

Simplified Consolidated Financial Statements

CORPORACIÓN NACIONAL DEL COBRE DE CHILE

Santiago, Chile

December 31, 2004 and 2003

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INDEPENDENT AUDITORS' REPORT

To the Chairman and Members of the Board of Directors of
Corporación Nacional del Cobre de Chile

1. We have audited the accompanying consolidated balance sheets of Corporación Nacional del Cobre de Chile (the "Company") and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income and of cash flows for the years then ended. These financial statements (including the related notes) are the responsibility of the management of Corporación Nacional del Cobre de Chile. Our responsibility is to express an opinion on these financial statements based on our audits. We have not audited the financial statements at December 31, 2004 and 2003, of certain investees and subsidiaries. Those financial statements were audited by other auditors, whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for such investees and subsidiaries, is based solely on the reports of such other auditors. At December 31, 2004 and 2003, the direct and indirect investment of the Company in such investees and the total assets reflected by the financial statements of such subsidiaries represent 6.8% and 5.6%, respectively, of the total consolidated assets, and the year's net equity in income of these investees and the total sales reflected by the financial statements of these subsidiaries represent 8.2% and 12.1%, respectively, of the total consolidated sales.
2. We conducted our audits in accordance with auditing standards generally accepted in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
3. In our opinion, based on our audits and the reports from other auditors, the consolidated financial statements, present fairly, in all material respects, the financial position of Corporación Nacional del Cobre de Chile and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Chile.
4. The notes to the accompanying financial statements are a simplified version of those included in the consolidated financial statements of Corporación Nacional del Cobre de Chile and subsidiaries filed with the Superintendency of Securities and Insurance, upon which we have issued our report under this same date. Such financial statements contain additional information required by such Superintendency, which is not indispensable for their adequate interpretation.
5. The accompanying financial statements have been translated into English for the convenience of readers outside of Chile.


February 4, 2005

CORPORACIÓN NACIONAL DEL COBRE DE CHILE
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars = ThUS\$)

ASSETS	At December 31,	
	2004	2003
	ThUS\$	ThUS\$
CURRENT ASSETS:		
Cash	10,786	15,784
Time deposits	243,761	44,044
Marketable securities	481	16
Trade receivables, net	663,544	354,122
Notes receivable, net	3,868	1,612
Other receivables, net	129,042	128,588
Due from related companies	5,188	746
Inventories, net	753,631	879,108
Income taxes recoverable	134,807	359,615
Prepaid expenses	12,384	12,070
Deferred taxes	78,090	43,547
Other current assets	<u>3,042</u>	<u>11,811</u>
 Total current assets	 <u>2,038,624</u>	 <u>1,851,063</u>
 PROPERTY, PLANT AND EQUIPMENT:		
Land	31,433	30,463
Buildings and infrastructure	6,255,961	6,144,746
Machinery and equipment	5,970,762	5,391,056
Other plant and equipment	54,632	49,431
Technical appraisal revaluation	370,926	383,246
Accumulated depreciation	<u>(7,180,639)</u>	<u>(6,738,263)</u>
 Net property, plant and equipment	 <u>5,503,075</u>	 <u>5,260,679</u>
+9+		
OTHER ASSETS:		
Investments in related companies	559,774	411,519
Investments in other companies	3,780	3,484
Long-term receivables	165,552	132,088
Due from related companies	82,612	81,729
Intangibles	17,911	4,163
Accumulated amortization	(495)	(1,035)
Other assets	<u>462,533</u>	<u>348,110</u>
 Total other assets	 <u>1,291,667</u>	 <u>980,058</u>
 TOTAL ASSETS	 <u><u>8,833,366</u></u>	 <u><u>8,091,800</u></u>

The accompanying notes are an integral part of these consolidated financial statements

CORPORACIÓN NACIONAL DEL COBRE DE CHILE
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars = ThUS\$)

LIABILITIES AND EQUITY	At December 31,	
	2004	2003
	ThUS\$	ThUS\$
CURRENT LIABILITIES:		
Banks and financial institutions:		
Current	43,600	466,169
Current portion of long-term debt	2,099	203,102
Current portion of bonds payable	19,764	15,507
Accounts payable	379,040	314,257
Notes payable	1,329	1,181
Miscellaneous payables	142,956	15,579
Due to related companies	40,607	38,406
Accruals	316,466	198,390
Withholdings	80,979	70,462
Income taxes payable	347	353
Deferred income	2,506	2,462
Other current liabilities	918	486
	<u>1,030,611</u>	<u>1,326,354</u>
LONG-TERM LIABILITIES:		
Due to banks and financial institutions	900,000	700,000
Bonds payable	1,951,529	1,434,461
Notes payable	91,825	87,399
Miscellaneous payables	57,749	49,734
Accruals	793,833	630,588
Deferred taxes	1,110,668	1,035,036
Other long-term liabilities	23,461	4,774
	<u>4,929,065</u>	<u>3,941,992</u>
MINORITY INTEREST	<u>1,743</u>	<u>2,035</u>
EQUITY:		
Paid-in capital	1,524,423	1,524,423
Other reserves	1,312,568	1,302,491
Retained earnings:		
Net income for the year	1,134,173	89,230
Profits distribution to the Chilean Treasury	(1,099,217)	(94,725)
	<u>2,871,947</u>	<u>2,821,419</u>
TOTAL LIABILITIES AND EQUITY	<u>8,833,366</u>	<u>8,091,800</u>

The accompanying notes are an integral part of these consolidated financial statements

CORPORACIÓN NACIONAL DEL COBRE DE CHILE
CONSOLIDATED INCOME STATEMENTS
(In thousands of dollars = ThUS\$)

	For the years ended December 31,	
	2004	2003
	ThUS\$	ThUS\$
SALES	8,203,661	3,781,786
COST OF SALES	<u>(4,484,556)</u>	<u>(2,781,209)</u>
GROSS PROFIT	3,719,105	1,000,577
ADMINISTRATIVE AND SELLING EXPENSES	<u>(207,492)</u>	<u>(196,933)</u>
OPERATING INCOME	<u>3,511,613</u>	<u>803,644</u>
NON-OPERATING INCOME (EXPENSES):		
Interest income	13,106	8,738
Equity in income of related companies	107,272	66,407
Other income	206,832	101,442
Equity in losses of related companies	(20,139)	(7,136)
Interest expense	(142,765)	(105,842)
Other expenses	(913,305)	(435,850)
Price level restatement	(298)	(240)
Foreign exchange differences	<u>(59,633)</u>	<u>(73,508)</u>
NON-OPERATING EXPENSES	<u>(808,930)</u>	<u>(445,989)</u>
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	2,702,683	357,655
INCOME TAXES	<u>(1,568,997)</u>	<u>(269,331)</u>
INCOME BEFORE MINORITY INTEREST	<u>1,133,686</u>	<u>88,324</u>
MINORITY INTEREST	<u>487</u>	<u>906</u>
NET INCOME FOR THE YEAR	<u>1,134,173</u>	<u>89,230</u>

The accompanying notes are an integral part of these consolidated financial statements

CORPORACIÓN NACIONAL DEL COBRE DE CHILE
CONSOLIDATED CASH FLOW STATEMENTS
(In thousands of dollars = ThUS\$)

	For the years ended December 31,	
	2004	2003
	ThUS\$	ThUS\$
CASH FLOW FROM OPERATING ACTIVITIES:		
Collection of accounts receivable	8,431,233	3,762,137
Interest income collected	5,524	2,708
Other income collected	475,593	380,528
Payments to suppliers and personnel	(4,515,254)	(3,001,893)
Interest paid	(106,257)	(82,916)
Income taxes paid	(1,334,312)	(339,323)
Other expenses paid	(566,828)	(260,776)
Value added tax and other similar taxes paid	(415,661)	(316,175)
	<u>1,974,038</u>	<u>144,290</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Loans obtained	340,000	1,272,000
Bonds payable	490,660	500,000
Other financing obtained	6,788	-
Profits distribution to the Chilean Treasury	(1,002,643)	(50,000)
Loan payment	(777,700)	(1,022,000)
	<u>(942,895)</u>	<u>700,000</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Proceeds from sales of property, plant and equipment	76,936	1,033
Proceeds from sale of other investments	7,203	3,728
Other investment	37,267	56,909
Purchases of property, plant and equipment	(893,145)	(894,997)
Investments in related companies	(8,318)	(22,723)
Loans to related companies	(1,601)	-
Other investment disbursements	(54,301)	(81,975)
	<u>(835,959)</u>	<u>(938,025)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT	195,184	(93,735)
CASH AND CASH EQUIVALENT AT THE BEGINNING OF YEAR	59,844	153,579
CASH AND CASH EQUIVALENT AT THE END OF YEAR	<u>255,028</u>	<u>59,844</u>

The accompanying notes are an integral part of these consolidated financial statements

CORPORACIÓN NACIONAL DEL COBRE DE CHILE
CONSOLIDATED CASH FLOW STATEMENTS
(In thousands of dollars - ThUS\$)

	For the years ended December 31,	
	2004	2003
	ThUS\$	ThUS\$
RECONCILIATION BETWEEN NET INCOME AND CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the year	1,134,173	89,230
Proceeds from sales of property, plant and equipment	(76,649)	(2,178)
Charges (credits) to income which do not represent cash flows:		
Depreciation	424,885	375,453
Amortization	129,529	87,680
Write-off and provisions	279,862	233,505
Equity in income of related companies	(107,272)	(66,407)
Equity in losses of related companies	20,139	7,136
Price level restatement	298	240
Foreign exchange differences	59,633	73,508
Other credits to income which do not represent cash flows	(52,582)	(44,980)
(Increase) decrease in assets that affect operating cash flow:		
Accounts receivable	(309,422)	(128,901)
Inventories	125,477	(384,529)
Other assets	191,564	(209,779)
Increase (decrease) in liabilities that affect operating cash flow:		
Accounts payable related to operating activities	56,957	81,756
Interest payable	(8,539)	7,333
Income taxes payable	(2)	(13)
Value added tax and other similar taxes payable	106,474	26,142
Minority interest	(487)	(906)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,974,038</u>	<u>144,290</u>

The accompanying notes are an integral part of these consolidated financial statements

CORPORACIÓN NACIONAL DEL COBRE DE CHILE

SIMPLIFIED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of dollars = ThUS\$)

Management considers these explanatory notes offer sufficient information but less detailed than that contained in the explanatory notes that are an integral part of the consolidated financial statements which were filed with the Superintendency of Securities and Insurance, and are available to the general public. This information is also available at the Company office.

Note 01 - Registration in the Securities Register

Corporación Nacional del Cobre de Chile, Codelco - Chile (“Codelco”, or the “Company”) is registered under the Securities Registry No. 785 of the Superintendency of Securities and Insurance (the “Superintendency”). The Company is subject to the regulation of the Superintendency.

The Company was formed as stipulated by Law Decree (D.L.) N°1,350 dated 1976. Codelco is a state-owned mining, industrial and commercial company, which is a legal entity in itself and with its own equity. Codelco currently carries out its mining business through its Codelco Norte, Salvador, Andina, El Teniente and until May 31, 2004, Talleres Divisions. The Company also carries out similar activities in other mining deposits in association with third parties.

Codelco’s financial activities are conducted following a budgeting system that is composed of an Operations Budget, an Investment Budget and a Debt Amortization Budget.

The Company’s tax regime is established in D.L. Nos. 1,350 and 2,398.

Note 02 - Significant accounting policies applied

a. Accounting periods - These consolidated financial statements reflect financial position of the Company and its subsidiaries as of December 31, 2004 and 2003, and the results of its operations and cash flows for the years then ended.

b. Basis of preparation - The consolidated financial statements have been prepared in accordance with generally accepted accounting principles issued by the Chilean Association of Accountants, and regulations of the Superintendency.

Should there be any discrepancy between the above mentioned principles and regulations, the regulations of the Superintendency will prevail over accounting principles generally accepted in Chile.

c. Reporting currency - In accordance with Article 26 of D.L. N°1,350, the Company's records are maintained in United States dollars.

d. Basis of consolidation - In accordance with the regulations of the Superintendency and Technical Bulletins issued by the Chilean Association of Accountants. The consolidated financial statements of the Company and its subsidiaries include the assets, liabilities, results of operations, and cash flows of the Company and its following subsidiaries:

Chile Copper Limited, Codelco Group USA Inc., Codelco International Limited, Codelco K pferhandel Gmhb, Codelco Services Limited, Metall Agentur Gmhb, Codelco Metals Inc., Codelco Technologies Ltd., Codelco Do Brasil Mineracao, Compa a Minera Picacho (SCM), Compa a Contractual Minera Los Andes, Isapre Chuquicamata Limitada, Elaboradora de Cobre Chilena Limitada, Asociaci n Garantizadora de Pensiones, Isapre San Lorenzo Limitada, Isapre R o Blanco Limitada, CMS - Chile Sistema y Equipos Mineros S.A., Ejecutora Proyecto Hospital Del Cobre Calama S.A., Complejo Portuario Mejillones S.A., Instituto de Innovaci n en Miner a y Metalurgia S.A., Santiago de R o Grande S.A., CMS Tecnolog a S.A., Cl nica R o Blanco S.A. and Exploraciones Mineras Andinas S.A.. The interest that Codelco holds in the above companies fluctuates between 96% and 100%. Likewise, in Sociedad Geot rmica del Norte S.A. and Biosigma S.A., Codelco holds an interest of 50.01% and 66.67%, respectively

The consolidated financial statements take into account the elimination of balances, significant intercompany transactions and unrealized gains and losses between consolidated companies, including foreign and local subsidiaries and the participation of minority investors and they has been recorded as minority interest.

Notwithstanding that the subsidiary Complejo Portuario Mejillones S.A. was in its development stage until December 31, 2003, it has been included in the consolidation.

Given that the Company does not have control of the management of Electroandina S.A. and Inversiones Mejillones S.A., and that, in accordance with generally accepted accounting principles in Chile the conditions required to include these subsidiaries are not met, they have not been included in the consolidation.

- Electroandina S.A.

Codelco directly owns 34.8% of Electroandina S.A. and an indirect ownership interest through Inversiones Tocopilla Ltda., in which Codelco has an ownership interest of 49% and its strategic partner Tractebel Andino S.A. has an interest of 51%. Inversiones Tocopilla Ltda. owns 65.2% of the shares of Electroandina S.A.

- Inversiones Mejillones S.A.

Codelco directly owns 34.8% of Inversiones Mejillones S.A. and an indirect ownership interest through Inversiones Tocopilla Ltda., in which Codelco has a 49% interest and its strategic partner Tractebel Andino S.A. has an interest of 51%. Inversiones Tocopilla Ltda. owns 65.2% of the shares of Inversiones Mejillones S.A.

e. Constant currency restatement - The financial statements of the Chilean subsidiaries, which keep their accounting records in Chilean pesos, have been price-level restated to recognize the effects of the variation in the currency's purchasing power during each year. In line with this, restatements for inflation have been determined using the figures reported by the Chilean Institute of Statistics. The variations reported by the aforementioned Institute for the year ended December 31, 2004 and 2003 were 2.5% and 1.0%, respectively.

f. Basis of conversion - The Company's assets and liabilities in pesos, mainly composed of cash, accounts receivable, investments in companies in Chile, accounts payable and accruals, have been expressed in United States dollars at the observed exchange rate at each year-end of Ch\$557.40 per US dollar as of December 31, 2004 (2003: Ch\$593.80 per US dollar).

UF-Denominated Assets and Liabilities

At December 31, 2004 and 2003, assets and liabilities denominated in UF (an inflation index-linked unit used in Chile) have been translated using the US\$/UF rates effective on the closing dates of the financial statements (2004: US\$31.06755 and 2003: US\$28.49444).

The Company's income and expenses in Chilean pesos have been translated into US dollars at the observed exchange rate on the date on which each transaction was recorded in the accounting records.

Foreign exchange differences are debited or credited to income, in accordance with generally accepted accounting principles issued by the Chilean Association of Accountants and regulations of the Superintendency.

The average exchange rates in the years ended December 31, 2004 and 2003 were Ch\$609.41 and Ch\$691.54 per US dollar, respectively.

Chilean Subsidiaries

Assets and liabilities and income statement accounts in pesos as of December 31, 2004 and 2003 have been translated into US dollars at the exchange rates on those dates, Ch\$557.40 and Ch\$593.80 per US dollar, respectively.

Foreign subsidiaries

As of December 31, 2004 and 2003, the financial statements of foreign subsidiaries have been translated from their respective foreign currencies into US dollars using the closing exchange rates figures reported by the Chilean Institute of Statistics.

g. Time deposits - Time deposits are recorded at cost plus interest accrued at each year-end.

h. Marketable securities - Marketable securities include mutual fund units stated at market value and certain defined as marketable securities stated at the lower of cost or market value.

i. Inventories - Inventories are valued at cost, which does not exceed their net realizable value. Cost has been determined using the following methods:

- Finished products and products in process

Following the full-cost absorption method, finished products and products in process are valued at average production cost. Production costs include depreciation of property, plant and equipment and indirect expenses.

- Materials in warehouse

Materials in warehouse are valued at acquisition cost.

The Company calculates an obsolescence provision depending on the length of time in stock of slow turnover materials in warehouse.

- Materials in transit

Materials in transit are valued at cost incurred.

j. Allowance for doubtful accounts - Management estimates the allowance for doubtful accounts based on its experience and analysis, as well as the aging of the balances.

k. Property, plant and equipment - Property, plant and equipment are valued at historical cost as increased by technical appraisals performed by The American Appraisal Co. during 1982 to 1984, net of accumulated depreciation.

Construction in progress includes the amounts invested in property, plant and equipment under construction and in mining development projects.

l. Depreciation - Depreciation of property, plant and equipment is calculated on the book values of property, plant and equipment, including the revaluation mentioned in Note 2(k) above, using the straight-line method, and is booked in accordance therewith over the estimated useful lives of the assets.

m. Exploration, mine development and mine operating costs and expenses

- Deposit exploration and drilling expenses

Deposit exploration and drilling expenses are incurred in the identification of mineral deposits and the determination of their possible commercial viability and are charged to income as incurred.

- Mine pre-operation and development costs

Costs incurred during the development phase of projects up to the production stage are capitalized and amortized over future mineral production. These costs include extraction of waste material, constructing the mine's infrastructure and other work carried out prior to the production phase.

- Expenses of developing existing mines

These expenses are incurred for the purpose of maintaining the production volumes from deposits and are charged to income as incurred.

- Costs of delineating new deposit areas in exploitation and of mining operations

These costs are recorded in property, plant and equipment and are amortized to income in the period in which the benefits are obtained.

n. Leased assets - Property, plant and equipment recorded by the subsidiaries under finance leasing contracts are recorded as other plant and equipment. These assets have been valued at their current value applying the implicit interest rate in the contracts and are depreciated using the straight-line method based on the useful lives of the assets. The Company does not legally own these assets until it exercises the respective purchase option.

o. Investments in related companies - Investments in domestic and foreign related companies, identified as permanent, are valued using the equity method in accordance with Technical Bulletins issued by the Chilean Association of Accountants. Equity method investments in domestic companies, which are accounted for in Chilean pesos are expressed in US dollars at the year-end exchange rate. The differences which arise and are unrelated to the recognition of income are recognized in the item Other reserves in Equity. In applying the equity method, investments in foreign subsidiaries are expressed in US dollars.

Unrealized gains related to investments in related companies are credited to income at the same rate as the amortization of the transferred assets or mine production, as applicable.

p. Investments in other companies - The item "investments in other companies" represents the value of the shares that the Company has been required to acquire for its operations. These are recorded at cost, which does not exceed market value.

q. Intangibles - Intangibles are recorded at the amount of the disbursements made and are amortized in accordance with Technical Bulletin N°55 issued by the Chilean Association of Accountants.

r. Income tax and deferred income taxes - The Company provides for income taxes in accordance with current regulations, including the first category tax and an additional 40% tax applied to state-owned entities as specified by D.L. N°2,398. Law N°19,753 established a progressive increase in the first category tax rate to 16% for 2002, 16.5% for 2003 and 17% for 2004 and thereafter.

The Company recognizes the effects of deferred income taxes arising from temporary differences, which have a different treatment for book and tax purposes, in accordance with the Technical Bulletins issued by the Chilean Association of Accountants and the regulations of the Superintendency.

s. Severance indemnities and other long-term benefits - The Company has an agreement with its employees for payment of severance indemnities. It is the Company's policy to provide for the total accrued obligation under the shut-down method.

The Company, following its cost-reduction programs through the use of modern technologies, has established personnel severance programs, with benefits that encourage retirement, for which the necessary provisions are made when the employee commits to his/her retirement.

t. Revenue recognition - Revenue is recognized at the time of shipment or delivery in conformity with contractual agreements and is subject to variations in contents and/or the sales price at the transaction settlement date. A provision is made for estimated decreases in sales values on unsettled operations at the end of the period based on the information available as of the date the financial statements are prepared. Sales in Chile are recorded in accordance with Chilean regulations.

u. Derivative contracts - The Company's derivative contracts are entered into based on the following hedging policies:

- Hedging operations, which have to be approved by the Board of Directors, in metal futures markets are carried out in order to protect the Company from risks inherent to the fluctuation of the price of metals. The hedging policy seeks to protect the expected product sales cash flows from sale of products. With the transactions that are carried out, the Company takes advantage of the opportunities provided by the market, implying a reduced possibility of risk for the Company. In accordance with the provisions of Technical Bulletin No. 57 of the Chilean Association of Accountants, the results of these hedging transactions are recorded at the settlement date of the operations, as part of the procedures of the settlement of sale of products. In other words, the Company conducts these futures operations in order to adjust the sales contracts to the commercial policy. The settlement of these operations coincides with the accounting for corresponding transactions and, therefore, when sales commitments are fulfilled, sales contracts' and future contracts' results are offset.
- Hedging policies for exchange rates and interest rates.

Exchange rate hedges include contracts which mitigate the risk of fluctuations between the UF and the US\$ exchange rate to which the Company is exposed as a result of its outstanding UF-denominated bonds.

Interest rate hedges include contracts at fixed interest rates for future obligations denominated in US dollars at variable interest rates.

The results of the exchange rate hedging contracts are recorded as of the date of maturity or settlement of the respective contracts, in conformity with Technical Bulletin No. 57 issued by the Chilean Association of Accountants.

The results of the hedging contracts for interest rates for future liabilities are amortized over the term of those liabilities.

Hedging operations carried out by the Company are not of a speculative nature.

v. Computer software - The costs associated with computer systems developed using the Company's own human resources and materials are charged to income in the period in which they are incurred.

In accordance with Circular N° 981 dated December 28, 1990 of the Superintendency of Securities and Insurance, computer systems acquired by the Company are capitalized at acquisition cost plus all related costs and are amortized over a period not exceeding four years.

w. Research and development expenses - Research and development expenses are charged to income as incurred.

x. Statement of cash flows - Cash and cash equivalents includes unrestricted cash and bank balances, time deposits and as short-term marketable securities maturing within 90 days, in accordance with Technical Bulletins issued by the Chilean Association of Accountants and the regulations of the Superintendency.

The Company has recognized cash flows from operating, investing or financing activities as required by Technical Bulletins issued by the Chilean Association of Accountants and the regulations of the Superintendency.

y. Bonds - Bonds are presented at outstanding principal plus accrued interest at each year-end. The discount on bond issuance is capitalized as deferred expenses, included in the item Other under Other Assets and is amortized using the straight-line method over the term of the bonds.

z. Environmental exit costs - The Company has established a policy of accruing for future environmental exit costs, which mainly relate to tailing dams, which, subsequent to the end of their useful lives, continue to incur expenses. This policy allows for the allocation of a mine's environmental exit costs during its exploitation stage.

aa. Law N° 13,196 - Law No. 13,196 requires the payment of a 10% contribution to the Chilean Government on the export value of copper production and related by-products. The amount is included in the item Other Expenses in the income statements.

ab. Cost of sales - The cost of sales includes direct and indirect costs and depreciation and amortization related to the production process.

ac. Bond issuance cost - Bond issuance cost is charged to the year's results, as is established in Circular N°1,370 dated January 30, 1998 issued by the Superintendency.

ad. Reclassifications - Certain 2003 figures have been reclassified for comparative purposes with 2004 figures.

Note 03 - Changes in accounting principles

As of January 1, 2004, the Chilean Association of Accountants issued the Technical Bulletin N°72 (Note 8b) which must be applied for new investments in related companies from that date forward.

At December 31, 2004, there were no other changes in accounting policies and accounting criteria described in Note 2, with respect to the previous year.

Note 04 - Balances and transactions with related companies

Accounts receivable and payable to related companies are presented in the balance sheets.

Long-term and current accounts receivable and payable with related companies are the result of commercial and financial transactions. Commercial transactions refer to the purchases and sales of products and services and financial transactions refer mainly to loans in current account which are subject to inflation restatement and interest under the agreed upon contracts conditions.

The Company's policies regarding transactions with related companies are specifically defined by the Board of Directors and regulated by management. Codelco, in accordance with applicable regulation and within its normal scope of its business, transacts with related companies or parties at arm's length, which are similar to those which usually prevail in the market when transacted.

The main transactions with investees are purchases for ThUS\$414,350 (ThUS\$321,447 in 2003) and sales for ThUS\$27,897 (ThUS\$49,488 in 2003) of products or services, at market prices.

Note 05 - Inventories

At December 31, 2004 and 2003, inventories amounted to ThUS\$753,631 and ThUS\$879,108, respectively, comprising finished products, products in process and material in warehouse.

Inventory values are net of obsolescence allowance for material in warehouse for ThUS\$32,236 and ThUS\$34,300 as of December 31, 2004 and 2003, respectively.

Note 06 - Deferred taxes and income taxes

a) Income taxes

At December 31, 2004 and 2003, the provisions for first category income tax and that required by D.L. No. 2,398 amount to ThUS\$1,485,728 and ThUS\$124,281, respectively, and are shown in income tax recoverable in current assets, netted against estimated monthly payments of taxes and other tax credits.

The subsidiaries' income tax provision amounted to ThUS\$506 in 2004 and ThUS\$663 in 2003 and is presented in income tax payable, net of estimated provisional monthly tax payments and other tax credits.

At 31 December 2004 there are other charges to the account for ThUS\$41,674 (at 31 December 2003: ThUS\$59,466)

b) Deferred taxes

In accordance with Law No. 19,753 and Technical Bulletin No.71 issued by the Chilean Association of Accountants, the Company has recognized the effects of the increase in the tax rate of first category income tax. Deferred tax calculated under the criteria in Note 2(r) represents a net liability of ThUS\$1,032,578 at December 31, 2004, comprising assets for ThUS\$351,331 and liabilities for ThUS\$1,383,909. At December 31, 2003 deferred tax represents a net liability of ThUS\$991,489 comprising assets for ThUS\$315,633 and liabilities for ThUS\$1,307,122.

Note 07 - Property, plant and equipment

Property, plant and equipment at December 31, 2004 and 2003 are detailed below:

a) Property, plant and equipment	2004	2003
	ThUS\$	ThUS\$
Land and mining rights	31,433	30,463
Buildings and infrastructure	6,255,961	6,144,746
Machinery and equipment	5,970,762	5,391,056
Other plant and equipment	54,632	49,431
Technical reappraisal revaluation	<u>370,926</u>	<u>383,246</u>
Total gross property, plant and equipment	<u><u>12,683,714</u></u>	<u><u>11,998,942</u></u>

b) Accumulated depreciation	2004 ThUS\$	2003 ThUS\$
Buildings and infrastructure	3,524,066	3,227,354
Machinery and equipment	3,640,934	3,503,305
Other plant and equipment	2,947	430
Accumulated depreciation – subsidiaries	<u>12,692</u>	<u>7,174</u>
 Total accumulated depreciation	 <u><u>7,180,639</u></u>	 <u><u>6,738,263</u></u>

Assets acquired through capital leases are included in other plant and equipment, with the following characteristics: Contracts are expressed in UF, at an average annual interest rate of 7.92%, and with amortization periods of up to 300 months.

Note 08 - Investments in related companies

At December 31, 2004 and 2003, total investments in investees amount to \$559,774 and ThUS\$411,519, respectively. The net profits of these companies for 2004 and 2003 amounted to ThUS\$87,133 and ThUS\$59,271, respectively.

These investments are expressed net of unrealized gains for ThUS\$212,068 and ThUS\$256,863 in 2004 and 2003, respectively.

In general, Codelco's foreign investment facilitate the Company's commercial activity in different foreign markets.

The Company has not assumed any liabilities as hedging instruments to cover its foreign investments.

a) Principal investees of Codelco:

> Agua de la Falda S.A.

In 1996, Agua de la Falda S.A. was formed by Codelco (49%) and Minera Homestake (51%).

The company's objective is the exploration and exploitation of gold and other ore deposits in Region III of Chile.

In 2004, Codelco-Chile did not participate in the Agua de La Falda S.A. capital increase, reducing its interest from 49% to 43%.

> Minera Pecobre S.A. de C.V.

Minera Pecobre S.A. de C.V. is a Mexican company formed by the Mexican company Minas Peñoles S.A. de C.V. and Codelco, with shareholdings of 51% and 49%, respectively.

The purpose of the company is copper and by-products exploration in mining concessions in the Mexican state of Sonora. In those mining areas, through other mining companies, this company also explores, processes and sells minerals found in the aforementioned concessions.

> Inversiones Tocopilla Ltda. and Electroandina S.A.

Inversiones Tocopilla Ltda. is a holding company in which Inversora Eléctrica Andina S.A. (a consortium of Powerfin S.A. of Belgium, Iberdrola S.A. of Spain and Enagas S.A. of Chile) has a 51% interest and Codelco a 49% interest.

The principal business of Electroandina S.A., a public company, is the generation, transmission and distribution of electric energy in Region II of Chile. Inversiones Tocopilla Ltda. holds a 65.2% and Codelco holds 34.8%. Electroandina S.A.'s main assets were acquired from the Codelcos' former Tocopilla Division.

> Sociedad Contractual Minera El Abra

Sociedad Contractual Minera El Abra was formed in 1994 by Codelco (49%) and Cyprus El Abra Corporation (51%), with Cyprus Amax Minerals Company as a guarantor, both linked to the Phelps Dodge mining consortium, to develop and exploit the El Abra deposit.

Codelco's investment in the project consisted of the contribution of a number of mining properties. The financing agreements for the project became effective September 15, 1995 and include the following obligations during the term of the agreements:

- a) A long-term trading agreement with Codelco Services Ltd. for a portion of the production of El Abra.
- b) The commitment from the partners to maintain majority ownership of the property of Sociedad Contractual Minera El Abra.
- c) A pledge on the ownership rights of Sociedad Contractual Minera El Abra in favor of the lending institutions.

> Inversiones Mejillones S.A.

Inversiones Mejillones S.A. was formed on March 20, 2002, with a direct ownership of 34.8% by Codelco and 65.2% by Inversiones Tocopilla Ltda. Codelco owns 49% of the capital of Inversiones Tocopilla Ltda.

Inversiones Mejillones S.A. was formed with the objective of acquiring an 82.34% of the shares of Empresa Eléctrica del Norte S.A. (Edelnor), rescheduling its financial obligations and coordinating the operations between Electroandina S.A. (of which Codelco and Inversiones Tocopilla Ltda. are partners) and Edelnor S.A.

> Sociedad Contractual Minera Purén

Sociedad Contractual Minera Purén was formed on September 23, 2003 by Codelco and Compañía Minera Mantos de Oro, with shareholding of 35% and 65%, respectively.

The Company's objective is the exploration, prospecting, research, development and exploitation of mining projects.

> Fundición Talleres S.A.

Fundición Talleres S.A. is a private company formed on October 1, 2003 by Codelco and Elaboradora de Cobre Chilena Ltda. On October 23, 2003 Fundición Talleres S.A. acquired, from Talleres Division of Codelco, machinery and other operational assets at a book value of Th\$8,066,432 (ThUS\$12,560). On January 23, 2004 Codelco sold 60% of its ownership to Compañía Electro Metalúrgica S.A., generating a loss of ThUS\$2,744, which was charged to 2004 results.

Its purpose is production of steel parts and fittings.

> Other related companies

Through its subsidiary, Codelco International Limited, Codelco also holds an ownership in Alliance Copper Limited and Quadrem International Holdings Limited of 50% and 6%, respectively.

b) Contributions to related companies

During 2004 Codelco-Chile made capital contributions to investees, in cash or by capitalizing accounts receivable, for ThUS\$5,793: to Fundición Talleres S.A. ThUS\$2,327; to Sociedad Contractual Minera Purén ThUS\$918 and Minera Pecobre S.A. de C.V. ThUS\$2,548.

These capital contributions were recorded in accordance with Technical Bulletin N°72 issued by the Chilean Association of Accountants.

c) Unrealized gains

The Company has recorded unrealized gains on contributions from mining properties, fixed assets and ownership rights. The most significant transactions are detailed below:

- Sociedad Contractual Minera El Abra

The Company contributed mining rights to Sociedad Contractual Minera El Abra in 1994. At December 31, 2004 gains for ThUS\$20,104 (2003: ThUS\$20,289) were recognized.

- Electroandina S.A.

There is an unrealized gain on the contribution of fixed assets in 1996. The gain will be recognized over ten years through 2006. At December 31, 2004, a gain of ThUS\$18,159 (ThUS\$18,159 in 2003) was recognized.

- Inversiones Tocopilla Ltda.

There is an unrealized gain on the initial contribution of ownership rights in 1996. The gain will be recognized over ten years through 2006. At December 31, 2004, a gain of ThUS\$6,532 (ThUS\$6,532 in 2003) was recognized.

Note 9 - Obligations with banks and financial institutions - current

Current obligations with banks and financial institutions amount to ThUS\$43,600 and ThUS\$466,169 in 2004 and 2003, respectively, they are denominated in US dollars at an average annual interest rate of 1.45% for 2003.

Long - term bank obligations due within one year amount to ThUS\$ 2,099 in 2004 and ThUS\$ 203,102 in 2003, they are in US dollars at an average annual interest rate of 2.71% in 2004 and 1.64% in 2003.

Note 10 - Obligations with Banks and financial institutions - long term

At December 31, 2004 and 2003, these obligations amount to ThUS\$900,000 and ThUS\$700,000, respectively, and are denominated in US dollars at an interest rate based on Libor. The average annual interest rate was 2.71% in 2004 and 1.66% in 2003. At December 31, 2004 these obligations mature as follows: ThUS\$300,000 in 2006, ThUS\$300,000 in 2008 and ThUS\$300,000 in 2009.

Note 11 - Current and long-term bonds

On May 4, 1999, the Company issued and placed bonds in the North American market, under Regulation 144-A, for a nominal amount of ThUS\$300,000. These bonds mature in a single installment on May 1, 2009, at an interest rate of 7.375% per annum with interest paid semi-annually. At December 31, 2004 and 2003, the current liability for each year's accrued interest was ThUS\$3,788 and ThUS\$3,688, respectively.

On November 18, 2002, the Company issued and placed bonds in the Chilean market, under Superintendence of Securities and Insurance norms. These bonds were issued for a nominal amount of UF7,000,000, (equivalent to ThUS\$216,529 and ThUS\$199,461 at December 31, 2004 and 2003, respectively) in a single denominated A Series, and are represented by 70,000 certificates for UF100 each. These bonds mature in a single installment on September 1, 2012, at an interest rate of 4.0% per annum with interest paid semi-annually. At December 31, 2004 and 2003, the current liability for each year's accrued interest was ThUS\$2,890 and ThUS\$2,633, respectively.

On November 30, 2002, the Company issued and placed bonds in the North American market, under Regulation 144-A, for a nominal amount of ThUS\$435,000. These bonds mature in a single installment on November 30, 2012, at an interest rate of 6.375% per annum interest paid semi-annually. At December 31, 2004 and 2003, the current liability for each year's accrued interest was ThUS\$2,438 and ThUS\$2,311, respectively.

On October 15, 2003, the Company issued and placed bonds in the North American market, under Regulation 144-A, for a nominal amount of ThUS\$500,000. These bonds mature in a single installment on October 15, 2013, at an interest rate of 5.5% per annum interest paid semi-annually. At December 31, 2004 and 2003, the current liability for each year's accrued interest was ThUS\$5,817 and ThUS\$6,875, respectively.

On October 15, 2004, the Company issued and placed bonds in the North American market, under Regulation 144-A, for a nominal amount of ThUS\$500,000. These bonds mature in a single installment on October 15, 2014, at an interest rate of 4.750% per annum interest paid semi-annually. At December 31, 2004 the current liability for the year's accrued interest was ThUS\$4,831.

Note 12 - Accruals

At December 31, 2004 and 2003, long-term accruals amount to ThUS\$793,833 and ThUS\$630,588, respectively. These accruals cover the Company's long-term commitments, arising from exit plans, contingencies, severance indemnities and others related to personnel benefits in union contracts.

The changes in the long-term accruals for severance indemnities are summarized below (in thousands of US dollars):

Movements	Long-term liabilities	
	2004	2003
Balance as of January 1,	453,930	363,488
Provision for the year (including effects for variations in exchange rates)	166,238	120,780
Transfers to current liability	(19,297)	(30,338)
Total	600,871	453,930

Note 13 - Changes in equity

The Company was formed by D.L. No. 1,350 dated 1976, which establishes that all net income earned by the Company goes to the benefit of the Chilean Government after deducting amounts that, by a charge to net earnings for each year, must be maintained in Other Reserves as established in Article 6 of D.L. N°1,350, and have to be included in the proposal made by the Board of Directors to the Ministry of Mining and the Ministry of Finance.

The composition of Other Reserves as of December 31, 2004 is as follows (in thousands of US dollars):

Detail	Year	Accumulated
Capitalization of net income: (Exempt Decree Ministry of Mining and Treasury department)	9,130	618,181
Cumulative translation adjustment - subsidiaries	947	34,719
Reserves for housing programs	-	35,100
Technical appraisal revaluation D.L. N° 3,648	-	624,568
	<u>10,077</u>	<u>1,312,568</u>
Balance of other reserves as of December 31, 2004	<u>10,077</u>	<u>1,312,568</u>

Changes in equity during 2004 and 2003 are detailed below (in thousands of US dollars):

Movements	2004				2003			
	Capital paid	Other reserves	Profit distributions	Results for the year	Capital paid	Other reserves	Profit distributions	Results for the year
Beginning balance - January 1	1,524,423	1,302,491	(94,725)	89,230	1,524,423	1,237,019	(76,853)	48,476
Transfer to reserves and profit distributions	-	9,130	80,100	(89,230)	-	16,348	32,128	(48,476)
Net changes in equity in subsidiaries and investees of the company	-	947	-	-	-	49,124	-	-
Net income for the year	-	-	-	1,134,173	-	-	-	89,230
Provisional dividends to Chilean Treasury	-	-	(1,084,592)	-	-	-	(50,000)	-
Totals	1,524,423	1,312,568	(1,099,217)	1,134,173	1,524,423	1,302,491	(94,725)	89,230

Note 14 - Non-operating income and expenses

Non-operating income and expenses at December 31, 2004 and 2003 are detailed below (in thousands of US dollars):

a) Other non-operating income

	2004	2003
Miscellaneous sales	4,712	5,186
Service sales	10,398	10,131
Realized gains on contributions to companies	44,795	44,980
Gains on sale of property, plant and equipment	76,649	-
Other	70,278	41,145
Totals	206,832	101,442

b) Other non-operating expenses

	2004	2003
Export tax (Law N°13,196)	598,196	248,807
Adjustments of severance indemnity	100,569	14,770
Contingencies accrued	12,821	12,000
Write-off of property, plant and equipment	23,544	2,040
Stamp tax	12,865	8,040
Pre-investment expenses	40,119	41,302
Health plans	25,075	-
Retirement plans	13,524	29,430
Other	86,592	79,461
Totals	913,305	435,850

Note 15 - Price level restatement

As stipulated in D.L. No. 1,350 of 1976, the Company records its operations in U.S. dollars, therefore price level restatement figures stem from the consolidation with subsidiaries, which registered a net charge to income of ThUS\$298 and ThUS\$240 in 2004 and 2003, respectively.

Note 16 - Exchange rate differences

Assets and liabilities, traded in currencies other than US dollars, have been converted at the year-end exchange rate, resulting in a net credit to income of ThUS\$22,662 and ThUS\$49,085 derived from assets in 2004 and 2003, respectively. A net charge of ThUS\$82,295 and ThUS\$122,593 derived from liabilities in 2004 and 2003, respectively.

Note 17 - Derivative contracts

The Company holds contracts for pricing operations. These contracts amount to 800 thousand metric tons of fine copper (MTMF), 417 MTMF for sales contracts and 383 MTMF for production contracts, out of which, at year-end, 565 MTMF are protected (228 MTMF for sales contracts and 337 MTMF for production contracts) and mature in March and June 2006 with a negative exposure of ThUS\$101,926.

In addition, the Company placed hedges against exchange rate variations, which amount to ThUS\$164,482 and are due on November 2012, with a positive exposure of ThUS\$31,149.

Also, at December 31, 2004, the Company has contracts in place to fix the interest rate of US dollar-denominated debt obligations with banks and financial institutions for ThUS\$300,000. At December 31, 2004 these contracts shows a negative exposure of ThUS\$4,181. Deferred payments under these contracts amounted to ThUS\$36,710 in 2004 and ThUS\$46,945 in 2003, which are classified in the item Other under Other Assets and amortized during the outstanding periods of each obligation which is from January 2005 to September 2008.

Note 18 - Contingencies and Commitments

Codelco is involved in various pending legal actions initiated by, or against, the Company which result from the inherent nature of the industry in which the Company operates. In general, these lawsuits are from civil, tax, labor and mining actions, all of which are related to the Company's operating activities.

In the Company management's and legal advisors' opinion, these lawsuits do not represent significant loss contingencies. In addition, with respect to all such lawsuits, the Company defends its rights and uses all legal and proceeding resources available.

Other commitments

The Corporation, following its cost-reduction programs using modern technologies, has established personnel early severance programs, with benefits that encourage retirement; these obligations are provided when employees commit to their retirement.

The Company has no restrictions or covenants associated with obligations to banks and financial institutions or with the public.

The Company has obligations with the Tesorería General de la República de Chile (Chilean Treasury) derived from Law N° 18,634, in connection with deferred custom duties, amounting to ThUS\$37,525 in 2004 (ThUS\$73,420 in 2003). Also, the Company has documents given in guarantee for ThUS\$ 40,992 in 2004 (2003: ThUS\$ 26,496).

Note 19 - Sureties obtained from third parties

The Company has received a number of guarantees that mainly cover supplier and contractors' obligations related to various projects under development in its operating Divisions, which amount to ThUS\$179,386 in 2004 and ThUS\$204,093 in 2003.

Note 20 - Assets and liabilities in local currency

At December 31, 2004, the Company has assets traded in local currency for ThUS\$535,250 (2003: ThUS\$586,981) and liabilities for ThUS\$1,270,681 (2003: ThUS\$854,939).

Note 21 - Sanctions

Codelco-Chile, its Directors and Management have not been subject to sanctions applied by the Superintendency or other administrative authorities.

Note 22 - Environment

The practice of exploration and recognition of new resources, which are environmentally sustainable, has been a significant concern for the Company. Consequently, since 1998 the Company has defined its environmental commitments, which are controlled through an environmental management system for explorations that has been improved over time to conform to the worldwide standard ISO 14001, which has assisted in geology, geochemical, geophysical and sounding work directed towards exploration of mineral resources both in Chile and abroad.

At December 31, 2004, Codelco Norte, formed by Chuquicamata and Radomiro Tomic Divisions, Andina, El Salvador and Teniente Divisions, and the head office received ISO 14001 certification.

Also, the subsidiary, Exploraciones Mineras Andinas S.A., received ISO 14001 certification.

In accordance with this policy, in 2004 the Company has made investments, related to environment issues, which amount to ThUS\$29,371 (2003: ThUS\$39,015)

Note 23 - Subsequent events

In January 2005, the subsidiaries Copper Technology Investments Inc. and Semi Solid Metal Investors LLC were formed in the United States of America, in accordance with Board resolution N° 30 of 2004.

On January 4, 2005, Law N° 19.993 was published, authorizing Empresa Nacional de Minería to sell to Codelco, the industrial mining and metallurgical complex called "Fundición y Refinería Las Ventanas". On January 26, 2005, according to Board resolution N°5, the Ventanas Division of Codelco was formed to administer the Fundición y Refinería Las Ventanas assets that will be acquired from the Empresa Nacional de Minería.

During January 2005, Codelco put 70% of CMS Tecnología S.A. on sale (Note 2 d).

The Company's management has no knowledge of other significant events of a financial nature or any other nature, occurring between December 31, 2004 and the date of issuance of these financial statements (February 4, 2005) which might affect them.

Juan Villarzú Rohde
Executive President

Francisco Tomic Errázuriz
Corporate Vice-President
Human Development and Finance

Fernando Moure Rojas
Corporate Vice-President for
Shared Services

Mario Allende Gallardo
Chief Accountant