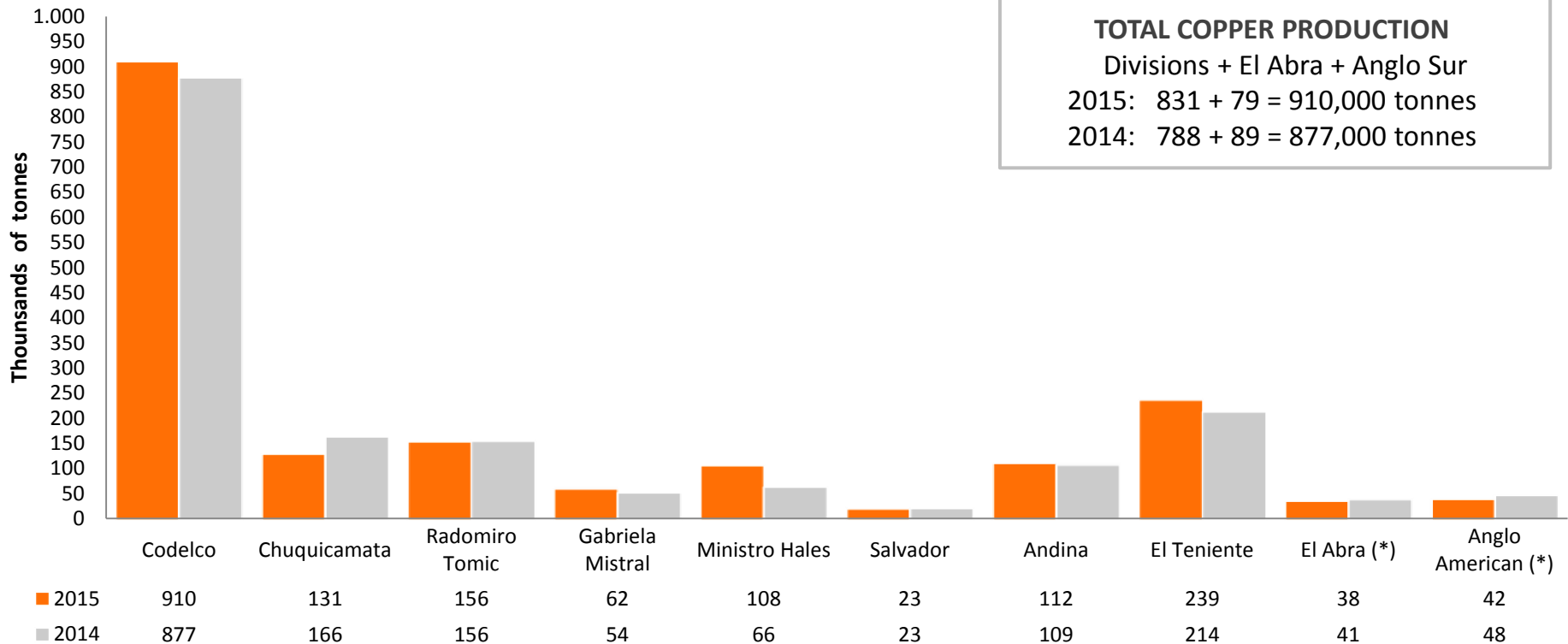
## Severity Rate - Staff and Contractors

(Lost days and days charged / Million hours worked)



# Copper Production | January-June 2015 - 2014

During the first half of 2015, Codelco **increased its copper production by 5.5%** at all divisions compared to the same period in 2014

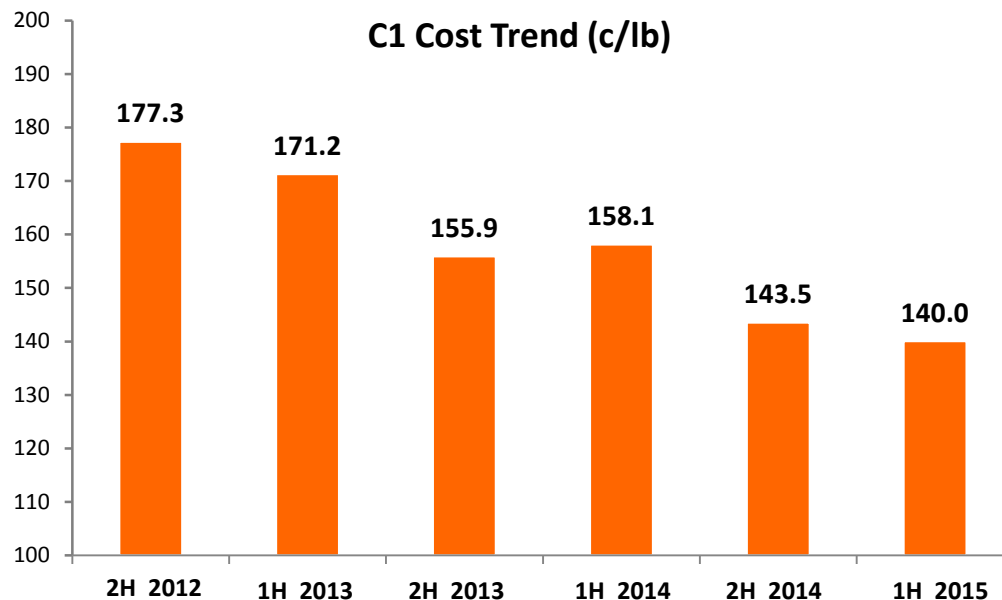


(\*) Production includes Codelco's interest in: El Abra 49%, Anglo American 20%

# Codelco Unit Costs

| January-June : 2015 - 2014

	2015 (c/lb)	2014 (c/lb)	Var (%)
Direct Cost (C1)	140.0	158.1	-11%
Net Cathode Cost (C3)	196.3	224.3	-12%
Total Costs & Expenses	205.9	240.9	-15%



During the first half of 2015, Codelco's **C1 costs** **dropped 11%** over the same period in 2014 and **18%** compared to the first half of 2013.

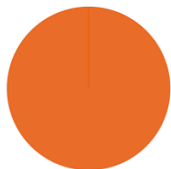
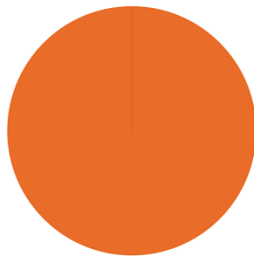
# 120% Progress in Cost Reduction Plan (exceeded June 2015 goal)

Saved USD 603 million

## HIGHER PRODUCTION

El Teniente  
**19.000**  
TONNES

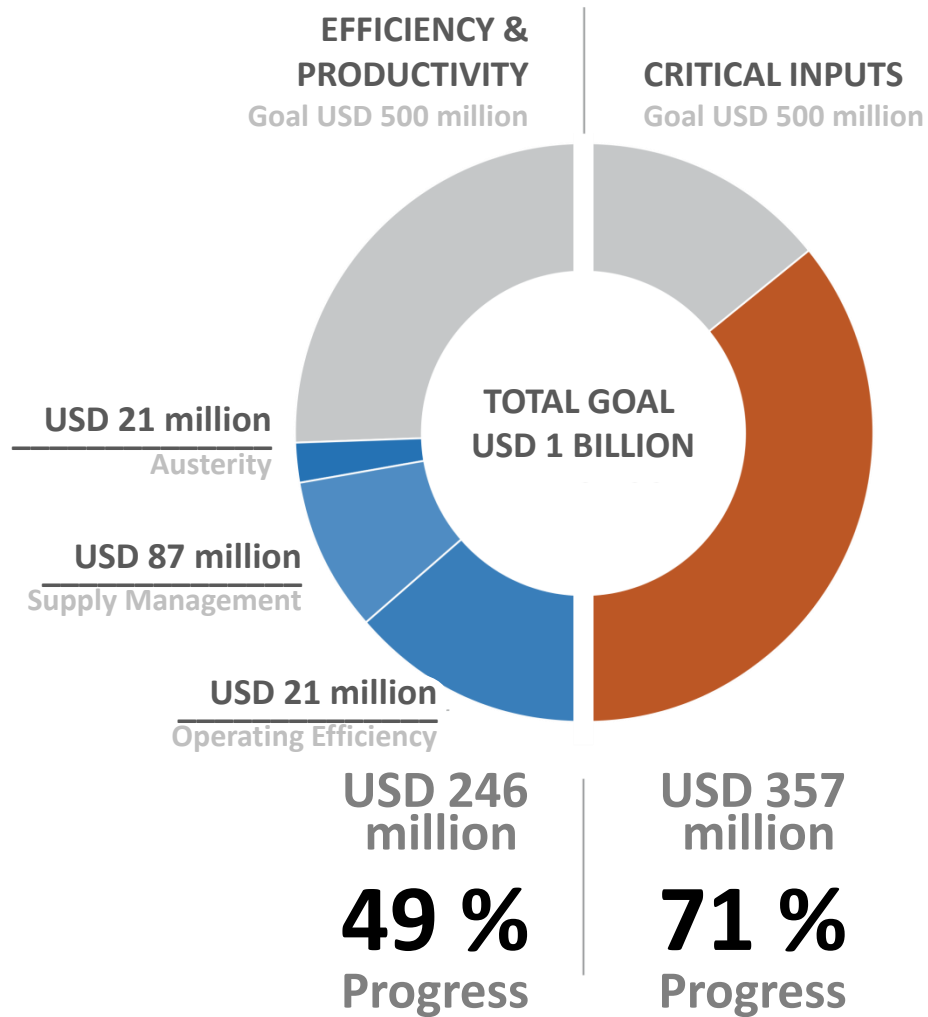
**5,000 tonnes**  
Annual commitment



Andina  
**4.000**  
TONNES

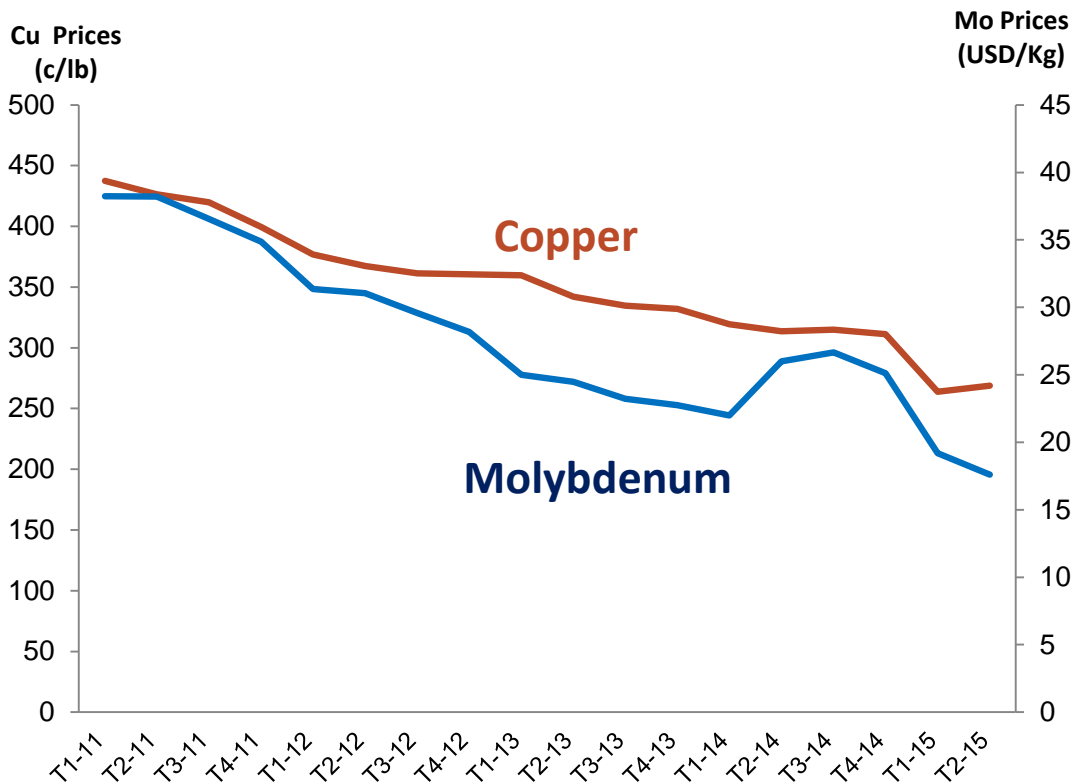
**1,000 tonnes**  
Annual commitment

## LOWER COSTS



# PRICES & PRE-TAX PROFITS

# Copper and Molybdenum Price Trend



During the first half of 2015, **copper and molybdenum prices fell 14% and 32%** respectively, over the same period in 2014.

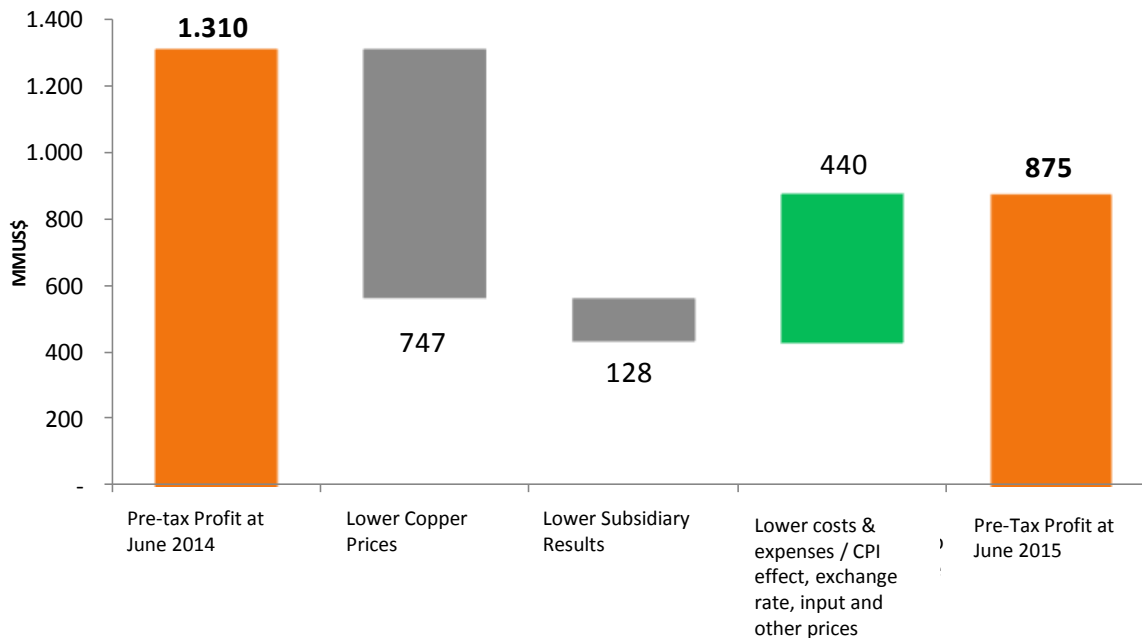
For each cent the copper prices dropped, its impact on pre-tax profit was **US\$ 36 million**.

For each US dollar the molybdenum price dropped, it hit **one cent of cash cost**.

Average price at June	2014	2015
<b>copper (c/lb)</b>	<b>313.7</b>	<b>268.9</b>
<b>Molybdenum (US\$/Kg)</b>	<b>26.0</b>	<b>17.6</b>

# Pre-Tax Profit | January- June: 2014 - 2015

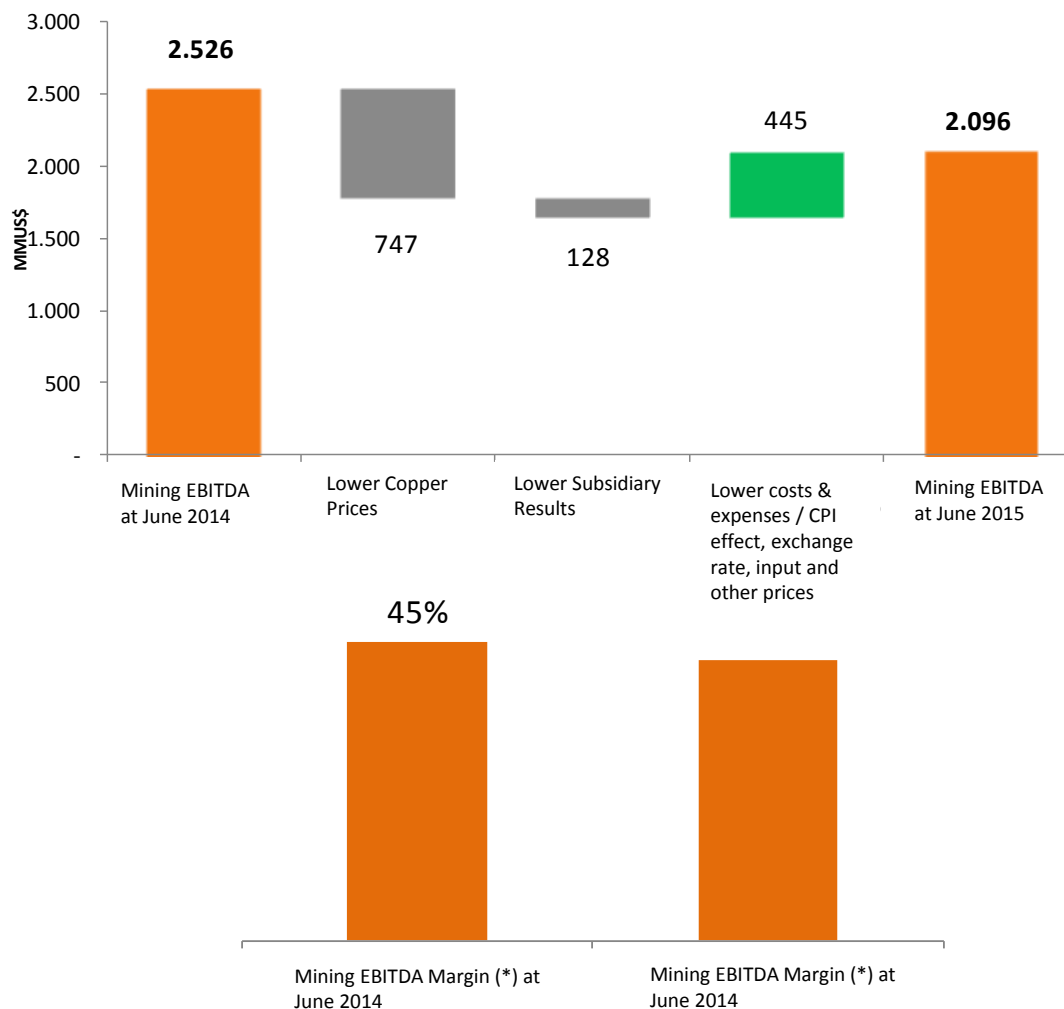
(USD millions)



Codelco obtained **USD 875 million** in pre-tax profits during the first half of 2015.

# Mining EBITDA | January- June: 2014 - 2015

(USD million)



(\*) Mining EBITDA Margin (%) =  $\frac{\text{EBITDA} - \text{Margin of copper purchased from a third-party}}{\text{Total Earnings} - \text{Earning from copper purchased from a third-party}}$

Despite lower copper prices, as a result of this **cost reduction**, the **EBITDA Margin** has remained at very solid and competitive levels relative to the industry.

Codelco's Mining Industry EBITDA was **USD 2.096 billion**, during the first half of 2015.



# INVESTMENTS

# Structural Project Progress | at 30 June 2015

## Chuquicamata Underground Mine

- Early works completed.
  - **21.2% progress** in implementation of overall project: main access tunnels, shotcreting and air extraction shaft.
- 

## El Teniente New Mine Level

- **34.8 % Progress**
  - The project is being reformulated to improve response to geo-mechanical conditions found during implementation, incorporating the latest findings about primary rock mining. The tunnels need to be reinforced to protect the safety of our workers and machinery.
- 

## RT Sulphide Mine

- **39% progress in detailed engineering** and sanitation early works to build future facilities.
- Environmental application in progress.

## Structural Project Progress | at 30 June 2015

- Andina Expansion**
- This **project will be reformulated** to create an alternative that requires less investment, has less impact on the environment and extends the useful life of Andina Division a further 50 years.
- 

- New Andina Transfer System**
- **16.2%** progress, as scheduled.
- 

- Rajo Inca Mine**
- Prefeasibility study progress, especially collecting geological data.
-

# Summary of Our Performance during First Half of 2015

- There were **no fatal accidents** during the first six months and the **injury severity rate fell**.
- Codelco **increased its production by 5.5%** at its divisions, totalling **831,000 tonnes of refined copper**.
- **Codelco cut its costs by 11%** (C1) and it has exceeded its cost reduction plan.
- During this period, there was a **sharp fall in copper and molybdenum prices**, and the company's **subsidiaries and related companies had lower results**. Notwithstanding the foregoing, the Mining Industry's EBITDA Margin was 40%.
- Codelco generated **USD 875 million in pre-tax profit for the Chilean State** during the first half of 2015.
- The Company is currently preparing its 2016 Budget and reviewing its **Business Plan**, which will include market conditions.



# CONTRACTOR CONFLICT

# 2013 Framework Agreement

- It sets out **minimum incentives, standards and benefits** that contractors should give their workers.
- Contractors, supra union organisations signed it and Codelco was the facilitator.
- It is currently **in force and 100% completed**.
- **Only one supra union organisation** (CTC) is attempting to turn it into a Collective Agreement, and generate a new and parallel collective agreement negotiation.

# Economic Impact of Conflict

- 22 days of strike action: **USD 80 million of loss production** (17,000 tonnes of refined copper) and damages to facilities and equipment.
- Cost of bonus: USD 160 million per year and USD 1 billion long term.



# New Model :

## Productivity- based Bonus

- Contractor indemnity system, **based on compliance of contract key performance indicators** (KPI) and revenue sharing.
- Codelco improves its performance, costs and production, exceeding compliance with the technical indicators contained in each contract. As a result, contractors chose a performance bonus.
- Contractors set out their KPI's for their employees (Labour KPI), aligned with the contract KPI's, allowing the objective, **and productivity-based, transfer of a significant part of bonus paid to their workers.**



**Thank You**