



# CODELCO: IMPROVING FINANCIALS IN A VOLATILE MARKET

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Chairman of the Board



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As an Industry Standard, Codelco divides its mineral holdings into two categories, reserves and resources. Resources are ore bodies of economic value that have been identified and evaluated through exploration, reconnaissance and sampling. Reserves are the portion of the resource that can be extracted based on an economic, environmental and technological analysis set forth in the mining plan. Reserves and resources are both subdivided further, based on the degree of knowledge that Codelco has of their extent and composition. The system used by Codelco for categorizing mineral ore is according to the Chilean law (N° 20.235) which is in accordance with others systems widely used within the mining industry. The "Comisión Calificadora de Competencias en Recursos y Reservas Mineras" is the independent Chilean entity who regulates this and it is part of the Committee for Mineral Reserves International Reporting Standards (CRISCO).





## 2016 Highlights

### Codelco was able to greatly stabilize its financials and cash generation in spite of challenging conditions

- **Near-record total copper production** of 1,827 kt thanks to increased activity, which partially offset lower grades
- **Productivity** continued upward trend (+4%); program in place to extend efforts through 2020 (+20% target for 2014-2020)
- **Unit cost reduction** brought C1 cost to 126 ¢/lb (-9%)
- **Collective bargaining** processes successfully closed at Andina, Salvador and Chuquicamata; no impact on production
- **Increased commercial integration** due to start-up of Molybdenum (16.5 kt/a) and Precious Metals plants



## 2016 Highlights

### Codelco was able to greatly stabilize its financials and cash generation in spite of challenging conditions

- **Investment program** streamlined to preserve cash, reducing risks in execution of structural projects
- **New Mine Level Project** at El Teniente developed alternative strategy to overcome geotechnical issues
- **Low financing cost:** 10-year US\$ 406m local bond issued at record-low rate (3.09%). Decreasing spreads
- **Strong owner support** reflected in US\$ 975m capital injection (US\$ 500m Dec'16 + US\$ 475m Mar'17)
- **Safety:** Mourned loss of four workers in three separate accidents. Strengthened commitment to ensuring a safe working environment

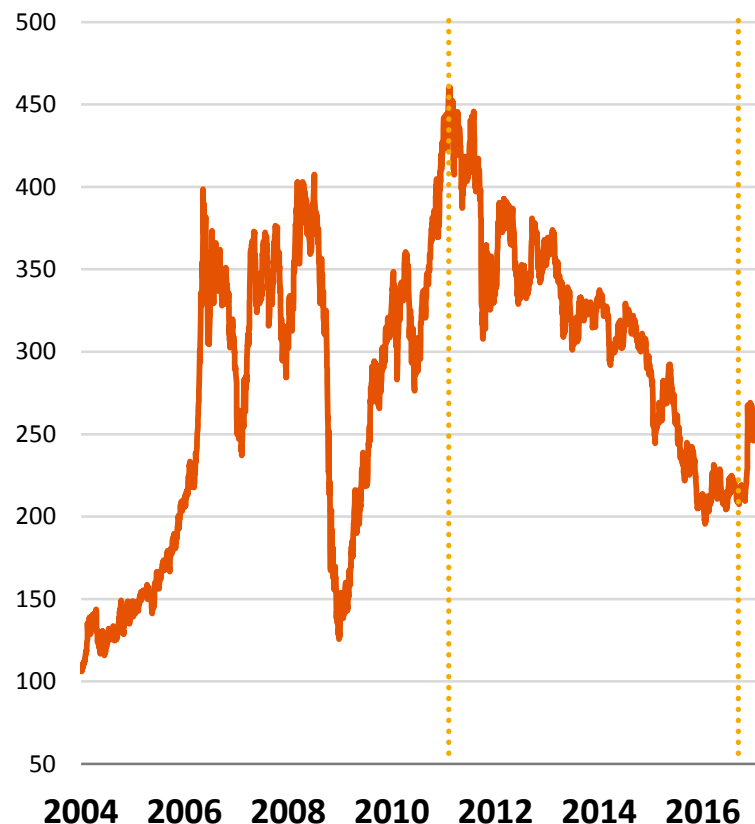
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# **COPPER MARKET UPDATE**

# Copper price rebound earlier than anticipated

During most 2016, a **five year down-trend** seemed to arrive at a support level and rebounded since early November

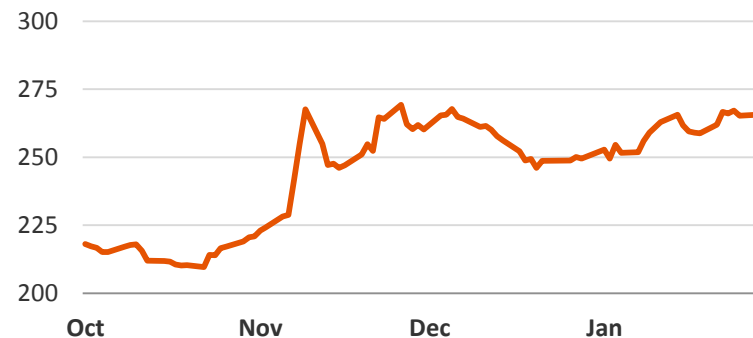
## 2004-2017 copper price<sup>1</sup> (¢/lb)



## Rebound drivers

- China **refined copper consumption** growth stronger than expected in 2016 (5% YoY compared to 2-3%)
- Expectations on U.S. infrastructure plan and **strengthening of its economy**
- Copper **supply rate of growth** lower than expected

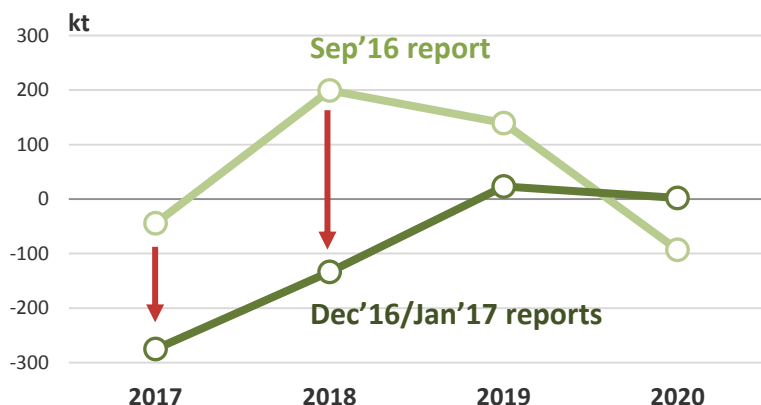
## 2016-2017 copper price<sup>1</sup> (¢/lb)



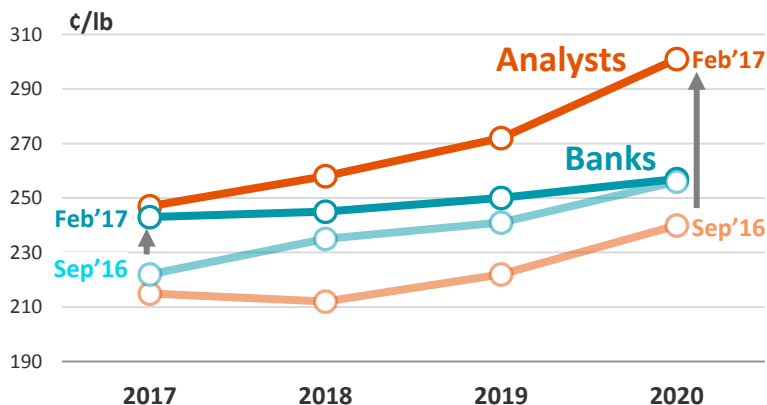
(1) Data for 2017 until January 31<sup>st</sup>.

# In turn, market outlook quickly improving

## Changing market balance forecasts<sup>1</sup>



## Positive price outlook<sup>2</sup>



- Market balance forecasts have **changed radically** since previous quarter
- **Market outlook** supported by:
  - Improving economic expectations in the U.S. and China
  - Underperforming production due to disruptions, capital expenditure cuts, and postponement of projects

(1) Sources: Wood Mackenzie, September and December 2016 Quarterly Reports and January 2017 forecast.

(2) Sources: Average of price forecasts published during September 2016 and January 2017.

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# **CODELCO OPERATING REVIEW**

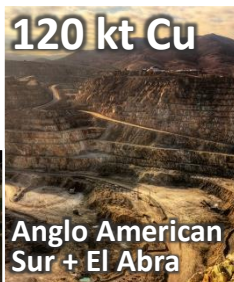


# Current operations

FY 2016 preliminary results • Copper production and C1 cash cost

Total copper output of **1,827 kt** in 2016 from its seven mining divisions + minority interests

Total C1 cash cost of **126 ¢/lb**

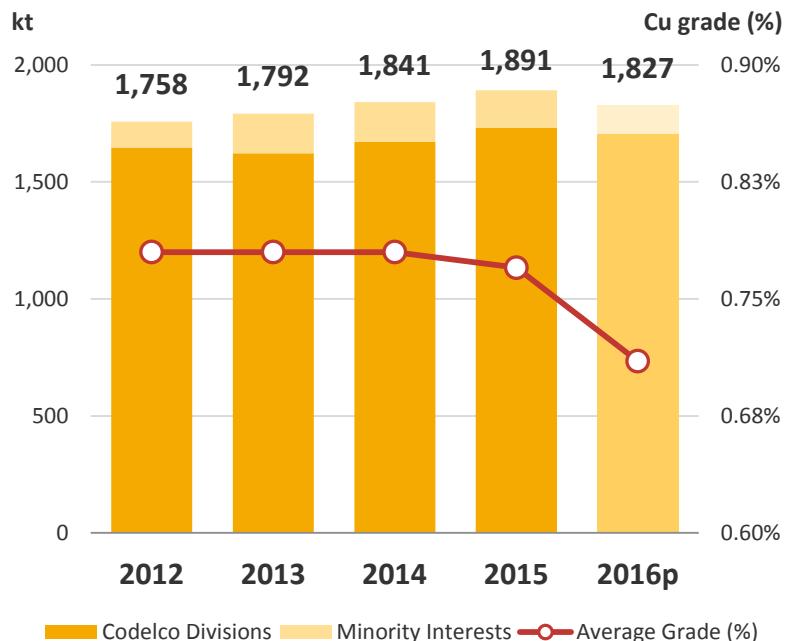


*Proportional production according to Codelco's share*

# Productivity and cost control program is steadily delivering expected results

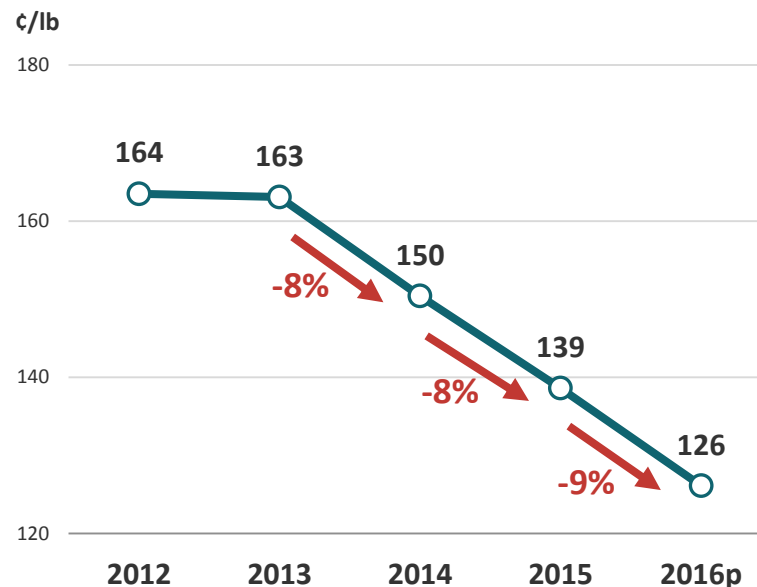


## Copper production & grades



**Near-record copper production levels despite declining grades**

## C1 cash cost



**Steady decline in unit costs over the last three years driven by:**

- Increased productivity
- Lower input prices (salaries and wages, materials and third-party services)

Note: All 2016 figures are preliminary.

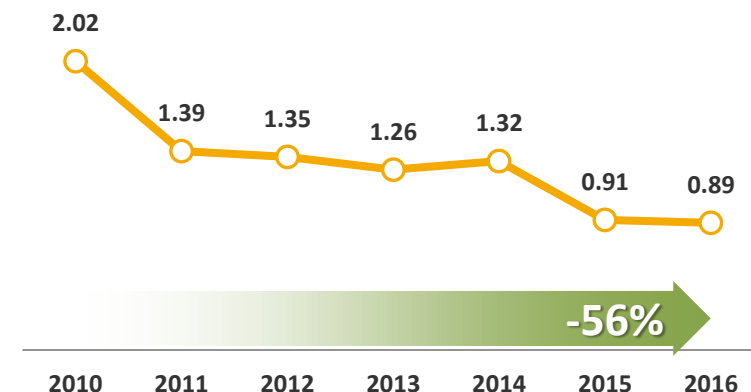
# Safety



- Three separate accidents claimed the lives of four workers during 2016 – **this is an unacceptable result**
- Codelco has a long record of **continued improvement of its safety indicators** – over the last 6 years we have halved both the frequency and severity indexes
- Our commitment to consolidating a **culture of prevention** and providing a **safe working environment** for every person remains unaltered
- **Sustainability Master-Plan** (Dec'16) puts safety as top priority and defines short- and long-term objectives to pursue

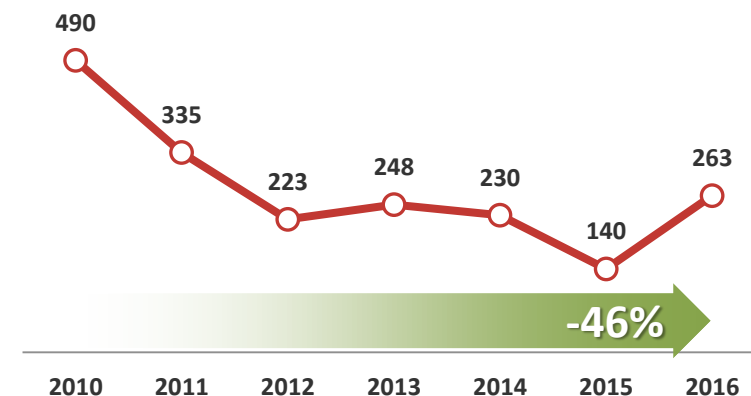
## Frequency Index

Lost-time Accidents / Million Person-hours Worked



## Severity Index

Leave Days / Million Person-hours Worked



\*2016 figures as of Q3 2016 (YTD)

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**SHAPING THE FUTURE**



# Five keys to a future Codelco

1. Continued focus on restoring **balance sheet strength**
2. **Operating cost control** program with focus on increasing **productivity** through all operating units
3. Carry on with revised capital **investment program** to reduce risk and maximize value extraction from our world-class resource base
4. Strong **research & development** commitment
5. Long-term program in place to convert Codelco into a benchmark in **sustainable production** of copper



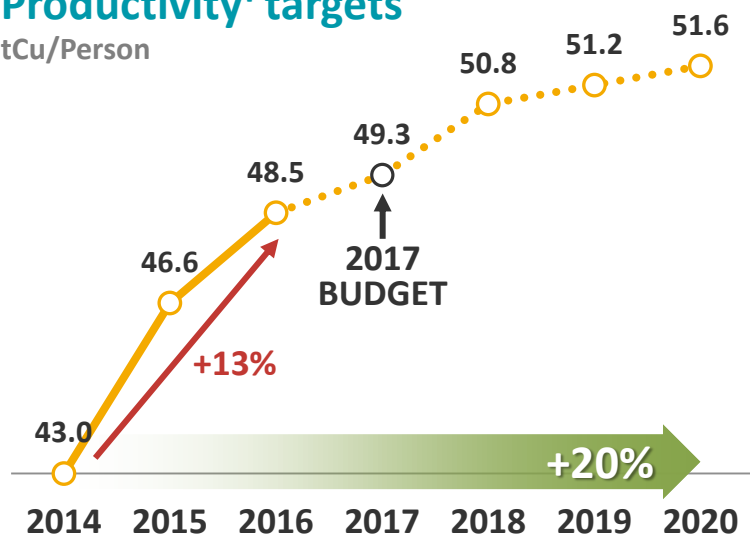
# 2020 Cost and Productivity Agenda

Three-stage program to improve productivity by 20% by 2020.



## Productivity<sup>1</sup> targets

tCu/Person



(1) Productivity includes production and workforce of mining divisions plus smelters.

## Cost savings<sup>2</sup> targets

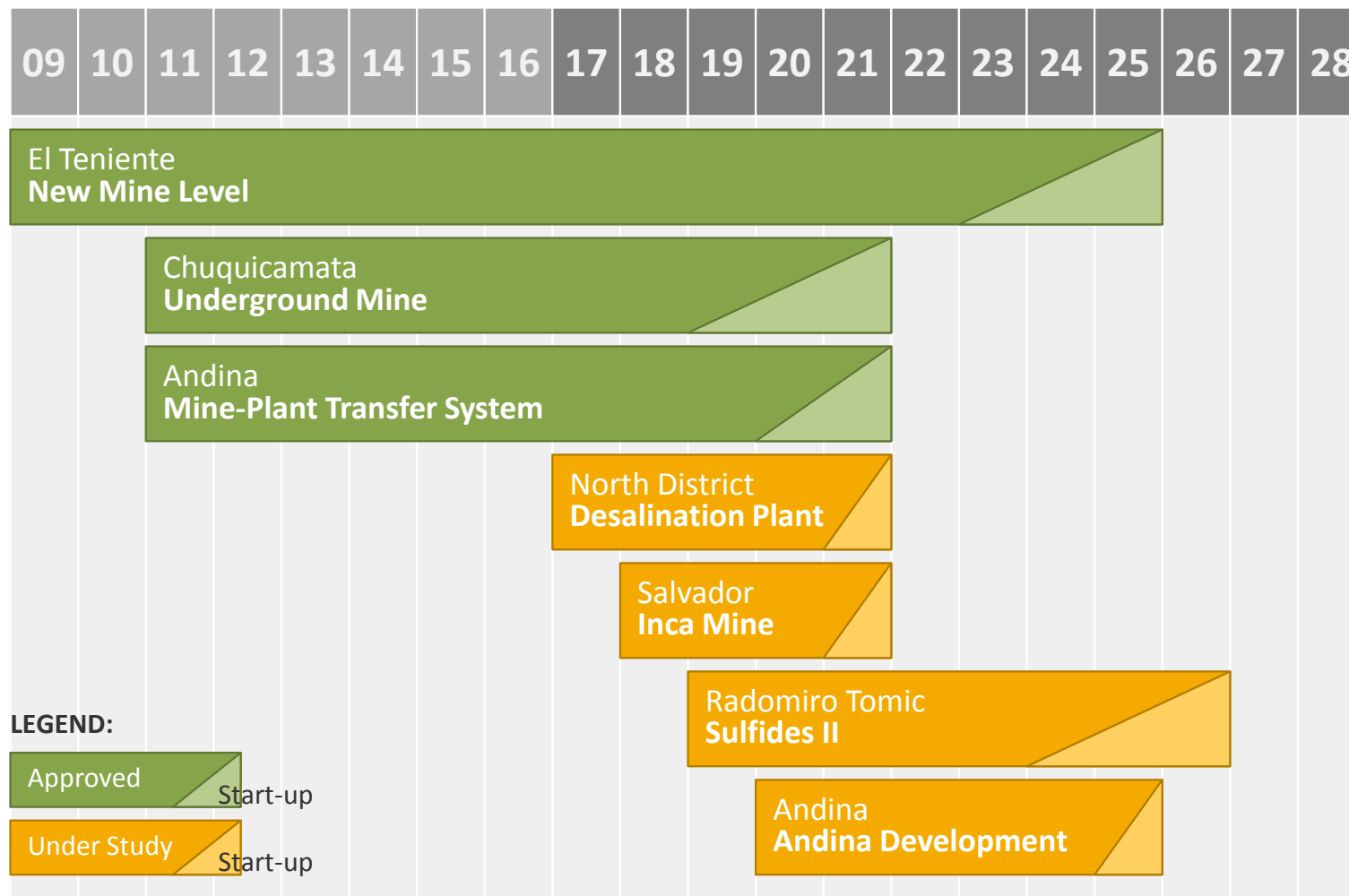
US\$bn



(2) Cost savings as compared to 2016 Business Plan, except 2015 which is compared to the year's Budget.

# Current project pipeline

Construction and start-up periods



# Strengthening of Corporate Governance and Accountability



- Reform of corporate governance law (2010)
  - Autonomy and independence of management
  - Acquisition of best practices
- Upgrade of internal regulations and practices related to transparency and accountability
  - Regulation of conflicts of interest
  - Enhanced standard for procurement and relations with third parties
  - Strengthening of control mechanisms (audit and controlling)
  - Focus on transparency and public accountability
- Codelco as a benchmark in transparency
  - Distinctions by *Chile Transparente* and the *Council for Transparency*

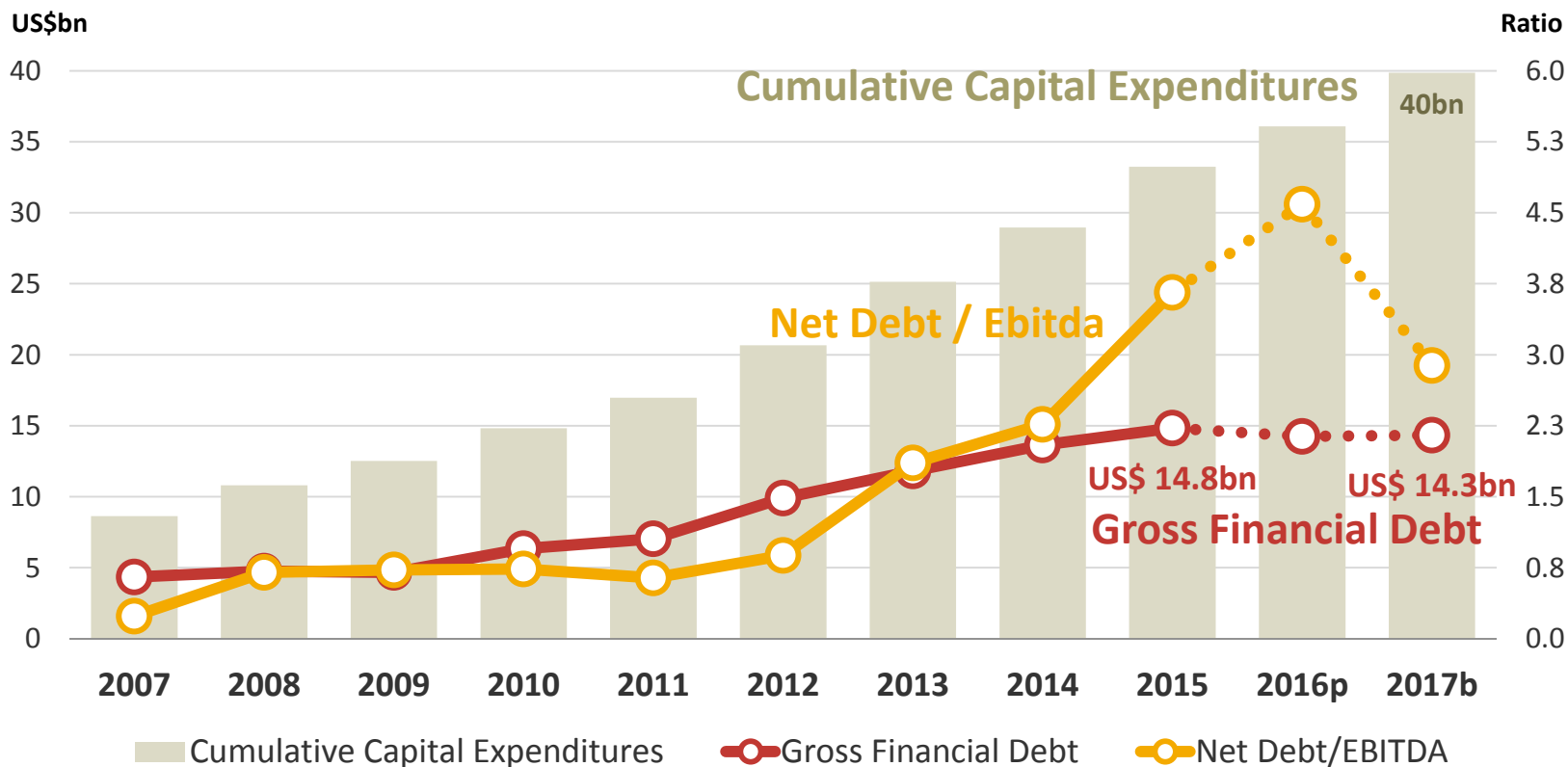




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# **FINANCING ASPECTS**

# Codelco has been able to curb the growth of its debt for the first time since 2009...



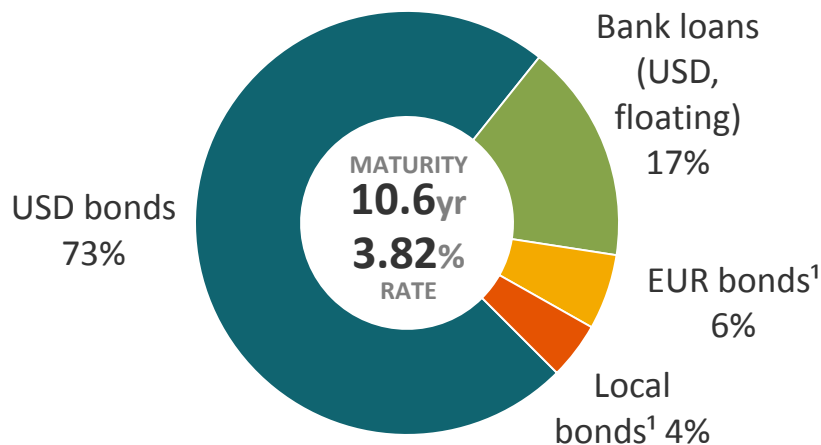
- ...even as it continued to deploy the main projects of its expansion plan.

2017 results estimation based on Budget production at current spot copper price (270 ¢/lb).

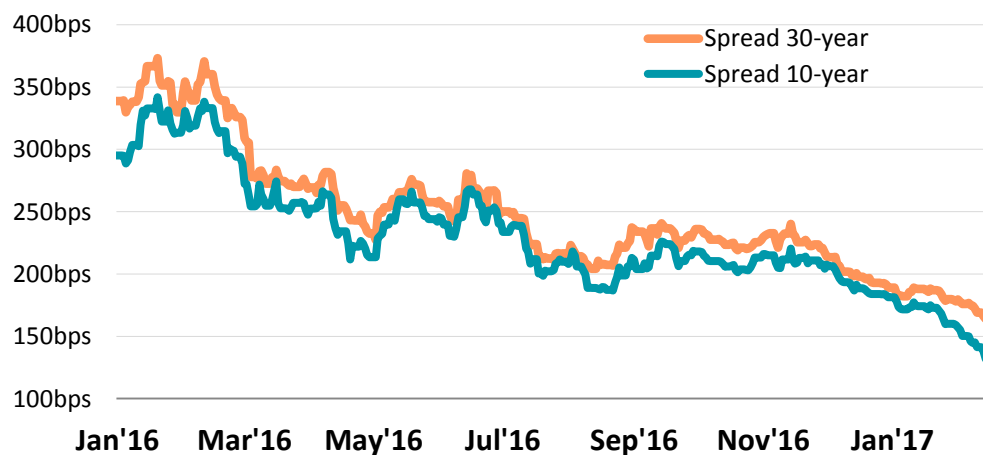
# Ample access to debt markets at low rates

- A+ rating. Average financing rate is **3.82%**, average maturity 10.6 years.
- 2016 highlights:
  - Issuance of **US\$ 406m** 10-year local bond in Aug-16 at **3.09%**, record-low rate
  - Renewal of **US\$ 550m** 5-year bank debt in Nov-16, at competitive levels

## Diversified sources of funding



## Decreasing spreads




(1) Local and EUR bonds swapped to USD.

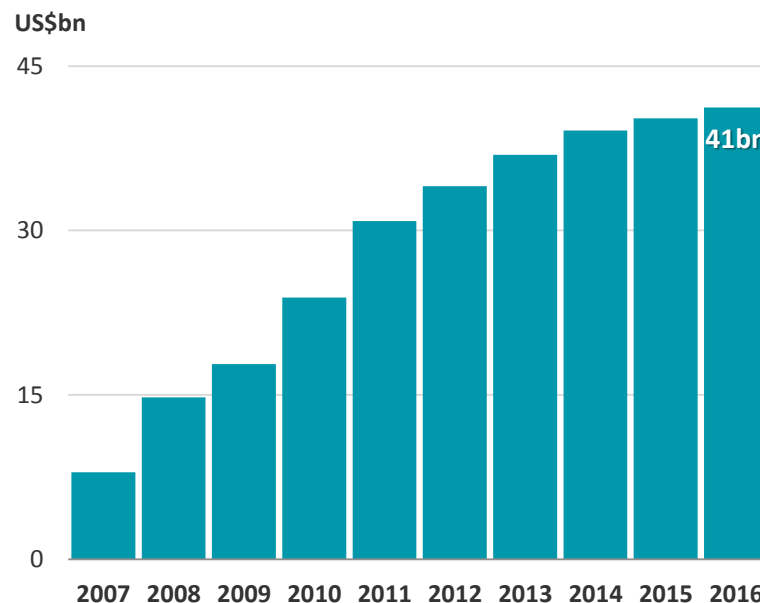
# Strong government support

- Government **capitalized Codelco with US\$975m**  
(US\$ 500m Dec'16 + US\$ 475m Mar'17)
- The Company's time limit to deploy the remaining **US\$ 3.1bn approved capital** was extended through 2019
- The above actions confirm the **owner's commitment** to Codelco and contribute to maintain **competitive financing costs**
- Codelco is an **important asset for the owner**, contributing in excess of US\$ 41bn over the last 10 years

## Chile enjoys a solid credit quality

CHILE RATINGS	2010	2011	2012	2013	2014	2015	2016
 Moody's	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3
S&P	A+	A+	AA-	AA-	AA-	AA-	AA-

## Cumulative cash to owner (10 years)





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## **CONCLUSIONS**



## Codelco has overcome challenging conditions in 2016 and is transforming into a more competitive organization



- **High-quality assets** and resource base
- Focus on **competitiveness** and **cash preservation**
- Good, constructive **labor relations**
- Revised **investment program** ensures layered execution and start-up of projects, reducing risk
- Long-term commitment to **Sustainability** and **R&D**
- Strengthening of **corporate governance, transparency** and **accountability**
- **Experienced management** with proven track record
- Strong **owner support** and ample **access to debt markets** at low rates
- Financing requirements of the investment plan **secured through 2018**



