CHEMICAL & MINING CO OF CHILE INC
Form 20-F
June 30, 2006
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 23 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report_____ .
For the transition period from _____to_____ .

Commission file number 33-65728 / 33-99188 / 333-10068

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
(Exact name of registrant as specified in its charter)

CHEMICAL AND MINING COMPANY OF CHILE INC.
(Translation of registrant's name into English)
CHILE
(Jurisdiction of incorporation or organization)

El Trovador 4285, Piso 6, Santiago, Chile (562) 425-2000
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Series A shares, in the form of American Depositary Shares	New York Stock Exchange
Series B shares, in the form of American Depositary Shares	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.
NONE

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.
NONE

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Series A shares	**142,819,552**
Series B shares	**120,376,972**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in rule 405 of the Securities Act:

YES NO

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange act of 1934:

YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non accelerated filer. See definition of "accelerated filer and large accelerated filer" in rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non- accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a sell company (as defined in Rule 12b-2 of the Exchange Act):

YES NO

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PRESENTATION OF INFORMATION

In this Annual Report on Form 20-F, unless the context requires otherwise, all references to "**we**", "**us**", "**Company**" or "**SQM**" are to Sociedad Química y Minera de Chile S.A., an open stock corporation (sociedad anónima abierta) organized under the laws of the Republic of Chile, and its consolidated subsidiaries.

All references to "**$**," "**US$**," "**U.S. dollars**" and "**dollars**" are to United States dollars, references to "**pesos**" or "**Ch$**" are to Chilean pesos, and references to "**UF**" are to *Unidades de Fomento*. The UF is an inflation-indexed, peso-denominated unit that is linked to, and adjusted daily to reflect changes in, the previous month's Chilean consumer price index. As of June 15, 2006, UF 1.00 was equivalent to US$ 33.30 and Ch$ 18,133.27.

The Republic of Chile is governed by a democratic government, organized in twelve regions plus the Metropolitan Region (surrounding and including Santiago, the capital of Chile). Our production operations are concentrated in northern Chile, specifically in the First Region, also named Tarapacá Region, and in the Second Region, also named Antofagasta Region.

Our fiscal year ends on December 31.

We use the metric system of weights and measures in calculating our operating and other data. The United States equivalent units of the most common metric units used by us are as shown below:

1 kilometer equals approximately 0.6214 miles

1 meter equals approximately 3.2808 feet

1 centimeter equals approximately 0.3937 inches

1 hectare equals approximately 2.4710 acres

1 metric ton equals 1,000 kilograms or approximately 2,205 pounds.

We are not aware of any independent, authoritative source of information regarding sizes, growth rates or market shares for most of our markets. Accordingly, the market size, market growth rate and market share estimates contained herein have been developed by us using internal and external sources and reflect our best current estimates. These estimates have not been confirmed by independent sources.

Percentages and certain amounts contained herein have been rounded for ease of presentation. Any discrepancies in any figure between totals and the sums of the amounts presented are due to rounding.

GLOSSARY

"**assay values**" Chemical result or mineral component amount that contains the sample.

"**average global metallurgical recoveries**" Percentage that measures the metallurgical treatment effectiveness based on the quantitative relationship between the initial product contained in the mine-extracted material and the final product produced in the plant.

"**average mining exploitation factor**" Index or ratio that measures the mineral exploitation effectiveness (defined below), based on the quantitative relationship between (in-situ mineral minus exploitation losses) / in-situ mineral.

"**Corfo**" Corporation of Promotion of Production (Corporación de Fomento de la Producción), formed in 1939, a national organization in charge of promoting and facilitating Chile's manufacturing productivity and commercial development.

"**cut-off grade**" The minimal assay value or chemical amount of some mineral component above which results in economical exploitability.

"**dilution**" Loss of mineral grade because of contamination with barren material (or waste) incorporated in some exploited ore mineral.

"**exploitation losses**" Amounts of ore mineral that have not been extracted in accordance with exploitation designs.

"**fertigation**" The process by which plant nutrients are applied to the ground using an irrigation system.

"**geostatistical analysis**" Statistical tools applied to mining planning, geology and geochemical data that allow estimation of averages, grades and quantities of mineral resources and reserves.

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"**heap leaching pads**" Padding or filling of rocks from which will be extracted the soluble mineral by irrigation with water.

"**horizontal layering**" Rock mass (stratiform seam) with generally uniform thickness that conform to the sedimentary fields (mineralized and horizontal rock in these cases).

"**hypothetical resources**" Mineral resources that have limited geochemical reconnaissance, based mainly in geological data and samples assays values spaced between 500-1000 meters.

"**Indicated Mineral Resource**" See "Resources—Indicated Mineral Resource."

"**Inferred Mineral Resource**" See "Resources—Inferred Mineral Resource."

"**industrial crops**" Refers to crops that require processing after harvest in order to be ready for consumption or sale. Tobacco, tea and seed crops are examples of industrial crops.

"LIBOR" London Inter Bank Offered Rate.

"**limited reconnaissance**" Low or limited level of geological knowledge.

"**Measured Mineral Resource**" See "Resources—Measured Mineral Resource."

"**metallurgical treatment**" A set of chemical and physical processes applied to rocks to extract their useful minerals (or metals).

"**old waste ore deposits**" Ore deposits that have been previously mined but not entirely depleted because of the low-grade quality of the ore the mine yields.

"**ore depth**" Depth of the mineral that may be economically exploited.

"**ore type**" Main mineral having economic value contained in the caliche ore (sodium nitrate or iodine).

"**ore**" A mineral or rock from which a substance having economic value may be extracted.

"**Probable Mineral Reserve**" See "Reserves—Probable Mineral Reserve."

"**Proved Mineral Reserve**" See "Reserves—Proved Mineral Reserve."

"**Reserves—Probable Mineral Reserve**"* The economically mineable part of an Indicated Mineral Resource and, in some circumstances, Measured Mineral Resource. It includes diluting of materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified. A Probable Mineral Reserve has a lower level of confidence than a Proved Mineral Reserve.

"**Reserves—Proved Mineral Reserve**"* The economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out and include consideration of and modification by

realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified.

"**Resources—Indicated Mineral Resource**"* That part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are too widely or inappropriately spaced to confirm geological continuity and/or grade continuity but are spaced closely enough for continuity to be assumed. An Indicated Mineral Resource has a lower level of confidence than that applying to a Measured Mineral Resource, but has a higher level of confidence than that applying to an Inferred Mineral Resource.

A deposit may be classified as an Indicated Mineral Resource when the nature, quality, amount and distribution of data are such as to allow the Competent Person determining the Mineral Resource to confidently interpret the geological framework and to assume continuity of mineralization. Confidence in the estimate is sufficient to allow the appropriate application of technical and economic parameters and to enable an evaluation of economic viability.

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"**Resources—Inferred Mineral Resource**"* Is that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which is of limited or uncertain quality and/or reliability. An Inferred Mineral Resource has a lower level of confidence than that applying to an Indicated Mineral Resource.

"**Resources—Measured Mineral Resource**" The part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are spaced closely enough to confirm geological and/or grade continuity.

> A deposit may be classified as a Measured Mineral Resource when the nature, quality, amount and distribution of data are such as to leave no reasonable doubt, in the opinion of the Competent Person determining the Mineral Resource, that the tonnage and grade of the deposit can be estimated within close limits and that any variation from the estimate would not significantly affect potential economic viability. This category requires a high level of confidence in, and understanding of, the geology and controls of the mineral deposit. Confidence in the estimate is sufficient to allow the appropriate application of technical and economic parameters and to enable an evaluation of economic viability.

"**waste**" Rock or mineral which is not economical for metallurgical treatment.

"**waste-to-ore ratio**" Relation or ratio between waste/ore.

"**Weighted Average Age**" In this Annual Report means the sum of the product of the age of each fixed asset at a given facility and its current gross book value as of December 31, 2005 divided by the total gross book value of the Company's fixed assets at such facility as of December 31, 2005.

* The definitions we use for resources and reserves are based on those provided by the “Instituto de Ingenieros de Minas de Chile” (Chilean Institute of Mining Engineers).

SQM will provide without charge to each person to whom this Annual Report is delivered, on the written or oral request of any such person, a copy of any or all of the documents incorporated herein by reference (other than exhibits, unless such exhibits are specifically incorporated by reference in such documents). Written requests for such copies should be directed to Sociedad Química y Minera de Chile S.A., El Trovador 4285, Piso 6, Santiago, Chile, Attention: Investor Relations Department. Requests may also be made by telephone (562-425-2000), facsimile (562-425-2493) and e-mail (ir@sqm.com).

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Form 20-F contains statements that are or may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear throughout this Form 20-F and include statements regarding the intent, belief or current expectations of the Company and its management, including but not limited to any statements concerning:

- the Company's capital investment program and development of new products;
- trends affecting the Company's financial condition or results of operations;
- level of production, quality of the ore and brines, and production yields;
- the future impact of competition;
- any statements preceded by, followed by, or that include the words "believe," "expect," "predict," "anticipate," "intend," "estimate," "should," "may," "could" or similar expressions; and
- other statements contained in this Form 20-F that are not historical facts.

Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements included in this Form 20-F, including, without limitation, the information under Item 4. Information on the Company and Item 5. Operating and Financial Review and Prospects. Factors that could cause actual results to differ materially include, but are not limited to:

- SQM's ability to implement its capital expenditures, including its ability to arrange financing when required;
- the nature and extent of future competition in SQM's principal markets;
- political, economic and demographic developments in the emerging market countries of Latin America and Asia where SQM conducts a large portion of its business; and
- the factors discussed below under Item 3. Key Information—Risk Factors.

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ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

3.A. Selected Financial Data

The following table presents selected consolidated financial information for SQM and one or more of its subsidiaries, as applicable, for each of the periods indicated. This information should be read in conjunction with, and is qualified in its entirety by reference to, the Audited Consolidated Financial Statements of the Company as for December 31, 2005 and 2004 and for each of the three years in the period ended December 31, 2005. The consolidated financial statements as of December 31, 2002 and 2001 and for the years then ended are not included herein. The Company's Consolidated Financial Statements are prepared in accordance with Chilean GAAP, which differs in certain material respects from U.S. GAAP. Note 29 to the Consolidated Financial Statements as for December 31, 2005 and 2004 and for each of the three years in the period ended December 31, 2005 provides a description of the principal differences between Chilean GAAP and U.S. GAAP and a reconciliation of net income for the years ended December 31, 2005, 2004 and 2003 and total shareholders' equity as of December 31, 2005 and 2004 to U.S. GAAP.

	Year ended December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
Income Statement Data Chilean GAAP			**(in millions of US$)** (1)		
Total Revenues	896.0	788.5	691.8	553.8	526.4
Operating Income	181.2	124.1	87.3	82.7	73.7
Non-operating results, net	(34.4)	(17.6)	(21.2)	(30.0)	(29.2)
Net income	113.5	74.2	46.8	40.2	30.1
Net earnings per share (2)	0.43	0.28	0.18	0.15	0.11
Net earnings per ADS (2)	4.31	2.82	1.78	1.53	1.14
Dividend per share (3)(4)	0.279	0.182	0.088	0.076	0.056
Weighted average shares Outstanding (000s) (2)	263,197	263,197	263,197	263,197	263,197
U.S. GAAP (4)					
Total Revenues	896.0	788.5	691.8	553.8	526.4
Operating Income	163.9	117.1	76.4	86.4	74.6
Non-operating results, net	(6.1)	(4.1)	(4.0)	(25.9)	(41.6)
Effect of change in accounting principles	—	—	—	0.5	—

Net income	125.2	86.8	57.8	46.9	24.4
Basic and diluted earnings per share	0.48	0.33	0.22	0.18	0.09
Basic and diluted earnings per ADS	4.76	3.30	2.19	1.78	0.93
Weighted average shares Outstanding (000s)(2)	263,197	263,197	263,197	263,197	263,197

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	Year ended December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
Balance Sheet Data:		**(In millions of US$)** (1)			
Chilean GAAP:					
Total assets	1,640.6	1,361.4	1,363.5	1,322.3	1,413.4
Long-term debt	100.0	200.0	260.0	324.0	412.0
Total shareholders' equity	1,020.4	948.6	890.0	849.7	831.7
Capital Stock	477.4	477.4	477.4	477.4	477.4
U.S. GAAP					
Total assets	1,609.0	1,318.5	1,319.4	1,274.6	1,354.8
Long-term debt	100.0	200.0	260.0	324.0	412.0
Total shareholders' equity	923.4	856.9	794.7	747.3	721.4
Capital Stock	479.3	479.3	479.3	479.3	479.3

Note: The Company is not aware of any material differences between Chilean and U.S. GAAP that are not addressed in Note 29 to the Consolidated Financial Statements of December 31, 2005.

(1) Except shares outstanding, dividend and net earnings per share and net earnings per ADS.

(2) There are no authoritative pronouncements related to the calculation of earnings per share in accordance with Chilean GAAP. For comparative purposes the calculation has been based on the same number of weighted average shares outstanding as used for the U.S. GAAP calculation.

(3) Dividends per share are calculated based on 263,197 thousand shares for the periods ended December 31, 2001, 2002, 2003, 2004 and 2005.

(4) Dividends may only be paid from net income before amortization of negative goodwill as determined in accordance with Chilean GAAP; see Item 8.A.8. Dividend Policy. For dividends in Ch$ see Item 8.A.8.Dividend Policy — Dividends.

EXCHANGE RATES

Chile has two currency markets, the Mercado Cambiario Formal, or Formal Exchange Market, and the Mercado Cambiario Informal, or Informal Exchange Market. The Formal Exchange Market is comprised of banks and other entities authorized by the Chilean Central Bank. The Informal Exchange Market is comprised of entities that are not expressly authorized to operate in the Formal Exchange Market, such as certain foreign exchange houses and travel agencies, among others. The Chilean Central Bank is empowered to determine that certain purchases and sales of foreign currencies be carried out on the Formal Exchange Market.

Both the Formal and Informal Exchange Markets are driven by free market forces. Current regulations require that the Chilean Central Bank be informed of certain transactions and that they be effected through the Formal Exchange Market. For the purposes of the operation of the Formal Exchange Market, the Chilean Central Bank sets a dólar acuerdo, or Reference Exchange Rate. The Reference Exchange Rate is reset daily by the Chilean Central Bank, taking into account internal and external inflation and variations in parities between the Chilean peso and each of the

U.S. dollar, the Japanese yen and the Euro at a ratio of 80:5:15, respectively. In order to keep the average exchange rate within certain limits, the Chilean Central Bank may intervene by buying or selling foreign currency on the Formal Exchange Market.

The dólar observado, or Observed Exchange Rate, which is reported by the Chilean Central Bank and published daily in the Chilean newspapers, is computed by taking the weighted average of the previous business day's transactions on the Formal Exchange Market. On September 2, 1999, the Chilean Central Bank eliminated the band within which the Observed Exchange Rate could fluctuate, in order to provide greater flexibility in the exchange market. Nevertheless, the Chilean Central Bank has the power to intervene by buying or selling foreign currency on the Formal Exchange Market to attempt to maintain the Observed Exchange Rate within a desired range.

The Informal Exchange Market reflects transactions carried out at an informal exchange rate, or the Informal Exchange Rate. There are no limits imposed on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the Observed Exchange Rate.

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Since 1993, the Observed Exchange Rate and the Informal Exchange Rate have typically been within less than 1% of one another.

The following table sets forth the annual low, high, average and year-end Observed Exchange Rate for U.S. dollars for each year starting in 2001 as reported by the Chilean Central Bank. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

On June 15, 2006, the Observed Exchange Rate was Ch$544.51 = US$1.00.

	Observed Exchange Rate (1) Ch$ per US$			
Year/Month	**Low (1)**	**High (1)**	**Average (2)(3)**	**Year/Month End**
2001	557.13	716.62	634.76	654.79
2002	641.75	756.56	692.32	718.61
2003	593.10	758.21	687.50	599.40
2004	559.21	649.45	612.13	559.83
2005	509.70	592.75	559.27	514.21
December 2005	509.70	518.63	514.33	514.21
January 2006	512.00	535.36	524.48	524.78
February 2006	516.91	532.35	525.70	517.76
March 2006	516.75	536.16	528.77	527.70
April 2006	511.44	526.18	517.33	518.62
May 2006	512.76	532.92	520.79	531.11

Source: Central Bank of Chile

(1) Observed exchange rates are the actual high and low on a day-to-day basis, for each period.

(2) The yearly average rate is calculated as the average of the exchange rates on the last day of each month during the period.

(3) The monthly average rate is calculated on a day-to-day basis for each month.

3.B. Capitalization And Indebtedness

Not applicable.

3.C. Reasons For The Offer And Use Of Proceeds

Not applicable.

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3.D. Risk Factors

Our operations are subject to certain risk factors that may affect SQM's financial condition or results of operations. In addition to other information contained in this Annual Report on Form 20-F, you should consider carefully the risks described below. These risks are not the only ones we face. Additional risks not currently known to us or that we currently believe are not significant may also affect our business operations. Our business, financial condition or results of operations could be materially affected by any of these risks.

Risks Relating to our Business

Our sales to emerging markets expose us to risks related to economic conditions and trends in those countries

We sell our products in more than 100 countries around the world. In 2005, approximately 39% of our sales were made to emerging market countries: (i) approximately 14% in Central and South America, excluding Chile, specifically in countries such as Brazil, Argentina, Colombia and Peru; (ii) approximately 18% in Chile; and (iii) approximately 7% in Asia, excluding Japan. We expect to expand our sales in these and other emerging markets in the future. The results and prospects for our operations in these countries and other countries in which we establish operations can be expected to be dependent, in part, on the general level of political stability and economic activity and policies in those countries. Future developments in the political systems or economies of these countries or the implementation of future governmental policies in those countries, including the imposition of withholding and other taxes, restrictions on the payment of dividends or repatriation of capital or the imposition of new environmental regulations or price controls, could have a material adverse effect on our sales or operations in those countries.

Volatility of world fertilizer and chemical prices and changes in production capacities could affect our business, financial condition and results of operations

The prices of our products are determined principally by world prices, which in some cases have been subject to substantial volatility in recent years. World fertilizer and chemical prices vary depending upon the relationship between supply and demand at any given time. Further, the supply of certain fertilizers or chemical products, including certain products that we provide, varies principally depending upon the production of the few major producers (including us) and their respective business strategies.

In particular, world iodine prices declined from approximately US$18.40 per kilogram for large purchases in early 1990 to less than US$8.00 per kilogram for large purchases in June 1994. The price increased to approximately US$18.00 in 1999, and subsequently it began to decline, reaching approximately US$12.50 during early 2003. By late 2003 and during 2004 prices reversed the downward trend and began to increase. The average price for 2004 reached approximately US$14.50 per kilogram and it has continued to increase to an average of approximately US$19.00 per kilogram for 2005. We cannot assure you that this trend will continue.

We started production of lithium carbonate from the Atacama Salar brines in October 1996 and started selling lithium carbonate commercially in January 1997. Our entrance into the market created an oversupply of lithium carbonate, resulting in a drop in prices from over US$3,000 per ton before our entrance to less than US$2,000 per ton. Currently, prices are higher than US$3,000 per ton. We believe the increase in prices is mainly due to the high growth in demand that has not been fully balanced by the supply of lithium carbonate. We cannot assure you that this trend will continue.

We expect that prices for the products we manufacture will continue to be influenced, among other things, by similar supply and demand factors and the business strategies of major producers. Some of the major producers (including us) have increased or have the ability to increase production. As a result, the prices of our products may be subject to substantial volatility. A substantial decline in the prices of one or more of our products could have a material adverse

effect on our business, financial condition and results of operations.

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We have an ambitious capital expenditure program that is subject to significant risks and uncertainties

Our business is capital intensive. Specifically, the exploration and exploitation of reserves, mining and processing costs, the maintenance of machinery and equipment and compliance with applicable laws and regulations require substantial capital expenditures. We must continue to invest capital to maintain or to increase the amount of reserves that we exploit and the amount of finished products we produce. We require environmental permits for our new projects. Obtaining permits in certain cases may cause significant delays in the execution and implementation of such new projects and, consequently, may require us to reassess the related risks and economic incentives. No assurance can be made that we will be able to maintain our production levels or generate sufficient cash flow, or that we will have access to sufficient investments, loans or other financing alternatives to continue our exploration, exploitation and refining activities at or above present levels, or that we will be able to implement our projects or receive the necessary permits required for them in time. Any or all of these factors may have a material adverse impact on our business, financial condition and results of operations.

Currency fluctuations may have a negative effect on our financial results

The Chilean peso has been subject to large devaluations and revaluations in the past and may be subject to significant fluctuations in the future. We transact a significant portion of our business in U.S. dollars, and the U.S. dollar is the currency of the primary economic environment in which we operate and is our functional currency for financial statement reporting purposes. A significant portion of our operating costs, however, are related to the Chilean peso. Therefore, an increase or decrease in the exchange rate between the Chilean peso and the U.S. dollar would affect our costs of production. Additionally, as an international company operating in Chile and several other countries, we transact a portion of our business and have assets and liabilities in Chilean pesos and other non-U.S. dollar currencies, such as the Euro, the South African Rand and the Mexican Peso. As a result, fluctuation in the exchange rate of such foreign currencies to the U.S. dollar may affect our business, financial condition and results of operations.

Sustained high raw material and energy prices increase our production costs and cost of goods sold

We rely on certain raw materials and various sources of energy (diesel, electricity, natural gas and others) to manufacture our products. Purchases of raw materials that we do not produce and energy constitute a significant part of our cost of sales (approximately 11.7% in 2005). To the extent we are unable to pass on increases in raw materials and energy prices to our customers, our business, financial condition and results of operations could be adversely affected.

Our reserves estimates could significantly vary

Our mining reserves estimates are prepared by our geologists. Estimation methods involve numerous uncertainties as to the quantity and quality of the reserves, and these could change, up or down. A downward change in the quantity and/or quality of our reserves could affect future volumes and cost of production and therefore have a negative impact on our business, financial condition and results of operations.

Quality standards in markets where we sell our products could become stricter over time

Governments and customers in several of the markets where we do business impose quality standards on our products. As a result, we may not be able to sell our products if we cannot meet such standards. In addition, our cost of production may increase in order to meet any such newly-promulgated standards. Failure to sell our products in one or more markets or to important customers could materially affect our financial condition or results of operations.

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Our business is subject to many operational and other risks for which we may not be fully covered in our insurance policies

Our facilities located in Chile and abroad are insured against losses, damages or other risks by insurance policies that are standard for the industry and that would reasonably be expected to be sufficient by prudent and experienced persons engaged in a business or businesses similar to those of our business. Nonetheless, we may be subject to certain events that may not be covered under the insurance policies, and that could materially affect our financial condition or results of operations.

The continuity of our natural gas supply is dependent on Argentinean authorities' policy

As part of a cost reduction effort, in 2001 we interconnected our facilities to a natural gas network. The natural gas, which originates in Argentina and is subject to a 10-year agreement, is used mainly for heat generation at our industrial facilities. Due to energy shortages in Argentina, local authorities decided to restrict exports of natural gas to Chile in order to increase the supply to their domestic markets. Additionally, even though we have long-term price agreements related to natural gas, the Argentinean government increased taxes on gas exports and there can be no assurance that they will not do it again in the future.

We suffered partial shortages of natural gas during 2004 and 2005, and the shortages have increased and continued in the second quarter of 2006, reaching more than 50% of the normal supply. Considering what has happened in the second quarter of 2006 and the public statements made by Argentina and Bolivia -which in turn supplies natural gas to Argentina-, we believe further cutbacks in the supply of natural gas are likely in the future. To mitigate this, we have adopted measures intended to limit the effects of any further decrease in the natural gas supply. Most of our industrial equipment that uses natural gas can also operate on fuel oil and the remaining equipment can operate on diesel. The costs of using fuel oil and diesel are significantly higher than natural gas.

The extent to which we incur increased costs as a result of decreases in the natural gas supply will depend on the volume of such a decrease and on the duration of the period during which natural gas supplies are restricted, and therefore, we cannot estimate the exact economic impact of future natural gas supply reductions. However, further increases in prices of natural gas or a sustained reduction in our natural gas supply could have an adverse effect on our business, financial condition and results of operations. During 2005, purchases of natural gas represented approximately 1.4% of our cost of sales.

Decline in the supply of natural gas and increasing global oil prices could negatively affect our electricity contracts

As natural gas supply continues to be uncertain, as discussed above, and oil prices continue to increase, we are faced with potential revisions to our long-term electricity supply agreements. We maintain contracts with two main utilities in Chile, Electroandina S.A. and AES Norgener S.A., and both have requested revision of the tariffs involved. As a result of such request we have commenced arbitration between us and Electroandina and Norgener.

Although we believe tariffs should not be modified, to the extent that our electricity contracts are in fact revised and modified, we may suffer increased costs, thereby negatively affecting our results of operations. During 2005, purchases of electricity represented approximately 2.8% of our cost of sales.

We are exposed to labor strikes and liabilities that could impact our production levels and costs

Of our permanent employees in Chile, 72% are represented by 31 labor unions, which represent their members in collective bargaining negotiations with the Company. Accordingly, we are exposed to labor strikes that could impact our production levels. Should a strike occur and extend for a sustained period of time, we could be faced with

increased costs and even disruption in our product flow that could have a material adverse effect on our financial condition or results of operations.

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The Chilean Congress has amended the Labor Code and some of such amendments will be soon clarified or re-amended through a Presidential veto. Nevertheless, the new wording will contemplate that the work-owner shall be jointly liable for some benefits of the subcontractor's employees being hired for the performance of such work and thus increasing the owner's responsibilities and costs.

Our water supply could be affected by regulatory changes and/or natural problems

Although we have not experienced significant difficulties obtaining the necessary water to conduct our operations, there can be no assurance that we will not have problems in securing our water supply due to new environmental regulations or natural depletion of water resources that could affect our operations, negatively affecting our business, financial condition and results of operations.

Pending lawsuits could adversely impact us

We are party to lawsuits and arbitrations involving commercial matters. Although we intend to defend our position vigorously, our defense of these actions may not be successful. Some judgment in or settlement of these lawsuits may have a material adverse effect on our financial condition or results of operations. See Item 8.A.7. Legal Proceedings and Note 22 to the Consolidated Financial Statements. Furthermore, our strategy of being a world leader includes carrying out commercial and production alliances, joint ventures and acquisitions to improve our global competitive position. As these operations increase in complexity and are carried out in different jurisdictions, our Company might be subject to legal proceedings that, if settled against us, may have a significant impact in the Company's financial condition or results of operations.

Risks Relating to Chile

As we are a Chilean-based company, we are exposed to Chilean political risks

The prospects and results of operations of the Company could be affected by changes in policies of the Chilean government, other political developments in or affecting Chile, and regulatory and legal changes or administrative practices of Chilean authorities, over which the Company has no control.

Changes in mining and water rights laws or in regulations affecting port concessions could affect our operating costs

We conduct our mining (including brine extraction) operations under exploitation and exploration concessions granted pursuant to judicial proceedings in accordance with provisions of the Chilean Constitution and the Constitutional Mining Law and related statutes. Our exploitation concessions essentially grant a perpetual right to conduct mining operations in the areas covered by the concessions, provided that we pay annual concession fees (with the exception of the Atacama Salar rights, which have been leased to us until 2030). Our exploration concessions permit us to explore for mineral resources on the land covered thereby for a specified period of time, and to subsequently request a corresponding exploitation concession. We also hold water rights obtained from the Chilean Water Authority for a supply of water from rivers and wells near our production facilities, which we believe is sufficient to meet current and anticipated operational requirements. We operate port facilities at Tocopilla, Chile, for the shipment of our products and the delivery of certain raw materials, pursuant to concessions granted by Chilean regulatory authorities. These concessions are renewable provided that we use such facilities as authorized and pay annual concession fees. Any significant changes to these concessions could have a material adverse impact on our business, financial condition and results of operations.

The following recent changes in Chilean law are also likely to affect our operations:

The Chilean Congress recently approved a modification to Chilean laws relating to water rights (the "Water Code"). The changes to the Water Code include establishing annual fee payments for owners of water rights that do not use the water associated with them. This fee does not affect the holder's right to use aquifers. The criteria used to determine what rights or what part of such rights would be subject to this annual fee relate to whether the resource is consumed or re-injected into the stream after its use (defined as the water right's "consumptive condition"), whether the use of the resource is sporadic or permanent (frequency of use) and the geographical location of the intake points relative to an area's overall water supply. The referred changes will not have a material adverse effect on our business, financial condition and results of operations. Nevertheless, as the Company maintains water rights that are key to its business development, further changes to the Water Code could have a material adverse impact on our business, financial condition and results of operations.

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On May 18, 2005, the Chilean Congress approved Law No. 20,026, also known as the "Royalty Law," which established a royalty to be applied to mining activities developed in Chile, levied on mining companies whose sales are equal to or greater than the equivalent value of 12,000 metric tons of fine copper (MFT), as determined according to the London Metal Exchange Grade A copper cash quotation. This new mining royalty, which will be applied from 2006 onwards, is levied on the "taxable operating income" (as this term is defined in Law No. 20,026) of the mining company, at a rate that varies from 0.5% up to 5%, depending on the consolidated annual sales.

If similar changes are enacted in the future they may have a material adverse impact on our business, financial condition and results of operation.

Environmental laws and regulations could expose us to higher costs, liabilities, claims and failure to meet current and future production targets

Our operations in Chile are subject to a variety of national and local regulations relating to environmental protection. The main environmental laws in Chile are the Health Code and Law No. 19,300, which we refer to as the "Chilean Environmental Framework Law." The Chilean Environmental Framework Law created the Comisión Nacional del Medio Ambiente (National Environmental Commission or CONAMA), which is the governmental agency in charge of supervising the due compliance with the Chilean Environmental Framework Law. Under this law, we are required to conduct environmental impact studies of any future projects or activities (or their significant modifications) that may affect the environment. CONAMA evaluates environmental impact studies submitted for its approval and oversees the implementation of projects. The Chilean Environmental Framework Law also enables private citizens, public agencies or local authorities to challenge projects that may affect the environment, either before these projects are executed or once they are already operating. Enforcement remedies available include temporary or permanent closure of facilities and fines.

Chilean environmental regulations have become increasingly stringent in recent years, both in respect of the approval of new projects and in connection with the implementation and development of projects already approved. This trend is likely to continue. Furthermore, recently implemented environmental regulations have created uncertainty because rules and enforcement procedures for these regulations have not been fully developed. Given public interest in environmental enforcement matters, these regulations or their application may also be subject to political considerations that are beyond our control.

We continuously monitor the impact of our operations on the environment and have, from time to time, made modifications to our facilities to minimize any adverse impact. Except for particulate matter levels exceeding permissible levels in María Elena facilities (see "Business—Chilean Government Regulations" and "Business—Environmental Regulations"), we are currently in compliance in all material respects with applicable environmental regulations in Chile that we are aware of. Future developments in the creation or implementation of environmental requirements, or in their interpretation, could result in substantially increased capital, operation or compliance costs or otherwise adversely affect our business, financial condition and results of operations.

In connection with our current investments at the Atacama Salar we have submitted an environmental impact assessment study. The success of these investments is dependent on the approval of said submission by the pertinent governmental authorities. Failure to obtain approval of this submission could seriously impair our ability to maintain our current production levels or increase production capacities in the near future, thus having a material adverse effect on our financial condition or results of operations.

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Additionally, in connection with our future investments in the nitrate and iodine operations, we have submitted and expect to submit several environmental impact assessment studies. The success of these investments is dependent on the approval of said submissions by the pertinent governmental authorities. Failure to obtain approval for one or more of these submissions could seriously impair our ability to maintain our future production levels or increase production capacities in the near future, thus having a material adverse effect on our financial condition or results of operations.

Furthermore, the future development of the Company depends on our ability to sustain future production levels, which require additional investments and the submission of the corresponding environmental impact assessment studies. Again, if we fail to obtain approval, our ability to maintain production at specified levels will be seriously impaired, thus having a material adverse effect on our financial condition or results of operations.

Our worldwide operations are also subject to environmental regulations. Since laws and regulations in the different jurisdictions in which we operate may change, we cannot guarantee that future laws, or changes to existing ones, will not materially impact our financial condition or results of operations.

Our financial statements are reported, and our dividends are declared, based on Chilean GAAP, which generally differs from U.S. GAAP

There are important differences between Chilean GAAP and U.S. GAAP. As a result, Chilean financial statements and reported earnings generally differ from those that are reported based on U.S. GAAP. In particular, our earnings and the amount of dividends that we declare under Chilean GAAP may be subject to a higher degree of fluctuation as compared to U.S. GAAP, due to accounting pronouncements or other modifications required under Chilean GAAP. Note 29 to the consolidated Financial Statements includes a description of differences and a reconciliation of the net income and shareholder's equity amounts reported under Chilean GAAP to U.S. GAAP.

Risks related to our financial activities

Interest rate fluctuations may have a material impact on our financial results

We maintain short and long-term debt priced at Libor, plus a spread. As we do not have derivative instruments to hedge the Libor, we are subject to fluctuations in this rate. As of December 31, 2005, we had approximately 47% of our financial debt priced at Libor, and therefore significant increases in the rate could impact our financial condition.

Risks related to our shares and to our ADSs

The price of our ADSs and the U.S. dollar value of any dividends will be affected by fluctuations in the U.S. dollar/Chilean peso exchange rate

Chilean trading in the shares underlying our ADSs is conducted in Chilean pesos. The depositary will receive cash distributions that we make with respect to the shares in pesos. The depositary will convert such pesos to U.S. dollars at the then prevailing exchange rate to make dividend and other distribution payments in respect of ADSs. If the value of the peso falls relative to the U.S. dollar, the value of the ADSs and any distributions to be received from the depositary will decrease.

Developments in other emerging markets could materially affect our ADSs value

The Chilean financial and securities markets are, to varying degrees, influenced by economic and market conditions in other emerging market countries or regions of the world. Although economic conditions are different in each country or region, investor reaction to developments in one country or region can have significant effects on the securities of

issuers in other countries and regions, including Chile and Latin America. Events in other parts of the world may have an adverse effect on Chilean financial and securities markets and on the value of our ADSs.

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The volatility and low liquidity of the Chilean securities markets could affect the ability of our shareholders to sell our ADSs

The Chilean securities markets are substantially smaller, less liquid and more volatile than the major securities markets in the United States. The volatility and low liquidity of the Chilean markets could increase the price volatility of our ADSs and may impair the ability of a holder to sell our ADSs into the Chilean market in the amount and at the price and time he or she wishes to do so.

Our share price may react negatively to future acquisitions and investments

As part of our strategy as world leaders in our core businesses, we are constantly looking for opportunities that will allow us to consolidate and strengthen our competitive position. Pursuant to this strategy, we may from time to time, evaluate and eventually carry out acquisitions in any of the businesses in which we are. Depending on our then current capital structure, we may need to raise significant debt and/or equity which will affect our financial condition and future cash flows. Any change in our financial condition could affect our results of operations, negatively impacting our share price.

You may be unable to enforce rights under U.S. Securities Laws

Because we are a Chilean company subject to Chilean law, the rights of our shareholders may differ from the rights of shareholders in companies incorporated in the United States, and you may not be able to enforce or may have difficulty enforcing rights currently in effect on U.S. Federal or State securities laws.

Our Company is a “sociedad anónima abierta” (open stock corporation) incorporated under the laws of the Republic of Chile. Most of SQM’s directors and officers reside outside the United States, principally in Chile. All or a substantial portion of the assets of these persons are located outside the United States. As a result, if any of our shareholders, including holders of our ADSs, were to bring a lawsuit against our officers or directors in the United States, it may be difficult for them to effect service of legal process within the United States upon these persons. Likewise, it may be difficult for them to enforce against them in United States courts judgments obtained in United States courts based upon the civil liability provisions of the federal securities laws of the United States.

In addition, there is no treaty between the United States and Chile providing for the reciprocal enforcement of foreign judgments. However, Chilean courts have enforced judgments rendered in the United States, provided that the Chilean court finds that the United States court respected basic principles of due process and public policy. Nevertheless, there is doubt whether an action could be brought successfully in Chile in the first instance on the basis of liability based solely upon the civil liability provisions of the United States federal securities laws.

As preemptive rights may be unavailable for our ADS holders, they have the risk of being diluted if we issue new stock

Chilean laws require companies to offer their shareholders preemptive rights whenever selling new shares of capital stock. Preemptive rights permit holders to maintain their existing ownership percentage in a company by subscribing for additional shares. If we increase our capital by issuing new shares, a holder may subscribe for up to the number of shares that would prevent dilution of the holder’s ownership interest.

If we issue preemptive rights, United States holders of ADSs would not be able to exercise their rights unless a registration statement under the Securities Act were effective with respect to such rights and the shares issuable upon exercise of such rights or an exemption from registration were available. We cannot assure holders of ADSs that we will file a registration statement or that an exemption from registration will be available. We may, in our absolute

discretion, decide not to prepare and file such a registration statement. If our holders were unable to exercise their preemptive rights because SQM did not file a registration statement, the depositary would attempt to sell their rights and distribute the net proceeds from the sale to them, after deducting the depositary's fees and expenses. If the depositary could not sell the rights, they would expire and holders of ADSs would not realize any value from them. In either case, ADS holders' equity interest in SQM would be diluted in proportion to the increase in SQM's capital stock.

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ITEM 4. INFORMATION ON THE COMPANY

4.A. History And Development Of The Company

Historical Background

Sociedad Química y Minera de Chile S.A. "SQM" is an open stock corporation (sociedad anónima abierta) organized under the laws of the Republic of Chile. The Company was constituted by public deed issued on June 17, 1968 by the Public Notary of Santiago, Mr. Sergio Rodríguez Garcés. Its existence was approved by Decree No. 1.164 of June 22, 1968 of the Ministry of Finance, and it was registered on June 29, 1968 in the Business Registry of Santiago, on page 4.537 No. 1.992. SQM's headquarters are located at El Trovador 4285, Piso 6, Las Condes, Santiago, Chile. The Company's telephone number is 562-425-2000.

Commercial exploitation of the caliche ore deposits in northern Chile began in the 1830s, when sodium nitrate was extracted from the ore for use in the manufacture of explosives and fertilizers. By the end of the nineteenth century, nitrate production had become the leading industry in Chile and the country was the world's leading supplier of nitrates. The accelerated commercial development of synthetic nitrates in the 1920s and the global economic depression in the 1930s caused a serious contraction of the Chilean nitrate business, which did not recover significantly until shortly before the Second World War. After the war, the widespread commercial production of synthetic nitrates resulted in a further contraction of the natural nitrate industry in Chile, which continued to operate at depressed levels into the 1960s.

SQM was formed in 1968 through a joint venture between Compañía Salitrera Anglo Lautaro S.A. ("Anglo Lautaro") and Corporación de Fomento de la Producción ("Corfo"), a Chilean state-owned development corporation. Three years after our formation, in 1971, Anglo Lautaro sold all of its shares to Corfo and we were wholly owned by the Chilean Government until 1983. In 1983, Corfo began a process of privatization by selling our shares to the public and subsequently listing such shares on the Santiago Stock Exchange. By 1988, all of our shares were publicly owned. Our Series B ADRs have traded on the NYSE under the ticker symbol "SQM" since 1993.

Between the years 1994 to 1999, we participated in the biggest non-metallic mining project ever carried out in Chile, the development of the Atacama Salar project in northern Chile. During this period, the project required an investment of approximately US$300 million, which was used in the construction of a 500,000-ton capacity potassium chloride plant, a 22,000-ton capacity lithium carbonate plant, a close to 200,000-ton capacity potassium sulfate plant and a close to 10,000-ton capacity boric acid plant. The potassium chloride, lithium carbonate, potassium sulfate and boric acid plants are currently in operation.

To help finance the above projects, we accessed the international capital markets by issuing more ADRs on the New York Stock Exchange in 1995 (Series B ADR issuance) and in 1999 (by issuing our Series A ADRs on the NYSE under the ticker symbol "SQM-A").

During the period from 2000 through 2004 we principally consolidated the investments carried out in the preceding five years. We focused on reducing costs and improving efficiencies throughout the organization.

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Capital Expenditure Program

We are constantly reviewing different opportunities for improving our production methods, increasing production capacity of current products and developing new products and markets. Additionally, significant maintenance of capital expenditures are required every year in order to sustain our production capacity. We are focused on developing new products in response to identified customer demand and products that can be derived as part of our existing production. Our capital expenditures in the past five years were mainly related to the acquisition of new assets, construction of new facilities and renewal of plant and equipment.

SQM's capital expenditures in the 2003-2005 period were the following:

	2005(4)	**2004**(3)	**2003**(2)
		(in millions of US$)	
Expenditures (1)	198.1	91.4	57.4

(1) Includes investments in related companies. These amounts will not match the consolidated statements of cashflows, as the Company does not consolidate development stage companies.

(2) Includes acquisition of La Coruña. (US$13 million).

(3) Includes acquisition of PCS Yumbes (US$35 million). The Yumbes mine is not currently being mined and we expect that part of the facilities will be relocated to the first Region, to be used in the development of the nitrates expansion project.

(4) Includes acquisition of Kefco in Dubai (US$9.3 million)

We have developed a capital expenditure program calling for investments totaling approximately US$660 million (not including acquisitions) between 2005-2008 of which approximately US$190 million was spent in 2005. The main purpose of our capital expenditure program is to increase production capacity of iodine by approximately 25% (without giving effect to the DSM iodine business acquisition), natural nitrates by approximately 25%, and lithium carbonate by more than 30%. Depending on market conditions, the capital expenditure program may be increased during 2007 and 2008 by up to a total of approximately US$140 million to further expand capacity.

Most of our expansion capital expenditure program requires environmental approval after completion of environmental impact studies. We currently have under consideration with the environmental authorities environmental impact studies for production capacity increases at the Atacama Salar and Nueva Victoria. Capital expenditures for 2005 were approximately US$190 million (not including the Dubai acquisition described below) primarily for (i) iodine production increases at the Nueva Victoria facility, a project that we expect to put online during the first half of 2006; (ii) a new granular and prilling facility located at Coya Sur, which will allow us to replace the old Pedro de Valdivia facility, to increase capacity, improve quality and develop new products; (iii) the purchase, replacement and upgrade of mining equipment, reflecting our decision to operate with new equipment in order to lower our maintenance costs in the future and to increase capacity; (iv) a new lithium hydroxide facility located at Salar del Carmen near our lithium carbonate facility; (v) the completion of the capacity increase at our lithium carbonate facility; (vi) the initial investment in the María Elena project oriented to replace our current crushing facilities and to develop a new mining area; and (vii) various projects designed to maintain capacity, increase yields and lower costs. Additionally during 2005, we bought a urea-phosphate facility in Dubai for approximately US$9.3 million to expand our product offering of specialty plant nutrition in the Middle East.

For 2006, we have budgeted total capital expenditures of approximately US$210 million (not including the DSM iodine business acquisition mentioned below) primarily for (i) the completion of the María Elena project described above; (ii) the initial investment in a potassium nitrate production facility at Nueva Victoria; (iii) the completion of the granular and prilling facility located at Coya Sur; (iv) a new drying facility for soluble potassium nitrate at Coya Sur; (v) the development of new mining areas at Pedro de Valdivia; and (vi) various projects designed to maintain capacity, increase yields and lower costs, and to develop new NPK(nitrogen, phosphate and potassium), soluble blending facilities.

Additionally, we bought the iodine business of DSM for approximately US$72.0 million in January 2006.

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For 2007 and 2008, we estimate total capital expenditures of approximately US$260 million, which can be increased depending on market conditions, primarily for (i) the increase in lithium carbonate production capacity at the Atacama Salar; (ii) the completion of the potassium nitrate production facility at Nueva Victoria; (iii) the upgrade of our railroad system to handle expanded capacity; (iv) the replacement of the iodine facilities at María Elena to improve technology in order to lower costs and increase yields; and (v) various projects designed to maintain capacity, increase yields and lower costs, and to develop new NPK-soluble blending facilities.

4.B. Business Overview

The Company

We believe we are the world's largest integrated producers of potassium nitrate, iodine and lithium carbonate. We also produce other specialty plant nutrition products, iodine and lithium derivatives, and certain industrial chemicals, including industrial nitrates. Our products are sold in over 100 countries through our worldwide distribution network and we generate approximately 83% of our revenues from countries outside Chile. Our products are mainly derived from mineral deposits found in the first and second regions of northern Chile, where we mine and process caliche ore and brine deposits. The caliche ore in northern Chile contains the largest known nitrate and iodine deposits in the world and is the world's only commercially exploited source of natural nitrates. The brine deposits of the Atacama Salar, a salt-encrusted depression within the Atacama Desert in northern Chile, contain high concentrations of lithium and potassium as well as significant concentrations of sulfate and boron.

From our caliche ore deposits, we produce a wide range of nitrate-based products, used for specialty plant nutrition and industrial applications, as well as iodine and iodine derivatives. At the Atacama Salar, we extract brines rich in potassium, lithium and boron, and produce potassium chloride, potassium sulfate, lithium solutions, boric acid and bischofite. We produce lithium carbonate and lithium hydroxide at a plant near the city of Antofagasta, Chile, from the solutions brought from the Atacama Salar. We market all these products through an established worldwide distribution network.

Our products are divided into five main categories: specialty plant nutrition products, iodine and derivatives, lithium and derivatives, industrial chemicals and other products. Specialty plant nutrition is comprised of specialty plant nutrition products that are fertilizers having certain characteristics that enable farmers to improve yields and quality of certain crops. Iodine, lithium and their derivatives are used in human nutrition, pharmaceuticals and other industrial applications. Specifically, iodine and its derivatives are mainly used in x-ray contrast media and biocides industries and a growing application is in the production of polarizing film, which is an important component in Liquid Crystal Displays ("LCDs") screens, and lithium and its derivatives are mainly used in batteries, greases and frits for production of ceramics. Industrial chemicals have a wide range of applications in certain chemical processes such as the manufacturing of glass, explosives and ceramics. Other products include potassium chloride and other commodity fertilizers that are bought from third parties and sold mostly in Chile and Mexico.

For the year ended December 31, 2005, we had revenues of approximately US$896.0 million, operating income of approximately US$181.2 million and net income of approximately US$113.5 million.

Specialty Plant Nutrition: We produce five principal types of specialty plant nutrients: sodium nitrate, potassium nitrate, sodium potassium nitrate, potassium sulfate and specialty blends. All of these specialty plant nutrients are used in either solid or liquid form mainly in high value crops such as fruits, vegetables, industrial crops (mainly tobacco and coffee), cereals and cotton, and are widely used in crops that employ modern agricultural techniques such as hydroponics, greenhousing, fertigation (where fertilizer is dissolved in water prior to irrigation) and foliar application. According to the type of use or application the products are marketed under the brands: Ultrasol™ (fertigation), Qrop™ (field application), Speedfol™ (foliar application), Allganic™ (organic farming) and Nutrilake™ (acquaculture). Specialty

plant nutrition has certain advantages over commodity fertilizers, such as rapid and effective absorption (without requiring nitrification), superior water solubility, alkaline pH (which reduces soil acidity) and low chlorine content. These advantages, plus customized specialty blends that meet specific needs and the technical service provided by us, may be considered as plant nutrients solutions adding value to crops through higher yields and better quality production. Because our products are natural or derived from natural nitrate compounds or natural potassium brines (in the case of potassium sulfate), they have certain advantages over synthetically produced fertilizers, such as the presence of certain beneficial trace elements and their organic nature, which makes them more attractive to customers who prefer products of natural origin. As a result, our specialty plant nutrients enable our customers to achieve higher yields and better quality crops. Consequently, specialty plant nutrients are sold at a premium price compared to commodity fertilizers.

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Iodine: We are the world's leading producer of iodine and iodine derivatives, which are used in a wide range of medical, pharmaceutical, agricultural and industrial applications, including x-ray contrast media, antiseptics, biocides and disinfectants, human and animal nutritional supplements, in the synthesis of pharmaceuticals, herbicides, electronics, pigments, dye components and heat stabilizers.

Lithium: We are the world's leading producer of lithium carbonate, which is used in a variety of applications, including batteries, frits for the ceramic and enamel industries, heat resistant glass (ceramic glass), primary aluminum, lithium bromine for air conditioner equipment, continuous casting powder for steel extrusion, pharmaceuticals, and lithium derivatives. We are also a leading supplier of lithium hydroxide, which is used primarily as a raw material in the lubricating grease industry.

Industrial Chemicals: We produce four industrial chemicals: sodium nitrate, potassium nitrate, boric acid and potassium chloride. Sodium nitrate is used primarily in the production of glass, explosives, charcoal briquettes and metal treatment. However, other uses, such as adhesives and wastewater treatment also account for important sales volumes. Potassium nitrate, while also used in the manufacture of specialty glass, is consumed primarily in cathode ray tubes for TV's and computer monitors. In addition, potassium nitrate is an important raw material for the production of frits for the ceramics and enamel industries. Boric acid is used in the manufacture of frits for the ceramics and enamel industries, glass, and fiberglass. Potassium chloride is used as an additive in oil drilling as well as in the production of carragenine.

Other Products: We produce and market granular potassium chloride, which is distributed through our subsidiary Soquimich Comercial S.A. in Chile. We have close to 100% of the market share for this product in Chile. In addition, we import fertilizers that are distributed through Soquimich Comercial S.A. in Chile and Fertilizantes Olmeca S.A. de C.V. in Mexico, offering a complete fertilizing service to our customers.

The following table sets forth the percentage breakdown of our revenues in the 2001-2005 period according to our product lines:

	2005	2004	2003	2002	2001
Specialty Plant Nutrition	54%	54%	52%	51%	49%
Iodine and derivatives	17%	14%	12%	15%	16%
Lithium and derivatives	9%	8%	7%	7%	7%
Industrial Chemicals	8%	9%	11%	13%	13%
Other Products	12%	15%	18%	14%	15%
	100%	100%	100%	100%	100%

Business Strategy

Our general business strategy is to:

(1) participate in businesses where we are or will be a cost leader supported by strong fundamentals;

(2) differentiate ourselves from commodity producers by manufacturing, marketing and distributing specialty products that sell at high value;

(3) continually increase the efficiency of our production processes and reduce costs in order to increase our productivity;

(4) maintain leadership in our principal business areas – specialty plant nutrients, iodine and lithium – in terms of installed capacity, costs, production, pricing and development of new products; and

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(5) vertically integrate towards more value added markets.

We have identified market demand in each of our major product lines, both within our existing customer base and in new markets, for existing products and for additional products that can be extracted from our natural resources. In order to take advantage of these opportunities, we have developed a specific strategy for each of our product lines, as set forth below:

Specialty Plant Nutrition

Our strategy in our specialty plant nutrition business is to (i) continue expanding our sales of natural nitrates by continuing to exploit the advantages of our products over commodity nitrates and ammonia-based nitrogen and potassium chloride fertilizers; (ii) increase our sales of higher margin specialty plant nutrition products based on natural nitrates, particularly soluble potassium nitrate and NPK-soluble blends; (iii) pursue investment opportunities in complementary businesses to increase production, reduce costs and add value to and improve the marketing of our products; (iv) emphasize development of locally produced new specialty nutrient blends and customized products intended to meet local specific customer needs in all of our principal markets; (v) focus more on the soluble and foliar plant nutrient market in order to establish a leadership position; (vi) further develop our global distribution and marketing system directly and through strategic alliances with other producers and global or local distributors; and (vii) reduce our production costs through improved processes and higher labor productivity so as to compete more effectively.

Iodine

Our strategy in our iodine business is to (i) maintain our leadership in the iodine market by encouraging demand growth and expanding our production capacity in line with the demand growth; (ii) develop new iodine derivatives and participate in the iodine recycling projects; and (iii) reduce our production costs through improved processes and higher labor productivity so as to compete more effectively.

Lithium

Our strategy in our lithium business is to (i) maintain our leadership in the lithium industry as the largest producer and distributor of lithium carbonate and lithium hydroxide; (ii) selectively pursue downstream opportunities in the lithium derivatives business; and (iii) reduce our production costs through improved processes and higher labor productivity so as to compete more effectively.

Industrial Chemicals

Our strategy in our industrial chemical business is to (i) maintain our leadership position in sodium nitrate and potassium nitrate; (ii) develop new industrial markets for our current products; (iii) focus our sales of boric acid in industrial niche markets; and (iv) reduce our production costs through improved processes and higher labor productivity so as to compete more effectively.

New Business Ventures

From time to time we evaluate opportunities to expand our business, both within and outside Chile, and we expect to continue to do so in the future. We may decide to acquire part or all of the equity of, or undertake joint ventures or other transactions with, other companies involved in our businesses or in other businesses.

Production Process

Our integrated production process can be classified according to our natural resources:

- Caliche ore deposits: contain nitrates, iodine and sodium sulfate.

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. Atacama Salar brines: contain potassium, lithium, sulfates and boron.

Caliche Ore Deposits

We mine caliche ore from open pit deposits located in northern Chile. Caliche deposits are the largest known source of natural nitrates in the world. The geological origin of caliche ore deposits in northern Chile is uncertain, there being a number of different geological formation theories. The most agreed upon is that a volcanic formation of deposits was followed by water runoff, leaching and depositing in existing sediments.

Caliche deposits are located in northern Chile, where we currently operate four mines: Pedro de Valdivia, María Elena, Pampa Blanca and Nueva Victoria (including Iris operation, formerly the DSM Iodine business mine)

Caliche ore is found under a layer of barren overburden, in seams with variable thickness from twenty centimeters to five meters, with the overburden varying in thickness from half a meter to one and a half meters.

Before proper mining begins, a full exploration stage is accomplished, including full geological reconnaissance and dust recovery drill holes to determine the features of each deposit and its quality. Drill hole samples properly identified are tested at our chemical laboratories. With the exploration information on a closed grid pattern of drill holes the ore evaluation stage provides information for mine planning purpose. Mine planning is done on a long-term basis (10 years), medium-term basis (3 years) and short-term basis (1 year). A mine production plan is a dynamic tool that details daily, weekly and monthly production plans. Following the production of drill holes, information is updated to offer the most accurate ore supply schedule to the processing plants.

Generally, bulldozers first rip and remove the overburden in the mining area. This process is followed by production drilling and blasting to break the caliche seams. Front-end loaders load the ore on off-road trucks. In the Pedro de Valdivia mine, trucks deliver the ore to stockpiles next to rail loading stations. The stockpiled ore is later loaded on to railcars that take the mineral to the processing plant. In the María Elena mine, trucks haul the ore and dump it directly to a primary crushing installation, after which a 14-kilometer long overland conveyor belt system delivers the ore to the processing plant.

The ore in Pedro de Valdivia and María Elena plants is crushed and leached to produce concentrated solutions carrying the nitrate, iodine and sodium sulfate. The crushing of the ore delivers two products, a coarse fraction that is leached in a vat system and a fine fraction that is leached by agitation. These are followed by liquid-solid separation, where solids precipitate as sediment and liquids concentrated in nitrate and iodine are sent to processing.

In Pampa Blanca and Nueva Victoria the run of mine ore is loaded in heaps and leached to produce concentrated solutions.

Caliche Ore-Derived Products

Caliche ore derived products are: sodium nitrate, potassium nitrate, sodium potassium nitrate, sodium sulfate and iodine and iodine derivatives.

Sodium Nitrate

Sodium nitrate for both agricultural and industrial applications is produced at the María Elena and Pedro de Valdivia facilities using the Guggenheim method, which was originally patented in 1921. This closed circuit method involves adding a heated leaching solution to the crushed caliche in the vats to selectively dissolve the valuable contents. The concentrated solution is then cooled, causing the sodium nitrate to crystallize. Part of the unloaded solution is then

recycled to the leaching vats. The other part of the solution is stripped of its iodine content at the proper treatment plants. The crystallized sodium nitrate is separated from the remaining solution by centrifuging. The residue resulting from the crushing of the caliche ore is leached at ambient temperature with water, producing a weak solution that is pumped to solar evaporation ponds at our Coya Sur facilities, nearby María Elena, for concentration. While the process of extracting sodium nitrate from caliche ore is well established, variations in chemical content of the ore, temperature of the leaching solutions and other operational features require a high degree of know-how to manage the process effectively and efficiently.

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The remaining materials from the sodium nitrate crystallization process are vat leach tailings and a weak solution. The ore tailings are unloaded from the leaching vats and deposited at sites near the production facilities. The weak solution is re-cycled for further leaching and for the extraction of iodine.

Crystallized sodium nitrate is processed further at Pedro de Valdivia and María Elena to produce prilled sodium nitrate, which is transported to our port facilities in Tocopilla for shipping to customers and distributors worldwide. Our current crystallized sodium nitrate production capacity at Pedro de Valdivia and María Elena is approximately 770,000 metric tons per year. A significant part of the sodium nitrate produced at María Elena and Pedro de Valdivia is used in the production of potassium nitrate at Coya Sur, sodium potassium nitrate at María Elena and a highly refined industrial grade sodium nitrate at Coya Sur.

Potassium Nitrate

Potassium nitrate is produced at our Coya Sur facility using production methods developed by us. The solutions from the leaching of the fine fraction of the ore, once the iodine is extracted, is pumped to the Coya Sur plant. These solutions loaded with nitrate are concentrated in solar evaporation ponds. Once an adequate level of concentration is reached, the solution is combined with potassium chloride to produce potassium nitrate and discard sodium chloride. The resulting rich potassium nitrate in solution is crystallized using a cooling and centrifuging process. The crystallized potassium nitrate is either processed further to produce prilled potassium nitrate or used for the production of sodium potassium nitrate. The weak solution of the process is re-used for further production of potassium nitrate. A portion of the potassium nitrate is used in the production of a high purity technical grade potassium nitrate.

As explained in Item 4.A. History and Development of the Company - Capital Expenditure Program, the operation of our potassium nitrate plant in Yumbes is halted. We are currently planning to relocate this plant to Coya Sur.

Concentrated nitrate salts are produced at Pampa Blanca by leaching caliche ore in leach pads from which we extract rich iodine and nitrate solutions that are sent to iodine plants for iodine extraction. After iodine has been extracted, the solutions are sent to solar evaporation ponds where solutions are evaporated, where rich nitrate salt is produced. These concentrated nitrate salts are sent to Coya Sur or other of our salt processing facilities where they are leached and the resulting rich nitrate solution is used in the production of potassium nitrate.

Our current potassium nitrate production capacity at Coya Sur is more than 650,000 metric tons per year, including 260,000 metric tons per year of technical grade potassium nitrate. We expect by the end of 2007 to increase that capacity by approximately 250,000 metric tons per year.

Crystallized or prilled potassium nitrate produced at Coya Sur and María Elena is transported to Tocopilla for shipping to customers and distributors worldwide.

Sodium Potassium Nitrate

Sodium potassium nitrate is a mixture of approximately two parts sodium nitrate per one part potassium nitrate. We produce sodium potassium nitrate at our María Elena facilities using standard, non-patented production methods developed by us. Crystallized sodium nitrate is mixed with the crystallized potassium nitrate to make sodium potassium nitrate, which is then prilled. The prilled sodium potassium nitrate is transported to Tocopilla for bulk shipment to customers.

The production process for sodium potassium nitrate is basically the same as that for sodium nitrate and potassium nitrate.

Our aggregate current production capacity is 1,100,000 metric tons per year. With certain production restraints and following market conditions we may supply sodium nitrate, potassium nitrate or sodium potassium nitrate either in prilled or crystallized form.

Sodium Sulfate

Although we have the capability to produce sodium sulfate at our facility in Coya Sur, we are not currently doing so, due to a current company decision to prioritize the production of nitrates over sodium sulfate. We are currently importing product from third parties to satisfy our customers' needs. When our plant is in production, we extract crystallized sodium sulfate decahydrate (Glauber salt) from the leaching solutions after the iodine production process at Pedro de Valdivia and María Elena. The salt is transported to Coya Sur, where it reacts with sodium chloride salt harvested from the solar evaporation ponds to produce anhydrous sodium sulfate. The sodium sulfate is shipped in 1 metric tons maxibags directly to customers and distributors in Chile. The remaining solution is recycled back to the solar evaporation pond system.

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Iodine and Iodine Derivatives

We produce iodine at our Pedro de Valdivia, Nueva Victoria and Iris production facilities, extracting it from the solutions resulting from the leaching of caliche ore at the Pedro de Valdivia, María Elena, Nueva Victoria, Iris and Pampa Blanca facilities. As in the case of nitrate, the process of extracting iodine from the caliche ore is well established, but variations in the iodine and other chemical contents of the treated ore and other operational parameters require a high level of know-how to manage the process effectively and efficiently.

The solutions from the leaching of caliche will carry iodine in iodate form. Part of the iodate in solution is reduced to iodide using sulfur dioxide, which is produced by burning sulfur. The resulting iodide is combined with the rest of untreated iodate solution to release elemental iodine. The solid iodine is then refined through a smelting process and prilled. We have obtained patents in Chile and in the United States for our iodine prilling process.

Prilled iodine is tested for quality control purposes, then packed in 20 or 50 kilogram drums, 350 kilogram or 700 kilogram maxibags and transported by truck to Antofagasta or Iquique for export. Our iodine and iodine derivative production plants have qualified under the ISO-9002 program, providing third-party certification of the quality management system and international quality control standards that we have implemented.

Our total iodine production in 2005 was approximately 7.7 thousand metric tons: approximately 2.6 thousand metric tons from Pedro de Valdivia, 1.4 thousand metric tons from María Elena, 1.5 thousand metric tons from Pampa Blanca and 2,2 thousand metric tons from Nueva Victoria. The Nueva Victoria facility is also used for tolling iodine delivered from Pampa Blanca and María Elena. We have the flexibility to adjust our production according to market conditions.

We also produce iodine at our recently acquired facility in Iris, adjacent to Nueva Victoria. The total production capacity at this facility is slightly higher than 2.0 thousand metric tons per year.

As we had anticipated, the various projects oriented to significantly increase our iodine production capacity, together with the recent DSM iodine business acquisition, have allowed us to have, from the second quarter of 2006 onwards, an aggregate production capacity higher than 11,400 metric tons per year, which is higher than our expected sales for 2006. This will allow us to have the capability to respond to sudden changes in demand and the expected future demand growth. Consistent with SQM strategy, during the first half of 2006 we have been using our facilities at maximum capacity in order to recover our operational inventories, which had been reduced in the past two years. During the second half, however, we expect to reduce our production rates to levels more in line with our expected sales, leaving approximately 2,000 metric tons per year on stand-by. We are currently evaluating different alternatives to carry out this reduction in our production facilities located in the first Region.

We use a portion of the produced iodine to manufacture inorganic iodine derivatives, which are intermediate products used for manufacturing agricultural and nutritional applications, at facilities located near Santiago, Chile, and also produce inorganic and organic iodine derivative products together with Ajay North America L.L.C., “Ajay,” a U.S.-based Company that purchases iodine from us. We had in the past primarily marketed our iodine derivative products in South America, Africa and Asia, while Ajay and its affiliates had primarily sold their iodine derivative products in North America and Europe.

Atacama Salar Brine Deposits

The Atacama Salar, located approximately 250 kilometers east of Antofagasta, is a salt-encrusted depression within the Atacama Desert, within which lies an underground deposit of brines contained in porous sodium chloride rock fed by an underground inflow of water from the Andes Mountains. The brines are estimated to cover a surface of

approximately 2,900 square kilometers and contain commercially exploitable deposits of potassium, lithium, sulfates and boron. Concentrations vary at different locations throughout the salar. Our production rights to the Atacama Salar are pursuant to a contract with the Chilean government, expiring in 2030.

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Brines are pumped from depths between 1.5 and 60 meters below surface, through a field of wells that are located in areas of the salar that contain relatively high concentrations of potassium, lithium, sulfate, boron and other minerals.

We process these brines to produce potassium chloride, lithium carbonate, lithium hydroxide, potassium sulfate, boric acid and bischofite (magnesium chloride).

Potassium Chloride

We use potassium chloride in the production of potassium nitrate. Production of our own supplies of potassium chloride provide us with substantial raw material cost savings.

In order to produce potassium chloride, brines from the Atacama Salar are pumped to solar evaporation ponds. Evaporation of the brines results in a complex crystalized mixture of salts of potassium chloride and sodium chloride, of which one portion is harvested and stored and the other portion of which is reprocessed and the remaining salts are transferred by truck to a processing facility where the potassium chloride is separated by a grinding, flotation, and filtering process. Potassium chloride is sent approximately 300 kilometers to our Coya Sur facilities via a dedicated dual transport system (rail/truck), where it is used in the production of potassium nitrate. We sell potassium chloride produced at the Atacama Salar and in excess of our needs to third parties. Our production facilities currently have a production capacity up to 650,000 metric tons per year. Actual capacity will depend on volumes and quality of the mining resources pumped from the Salar.

The by-products of the potassium chloride production process are (i) brines remaining after removal of the potassium chloride, which are used to produce lithium carbonate as described below, and the excess of our needs is reinjected into the Atacama Salar, (ii) sodium chloride, which is identical to the surface material of the Atacama Salar and is deposited at sites near the production facility, and (iii) other salts containing magnesium chloride.

Lithium Carbonate

A portion of the brines remaining after the production of potassium chloride is sent to additional solar concentration ponds adjacent to the potassium chloride production facility. Following additional evaporation, the remaining lithium chloride concentrated solution is transported by truck to a production facility located near Antofagasta, approximately 250 kilometers from the Atacama Salar. At the production facility, the solution is purified and treated with sodium carbonate to produce lithium carbonate, which is dried then, if necessary, compacted and finally packaged for shipment. Our lithium carbonate facility production capacity is approximately 28,000 metric tons per year. A project is currently under way to increase our production capacity to 40,000 metric tons per year and will be completed by 2008. Future production will depend on the actual volumes and quality of the lithium solutions sent by the Salar Operations.

Lithium Hydroxide

By the end of 2005 we completed the construction of a processing facility for producing lithium hydroxide monohydrate. This facility, with a capacity of 6,000 metric tons per year, is located at Salar del Carmen, adjacent to our existing lithium carbonate operations. Raw material for this operation is lithium carbonate which is reacted with a lime solution to produce lithium hydroxide brine and calcium carbonate salt, which is filtered and piled in reservoirs. The brine is evaporated in a multiple effect evaporator and crystallized to produce the lithium hydroxide monohydrate which is dried and packaged for dispatch to customers.

Potassium Sulfate and Boric Acid

Approximately 12 kilometers northeast of the potassium chloride facilities at the Atacama Salar, we produce potassium sulfate and boric acid from the salar brines. The plant stands on an area of the salar where higher sulfate and potassium concentrations are found in the brine. Brines are pumped to pre-concentration solar evaporation ponds where waste sodium chloride salts are removed by precipitation. After further evaporation, the sulfate and potassium salts are harvested and sent for treatment at the potassium sulfate plant. Potassium sulfate is produced using a flotation, concentration and reaction processes, after which it is crystallized, dried and packaged for shipment. Boric acid is produced in crystallized form by acidulation of the final concentrated brines, dried and packaged for shipment at the same facility.

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The principal by-products of the production of potassium sulfate are (i) non-commercial sodium chloride, which is deposited at sites near the production facility, and (ii) remaining solutions, which are reinjected into the Atacama Salar or returned to the evaporation ponds. The principal by-products of the boric acid production process are remaining solutions that after treatment with sodium carbonate to neutralize acidity, are reinjected into the Atacama Salar.

Specialty Plant Nutrition

We believe we are the world's largest producers of potassium nitrate. We also produce the following specialty plant nutrients: sodium nitrate, potassium nitrate, sodium potassium nitrate, potassium sulfate, natural boron (ulexite), urea phosphate (since 2005) and specialty blends (containing various combinations of nitrogen, phosphate and potassium and generally known as "NPK blends"). These specialty plant nutrients have specific characteristics that increase productivity and enhance quality when used on certain crops and soils. Additionally, these plant nutrients are well suited for high-yield agricultural techniques such as hydroponics, fertigation, greenhousing and foliar applications. High value crop farmers are promted to invest in specialty plant nutrients due to their technical advantages over commodity fertilizers (such as urea and potassium chloride), which in turn translate into products and crops with higher yields and added quality. Our specialty plant nutrients have significant advantages for certain applications over commodity based nitrogen and potassium fertilizers, such as the before mentioned urea and potassium chloride.

In particular, our specialty plant nutrients:

- are fully water soluble, allowing their use in hydroponics, fertigation, foliar applications and other advanced agricultural techniques;
- are absorbed more rapidly by plants because they do not require nitrification like ammonia based fertilizers;
- are free of chlorine content, reducing the risk of scorching roots;
- do not release hydrogen after application, avoiding increased soil acidity;
- possess trace elements, which promote disease resistance in plants and have other beneficial effects;
- are more attractive to customers who prefer products of natural origin; and
- are more efficient than commodity fertilizers because they deliver more plant nutrients per unit of nutrient applied.

In 2005, our revenues from specialty plant nutrients were approximately US$487.8 million, representing approximately 54% of our total revenues for that year.

Specialty Plant Nutrition: Market

The target market for our specialty plant nutrients are high value crops such as fruits, vegetables, and crops raised using modern agricultural techniques. Since 1990, the international market for specialty plant nutrients has grown at a faster rate than the international market for commodity-type fertilizers. This is mostly due to (i) the application of new agricultural technologies such as fertigation and hydroponics and increasing use of greenhousing; (ii) the increase in the cost of land which has forced farmers to improve their yields; (iii) the scarcity of water; (iv) the increase of consumption of vegetables per capita, and (v) the increasing demand for higher quality crops.

Worldwide scarcity of water forces farmers to develop new agricultural techniques such as fertigation that minimize water requirements. These applications require fully water soluble plant nutrients.

Increasing land costs near urban centers also forces farmers to maximize their yields per surface area. Specialty plant nutrients, when applied to certain crops, help to increase productivity for various reasons. In particular, since our nitrate-based specialty plant nutrients provide nitrogen in nitric form, as opposed to ammonium form provided by urea, they are absorbed faster by the crop. Crops absorb nitrogen in nitric form; thus nitrogen in ammonium form has to be converted into nitric form in the soil first. This is not an immediate process and releases hydrogen into the soil, increasing soil acidity, which in most cases is harmful to the soil and the crop. Nitric nitrogen application facilitates a more efficient application of nutrients to the plant, thereby increasing the crop's yield and improving its quality.

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Our potassium-based specialty plant nutrients are chlorine free, unlike potassium chloride, which is the most commonly used potassium-based commodity fertilizer. In certain crops, chlorine has negative effects, which translates into lower yield and quality.

The most important agricultural applications of sodium nitrate, potassium nitrate, potassium sulfate and sodium potassium nitrate plant nutrients are: tobacco, coffee, vegetables, fruits, horticulture, sugar beet, cotton and other high value crops.

Specialty Plant Nutrition: Our Products

Potassium nitrate, sodium potassium nitrate and specialty blends are higher-margin products derived from, or consisting of, sodium nitrate, all of which are produced in crystallized or prilled form. Specialty blends are produced using our own specialty plant nutrients and other components at blending plants operated by the Company or its affiliates and related companies in Chile, USA, Mexico, United Arab Emirates, Belgium, Holland, South Africa, Turkey and Egypt.

During 2005, SQM acquired Kemira Emirates Fertilizers Company (Kefco), a United Arab Emirates-based producer of water soluble urea phosphate fertilizer.

The following table shows our sales volume of specialty plant nutrient fertilizer products and the revenues during the 2001-2005 period.

Sales Volume

(in metric tons)	**2005**	**2004(3)**	**2003**	**2002**	**2001**
Sodium nitrate	63,300	58,900	62,500	59,500	63,100
Potassium nitrate and sodium potassium nitrate(1)	690,200	707,600	696,500	558,600	544,800
Potassium Sulfate	178,600	157,700	143,200	161,000	156,600
Blended and other specialty plant nutrients(2)	350,700	374,400	377,100	276,600	241,800
Revenues (in US$ millions)	487.8	426.8	362.8	281.4	259.1

(1) Includes re-sales of potassium nitrate purchased from PCS Yumbes.

(2) Includes blended and other specialty plant nutrients. It also includes Yara's products sold pursuant to our commercial agreement.

(3) 2004 figures have been restated to reflect a reclassification affecting specialty plant nutrients. Products that used to be included under SPN were relocated to reflect their industrial status.

Specialty Plant Nutrition: Marketing and Customers

In 2005, we sold our specialty plant nutrients to more than 100 countries. During the same year, approximately 91% of the Company's specialty plant nutrients sales in 2005 was exported: approximately 29% was sold to customers in Central and South America, 22% to customers in North America, 20% to customers in Europe and 20% to customers in other regions. Without considering any sales to related parties, no single customer represented more than 3% of SQM's specialty plant nutrients sales during 2005, and our 10 largest customers accounted in the aggregate for approximately 24% of sales during that period.

Sales Breakdown	2005	2004	2003	2002	2001
Central and South America	29%	29%	26%	30%	24%
North America	22%	22%	18%	17%	18%
Europe	20%	19%	20%	15%	14%
Others	20%	20%	27%	27%	31%
Chile	9%	10%	9%	11%	13%

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We sell our specialty plant nutrition products outside Chile mainly through our own worldwide network of representative offices and through our sales, technical support and distribution affiliates.

In November 2001 we signed an agreement with Yara International ASA ("Yara", ex Norsk Hydro ASA). This agreement allows us to make use of Yara's distribution network in countries where its presence and commercial infrastructure are larger than ours. Similarly, in those markets where our presence is larger, both our specialty plant nutrients and Yara International ASA's are marketed through our offices. Both parties, however, maintain an active control in the marketing of their own products.

We also signed a joint venture agreement (JVA) with Yara and Israel Chemicals Limited at the end of 2001. Under this JVA, SQM, Yara, and Israel Chemicals Limited are developing the liquid and soluble plant nutrient blends business through their participation in a Belgian company called NU3 N.V. ("NU3"), to which SQM and Israel Chemicals Limited contributed their blending facility in Belgium, and Yara International ASA contributed its blending facility in Holland. With this JVA, important synergies have been achieved, particularly in production costs, administration and the marketing of soluble blends, strengthening the development of new products and improving custumer services.

We maintain stocks of our specialty plant nutrients in the main markets of the Americas, Europe, Middle East and Africa, in order to facilitate prompt deliveries to customers. In addition, we sell specialty plant nutrients directly to some of our large customers. Sales are made pursuant to spot purchase orders and short-term contracts.

In connection with our marketing efforts, we provide technical and agronomical assistance and support to our customers. By working closely with our customers, we are able to identify new higher value added products and markets. Our specialty plant nutrition products are used on a wide variety of crops, particularly higher value-added crops that allow our customers to increase yield and command a premium price.

Our customers are located in the northern and southern hemispheres. Consequently, there are no material seasonal or cyclical factors that can materially affect the sales of our specialty plant nutrient products.

Specialty Plant Nutrition: Fertilizer Sales in Chile

We market specialty plants nutrients in Chile through Soquimich Comercial S.A. which sells these products either alone or in blends with other imported products, mainly urea, triple super phosphate (TSP) and diammonium phosphate (DAP). Soquimich Comercial sells imported fertilizers to farmers in Chile mainly for application in the production of sugar beets, cereals, industrial crops, potatoes, grapes and other fruits. Most of the fertilizers that Soquimich Comercial imports are purchased on a spot basis from different countries in the world.

We believe that all contracts and agreements between Soquimich Comercial and third party suppliers, with respect to imported fertilizers, contain standard and customary commercial terms and conditions. During the preceding ten years, Soquimich Comercial has experienced no material difficulties in obtaining adequate supplies of such fertilizers at satisfactory prices, and we expect continuing to do so in the future.

We estimated that Soquimich Comercial's joint sales of fertilizers represented approximately 35% of total fertilizer sales in Chile during 2005, of which no single customer represented more than 3% of total fertilizer sales revenues, and of which the 10 largest customers in total represented less than 12% of revenues.

Revenues generated by Soquimich Comercial and its subsidiary Comercial Hydro S.A. – formerly known as Norsk Hydro Chile S.A. – represented 16.04% of the Company's 2005 consolidated revenues. Soquimich Comercial's consolidated revenues were approximately US$144 million, US$140 million and US$121 million in 2005, 2004 and

2003, respectively.

In 2003, Soquimich Comercial acquired Norsk Hydro Chile S.A., a Chilean subsidiary of Yara International ASA. Due to the similar nature of Norsk Hydro Chile S.A.'s commercial operations compared to those carried out by Soquimich Comercial, this acquisition allowed the latter to improve its fertilizer distribution business in Chile. Soquimich Comercial will continue with the distribution of fertilizers produced by Yara International ASA and its affiliates in Chile.

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Specialty Plant Nutrition: Competition

We believe we are the world's largest producer of sodium and potassium nitrate for agricultural use. S.C.M. Virginia, a Chilean nitrate and iodine company ultimately controlled by Inverraz S.A., produces sodium nitrate as raw material for potassium nitrate. S.C.M. Virginia is currently producing small amounts of sodium nitrate for agricultural use. Our sodium nitrate products compete indirectly with specialty and commodity-type substitutes, which may be used by some customers instead of sodium nitrate depending on the type of soil and crop to which the product will be applied. Such substitute products include calcium nitrate, ammonium nitrate and calcium ammonium nitrate.

In the potassium nitrate market we have one significant competitor: Trans Resources International Inc., with its subsidiary Haifa Chemicals Ltd. in Israel. We estimate that sales of potassium nitrate by Trans Resources International and Haifa Chemicals accounted for approximately 37% of total world sales during the year 2005. The principal means of competition in the sale of potassium nitrate are product quality, customer service, location, logistic and agronomic expertise and price.

S.C.M. Virginia produces potassium nitrate from caliche ore at a facility in northern Chile. We believe that we have certain advantages over S.C.M. Virginia due to, among other factors, our greater experience with the processing of caliche ore, our proven processes, the size and nature of our caliche ore reserves, our experience in marketing fertilizers, our efficient and proven logistics and our own production of potassium chloride in the north of Chile, which is an essential raw material in the production of potassium nitrate.

ACF, another Chilean producer, mainly oriented to iodine production, begun production of potassium nitrate during 2005. We believe that ACF production will be lower than S.C.M. Virginia.

Kemira, a Finnish producer, produces and sells potassium nitrate jointly with Arab Potash through the company Kemapco in Jordan.

In December 2004, we acquired the potassium nitrate facilities of Potash Corp. in Chile.

In the potassium sulfate market, we have several competitors of which the most important are Kali und Salz GmbH (Germany), Tessenderlo Chemie (Belgium) and Great Salt Lake Minerals Corp. (United States). We believe that those three producers account for a majority of the world production of potassium sulfate. We estimate that once we reach full production of potassium sulfate, we will account for approximately 6% of total world sales.

Through a partially owned facility, NU3, we also produce soluble and liquid fertilizers using our potassium nitrate as a raw material. Through this activity, we have acquired production technology and marketing know-how, which we believe will be useful for selling our products to greenhouse growers and for use in certain high-technology processes such as fertigation and hydroponics.

We believe we are the largest Chilean producer of bulk specialty blends. In Chile, our products mainly compete with imported fertilizer blends that use calcium ammonium nitrate or potassium magnesium sulfate. Our specialty plant nutrients also compete indirectly with lower-priced synthetic commodity-type fertilizers such as ammonia and urea, which are produced by many producers in a highly price-competitive market. Our products compete on the basis of advantages that make them more suitable for certain applications as described above.

Iodine

We believe we are the world's largest producer of iodine. In 2005, our revenues from iodine and iodine derivatives amounted to approximately US$149.1 million, representing approximately 17% of our total revenues in that year. We

estimate that our sales accounted for approximately 30% of world iodine sales by volume in 2005. In January 2006, we acquired the iodine business of DSM, which represented approximately 8% of worldwide iodine production in 2005.

Iodine: Market

Iodine and iodine derivatives are used in a wide range of medical, agricultural and industrial applications as well as in human and animal nutrition products. Iodine and iodine derivatives are used as a raw materials or catalysts in the formulation of products, such as x-ray contrast media, biocides, antiseptics and disinfectants, pharmaceutical intermediates, polarizing films for Liquid Crystal Displays (LCD), chemicals, herbicides, organic compounds, pigment and ink dyes. Iodine is added in the form of potassium iodate or potassium iodide to edible salt to prevent iodine deficiency disorders.

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Iodine: Our Products

We produce iodine and, through a joint venture with Ajay, organic and inorganic iodine derivatives. Through our joint venture with Ajay, we are also actively participating in the iodine recycling business using iodinated side-streams from a variety of chemical processes in Europe and the United States.

Ajay-SQM Group (ASG) was formed in mid 1990s, as a joint venture between SQM and Ajay Chemical, a U.S.-based company. ASG has currently production plants in USA, Chile and France and is the world's leading inorganic and organic iodine derivatives producer. In 2005, approximately 29% of SQM's iodine sales were made to ASG.

Consistent with our business strategy, we are constantly working on the development of new applications for our iodine-based products, pursuing a continuing expansion of our businesses and maintaining our market leadership. In January 2006 SQM acquired the iodine and iodine derivatives business of DSM Group. The transaction included DSM's iodine and iodine derivatives facilities located in the first region of Chile and the mining reserves located in the first and second region of Chile. Additionally, SQM acquired DSM's iodine and iodine derivatives commercial operation in Europe. The agreement involved a base payment of US$ 72 million plus all the cash, accounts receivable and final product inventories minus total liabilities. With a production capacity higher than 2.0 th. metric tons, DSM reached an 8% global market share in 2005.

We manufacture our iodine and iodine derivatives in accordance with international quality standards and have qualified our iodine facilities and production processes under the ISO-9001:2000 program, providing third party certification of the quality management system and international quality control standards that we have implemented.

The following table sets forth our total sales and revenues from iodine and iodine derivatives in the 2001-2005 period:

Sales Volume (in metric tons)	**2005**	**2004**	**2003**	**2002**	**2001**
Iodine and iodine derivatives	8,100	7,700	6,600	6,400	5,600
Revenues (in US$ millions)	149.1	110.5	84.6	84.1	81.4

Iodine: Marketing and Customers

In 2005, we sold our iodine products to more than 300 customers in more than 80 countries. During the same year, most of our iodine production was exported: approximately 30% was sold to customers in Europe, 37 % to customers in North America, 13% to customers in Central and South America and 20% to customers in Asia, Oceania and other regions. Not considering sales to related parties, no single customer accounted for more than 10% of the Company's iodine sales in 2005, and our ten largest customers accounted in the aggregate for approximately 44% of sales.

Sales Breakdown	**2005**	**2004**	**2003**	**2002**	**2001**
Europe	30%	27%	34%	36%	37%
North America	37%	38%	40%	41%	45%
Central and South America	13%	13%	6%	13%	9%
Others	20%	22%	20%	10%	9%

We sell iodine through our own worldwide network of representative offices and through our sales, support and distribution affiliates. We maintain stocks of iodine at our facilities throughout the world to facilitate prompt delivery to customers. Iodine sales are made pursuant to spot purchase orders and short, medium and long-term contracts.

Long-term contracts generally specify annual minimum and maximum purchase commitments, and prices which vary according to prevailing market prices and in some cases with price caps.

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Iodine: Competition

SQM and several producers in Chile, Japan and the USA are the world's main iodine producers.

Japanese producers extract iodine from underground brines, which are mainly obtained together with the extraction of natural gas. Several Japanese producers have also recycling facilities where they recover iodine and iodine derivatives from iodine waste streams.

We estimate that eight Japanese iodine producers accounted for approximately 31% of world iodine sales in the year 2005. We estimate that the largest Japanese producer, Ise Chemicals Ltd., accounted for approximately 9% of such world's iodine sales.

We estimate that iodine producers in the United States (one of which is owned by Ise Chemicals) accounted for approximately 6% of world iodine sales in the year 2005, while five Chilean companies, including SQM and DSM iodine business, accounted for approximately 59% of such sales (30% by SQM and 29% by the other Chilean producers including DSM iodine business).

The prices of our iodine and iodine derivative products are determined by world iodine prices, which are subject to market conditions. World iodine prices vary depending upon, among other things, the relationship between supply and demand at any given time. The supply of iodine varies principally depending upon the production of the few major iodine producers (including us) and their respective business strategies. As a result of a steady growing demand, iodine prices have been increasing since the end of 2003. While prices were around US$13 per kilogram in 2003, they reached an average of approximately US$19 per kilogram in 2005.

Demand for iodine varies depending upon overall levels of economic activity and the level of demand in the medical, pharmaceutical, industrial and other sectors that are the main users of iodine and iodine derivative products. Prices for iodine and iodine derivative products in the future are expected to be influenced by similar supply and demand factors and the business strategies of major producers, some of whom either have or can acquire additional production capacity.

The main factors of competition in the sale of iodine and iodine derivative products are reliability, price, quality, customer services and the price and availability of substitutes. We believe we have competitive advantages compared to other producers due to the size of our mining reserves, the installed capacity and relatively lower production costs (as most part of our iodine is produced as part of a process for other products -mainly sodium nitrate and potassium nitrate for agricultural and industrial purposes). We believe our iodine is competitive with that produced by other manufacturers in certain advanced industrial processes. We also believe we have benefited competitively from the long-term relationship we have established with our larger customers. While there are substitutes for iodine available for certain applications, such as coloring processes and for use as antiseptics and disinfectants, there are no cost-effective substitutes currently available for the main nutritional, pharmaceutical, animal feed, and main chemical uses of iodine, which together account for most iodine sales.

Lithium

We believe we are the world's largest producer of lithium carbonate and one of the world's largest producers of lithium hydroxide. In 2005, our revenues from lithium sales amounted to approximately US$81.4 million, representing approximately 9% of our total revenues. We estimate that our sales accounted for approximately 36% of world's lithium units used in production of lithium chemicals. Lithium is also available in the form of lithium minerals. However, there is virtually no overlapping among the markets demanding lithium minerals and lithium chemicals.

Lithium: Market

Lithium carbonate is used in a variety of applications, including batteries, frits for the ceramic and enamel industries, heat resistant glass (ceramic glass), primary aluminum, air conditioning chemicals, continuous casting powder for steel extrusion, pharmaceuticals, and lithium derivatives. Lithium hydroxide is primarily used as a raw material in the lubricating grease industry, as well as in the dyes and battery industries. Butyllithium is used as a catalyst in the synthetic rubber and pharmaceutical industries.

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Lithium: Our Products

We produce lithium carbonate at the Salar del Carmen facilities, near Antofagasta, Chile, from solutions with high concentrations of lithium coming from the potassium chloride production at the Atacama Salar. The technologies we use, together with the high concentrations of lithium we obtain from the Atacama Salar, allow us to be one of the lowest cost producers worldwide.

SQM used to produce lithium hydroxide through tolling operations in the United States and Russia. During the second half of 2005, we began to produce it at our lithium hydroxide facility, at the Salar del Carmen next to our lithium carbonate facility in Antofagasta. The lithium hydroxide facility has a production capacity of 6,000 TM/per year and is one of the largest plants in the world.

SQM produces butyl lithium in its own plant located in Pasadena, Texas. Curreently, this product is sold principally in the U.S. market. Shipments to overseas markets started during the second quarter of 2006.

The following table sets forth our total sales and revenues from lithium carbonate and derivatives in the 2001-2005 period:

Sales Volume (in metric tons)	**2005**	**2004**	**2003**	**2002**	**2001**
Lithium carbonate and derivatives	27,800	31,200*	27,400	22,300	21,700
Revenues (in US$ millions)	81.4	62.6	49.7	37.3	37.0

* 2004 volumes have been restated to reflect a reclassification from lithium brines to lithium carbonate. Revenues were not affected by this change.

Lithium: Marketing and Customers

In 2005, we sold our lithium products to approximately 240 customers in approximately 40 countries. Virtually all of our lithium products were sold overseas: approximately 33% to customers in Europe, 25% to customers in North America, 31% to customers in Asia and Oceania and 11% to customers in other regions. No single customer accounted for more than 11% of the Company's sales in 2005, and our ten largest customers accounted in the aggregate for approximately 39% of sales.

Sales Breakdown	**2005**	**2004**	**2003**	**2002**	**2001**
Europe	33%	32%	31%	40%	31%
North America	25%	26%	29%	37%	43%
Asia and Oceania	31%	37%	37%	21%	25%
Others	11%	5%	3%	2%	1%

Lithium: Competition

Our main competitors in the lithium carbonate and lithium hydroxide businesses are Chemetall GmbH ("Chemetall", subsidiary of Rockwood Specialties Group Inc.) and FMC Corporation ("FMC"). We estimate that they together sold approximately 49% of lithium in the lithium chemicals market (excluding lithium minerals) in 2005. Chemetall produces lithium carbonate in its operations located in Chile (Sociedad Chilena del Litio Limitada) and Nevada, USA.

Its production of downstream lithium products is mostly performed in the United States, Germany and Taiwan. FMC has production facilities in Argentina (Minera del Altiplano), where they produce lithium chloride and lithium carbonate. Production of its downstream lithium products is mostly performed in the United States and the United Kingdom.

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Additionally lithium carbonate is being produced in China and we believe this production will increase in the near future.

We estimate that world-wide sales of lithium chemicals expressed as lithium carbonate equivalent (excluding lithium minerals) amounted to approximately 75,000 metric tons in 2005.

Industrial Chemicals

In addition to producing sodium nitrate for agricultural applications, we produce three grades of sodium nitrate for industrial applications: industrial, refined and technical grades. The three grades differ mainly in purity. Our industrial grades of potassium nitrate also differ from agricultural grade potassium nitrate in its degree of purity. We enjoy certain operational flexibility when producing industrial sodium nitrate because it is produced from the same process as its equivalent agricultural grade, needing only an additional step of purification. We may, with certain constraints, shift production from one grade to the other depending on market conditions. This flexibility allows us to maximize yields as well as to reduce commercial risk. In addition to producing industrial nitrates, we produce boric acid. Boric acid is a by-product of the production of potassium sulfate. In 2005, our revenues from industrial chemicals were approximately US$73.9 million, representing approximately 8% of our total revenues for that year.

Industrial Chemicals: Market

Industrial sodium nitrate and potassium nitrate are used in a wide range of industrial applications, including the production of glass, ceramics, explosives and charcoal briquettes and various chemical processes and metal treatments. Boric acid is mainly used in the glass, ceramics, fiberglass, enamels and as a raw material in the fabrication of LCDs.

We estimate that our sales of industrial sodium nitrate (excluding production in China and India, which is consumed internally) and potassium nitrate in 2005 accounted for 62%, and 30%, respectively, of worldwide sales in that period.

Industrial Chemicals: Our Products

We produce technical potassium nitrate and three grades of industrial sodium nitrate in crystallized and prilled form. We market our refined grade sodium nitrate under the brand name "Niterox." We produce boric acid in crystalline form.

The following table sets forth our sales volumes of industrial chemicals and total revenues in the 2001-2005 period:

Sales Volume

(in metric tons)	2005	2004(1)	2003	2002	2001
Industrial nitrates	176,300	192,800	193,200	187,300	186,999
Sodium Sulfate	25,300	29,900	54,200	63,200	66,742
Boric Acid	6,300	6,120	10,700	11,300	12,822
Revenues (in US$ millions)	74.0	73.1	73.7	70.8	69.6

(1) 2004 figures have been restated to reflect a reclassification affecting Industrial nitrates. Products that used to be included under SPN were relocated to reflect their industrial status.

Our aggregate current sodium nitrate production capacity is approximately 740,000 metric tons per year (agricultural and industrial grades). Within certain production constraints, we may use our production capacity to produce either

agricultural or industrial sodium nitrate. We have a plant capacity to produce approximately 260,000 metric tons per year of technical potassium nitrate and 10,000 metric tons per year of boric acid.

Industrial Chemicals: Marketing and Customers

We sold our industrial nitrate products in approximately 50 countries in 2005. Approximately 42% of our sales of industrial chemicals were made to customers in North America, 28% to customers in Europe, 17% to customers in Central and South America and 13% to customers in Asia, Oceania and other regions. No single customer accounted for more than 7% of the Company's sales of industrial chemicals in 2005, and our ten largest customers accounted in the aggregate for approximately 37% of such sales.

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Sales Breakdown	2005	2004	2003	2002	2001
North America	42%	38%	39%	31%	37%
Europe	28%	23%	25%	17%	20%
Central and South America	17%	24%	12%	24%	27%
Others	13%	15%	24%	28%	16%

We sell our industrial chemical products mainly through our own worldwide network of representative offices and through our sales and distribution affiliates. We maintain inventories of our industrial sodium nitrate and technical potassium nitrate products at our facilities in Europe, North America and South America to achieve prompt deliveries to customers. Industrial sodium nitrate and technical potassium nitrate sales are made pursuant to spot purchase orders. Our Research and Development department, together with our foreign affiliates, provide technical support to our customers and work with them to develop new products or applications for our products.

Industrial Chemicals: Competition

We believe we are the world's largest producer of industrial sodium nitrate. We estimate that we accounted for approximately 62% of world production of industrial sodium nitrate in 2005 (excluding China and India, for which reliable estimates are not available). Our competitors are mainly in Europe and Asia. These producers together represent 38% of total production and produce sodium nitrate as a by-product of other production processes. In the refined grade sodium nitrate market, Badische Anilin und Soda Fabrik AG (BASF), a German corporation, and several producers in Japan (the largest of which is Mitsubishi & Co. Ltd.), are highly competitive in the European and Asian markets. Our industrial sodium nitrate products also compete indirectly with substitute chemicals, including sodium carbonate, sodium hydroxide, sodium sulfate, calcium nitrate and ammonium nitrate, which may be used in certain applications instead of sodium nitrate and are available from a large number of producers worldwide.

Our main competitor in the technical potassium nitrate market is Haifa Chemicals Ltd., which we estimate has a 30% market share. We estimate our market share at approximately 30% for 2005.

Producers compete in the market for industrial sodium nitrate and technical potassium nitrate based on reliability, product quality, price and customer service. We believe that we are a low cost producer of industrial sodium nitrate and are able to produce high quality products.

Raw Materials

The principal raw material we require for the production of nitrate, sulfate and iodine products is caliche ore, which is obtained from surface mines. The principal raw material for the production of potassium chloride, lithium carbonate, potassium sulfate and boric acid is the brine extracted from the Atacama Salar.

We require water (for the leaching process and general purposes), sodium carbonate (soda ash, in lithium carbonate production and for neutralization of iodine solutions), anti-caking, sulfur (in iodine production), ammonium nitrate (in the preparation of the anfo that is used in explosives for mining operations), diesel (mainly in mining equipment), natural gas (in heat generation and fusion processes) and electricity acquired from electric utilities (to supply the power needs at Pedro de Valdivia, María Elena, Coya Sur, Pampa Blanca, Nueva Victoria, Atacama Salar and the lithium carbonate plant in Salar del Carmen). Our raw material costs (excluding caliche ore and salar brines) represented approximately 11.7% of our cost of sales in 2005.

Most of our raw materials, especially energy-related raw materials, have experienced significant price increases in the last year.

The main sources of water for our nitrate, sulfate and iodine facilities at Pedro de Valdivia, María Elena and Coya Sur are the Loa and San Salvador rivers, which run near our production facilities. Water for our Pampa Blanca, Nueva Victoria and Atacama Salar facilities is obtained from wells near the production facilities. We have permits from the Chilean Water Authority to explore for additional non-potable water and permits to use granted water rights for an indefinite period of time (based on specified maximum volumes) without charge. In addition, we purchase potable water from local utility companies. We have not experienced significant difficulties obtaining the necessary water to conduct our operations.

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In 1998 we entered into a long-term (fifteen years) electricity supply agreement with Norgener, a major Chilean electricity producer. During 1999, we entered into a long-term (ten years) electricity supply agreement with Electroandina S.A., also a major Chilean electricity producer. Since April 2000, the Company has been connected to the Sistema Interconectado del Norte Grande, (SING), which is our current electricity supplier and is the supplier for most cities and industrial facilities in northern Chile. We are currently party to arbitration proceedings with Electroandina and Norgener. For a discussion of risks related to electricity supply, see Item 3. Key Information—Risk Factors.

In May 2001, we entered into a 10-year gas supply contract with Distrinor S.A., which we have estimated covers approximately 3,850,000 million Btu per year. This gas supply is sufficient to satisfy the requirements for the facilities that are connected to a gas supply. Nonetheless, we are currently facing important shortages in the supply of natural gas. For a discussion of risks related to natural gas supply see Item 3. Key Information—Risk Factors.

We obtain ammonium nitrate, sulfur and soda ash from several large suppliers, principally in Chile, Canada and the United States, respectively, under long-term contracts or general agreements, some of which contain provisions for annual revisions of prices, quantities and deliveries. Currently we acquire potassium chloride from Sociedad Chilena del Litio Limitada, a local Chilean supplier, pursuant to a contract that expires in 2009. Diesel fuel is obtained under contracts terminable upon specified notice by either party and which generally provide for sales of fuel at international market prices.

We believe that all of the contracts and agreements between SQM and third-party suppliers with respect to our principal raw materials contain standard and customary commercial terms and conditions.

Government Regulations

We are subject to the full range of government regulations and supervision generally applicable to companies engaged in business in Chile, including labor laws, social security laws, public health laws, consumer protection laws, environmental laws, securities laws and anti-trust laws. These include regulations to ensure sanitary and safe conditions in manufacturing plants.

We conduct our mining operations pursuant to exploration concessions and exploitation concessions granted pursuant to applicable Chilean law. Exploitation concessions essentially grant a perpetual right to conduct mining operations in the areas covered by the concessions, provided that annual concession fees are paid (with the exception of the Atacama Salar rights, which have been leased to us until 2030). Exploration concessions permit us to explore for mineral resources on the land covered thereby for a specified period of time, and to subsequently request a corresponding exploitation concession.

We also hold water rights obtained from the Chilean water regulatory authority for a supply of water from rivers or wells near our production facilities sufficient to meet our current and anticipated operational requirements. See Item 3. Key Information for a discussion under "Risk Factors" of how changes in mining and water rights laws could affect our operating costs. We operate port facilities at Tocopilla for shipment of products and delivery of certain raw materials pursuant to maritime concessions, under applicable Chilean laws, which are normally renewable on application, provided that such facilities are used as authorized and annual concession fees are paid.

Under Law No. 16,319, the Company has an agreement with the Chilean Commission of Nuclear Energy (the “CCHEN”) regarding the exploitation and sale of lithium from the Atacama Salar. The agreement sets yearly quotas for the tonnage of lithium authorized to be sold for each year of the Atacama Salar, as determined by the agreement.

The following recent changes in Chilean law are likely to affect our operations:

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The Chilean Congress recently approved modifications to the Water Code. The changes to the Water Code include establishing annual fee payments for owners of water rights that do not use the water associated with them. This fee does not affect the holder's right to use aquifers. The criteria used to determine what rights or what part of such rights would be subject to this annual fee relate to whether the resource is consumed or re-injected into the stream after its use (defined as the water right's "consumptive condition"), whether the use of the resource is sporadic or permanent (frequency of use) and the geographical location of the intake points relative to an area's overall water supply.

On May 18, 2005, the Chilean Congress approved Law No. 20,026, also known as the "Royalty II Law," which established a royalty to be applied to mining activities developed in Chile, levied on mining companies whose sales are equal to or greater than the equivalent value of 12,000 metric tons of fine copper (MFT), as determined according to the London Metal Exchange Grade A copper cash quotation. This new mining royalty, which will be applied from 2006 onwards, is levied on the "taxable operating income" (as this term is defined in Law No. 20,026) of the mining company, at a rate that varies from 0.5% up to 5% depending on the consolidated annual sales.

There are currently no material legal or administrative proceedings pending against the Company with respect to any regulatory matter, except as discussed under "Environmental Regulations" below, and we believe that we are in compliance in all material respects with all applicable statutory and administrative regulations with respect to our business.

Environmental Regulations

Our operations in Chile are subject to both national and local regulations related to the environment's protection. The fundamental environmental laws in Chile are the Health Code and the Chilean Environmental Framework Law.

The Chilean Environmental Framework Law created CONAMA, which is the governmental agency in charge of supervising the due compliance with the Chilean Environmental Framework Law. Under the Chilean Environmental Framework Law, we are required to conduct environmental impact studies of any future projects or activities (or their significant modifications) that may affect the environment. CONAMA evaluates environmental impact studies submitted for its approval and also oversees the implementation of projects. The Chilean Environmental Framework Law also enables private citizens, public agencies or local authorities to challenge projects that may affect the environment, either before these projects are executed or once they are already operating. Enforcement remedies available include temporary or permanent closure of facilities and fines.

Chilean environmental regulations have become increasingly stringent in recent years, both in respect of the approval of new projects and in connection with the implementation and development of projects already approved. This trend is likely to continue and, furthermore, recently implemented environmental regulations in Chile have created uncertainty because rules and enforcement procedures for these regulations have not been fully developed. Given public interest in environmental enforcement matters, these regulations may also be subject to political considerations that are beyond our control.

On August 10, 1993, the Ministry of Health published in the Official Gazette a determination pursuant to applicable air quality standard regulations stating that atmospheric particulate levels at our production facilities in María Elena and Pedro de Valdivia exceeded quality standards for breathable air affecting the nearby towns. The high particulate matter levels are principally from dust produced during the processing of caliche ore, particularly the crushing of the ore before leaching. Subsequently, residents of the town of Pedro de Valdivia were relocated to the town of María Elena, practically removing Pedro de Valdivia from the scope of the determination of the Ministry of Health. A plan to reduce the atmospheric particulate levels below permissible levels by July 2000 was approved, with certain amendments, by Decree Nº164/2000. Although we followed the plan and reduced substantially the atmospheric particulate levels at our principal production facilities, as a result of the investments and processes implemented, we

were not able to fully comply with the July 2000 timetable. Resolution Nº384, published in the Official Gazette on May 16, 2000, initiated the revision and reformulation of the plan. The new plan was published by Decree N°37/2004 on March 2004, and it demands to reduce 80% of the emissions for atmospheric particulate material in two years. We design a new project that modifies the milling and screening systems used in the processing of the caliche ore at María Elena facilities, which should allow for the necessary reduction of particulate material emissions. An environmental impact study for the project was presented to the Environment Commission and it was approved through Resolution Nº270 on October 2005. Upon issuing the approval for the environmental impact study, the Environmental Commission issued Decree N°53975, which authorizes this project as the one through which we will comply with the emission reductions asked for in Decree N° 37/2004. The project is under construction and its start up is scheduled for third quarter 2006.

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We continuously monitor the impact of our operations on the environment and have made, from time to time, modifications to our facilities trying to eliminate any adverse impact. Also, over time, new environmental standards and regulations have been enacted, which have required minor adjustments or modifications of our operations for full compliance. We anticipate that additional laws and regulations will be enacted over time with respect to environmental matters. While we believe that we will continue to be in compliance with all applicable environmental regulations of which we are now aware, there can be no assurance that future legislative or regulatory developments will not impose material restrictions on our operations. We are both committed to complying with all applicable environmental regulations and applying an Environmental Management System (EMS) to continuously improve our environmental performance.

We have submitted and will continue to submit several environmental impact assessment studies related to our projects to the governmental authorities. We require the authorization of these submissions in order to maintain and to increase our production capacity.

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4.C. Organizational Structure

All of our principal operating subsidiaries are essentially wholly-owned, except for Soquimich Comercial, which is 61% owned by SQM and whose shares are listed and traded on the Chilean Stock Exchanges, and Ajay SQM Chile S.A., which is 51% owned by SQM. The following is a summary of our main subsidiaries as of March 31, 2006. For a list of all our consolidated subsidiaries see Note 2(a) to the Consolidated Financial Statements.

Main subsidiaries	Activity	Country of Incorporation	SQM Beneficial Ownership Interest (Direct/Indirect)
SQM Nitratos S.A.	Extracts and sells Caliche ore to subsidiaries and affiliates of SQM	Chile	100%
SQM Industrial S.A.	Produces and markets the Company's products directly and through other subsidiaries and affiliates of SQM	Chile	100%
SQM Salar S.A.	Exploits the Atacama Salar to produce and market the Company's products directly and through other subsidiaries and affiliates of SQM	Chile	100%
Minera Nueva Victoria S.A.	Produces and markets the Company's products directly and through other subsidiaries and affiliates of SQM	Chile	100%
Servicios Integrales de Tránsitos y Transferencias S.A. (SIT)	Owns and operates a rail transport system and also owns and operates the Tocopilla port facilities	Chile	100%
Soquimich Comercial S.A.	Markets domestically the Company's specialty plant nutrition products and imports fertilizers for re-sale in Chile	Chile	61%
Ajay-SQM Chile S.A.	Produces and markets the Company's iodine and iodine derivatives	Chile	51%
Sales and distribution affiliates in the United States, Belgium, Brazil, Venezuela, Ecuador, Peru, Argentina, Mexico, South Africa and other locations.	Market the Company's products throughout the world	Various	

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4.D. Property, Plants And Equipment

Discussion of our mining rights is organized below according to the geographic location of our mining operations. SQM's mining interests located throughout the valley of the Tarapacá and Antofagasta regions of northern Chile (el Norte Grande), referred to collectively as the "Caliche Ore Mines" are discussed first. Second are the company's mining interests within the Atacama Desert in the eastern region of el Norte Grande (the "Atacama Salar Brines") are then dicussed.

DESCRIPTION OF THE CALICHE ORE MINES

As of December 31 2005, we hold exploration rights or exploitation rights to mineral resources representing approximately 2,082,000 hectares. We have six mines covering an area of approximately 380,700 hectares. Of these six mines, four are being exploited and two are without current operations. We have also submitted applications for exploration and exploitation rights for more than 358,500 additional hectares. Additionally, at the beginning of 2006 we incorporated the Iris mine as described below.

Pedro de Valdivia

The mine and facilities that we operate at Pedro de Valdivia are located 170 kilometers northeast of Antofagasta and are accessible by highway. These facilities have been in operation for approximately 76 years and were previously owned and operated by Anglo Lautaro. The area currently being mined is located approximately 25 kilometers west of the Pedro de Valdivia production facilities. Our mining facilities at Pedro de Valdivia have a Weighted Average Age of approximately 9.1 years. Electricity, diesel and natural gas, and fuel oil are the primary source power for this operation.

María Elena

The mine and facilities that we operate at María Elena are located 220 kilometers northeast of Antofagasta and are accessible by highway. These facilities have been in operation for approximately 81 years and were previously owned and operated by Anglo Lautaro. The area currently being mined is located approximately 14 kilometers north of the María Elena production facilities. The power source utilized is mainly electricity, diesel, natural gas and fuel oil. The Weighted Average Age of the Company's mining facilities at María Elena is approximately 11 years.

Pampa Blanca

We currently conduct caliche ore operations at Pampa Blanca, which is located 100 kilometers northeast of Antofagasta and is accessible by highway. Beginning in 1987, the output from Pampa Blanca was derived from old waste ore deposits. In 1997 we began mining new caliche ore deposits at Pampa Blanca. Ore from this mine is transported by truck to nearby heap leaching pads where it is used to produce iodine and nitrate salts. Various companies conducted mining operations at the site in the late 1920s. The Weighted Average Age of the ore recovery facilities at Pampa Blanca is approximately 11.5 years. The power source utilized is mostly electricity, produced by diesel mobile generators.

Nueva Victoria

At the end of 2002, we restarted our caliche ore operations at Nueva Victoria. This site is located 180 kilometers north of María Elena and is accessible by highway. Ore from Nueva Victoria is transported by truck to heap leaching pads where it is then used to produce iodine. The Weighted Average Age of the ore recovery facilities at Nueva Victoria is approximately 4.6 years. The power source utilized is mostly electricity, obtained from the SING.

Mapocho—Inactive

The Mapocho mine is located 67 kilometers northeast of Iquique in the First Region and is accessible by highway. During its years of operation, Mapocho was mined for caliche ore. Production started in 1996 from old waste deposits and then shifted to new caliche ore deposits in 1997. The ore in Mapocho was transported by truck to heap leaching pads and then used to produce iodine. We shut down the plant and dismantled it in 1999. This mine represents a future extension of Nueva Victoria mining operations.

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Soronal—Stand By

We have proven and probable reserves at Soronal, which is located 35 kilometers to the north of Nueva Victoria and is accessible by highway. This area has not been exploited yet, but represents a future extension of Nueva Victoria mining operations.

Iris

Formerly the mine used by DSM, it is not currently in operation. This mine was in operation during the first half of 2006 and it is not expected to be in operation during the rest of the year. This area has not been further explored by us since its acquisition at the beginning of 2006, therefore we have not carried out an estimation of proven or probable reserves. This mine represents a future extension of Nueva Victoria mining operations, or a continuity of operations of the Iris iodine operations.

Description of the Atacama Salar Brines

Atacama Salar Brines

We hold rights to exploit the mineral resources in an area covering approximately 196,000 hectares of land in the Atacama Salar in northern Chile, and have applied for additional rights to exploit and explore approximately 975 hectares and 141,000 hectares, respectively. The Weighted Average Age of our mining facilities at Atacama Salar is approximately 7.7 years. The main source of power used by the operation is electricity.

Additional Mining Operations Leased in the Atacama Salar Region

SQM Salar S.A. holds exclusive rights to exploit the mineral resources in an area covering approximately 196,000 hectares of land in the Atacama Salar in northern Chile. These rights include 147,000 hectares that are owned by Corfo and leased to SQM Salar S.A. pursuant to a lease agreement between Corfo and SQM Salar S.A., (the Lease Agreement). Corfo may not unilaterally amend the Lease Agreement and the rights to exploit the resources cannot be transferred. The Lease Agreement provides that SQM Salar S.A. is responsible for the maintenance of Corfo´s exploitation rights and for annual payments to the Chilean government and expires on December 31, 2030. SQM Salar S.A. is required to make lease-royalty payments to Corfo according to specified percentages of the value of production of minerals extracted from the Atacama Salar brines. In the years 2005, 2004 and 2003, royalty payments amounted to approximately US$ 6.8 million, US$4.9 million and US$4.0 million, respectively.

In addition to the mining rights leased to SQM Salar S.A. described above, Corfo has exclusive mining rights covering a total area of approximately 58,000 additional hectares in the Atacama Salar. Under the terms of the Atacama Salar Project Agreement between Corfo and SQM Salar S.A., (the Project Agreement), Corfo has agreed that it will not permit any other person to explore, exploit or mine any mineral resources in those 58,000 hectares of the Atacama Salar. The Project Agreement expires on December 31, 2030.

Concessions, Extraction Yields and Reserves for the Caliche Ore Mines and Salar Brines

Concessions Generally

Caliche ore. We hold our mineral rights pursuant to one of two types of exclusive concessions granted pursuant to applicable law in Chile:

(1) "Exploitation Concessions" These are concession whereby we are legally entitled to use the land in order to exploit the mineral resources contained therein on a perpetual basis subject to annual payments to the Chilean government; or

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(2) "Exploration Concessions" These are concession whereby we are legally entitled to use the land in order to explore for mineral resources for a period of two years, at the expiration of which the concession may be extended one time only for two additional years if the area covered by the concession is reduced by half.

An Exploration Concession is generally obtained for purposes of evaluating the mineral resources in an area. Generally, after the holder of the Exploration Concession has determined that the area contains exploitable mineral resources, such holder will apply for an Exploitation Concession for the area. Such application will give the holder absolute priority with respect to such Exploitation Concession against third parties. If the holder of the Exploration Concession determines that the area does not contain commercially exploitable mineral resources, the concession is usually allowed to lapse, although it is our policy to convert substantially all Exploration Concessions to Exploitation Concessions. An application also can be made for an Exploitation Concession without first having obtained an Exploration Concession for the area involved.

Concessions for the Caliche Ore Mines and Salar Brines

Approximately 72% of our total mining concessions are held pursuant to Exploitation Concessions and 28% pursuant to Exploration Concessions, not including areas within the Atacama Salar Mines. Of the exploitation concessions, approximately 84% have been already granted pursuant to applicable Chilean law, and approximately 16% are in the process of being granted. Of the exploration concessions, approximately 95% have been already granted pursuant to applicable Chilean law, and approximately 5% are in the process of being granted. Chile owns substantially all the surface land covering our Exploration and Exploitation Concessions.

We made payments to the Chilean government for our Exploration and Exploitation Concessions of approximately US$4,924 million in the year 2005.

The following table sets forth our exploitation and exploration concessions on December 31, 2005:

	Exploitation Concessions		**Exploration Concessions**			
Mines(*)	**Total number**	**hectares**	**Total number**	**hectares**	**Total number**	**hectares**
Pedro de Valdivia	698	93,252	15	619	713	93,871
Maria Elena	651	126,000	29	1,102	680	127,102
Pampa Blanca	513	96,908	5	340	518	97,248
Nueva Victoria	63	8,128	7	1,369	70	9,497
Mapocho	61	8,240	11	367	72	8,607
Soronal	311	42,605	18	1,824	329	44,429
Atacama Salar	133	197,708	487	141,000	620	338,708
Sub total mines	**2,430**	**572,841**	**572**	**146,621**	**3,002**	**719,462**
Other caliche areas	5,277	1,425,147	2,401	635,429	7,678	2,060,576
Salars and other areas	267	50,008	126	33,500	393	83,508
Sub total other areas	**5,544**	**1,475,155**	**2,527**	**668,929**	**8,071**	**2,144,084**
Total	7,974	2,047,996	3,099	815,550	11,073	2,863,546

(*)As Iris was acquired at the beginning of 2006, we have not included its concessions

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Extraction Yields

The following table sets forth certain operating data relating to each of our mines (1):

(Values in thousands unless otherwise stated)

	2005	2004	2003
Pedro de Valdivia			
Metric tons of ore mined	12,362	12,029	11,583
Average grade Nitrate (% by weight)	7.2	7.2	6.9
Iodine (parts per million (ppm))	402	378	391
Metric tons of Crystallized Nitrate Produced	476	458	430
Metric tons of Iodine Produced	2.6	2.3	2.0
María Elena (2)			
Metric tons of ore mined	5,917	5,835	5,783
Average grade Nitrate (% by weight)	8.0	8.6	8.5
Iodine (ppm)	428	485	468
Metric tons of Crystallized Nitrate Produced	479	480	440
Metric tons of Iodine Produced (Eq. 97%)	1.4	1.5	1.4
Pampa Blanca			
Metric tons of ore recovered	5,309	4,976	4,838
Iodine (ppm)	520	560	560
Metric tons of Iodine Produced	1.5	1.4	1.3
Nueva Victoria			
Metric tons of ore recovered	7,140	6,776	5.010
Iodine (ppm)	504	505	549
Metric tons of Iodine Produced	2.2	2.0	1.6
SQM Salar			
Metric tons of Lithium Carbonate Produced	27	27	24
Metric tons of Potash Produced	632	638	651
Metric tons of Potassium Sulfate Produced	162	178	157
Metric tons of Boric Acid	9	9	9

(1)

Note that because the Mapocho and Soronal mines are not currently being mined, there is no data to report with respect to extraction Yields. Additionally the DSM iodine business acquisition was not included.

(2) Includes production at Coya Sur from treatment of fines and nitrates from pile treatment at Pampa Blanca, María Elena and Pedro de Valdivia.

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Reserves

Caliche ore

Our in-house staff of geologists and mining engineers prepares our estimates of caliche ore reserves. The proven and probable reserve figures presented below are estimates, and no assurance can be given that the indicated levels of recovery of nitrates and iodine will be realized. See Item 3. D. Risk factors.

We estimate ore reserves based on engineering evaluations of assay values derived from sampling of drill-holes and other openings. Several drill-hole spacing have been used for recognizing mining resources. Normally, we start with 400 x 400 meters and then we reduce spacing to 200x200 meters and 100x100 meters and 50x50 meters. The geological occurrence of caliche mineral is unique and different from other metallic and non-metallic minerals. Caliche ore is found in large horizontal layers at depths ranging from 1 to 4 meters and has an overburden between 0 to 2 meters. This horizontal layering is a natural geological condition and allows the Company to estimate the continuity of the caliche bed based on surface geological reconnaissance and analysis of samples and trenches. Mining resources can be calculated using the information from the drill-hole sampling.

According to our experience in caliche ore, the grid pattern drill-holes with spacing equal to or less than 100 meters produce data on the caliche resources that is sufficiently defined to consider them measured resources and then, adjusting for economic and legal aspects, as proven reserves. Similarly, the information obtained from detailed geologic work and samples taken from grid pattern drill-holes with spacing equal to or less than 200 meters can be considered indicated resources and then, adjusting for economic and legal aspects, as probable reserves. The degree of certainty of probable reserves, although lower than that of proven reserves, is high enough to assume continuity between points of observation.

The updated estimates of our proven reserves of caliche ore at each of our mines, as of December 2005, are as follows:

Mine	**Proven Reserves** (millions of metric tons)	**Nitrate Average Grade** (percentage by weight)	**Iodine Average Grade** (parts per million)
Pedro de Valdivia	144.0	7.2%	387
María Elena	146.8	7.3%	415
Pampa Blanca	81.4	6.3%	546
Nueva Victoria	95.3	4.2%	467
Mapocho	4.6	5.3%	436
Soronal	158.9	7.1%	405

In addition, the updated estimates of our probable reserves of caliche ore at each of our principal mines as of December 2005, are the following:

Mine	**Probable Reserves** (millions of metric tons)	**Nitrate Average Grade** (percentage by weight)	**Iodine Average Grade** (parts per million)
Pedro de Valdivia	134.7	6.9%	441
María Elena	97.6	7.3%	380
Pampa Blanca	423.1	6.0%	526
Nueva Victoria	66.0	3.7%	443

Soronal	59.1	7.6%	362

Additionally, Mapocho, an area farther to the north of our current operations in Nueva Victoria has estimated probable reserves, based on 400x400 sampling, of approximately 234 million metric tons of Caliche with an average nitrate grade of approximately 6.9% and an average iodine grade of approximately 524 ppm.

The proven and probable reserves shown above are the result of exploration and evaluation in approximately 15% of the total caliche-related mining property of our Company. However, we have explored those areas in which we believe there is a higher potential of finding high-grade caliche ore minerals. The remaining 85% of this area has not been explored yet or has limited reconnaissance as inferred or hypothetical resources.

Proven and probable reserves are determined using extensive drilling, sampling and mine modeling which attempts to account for restrictions for cut-off grades, ore type, dilution, waste-to-ore-ratio and ore depth from which economic feasibility has been determined. Nonetheless, metric tons of nitrates and iodine contained in the proven and probable caliche ore reserves are shown before exploitation losses and prior to any losses from metallurgical treatment.

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Considering the normal lower degree of certainty in probable reserves compared to proven reserves, and in accordance with caliche ore continuity, sampling and reserves calculations, it is possible to transform the values calculated as probable reserves in order to show them at similar basis of proven reserves. The transforming factors depend on the different geologic conditions and continuity recognized mine by mine, but on average are higher than 60%.

Additionally, proven and probable reserves could be affected by mining exploitation methods which result in differences between reserves estimates that are available for exploitation in the mining plan and recoverable material that is finally transferred to the leaching vats or heaps. The average mining exploitation factor for our different mines ranges between 80% and 90%. Additionally, the average global metallurgical recoveries of processes for nitrate and iodine contained in the recovered material varies between 55% to 65%.

Exploration Program. We maintain a permanent program of exploration and resource evaluation on the land surrounding the mines at Pedro de Valdivia and María Elena and at other sites for which we have the appropriate concessions. In 2005, we continued a basic reconnaissance program on the new mining properties including a geological mapping of the surface and spaced drill-holes campaign covering approximately 73,000 hectares. Additionally, we conducted general explorations based on a closer grid pattern drill-holes in a total area of approximately 3,938 hectares and, in addition, carried out in-depth sampling of approximately 871 hectares (627 hectares at Pedro de Valdivia, 42 hectares at María Elena, 202 hectares at Pampa Blanca). The exploration and development program in 2006 calls for a basic reconnaissance program over a total area of 150,000 hectares, general exploration over a total area of about 1,257 hectares and, in addition, in-depth sampling of approximately 1,659 hectares.

Reserves and Concessions for the Atacama Salar Brines

Reserves for the Atacama Salar Brines

Our in-house staff of geologists and mining engineers prepares our estimates of potassium, sulfate, lithium and boron reserves at the Atacama Salar. We have explored 52% of the land (to a depth between 40 and 100 meters) to which we hold exploitation rights in the Atacama Salar mines and estimate that our proven and probable reserves, based on economic restrictions, geostatistical analysis and brine sampling up to a depth of 30 and 50 meters, are as follows:

	Proven Reserves (millions of metric tons)	**Probable Reserves** (millions of metric tons)
Potassium	39.8	5.0
Sulfate	35.9	1.6
Lithium	2.0	1.4
Boron	1.1	0.2

The proven and probable reserves are based on drilling, brine sampling and geo-statistic reservoir modeling in order to estimate brine volumes and their composition. This procedure considers process restrictions from which economic feasibility has been determined to produce commercial products like potassium chloride, potassium sulfate, lithium carbonate and boric acid. Nonetheless, metric tons of potassium, sulfate, lithium and boron considered in the proven and probable reserves are shown before losses from evaporation processes and metallurgical treatment.

The recoveries of each ion depend on brine composition, which changes in time, and the process applied to produce the desired commercial products. Ponds and metallurgical recoveries for potassium vary from 67% to 29% while for sulfate vary from 34% to 28%. The recoveries for lithium vary from 29% to 25% and for boron is approximately 30%.

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PORTS AND WATER RIGHTS

We operate port facilities at Tocopilla for shipment of products and delivery of certain raw materials pursuant to renewable concessions granted by Chilean regulatory authorities, provided that such facilities are used as authorized and annual concession fees are paid by us. We also hold water rights for a supply of water from rivers and wells near our production facilities sufficient to meet our current and anticipated operational requirements.

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The map below shows the location of SQM's principal mining operations and land concessions.

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PRODUCTION FACILITIES

Our principal production facilities are located near our mines and extraction facilities in northern Chile. The following table sets forth the principal production facilities as of December 31, 2005:

Location	Type of Facility	Approximate Size (1) (Hectares)
Pedro de Valdivia	Nitrate, sulfate and iodine production	126
María Elena	Nitrate, sulfate and iodine production	110
Coya Sur	Nitrate, sulfate and iodine production	232
Pampa Blanca	Concentrated nitrate salts and iodine production	86
Nueva Victoria	Iodine production	11
Atacama Salar(2)	Potassium chloride, lithium chloride, potassium sulfate and boric acid	2,288
Salar del Carmen, Antofagasta	Lithium carbonate and lithium hydroxide production	28
Salar del Carmen, Antofagasta	Boron production	4
Tocopilla	Port facilities	24

(1) Includes production facilities, solar evaporation ponds and leaching heaps, if any.

(2) We lease the exploitation rights used at the Atacama Salar from Corfo.

We own, directly or indirectly through Subsidiaries, all of the facilities, free of any material liens, pledges or encumbrances, and believe that they are suitable and adequate for the business we conduct in them. As of December 31, 2005, the gross book value of the property and associated plant and equipment at the Pedro de Valdivia, María Elena, Coya Sur, Pampa Blanca, Nueva Victoria, Atacama Salar, Salar del Carmen and Tocopilla was approximately US$179.15 million, US$284.50 million, US$120.99 million, US$16.47 million, US$137.64 million, US$366.32 million, US$96.84 million and US$59.95 million, respectively.

In addition to the above-listed facilities, we operate a computer and information system linking our principal subsidiaries to our operating facilities throughout Chile via a local area network. The computer and information system is used mainly for accounting, monitoring of supplies and inventories, billing, quality control and research activities. The system's mainframe computer equipment is located at our offices in Santiago.

The Weighted Average Age of our production facilities at Pedro de Valdivia, María Elena, Coya Sur, Nueva Victoria, Atacama Salar and Salar del Carmen is approximately 9.1 years, 11.0 years, 6.7 years, 4.6 years, 7.7 years and 5.6 years, respectively. The Weighted Average Age of our iodine facilities at Pampa Blanca is approximately 11.5 years. Our railroad line between our production facilities and Tocopilla was originally constructed in 1890, but the rails,

locomotives and rolling stock have been replaced and refurbished as needed. The Tocopilla port facilities were originally constructed in 1961 and have been refurbished and expanded since that time. The Weighted Average Age of the Tocopilla port facilities is approximately 12.5 years. We consider the condition of our principal plants and equipment to be good.

We maintain different projects to improve our production methods, to increase production capacity of current products and to develop new products and markets. Therefore, we have developed a capital expenditure program calling for investments totaling approximately US$660 million. For further discussion see item 4.A History And Development Of The Company - Capital Expenditure Program.

TRANSPORTATION AND STORAGE FACILITIES

We own and operate railway lines and equipment, as well as port and storage facilities, for the transport and handling of finished products and consumable materials.

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The main center for our production and storage of raw material is the hub composed by the facilities in Coya Sur, Pedro de Valdivia and María Elena. Our Salar de Atacama facilities constitute the second largest concentration of plants and raw material storage. Other facilities include Nueva Victoria, Pampa Blanca, the Yumbes nitrates plant and the finished product plants of Boron, Lithium Carbonate and Lithium Hydroxide. The Tocopilla Port Terminal, which we own, is the main facility for storage and shipment of our products. In Juanuary 2006 the company acquired, a new facility in Iris, near Nueva Victoria, containing nitrates and iodine ores as well as iodine and iodine derivatives finished product plants.

Nitrates raw materials are produced and first stored at our Pampa Blanca, Pedro de Valdivia and María Elena mines, and then transported by rail (Pedro de Valdivia), conveyor belt (María Elena) and truck (others) to the plants described in the next paragraph, for further production processes.

Nitrates finished products are produced at our facilities in Pedro de Valdivia, María Elena and Coya Sur and then transported by our rail system to Tocopilla Port Terminal, where they are stored and shipped, either bagged or in bulk.

Potassium chloride is produced at our facilities in the Salar de Atacama and transported either to Tocopilla Port Terminal or Coya Sur by a dedicated dual transport system (rail/truck) owned by a third party dedicated contractor. Product going to Coya Sur is used as raw material for the production of potassium nitrate or for potassium chloride finished product.

Potassium sulfate and boric acid are both produced at our facilities in the Salar de Atacama and then are transported to Tocopilla Port Terminal to follow the rest of the process. Potassium sulfate is transported by the same dual mode system as potassium chloride, and boric acid is transported, already bagged at the Salar de Atacama, by contracted truck company.

Lithium solutions, produced at our facilities in the Salar de Atacama, are transported to the lithium carbonate facility in the Salar del Carmen area where finished lithium carbonate is produced. Part of the lithium carbonate is fed to the adjacent lithium hydroxide plant, where finished lithium hydroxide is produced. These two products are bagged and stored in the premises and are subsequently transported by truck to Tocopilla Port Terminal or to the Antofagasta Terminal for shipment in charter vessel or container vessels.

Boron raw material (ulexite) is produced in the Salar de Ascotán near Ollague and then transported to the boron facility 15 km north of the lithium complex in Salar del Carmen. In this plant our boron products are produced and then handled in the same way as the lithium products.

Sodium Sulfate production was stopped mid 2005 as production efforts were focused on the more important nitrates products.

Iodine raw material, obtained in the same mines as nitrates, is processed, bagged and stored exclusively in the facilities of Pedro de Valdivia, Iris and Nueva Victoria, and then shipped by truck to Antofagasta or Iquique for container vessel transport or by truck to Santiago, where iodine derivatives are produced.

The facilities at Tocopilla Port Terminal are located approximately 186 kilometers north of Antofagasta and approximately 124 kilometers west of Pedro de Valdivia, 84 kilometers west of María Elena and Coya Sur and 372 kilometers west of the Atacama Salar. SIT operates the facilities under maritime concessions granted pursuant to applicable Chilean laws. The port also complies with ISPS (International Ship and Port Facility Security Code) regulation. The Tocopilla Port Terminal facilities include a railcar dumper to transfer bulk product into the Conveyor Belt system used to store and ship bulk product.

Storage facilities consist of a six silo system, with a total capacity of 54,000 metric tons, and an open storage area for approximately 180,000 metric tons. A bagging station capable of bagging both small and maxi bags, is also connected to the conveyor system.

For shipping bulk product, the conveyor belt system extends over the coast line to deliver product directly inside bulk carrier hatches. Using this system, the loading capacity is 1,200 tons per hour. Bags are loaded to bulk vessels using barges that are loaded in Tocopilla Port Terminal dock and unloaded by vessel cranes into the hatches. Both bulk and bagged trucks are loaded in Tocopilla Port Terminal for transferring product directly to customers or for container vessels shipping from another port, mainly Antofagasta, San Antonio and Iquique.

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Bulk carrier loading in Tocopilla Port Terminal are mostly contracted by us to transfer the product to our hubs around the world or for shipping to customers, which in very few cases use their own contracted vessels for delivery. Trucking is provided by a mix of spot, contracted and customer owned equipment.

A fuel oil storage facility at Tocopilla, owned by SQM, was closed and dismantled during February 2006, as a part of a rationalization plan for the terminal. The space was destined for bag storage and a new container loading facility.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable

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ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, which would potentially result in materially different results under different assumptions and conditions.

We believe that our critical accounting policies in the preparation of our Chilean GAAP financial statements are limited to those described below. It should be noted that in many cases, Chilean GAAP specifically dictates the accounting treatment of a particular transaction, with no need for management's judgment in their application. Additionally, significant differences can exist between Chilean GAAP and U.S. GAAP, as explained below in the Notes to the Financial Statements at Note 29—Differences between Chilean and United States Generally Accepted Accounting Principles. There are also areas in which management's judgment in selecting available alternatives would not produce materially different results. For a summary of significant accounting policies and methods used in the preparation of the financial statements, see Note 2 to the Consolidated Financial Statements (as of December 31, 2005 and 2004, and for the three years in the period ended December 31, 2005).

Allowance for doubtful accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the assessed inability of our customers to make required payments. If the financial condition of our customers were to deteriorate unexpectedly, impacting their ability to make payments, additional allowances may be required. We routinely review the financial condition of our customers and make assessments of collectibility.

Deferred tax asset valuation allowance

Our Company and each of its subsidiaries compute and pay tax on a separate basis, except for the U.S. subsidiaries. We estimate our tax exposure and assess temporary differences resulting from differing treatment of various items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are reflected in our consolidated balance sheet.

We record a valuation allowance to reduce deferred tax asset to the amount that we believe is more likely than not to be realized. The valuation of the deferred tax asset is dependent on, amongst other things, the ability of the Company to generate a sufficient level of future taxable income.

Inventories

Inventories of finished products and work in process are valued at average production cost. Raw materials and products acquired from third parties are stated at average cost and materials-in-transit are valued at cost. We regularly review inventory for impairment and record an obsolescence provision so that carrying values do not exceed net realizable values.

Staff severance indemnities

We have significant staff severence indemnity liabilities, which are recognized on accrual basis. Inherent in the valuations of these obligations are key assumptions, including discount rates and expected returns on plan assets. We are required to consider current market conditions, including changes in interest rates, in selecting these assumptions. Changes in the related benefit plan liabilities may occur in the future due to changes resulting from fluctuations in our

related headcount or to changes in the assumptions.

Mining development costs

Expenses associated with mineral reserves under exploitation are capitalized as part of production cost to inventories. Expenses associated with future reserves are presented within Other long-term assets and are amortized according to estimated reserves of minerals.

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Long-lived assets and their impairment

We estimate the useful lives of property, plant and equipment in order to determine the amount of depreciation expense to be recorded during any reporting period. The estimated useful lives are based on the historical experience with similar assets taking into account anticipated technological or other changes. If technological changes are expected to occur more rapidly or in a different way than previously anticipated, the useful lives assigned to these assets may need to be reduced, resulting in the recognition of increased depreciation expense in future periods.

We evaluate the recoverability of our long-lived assets (other than intangibles and deferred tax assets) in accordance with Technical Bulletin No. 33 “Accounting treatment of Property, Plant and Equipment”, issued by the Chilean Association of Accountants, and SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The rules require recognition of impairment of long-lived assets in the event that the net book value of such assets exceeds the future undiscounted net cash flows attributable to such assets. Impairment, if any, is recognized in the period of identification to the extent the carrying amount of an asset exceeds the fair value of such asset. We believe that the accounting estimate related to asset impairment is critical because it requires us to make assumptions about future cash flows generated from the use of the assets over their estimated useful lives.

Impairment of goodwill

We have intangible assets related to goodwill. Under Chilean GAAP, goodwill should be reviewed for impairment when events or circumstances, such as recurrent losses for two or more periods, indicate a possible inability to realize the carrying amount. Under SFAS No. 142, goodwill must be allocated to reporting units and tested for impairment at least annually or more frequently if events or circumstances, such as adverse changes in the business climate, indicate that there may be justification for conducting an interim test. The first part of the test is a comparison, at the reporting unit level, of the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value is less than the carrying value, then the second part of the test is needed to measure the amount of potential goodwill impairment. The implied fair value of the reporting unit goodwill is calculated and compared to the carrying amount of goodwill recorded in the Company’s financial records. If the carrying value of reporting unit goodwill exceeds the implied fair value of that goodwill, then we would recognize an impairment loss in the amount of the difference, which would be recorded as a charge against net income.

The fair values of the reporting units are determined using discounted cash flow models based on each reporting unit’s internal forecasts.

The impairment analysis requires management to make subjective judgments concerning estimates of how the assets will perform in the future using a discounted cash flow analysis. Additionally, estimated cash flows may extend beyond ten years and, by their nature, are difficult to determine. Events and factors that may significantly affect the estimates include, among others, competitive forces, customer behavior and attrition, changes in revenue growth trends, cost structures and technology and changes in interest rates and specific industry or market sector conditions. Impairment is recognized earlier whenever warranted.

Accounting Changes

During the year ended December 31, 2005, the Company changed the discount rate used for the determination of staff severance indemnities provision from 9% applied in the years ended December 31, 2003 and 2004 to 8%. This change gave rise to a higher charge to income for the year ended December 31, 2005 of ThUS$678.2.

During the year ended December 31, 2005, our subsidiary SQM Industrial S.A. (ex PCS Yumbes SCM that was acquired in December 2004) changed the method of depreciation of certain assets from the unit of production to the straight-line method based on the estimated remaining technical useful lives of the different classes of assets.

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5.A. Operating Results

Introduction

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements and the Notes thereto included in Item 18. Consolidated Financial Statements Certain calculations (including percentages) that appear herein have been rounded.

Our Consolidated Financial Statements are prepared in accordance with Chilean GAAP, which differ in certain material respects from U.S. GAAP. Note 29 to the Consolidated Financial Statements provides a description of the material differences between Chilean GAAP and U.S. GAAP and a reconciliation to U.S. GAAP of net income for the years ended December 31, 2005, 2004 and 2003 and of total shareholders' equity as of December 31, 2005, 2004 and 2003. Our Consolidated Financial Statements are prepared in U.S. dollars. The U.S. dollar is the primary currency in which we operate.

We operate as an independent corporation and are not a "controlled corporation", as that term is defined under Chilean law. See Item 6.E. Share Ownership.

Certain segment information by products group and by geographical area is provided at Note 29 -Differences between Chilean and United States Generally Accepted Accounting Principles— II. k) Industry segment and geographic area information.

Overview Of Our Results Of Operations

We divide our operations into the following four product lines:

- Specialty plant nutrition: production and commercialization of fertilizers with unique characteristics.
    - Iodine and derivatives: production and commercialization of iodine and derivatives.
    - Lithium and derivates: production and commercialization of lithium and derivatives.
- Industrial chemicals: production and commercialization of industrial nitrates, sodium sulfate and boric acid.

Additionally we sell other products, including imported commodity fertilizers that we distribute mainly in Chile and Mexico and potassium chloride, which complement our product portfolio.

We sell our products through three primary channels: our own sales offices, a network of distributors and, with respect to our fertilizer products, through Yara International ASA pursuant to a commercial agreement.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations substantially depend on:

- Trends in demand for our products. See Item 5.D. Trend Information;
- Our efficiency in operating our facilities as they are generally running at nameplate capacity;

- Our ability to accomplish our capital expenditures program in a timely manner, as we are the main supplier in our core businesses;

- Trends in the exchange rate between the US dollar and Chilean peso, as a significant portion of the cost of sales is related to the Chilean peso;

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- Logistics, raw materials and maintenance costs, which have been increasing in the last two years; and

- Energy costs, which have increased due to the high cost of oil and the potential interruption of our natural gas supply.

The following table sets forth our revenues (in millions of U.S. dollars) and the percentage accounted for by each of our product lines for each of the periods indicated:

	Year ended December 31,					
	2005		2004		2003	
	US$	%	US$	%	US$	%
Specialty plant nutrition	487.8	54	426.8	54	362.8	52
Iodine and derivatives	149.1	17	110.5	14	84.6	12
Lithium and derivatives	81.4	9	62.6	8	49.7	7
Industrial chemicals	74.0	8	73.1	9	73.7	11
Other products[(1)]	103.7	12	115.5	15	121.0	18
Total	**896.0**	**100**	**788.5**	**100**	**691.8**	**100**

(1) Primarily imported fertilizers distributed in Chile and Mexico and potassium chloride sold to third parties.

The following table sets forth certain financial information of the Company (in millions of U.S. dollars) for each of the periods indicated, as a percentage of revenues:

	Year ended December 31,					
	2005		2004		2003	
	US$	%	US$	%	US$	%
Total revenues	896.0	100.0	788.5	100.0	691.8	100.0
Cost of goods sold	(652.9)	(72.9)	(608.7)	(77.2)	(554.0)	(80.1)
Gross margin	243.1	27.1	179.8	22.8	137.8	19.9
Selling and administrative expenses	(61.9)	(6.9)	(55.7)	(7.1)	(50.6)	(7.3)
Operating income	181.2	20.2	124.1	15.7	87.2	12.6
Non-operating income	16.4	1.8	20.8	2.7	18.7	2.7
Non-operating expenses	(50.8)	(5.7)	(38.4)	(4.9)	(39.8)	(5.8)

Income before income taxes	146.8	16.3	106.5	13.5	66.1	9.5
Income tax	(32.5)	(3.6)	(27.3)	(3.5)	(16.0)	(2.3)
Minority interest	(1.0)	(0.1)	(5.1)	(0.6)	(3.7)	(0.5)
Amortization of negative goodwill	0.2	0.0	0.2	0.0	0.4	0.1
Net income	**113.5**	**12.7**	**74.2**	**9.4**	**46.8**	**6.8**

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Results of Operations - 2005 compared to 2004

During 2005, we generated total revenues of approximately US$896.0 million, which is approximately 14% higher than the US$788.5 million recorded for the year ended December 31, 2004.

The main factors that explain the increase in revenues and the operational variations in the different product lines are the following:

Specialty Plant Nutrition

Revenues from sales of specialty plant nutrition products increased 14.3% to US$487.8 million in 2005 from US$426.8 million in 2004. Set forth below are sales volume data in the specified year by product category.

		Year 2005	Year 2004 (1)	% Change
Sodium nitrate	Th. Ton	63.3	58.9	8%
Potassium nitrate and sodium potassium nitrate	Th. Ton	690.2	707.6	-3%
Blended and other specialty fertilizers	Th. Ton	217.5	243.3	-11%
Other non - SQM Specialty plant nutrients (2)	Th. Ton	133.2	131.1	2%
Potassium sulfate	Th. Ton	178.6	157.7	13%

(1) 2004 figures have been restated to reflect a reclassification affecting specialty plant nutrients. Products that used to be included under Specialty Plant Nutrition were relocated to reflect their industrial status.

(2) Includes resales of purchased products.

The 14.3% increase in specialty plant nutrition product revenues was mainly driven by improved pricing conditions. The increase in prices resulted from two main factors: increased demand and the favorable pricing conditions for potassium-related fertilizers.

Potassium nitrate and sodium potassium nitrate sales volumes were slightly lower than in the previous year with a different product mix increasing soluble potassium nitrate sales volumes, consistent with our strategy of focusing on more profitable markets.

The lower sales volume of blended fertilizers was mainly related to the lower sales in the Chilean market.

Demand for specialty plant nutrition products continues to be strong, but our sales volume is constrained by current production capacity. SQM expects to increase its nitrate production capacity between 20% and 30% from the second half of 2007 onwards.

Iodine and iodine derivatives

Revenues for iodine and iodine derivatives increased 34.9% to US$149.1 million in 2005 from US$110.5 million in 2004. Set forth below are sales volume data in the specified year by product category.

		Year 2005	Year 2004	% Change
Iodine and derivatives	Th. Ton	8.1	7.7	5%

The increase in revenue is due primarily to higher prices related to growing demand combined with the high capacity utilization rates in the industry, which put an upward pressure on prices.

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The applications of iodine and iodine derivatives that contributed to a significant portion of the growth in demand are: x-ray contrast media, the utilization of iodine in the production of polarizing film, which is an important component in LCD screens and iodo-fluoride compounds used in the synthetic fiber industry.

During 2005, SQM increased its volume sales in proportion to the market's growth, which allowed SQM to preserve its market share at approximately 30%.

On average, prices for iodine increased by approximately US$4.00 per kilogram as compared with the previous year. Considering the tight supply situation, we believe that these positive pricing trends will continue during 2006.

In January 2006, SQM acquired the iodine and iodine derivatives business of the Dutch company DSM N.V., or DSM. The transaction included the iodine and iodine derivatives facilities and the mining reserves located in northern Chile. Additionally, SQM acquired DSM's iodine and iodine derivatives commercial operations in Europe. Currently, DSM's iodine production capacity is higher than 2.0 th. metric tons per year.

This acquisition will provide SQM with logistics, commercial and productive synergies and reflects SQM's commitment to the development and strengthening of its core businesses and its strategy to be a long-term reliable iodine supplier.

The agreement involved a base payment of US$72.0 million plus all the cash, accounts receivable and final product inventories minus the total liabilities of the Chilean and Dutch companies involved in the transaction.

Lithium and lithium derivatives

Revenues for lithium and lithium derivatives increased 29.9% to US$81.4 million in 2005 from US$62.6 million in 2004. Set forth below are sales volume data in the specified year by product category.

		Year 2005	Year 2004	% Change
Lithium carbonate and derivatives	Th. Ton	27.8	31.2*	-11%

* 2004 volumes have been restated to reflect a reclassification from lithium brines to lithium carbonate. Revenues were not affected by this change.

The increase in revenues in this business line was mainly due to better price conditions. The strong demand during the last few years, with a growth of approximately 5% during 2005, positively affected pricing conditions and we expect this trend to continue.

During 2005 the most important applications driving market growth were batteries, greases and frits. Regarding lithium-ion batteries, during 2004 certain producers overstocked, leading to a lower demand at the beginning of 2005. This situation was reversed during the first half of 2005.

The lower sales volume during 2005 was due to production capacity constraints. Current production capacity is approximately 28.5 th. metric tons per year. SQM expects to increase its lithium carbonate production capacity from 2008 onwards.

Demand continued to increase for lithium hydroxide. Our new lithium hydroxide plant has a total capacity to satisfy approximately 50% of that market.

Industrial Chemicals

Revenues for industrial chemicals increased 1.2% to US$74.0 million in 2005 from US$73.1 million in 2004. Set forth below are sales volume data in the specified year by product category.

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		Year 2005	Year 2004(1)	% Change
Industrial nitrates	Th. Ton	176.3	192.9	-9%
Soum Sulfate	Th. Ton	25.3	29.9	-15%
Boric acid	Th. Ton	6.3	6.1	3%

(1) 2004 figures have been restated to reflect a reclassification affecting Industrial nitrates. Products that used to be included under Specialty Plant Nutrition were relocated to reflect their industrial status. 2004 boric acid volumes have been restated to reflect a reclassification from Industrial Chemicals to Specialty Plant Nutrition. Revenues were also reclassified.

The slight increase in revenues from sales of industrial chemicals was mainly due to a continued increase in prices for most of our industrial products, which more than offset lower sales volumes during this period.

Industrial nitrates saw a reduction in sales volume in 2005, mainly due to lower demand for potassium nitrate from the CRT industry (TV screens). In spite of a 9% decrease in volume, the increased price for industrial nitrates led to higher revenues in this product line.

Other Products

Potassium chloride

Revenues from sales of potassium chloride decreased 12.9% to US$32.4 million in 2005 from US$37.2 million in 2004. Set forth below are sales volume data in the specified year by product category.

		Year 2005	Year 2004	% Change
Potassium Chloride	Th. Ton	128.7	211.9	-39%

Lower revenues from potassium chloride are mainly due to the acquisition of PCS Yumbes S.C.M. (today, SQM Industrial S.A.) at the end of 2004, which led to a decrease in third party sales of potassium chloride and an increase in internal consumption for the production of potassium nitrate.

We plan to continue using potassium chloride internally for the production of potassium nitrate.

Other commodity fertilizers

Sales of other commodity fertilizers decreased to US$71.3 million in 2005 from US$78.3 million in 2004.

The 2005 results of SQM's subsidiary in charge of the trading of special plant nutrients and commodity fertilizer in Chile were negatively affected by lower sales volumes and lower margins than in 2004. The continuous rains that affected the fertilizer season in Chile and the high inventory of commodity fertilizers put a downward pressure, significantly affecting its trading margins.

Production Costs

Production costs during 2005 were higher than 2004, mainly in iodine and nitrate production. The main factors that affected the production costs were the following:

- higher energy and raw materials costs;
- less favorable exchange rates; and
- maintenance and depreciation cost increase.

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Gross Profit

As a result of the factors described above, gross profit increased 35.2% to US$243.1 million in 2005 from US$179.8 million in 2004.

Selling and Administrative Expenses

Selling and administrative expenses increased to US$61.9 million (6.9% of revenues) during 2005 compared to US$55.7 million (7.1% of revenues) recorded during 2004.

Operating Income

As a result of the factors described above, operating income increased 46% to US$181.2 million in 2005 from US$124.1 million in 2004.

Non-Operating Income and Expenses

For 2005, net non-operating expenses amounted to US$34.4 million, compared to US$17.6 million during 2004. The main changes in non-operating income and expenses were due to the following:

- During 2004, SQM sold its 14.05% stake in Empresas Melón S.A., or Empresas Melón, at a public auction carried out in the Santiago Stock Exchange on August 18, 2004. The transaction resulted in a before-tax profit of approximately US$8.2 million.

- The income derived from the investments in related companies decreased to US$2.6 million in the year 2005 from US$4.5 million during 2004 (including Empresas Melón).

- During 2005 there were exchange losses of approximately US$3.8 million compared to approximately US$0.5 million during 2004. This was due to the Chilean peso exchange rate and Euro exchange rate.

- Other losses were approximately US$4.0 million greater in 2005 than those of 2004, including writeoff of investments, amortization of goodwill and others.

Income Taxes

In 2005, income taxes were US$32.5 million, resulting in an effective consolidated tax rate of 22.1%, compared to income taxes of US$27.3 million and an effective consolidated tax rate of 25.6% in 2004. In accordance with Chilean law, SQM and each of its Chilean subsidiaries compute and pay taxes on an individual basis, not on a consolidated basis. We had tax loss carry-forwards of US$232.6 million at December 31, 2005, the majority of which have no expiration dates and are expected to be utilized in the future.

The corporate income tax rate in Chile was 17% for 2005 and 2004.

The 19.1% increase in income taxes is mainly due to the increase in our taxable income.

For a more detailed analysis of the Company’s income and deferred taxes see Note 13 to the Consolidated Financial Statements.

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Results of Operations - 2004 compared to 2003

During 2004, we generated total revenues of US$788.5 million, which is approximately 14% higher than the US$691.8 million recorded for the year 2003.

The main factors that explain the increase in revenues and the operational variations in the different product lines are the following:

Specialty Plant Nutrition

Revenues from sales of specialty plant nutrition increased 18% to US$426.8 million in 2004 from US$362.8 million in 2003. Set forth below are sales volume data by product category.

		Year 2004[1]	Year 2003 [2]	% Change
Sodium nitrate	Th. Ton	58.9	62.5	-6%
Potassium nitrate and sodium potassium nitrate	Th. Ton	707.6	696.5	2%
Blended and other specialty fertilizers	Th. Ton	243.3	252.1	-3%
Other non- SQM specialty plant nutrients (3)	Th. Ton	131.1	125.0	5%
Potassium sulfate	Th. Ton	157.7	143.2	10%

(1) 2004 figures have been restated to reflect a reclassification affecting specialty plant nutrients. Products that used to be included under Specialty Plant Nutrition were relocated to reflect their industrial status.

(2) 2003 figures have been restated to reflect a reclassification affecting specialty plant nutrients. Products that used to be included under *Other Products* were reallocated to reflect their specialty status.

(3) Includes resales of purchased products.

The increase in specialty plant nutrition revenues was mainly driven by a different product mix, our strategy to increase our sales volume in markets that offer higher returns, and generally improved pricing conditions in the market.

The increase in prices responds mainly to two factors: the strong demand, which for the last five years has experienced annual growth of approximately 7%, and the tight conditions on the supply side. Considering this, we are actively carrying out the necessary investments to increase our production capacity.

Changes in sales volume were due to the following:

- The decrease in sodium nitrate sales only reflects the availability of this product to be sold as agricultural sodium nitrate, as we have the alternative of using it to produce potassium nitrate or industrial sodium nitrate. During 2004 more of this product was destined to produce potassium nitrate.

- The increase in potassium-related plant nutrients reflects an increase in shipments to Europe, North America and Latin America, especially to Brazil, which was partially offset by lower volumes delivered to China. The decrease in shipments to China is the result of our decision, facing a tight supply situation, to focus on markets with higher returns.

- The increase in non-SQM product sales reflects an overall increase in market demand.

- The increase in potassium sulfate shipments was due to our ability to produce greater quantities and thereby keep pace with growing market demand.

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Iodine and derivatives

Revenues from sales of iodine and derivatives increased 30.7% to $110.5 million in 2004 from US$84.6 million in 2003. Set forth below are sales volume data.

		Year 2004	Year 2003	% Change
Iodine and derivatives	Th. Ton	7.7	6.6	17%

The increase both in revenues and sales volume was mainly due to the following:

- Sales of iodine to the x-ray contrast media, biocides and pharmaceutical markets on average experienced growth of approximately 7%.
    - We increased sales to the Chinese markets, mainly to the pharmaceutical and disinfectant industries.
- We increased our sales of iodine for use in LCD screens, a relatively new development in iodine applications. Iodine destined to this market increased by approximately 50% in 2004. Though iodine sales to this market constituted only approximately 3% of iodine sales volume in 2004, we expect that the demand for iodine for use in LCD screens may contribute significantly to the worldwide demand for iodine in the next few years.

During 2004, we slightly increased our market share of iodine and derivatives. We are currently expanding our iodine production capacity.

Full year average prices for iodine, excluding iodine salts that react somewhat slower to iodine pricing, increased by approximately US$1.9 per kilogram, or approximately 14%.

Lithium and derivatives

Revenues from sales of lithium and derivatives increased 26.0% to US$62.6 million in 2004 from US$49.7 in 2003. Set forth below are sales volume data.

		Year 2004	Year 2003	% Change
Lithium carbonate and derivatives	Th. Ton	31.2*	27.4	14%

* 2004 volumes have been restated to reflect a reclassification from lithium brines to lithium carbonate. Revenues were not affected by this change.

The increase both in revenues and sales volume was mainly due to the following:

- The increase in revenues in 2004 was mainly due to a strong increase in sales to the lithium ion battery market, continuing the trend of the previous two years. Lithium carbonate sales destined to this market accounted for approximately 20% of volume sales.
- Other important lithium carbonate markets were the Asia-Pacific markets, where uses related to infrastructure growth, such as glass, frits and air conditioning, have been growing at higher rates than the world economy growth.

- Our lithium hydroxide sales grew in volume by approximately 20% during 2004, as a consequence of the increased global demand for lithium-based lubricating greases.

- Pricing conditions also improved in 2004. The average increase in lithium carbonate sales prices was approximately 8% during 2004. Similarly, lithium hydroxide sales prices increased by approximately 10% during the year 2004.

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Industrial Chemicals

Revenues from sales of industrial chemicals decreased by 3.4% to US$73.1 million in 2004 from US$73.7 million in 2003. Set forth below are sales volume data by product category.

		Year 2004(1)	Year 2003	% Change
Industrial nitrates	Th. Ton	192.9	193.2	0%
Sodium sulfate	Th. Ton	29.9	54.2	-45%
Boric acid	Th. Ton	6.1	10.7	-43%

(1) 2004 figures have been restated to reflect a reclassification affecting Industrial nitrates. Products that used to be included under Specialty Plant Nutrition were relocated to reflect their industrial status. 2004 boric acid volumes have been restated to reflect a reclassification from Industrial Chemicals to Specialty Plant Nutrition. Revenues were also reclassified.

The decrease in revenues from sales of industrial chemicals in 2004 was mainly due to the following:

- Industrial nitrates have seen a slight reduction in sales volumes, mainly in Asia, due to high logistical costs and low prices. Despite a decrease in volumes of industrial nitrates, an increase by approximately 10% in industrial nitrates prices allowed us to obtain higher revenues for this product.

- The significant decrease in sodium sulfate and boric acid sales was due to lower production. Prices for these two product lines have increased on average by approximately 7% due to increased demand for raw materials in the pulp and paper and detergent industries.

- World demand for industrial chemicals is growing at a moderate pace of 2%, mainly driven by increased mining activity and infrastructure development.

Other Products

Revenues from other products were US$115.5 million, including US$37.2 million from potassium chloride and US$78.3 million from commodity fertilizers.

Total revenues from other products decreased 4.6% from US$121.0 million in 2003.

Potassium Chloride revenues decreased by 7.1% to US$37.2 million in 2004 from US$40.0 million in 2003.

		Year 2004	Year 2003	% Change
Potassium Chloride	Th. Ton	211.9	284.1	-25%

As sales of potassium chloride are directly related to its consumption as raw material in the production of potassium nitrate, the 25% decrease in third party sales volumes was mainly due to the increase in its use in potassium nitrate production. The significant increase in prices partially offset this decrease.

Sales of commodity fertilizers remained relatively constant during the year, reaching US$78.3 million compared to the US$81.0 million in 2003.

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Cost of Sales

Cost of sales during 2004 was approximately US$608.7 million, an increase of 9.9% compared to the US$554.0 million recorded during 2003. Cost of sales consists primarily of production related expenses, depreciation, raw material costs, logistics expenses and the cost of imported fertilizers and blends used both for resale and in the production of other products. As a percentage of revenues, cost of sales were 77.2% in the year 2004 compared to 80.1% in 2003.

The higher costs of sales in 2004 reflect the increased trading of commodity and specialty fertilizers as well as the trading of lithium hydroxide. We expect to replace the trading of certain specialty fertilizers and lithium hydroxide with our own production within the next few years, increasing the gross margin derived from those operations.

The main factors affecting our costs of sales were the following:

- Logistics costs increased by approximately 15% due to a worldwide low shipping capacity in the world and higher oil prices;

- The Chilean peso strengthened against the U.S. dollar by approximately 13% on average (calculated as the percentage change between the average exchange rates for the years 2004 and 2003), thereby increasing the U.S. dollar amount of our costs denominated in Chilean pesos, mainly salaries and certain local contracts;

- Natural gas shortages, extending through a period of approximately six weeks in 2004, increased our operation costs because we had to replace the natural gas with higher cost diesel.

Gross Profit

As a result of the factors described above, gross profit increased 30.4% to US$179.8 million in 2004 from US$137.8 million in 2003.

Selling and Administrative Expenses

Selling and administrative expenses (SG&A) were US$55.7 million (7.1% of revenues) in 2004 compared to US$50.6 million (7.3% of revenues) in 2003. The decrease of SG&A as a percentage of sales responds to our efforts to optimize the use of our sales affiliates, especially those acquired during 2003, SQM Mexico and Mineag.

Operating Income

As a result of the factors described above, operating income increased 42.3% to US$124.1 million in 2004 from US$87.2 million in 2003.

Non-Operating Results (net)

The principal components of our non-operating results were as follows:

	Year ended December 31,	
	2004	**2003**
	(in millions of US$)	

Net Financial income (expense) (1)	-15.1	-18.8
Exchange gain (loss)	-0.5	6.6
Others	-1.9	-8.9
Total Non-Operating	**-17.6**	**-21.2**

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During 2004, we had non-operating expenses of US$17.6 million, 17% lower than the US$21.2 million of expenses in 2003. The main reasons for this reduction in non-operating expenses were:

- On August 18, 2004, we sold our 14.05% stake in Empresas Melón at a public auction carried out on the Santiago Stock Exchange. We recorded a pretax profit of approximately US$8.2 million. This non-core asset had been held by us since 1998 when we sold our cement project to Empresas Melón. The sale of our investment in Empresas Melón is consistent with our strategy to focus on our core businesses.

- Net financial expenses decreased from US$(21.0) million in 2003 to US$(16.8) million in 2004. The Company reduced its net financial debt by approximately US$106.7 million, partly as a result of the sale of our stake in Empresas Melón S.A.

- Partially offsetting the positive effects of the foregoing, during 2003 we recorded exchange gains of approximately US$6.6 million, whereas during 2004 we recorded exchange losses of approximately US$0.5 million.

Income Taxes

In 2004 income taxes were US$27.3 million, resulting in an effective consolidated tax rate of 25.6%, compared to income taxes of US$16.0 million and an effective consolidated tax rate of 24.3% in 2003. In accordance with Chilean law, SQM and each of its chilean subsidiaries compute and pay taxes on an individual basis, not on a consolidated basis. We had tax loss carry-forwards of US$198.2 million at December 31, 2004, the majority of which have no expiration dates and are expected to be utilized in the future.

The corporate income tax rates in Chile were 17 % and 16.5% for 2004 and 2003 respectively.

The 71% increase in income taxes is mainly due to the increase in our net profits.

For a more detailed analysis of the company's income and deferred taxes see Note 13 to the Consolidated Financial Statements

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Foreign Exchange Rates - Inflation

We transact a significant portion of our business in U.S. dollars, and the U.S. dollar is the currency of the primary economic environment in which we operate and our functional currency for financial statement reporting purposes. A significant portion of our operating costs is related to the Chilean peso, therefore an increase or decrease in the exchange rate between the Chilean peso and the U.S. dollar affects our costs of production. Additionally, as an international company operating in Chile and several other countries, we transact a portion of our business and have assets and liabilities in Chilean pesos and other non-dollar currencies, such as the Euro, the South African Rand and the Mexican Peso. As a result, fluctuations in the exchange rate of such local currencies to the U.S. dollar affect our financial condition and results of operations.

The following is a summary of the aggregate net monetary assets and liabilities that are subject to foreign exchange gain or loss by currency at December 31, 2005 and 2004:

	2005 Th US$	2004 Th US$
Chilean pesos	53,167	66,980
Brazilian real	(941)	(448)
Euro	19,373	20,069
Japanese yen	6,333	3,693
Mexican pesos	8,101	(2,770)
South African rand	7,529	7,074
Dirhams	11,543	
Other currencies	3,282	2,224

We monitor and attempt to maintain our non-dollar assets and liabilities position in balance and make use of foreign exchange contracts and other hedging instruments to try to minimize our exposure to the risks of changes in foreign exchange rates. As of December 31, 2005, for this purpose we had open forward exchange contracts and options to buy U.S. dollars and sell foreign currency for approximately Euros 26 million (US$30.6 million), South African Rands 50 million (US$ 7.9 million) and Mexican Pesos 60 million (US$5.6 million).

The net impact of price level adjustments to non-monetary assets and liabilities and equity for those subsidiaries that maintain their accounting records in Chilean pesos is presented in the Chilean GAAP financial statements as part of the net foreign exchange gains and losses and is affected by the level of inflation in Chile. Although other income statement accounts are not affected by monetary correction adjustments, operating expenses that are denominated in UF or are linked to inflation in some manner increase their U.S. dollar values in the same way inflation increases (considering that the exchange rate remains unchanged).

The prospects and results of operations of SQM could be adversely affected by changes in policies of the Chilean government, other political developments in or affecting Chile, and regulatory and legal changes or administrative practices of Chilean authorities, over which we have no control.

U.S. GAAP Reconciliation

This discussion on our operating and financial results and condition presented above is based on our primary financial statements prepared in accordance with Chilean GAAP. Chilean GAAP differs significantly in certain aspects from U. S. GAAP. The principal differences between Chilean GAAP and U.S. GAAP as they relate to our Company are (i) the elimination of the effects of reappraisal of property, plant and equipment undertaken in 1988, (ii) the effects of

elimination of monetary correction (price-level restatement) and conversion of financial statements of subsidiaries that keep their accounting records in currencies other than U.S. dollars, (iii) the accounting for derivative contracts, (iv) the treatment of the investment in Empresas Melón S.A., (v) the treatment of companies in development stage, (vi) the accounting for staff severance indemnities, (vii) tratament of goodwill, and (viii) the elimination of deferred tax complementary accounts. For further details of these differences between Chilean GAAP and U.S. GAAP, see Note 29 to the Consolidated Financial Statements.

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Net income under U.S. GAAP for 2005, 2004 and 2003 was US$125.2 million, US$86.8 million and US$57.8 million, respectively, compared to that reported under Chilean GAAP of US$113.5 million, US$74.2 million and US$46.8 million, respectively.

Total shareholders' equity under U.S. GAAP at December 31, 2005 and 2004 was US$923.4 million and US$856.9 million, respectively, compared to that reported under Chilean GAAP of US$1,020.4 million and US$948.6 million, respectively.

5.B. Liquidity and Capital Resources

We operate a capital-intensive business that requires significant investments in revenue-generating assets. Our growth strategy has included the purchase of production facilities and equipment and has also entailed the improvement and expansion of existing facilities. Funds for capital expenditures and working capital requirements have been obtained from net cash provided by operating activities, corporate borrowing under credit facilities and issuance of debt securities.

The current ratio (current assets divided by current liabilities) decreased from 4.4 as of December 31, 2004 to 1.7 as of December 31, 2005, primarily due to an increase in short-term borrowings and the reclassification from long-term to short-term of the US$200 million debt to be repaid in September 2006.

As of December 31, 2005, we had total debt (short-term borrowings, current portion of long-term bank debt and long-term bank debt) of US$390.9 million, as compared to total debt of US$213.6 million as of December 31, 2004. Of the total debt of US$390.9 million at December 31, 2005, US$289.9 million was short-term debt plus the current portion of long-term bank debt. All of our long-term bank debt (including the current portion) as of December 31, 2005 was denominated in U.S. dollars. The following table sets forth the maturities of our long-term bank debt as of December 31, 2005:

Years	**Amount** (millions of US$)
2006	200.0
2010	100.0

We borrowed US$200 million in September 1996, which is due in September 2006 and bears interest at a fixed rate of 7.7%.

In February 2005, our wholly-owned Aruban subsidiary, Royal Seed Trading Corporation A.V.V., entered into a loan agreement with Banco BBVA to refinance future debt maturities and part of the capital expenditures program. The 5-year loan is for US$100 million and bears interest at an initial rate of Libor + 0.325%. SQM is guarantor of the borrower’s obligations under the loan agreement. The financial covenants include: (i) minimum net worth, (ii) limitation on net financial debt to EBITDA ratio on a consolidated basis, and (iii) limitation on interest indebtedness of operating subsidiaries.

In January 2006 we issued a Chilean bond at a re-offer yield 4.18% in UF, for a nominal amount of UF3 million (approximately US$102.6 million), due 2026, amortizing on a semi-annual basis from year 2 onwards. The principal and interest payable on the bond are fully hedged in U.S. dollars for both principal and interest (approximately 5.4%). The financial covenants include: (i) limitation on the ratio of total liabilities to equity (including minority interest) on a consolidated basis, and (ii) limitation on the ratio of total liabilities to equity (including minority interest) on an

individual basis.

In April 2006 we issued in the US market a bond of US$ 200 million with an annual interest rate of 6.125%. The interest will be paid semi-annually and the capital will be paid in a single amortization during April, 2016. This amount will be used by SQM to refinance existing indebtedness at maturity in September 2006.

We believe that the terms and conditions of our debt agreements are standard and customary and that we are in compliance in all material respects with such terms and conditions.

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As of December 31, 2005, we had US$148.0 million of cash and cash equivalents, including marketable securities. In addition, as of December 31, 2005, we had unused uncommitted credit lines amounting to approximately US$469 million.

Shareholders' equity increased from US$948.6 million in 2004 to US$1,020.4 million in 2005. Our ratio of total liabilities to equity (including minority interest) increased from 0.44:1 in December 31, 2004 to 0.61:1 as of December 31, 2005 due to the increase in our consolidated debt.

Our capital expenditures in 2005, defined as net cash used in investing activities, amounted to US$188.8 million (excluding the acquisition of Kefco in Dubai described in "Business-Capital Expenditure Program").

For 2006, we expect total capital expenditures of approximately US$210 million, plus the acquisition of DSM's iodine business for US$72.0 million. We have currently budgeted capital expenditures of a total of US$260 million for 2007 and 2008 that can be increased depending on market conditions.

Our other major use of funds is the payment of dividends. Our current dividend policy, as adopted by the shareholders' meeting, is to pay 65% of our net income for each fiscal year in dividends. Under Chilean law, the minimum dividend payout is 30% of net income for each fiscal year.

For a description of the items included in our capital expenditures in previous years as well as future plans, see Item 4. Information on the Company—Capital expenditure program.

We evaluate from time to time our cash requirements to fund capital expenditures, dividend payouts and increases in working capital. If we find that resources coming from our internally generated cash flows (including depreciation and retained earnings) will not be enough, we evaluate and choose the best financial alternative available for the company. As debt requirements also depend on the increase or decrease of accounts receivables and inventories, we cannot accurately determine the amount of debt we will require, but we believe that cash flow generated by internal operations, cash balances and available credit lines, will enable us to meet our working capital, capital expenditure and debt services requirements for 2006, 2007 and 2008.

Pension Plan

Our wholly owned subsidiary SQM North America Corporation has a defined benefit, noncontributory pension plan covering substantially all employees who qualify as to age and length of service. Plan benefits are based on years of service and the employee's highest five-year average compensation during the last ten years of employment. The plan's assets consist primarily of equity mutual funds and group annuity contracts. Assumptions used in determining the actuarial present value of the projected benefit obligation as of December 31 are as follows:

	2005	**2004**
Weighted-average discount rate	7.5%	7.5.%
Rate of increase in compensation levels	0.0%	0.0%
Cost of living	2.5%	2.5%
Long-term rate of return on plan assets	8.5%	8.5%

For further discussion see Note 29 Differences between Chilean and United States Generally Accepted Accounting Principles—II.m) Post retirement obligations and staff severance indemnities.

Environmental Projects

In 2006 we plan to make disbursements amounting to US$5.3 million related to environmental projects. This amout forms part of capital expenditure program discussed above. Regarding the María Elena Project as well as our other major environmental projects see Item 4. Information on the Company—Environmental Regulations.

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5.C. Research and Development, Patents and Licenses, etc

One of the main objectives of our Research and Development team consists of developing new processes and products in order to maximize the returns obtained from the resources that we exploit. The areas of research cover topics such as chemical process design, phase chemistry, chemical analysis methodologies and physical properties of finished products. This unit, which reports to VP of Technology, provides technical advice to productive, quality and commercial areas.

Our research and development activities are conducted principally at our Antofagasta Research and Development Center. The center has a total staff of 41 people, including seven Ph.Ds, three MScs, and three professionals in the fields of engineering and chemistry conducting research on various projects. Our research and development policy emphasizes the following: (i) optimization of current processes in order to decrease costs and improve product quality through the implementation of new technology, (ii) development of higher-margin products from current products through vertical integration or different product specifications, (iii) development of new products.

Our research and development activities have been instrumental in improving our production processes and developing new value added products. As a result of research and development activities new methods of extraction and finishing have been developed, including methods for heap leaching nitrates and a method to produce mono-granular blends of fertilizers that permit the incorporation of different nutrients (including micro-nutrients) into one grain. In recent years, we have also been focusing on the development of processes for lithium compounds coming out of the brines from the Atacama Salar.

We have patented several production processes for nitrate, iodine, and lithium products. These patents have been filed mainly in the U.S. and Chile, and other countries when necessary.

For the years ended December 31, 2005, 2004, and 2003, we spent approximately US$ 2.4 million, US$1.8 million and US$1.4 million respectively, on research and development activities.

5.D. Trend Information

In 2005, iodine prices continued to increase following the positive trend of the previous year. We expect this trend to continue during 2006 due to sustained growth in demand accompanied by the relative equilibrium between production and demand. Additionally, we expect higher sales volume due to the acquisition of DSM’s iodine business in January 2006.

We expect the increased demand for lithium carbonate observed in the past years to continue. Demand is mostly driven by lithium batteries. Further price increases are forecasted during 2006. We are restrained, however, from increasing our sales volume due to the Company’s production capacity constraint.

Potassium nitrate and sodium potassium nitrate sales volumes slightly decreased during 2005 compared with 2004. However, prices increased during 2005, and we expect higher average prices during 2006.

During 2005, production costs were higher than 2004, mainly due to the higher cost of energy and raw materials, together with the increase in maintenance and depreciation costs. Additionally, since a significant portion of our costs is related to the Chilean peso, production costs were negatively affected by the appreciation of the Chilean peso. Considering the current energy market and exchange rate expectations, we expect that 2006 production costs will be higher than in 2005.

5.E. Off-Balance Sheet Arrangements

We have not entered into any transactions with unconsolidated entities whereby we have financial guarantees, retained or contingent interests in transferred assets, derivative instruments or other contingent arrangements that would expose us to material continuing risks, contingent liabilities, or any other obligation arising out of a variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to us or that engages in leasing, hedging or research and development services with us.

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5.F. Tabular Disclosure Of Contractual Obligations

The following table sets forth our material expected obligations and commitments as of December 31, 2005:

	Total ThUS$	Less Than 1 year ThUS$	1 - 3 years ThUS$	3 - 5 years ThUS$	More Than 5 years ThUS$
Long- and Short-Term Debt	389,902	289,902	—	100,000	—
Capital lease obligations	1,249	184	416	490	159
Operating leases	98,630	3,945	7,890	7,890	78,905
Purchase commitments	64,046	64,046	—	—	—
Staff severance indemnities	16,415	—	—	—	16,415
Total Contractual Obligations and Commitments	**570,242**	**358,077**	**8,306**	**108,380**	**95,479**

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ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A. Directors And Senior Management

We are managed by our executive officers under the direction of our Board, which, in accordance with the Company's By-laws, consists of eight directors who are elected at the annual ordinary shareholders' meeting. The Board consists of seven members elected by shareholders of the Series A shares, and one member elected by shareholders of the Series B shares. The entire Board of Directors is regularly elected every three years at our ordinary shareholders meeting. Cumulative voting is allowed for the election of directors. The current members of the Board of Directors were elected on April 29, 2005 and their terms expire in 2008. The Board of Directors may appoint replacements to fill any vacancies that occur during periods between elections. If a vacancy occurs, the entire Board must be elected or re-elected at the next regularly scheduled meeting of shareholders. Our Chief Executive Officer is appointed by the Board of Directors and holds office at the discretion of the Board. The Chief Executive Officer appoints our executive officers. There are regularly scheduled meetings of the Board of Directors once a month. Extraordinary meeting may be called by the Chairman when requested by (i) the director elected by holders of the Series B shares, (ii) any other director with the assent of the Chairman or (iii) an absolute majority of all directors. The Board has a Directors' Committee and its regulations are discussed below.

Our directors and executive officers as of June 20, 2006 are as follows:

Directors Name	**Position**	**Current position held since**
Julio Ponce L. (1)	Chairman of the Board and Director *Mr. Ponce is a Forestry Engineer from the Universidad de Chile. He joined the Company in 1981. He is also Chairman of the Board of the following corporations: Sociedad de Inversiones Pampa Calichera S.A., Sociedad de Inversiones Oro Blanco S.A., Norte Grande S.A. and Soquimich Comercial S.A. He is the brother of Luis Eugenio Ponce.*	September 1987
Wayne R. Brownlee	Vice Chairman of the Board and Director *Mr. Brownlee is Executive Vice-President, Treasurer and Chief Financial Officer of Potash Corporation of Saskatchewan, Inc. Mr. Brownlee earned degrees in Science and Business Administration from the University of Saskatchewan. He is on the Board of Great Western Brewing Company as well as PhilomBios, an agricultural biotechnology company. He became director at SQM on December 2001.*	May 2002
Hernán Büchi B.	Director *Mr. Büchi is a Civil Engineer from the Universidad de Chile. He served as Vice*	April 1993

Chairman of SQM's Board from January 2000 to April 2002. He is currently a Board member in Quiñenco S.A., P y S S.A., Alto Palermo S.A., S.A.C.I. Falabella and Madeco S.A., among others.

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José María Eyzaguirre B.	Director *Mr. Eyzaguirre is a lawyer, partner of the Chilean law firm Claro y Cia. He obtained his law degree from the Universidad de Chile and was admitted to the Chilean Bar in 1985. In 1987, he obtained a Master's Degree from New York University School of Law. He was admitted to the New York Bar in 1988. He is also a member of the board of directors of Gasoducto del Pacífico S.A., a transandean gas pipeline, and Chairman of the Board of directors of Club de Golf Valle Escondido.*	December 2001
Daniel Yarur E. (2)	Director *Mr. Yarur is an Information Engineer from the Universidad de Chile and holds an MSc in Finance at the London School of Economics and an AMP at Harvard Business School. He is a member of the Board of Banco de Credito e Inversiones, Antofagasta P.L.C. (based in London), Antogasta Minerals and Invertec Pesquera Mar de Chiloe S.A. Mr Yarur was Chairman of the Chilean Securities and Exchange Commission from 1994 to 2000 and was also Chairman of the Council Organization of the Securities Regulators of America. He is also a Professor at the Faculty of Economic and Administrative Sciences, Universidad de Chile.*	April 2003
Wolf von Appen	Director *Mr. Von Appen is an entrepreneur. He is currently a Board member of Sociedad de Fomento Fabril and Vice president of Centro de Estudios Publicos.*	May 2005
José Antonio Silva B.	Director *Mr. Silva is a lawyer from the Pontificia Universidad Católica de Chile and holds a Master's Degree in law at Harvard Law School. Currently, he is Senior Partner of the Chilean law firm Silva, Rencoret, Schultz & Lehuedé Abogados. He is also a sustitute member of the board of directors of HQI Transelec Chile S.A. and Embotelladora*	December 2001

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Kendrick T. Wallace	Director *Mr. Wallace is a lawyer who graduated from Harvard Law School. He is now Senior Vice President and General Counsel of Yara International ASA in Oslo, Norway. Prior to the spin-off of Yara International ASA from Norsk Hydro ASA, he was the chief legal counsel of Norsk Hydro ASA for North and South America in Tampa, Florida. Before that he was a partner in the law firm of Bryan Cave LLP in Kansas City, Missouri. Mr. Wallace is a member of the Board of Directors of Adubos Trevo S.A. in Brasil, OAO Minudobreniya (Rossosh) in Russia and of a number of subsidiaries of Yara International ASA. He is also on the Board of Directors of Norte Grande S.A., Sociedad de Inversiones Oro Blanco S.A. and Sociedad de Inversiones Pampa Calichera S.A.*	December 2001

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Executive Officers Name	Position	Current position held since
Patricio Contesse G. (2)	Chief Executive Officer *Mr. Contesse is a Forestry Engineer from the Universidad de Chile. He joined the Company in 1981 as CEO, a position he held until 1982, and again in 1988. In the past, he was CEO of Celco Limitada, Schwager S.A. and Compañía de Aceros del Pacífico S.A. He has also served as Operations Senior Executive Vice President of Codelco Chile, President of Codelco USA and Executive President of Codelco Chile. Mr. Contesse is also a member of the Board of Soquimich Comercial.*	March 1990
Patricio de Solminihac T. (2)	Chief Operating Officer and Executive Vice President *Mr. de Solminihac is a Chemical Engineer from the Pontificia Universidad Católica de Chile and holds a Master in Business Administration from the University of Chicago. He joined the Company in 1988 as Business Development Vice President. In 1989, he became General Manager and later on he became Vice Chairman of the Board of SQM, a position he held from 1989 through January 2000. Mr. de Solminihac was Country Manager for Raychem Corporation. Currently he is a member of the Board of Empresas Melón S.A. and CEM. Mr. de Solminihac is also a member of the Board of Soquimich Comercial.*	January 2000
Matías Astaburuaga S. (2)	General Counsel *Mr. Astaburuaga is a lawyer from the Pontificia Universidad Católica de Chile. He joined the Company in 1989. Before that, he was Regional Counsel of The Coca Cola Export Corporation, Andean Region and Regional Counsel of American Life Insurance Company, Latin America Region.*	February 1989
Ricardo Ramos R. (2)	Chief Financial Officer and Business Development Senior Vice President	November 1994

Mr. Ramos is an Industrial Engineer from the Pontificia Universidad Católica de Chile. He joined SQM in 1989 as an advisor in the Finance area. In 1991, he moved to the Sales department, where he was in charge of the coordination between operations and sales. In 1993, he returned to the Finance department and became deputy CFO. Mr. Ramos is also a member of the Board of Soquimich Comercial.

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Jaime San Martín L. (2)	Mine Affairs and Internal Audit Senior Vice President *Mr. San Martín is a Transportation Engineer from the Pontificia Universidad Católica de Chile. He joined the Company in 1995 as Project Manager. He became Metallic Mining Development Manager in 1997, and Development Manager in 1998, Business Development and Mining Property Vice President in 1999 and Technical Senior Vice President in 2001.*	June 2005
Luis Eugenio Ponce L.	Corporate Commercial Senior Vice President *Mr. Ponce is a Mechanical Engineer from the Universidad Católica de Valparaíso. In 1981, he joined the Company as a Sales Manager. He became Commercial Manager in 1982, Commercial and Operations Manager in 1988 and Chief Executive Officer of SQM Nitratos S.A. in 1991. In the past he was member of the Board of IANSA. Currently he is a member of the board of Cerámicas Florencia S.A. Mr. Ponce is also a member of the Board of Soquimich Comercial. He is the brother of Julio Ponce.*	March 1999
Carlos Nakousi S. (2)	Salar-Lithium Operations Senior Vice President *Mr. Nakousi is an Industrial Engineer from the Pontificia Universidad Católica de Chile and a Harvard Business School alumni, after completing the Advanced Management Program in 2002. He joined the Company in 1989 as Head of Process Development. He became Deputy Development Manager in 1993, Development Manager of SQM Salar S.A. in 1995, Senior Vice President Salar Operations of SQM in 1999 and Operations Senior Vice President in 2003*	May 2003
Camila Merino C. (2)	Human Resources and Administration Senior Vice President Senior Vice President *Mrs. Merino is an Industrial Engineer from the Pontificia Universidad Católica de Chile and holds a Master in Business Administration degree from the Sloan School of Management at MIT. She joined the Company in 1991, and after a two-year*	March 2001

period at MIT, she re-joined the Company in 1998 as Nitrates Operations Manager. In the same year she became Finance and Administration Manager of SQM Nitratos S.A. and later on, in 1999, Corporate Services Manager.

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Mauricio Cabello.	Nitrates-Iodine Operations Senior Vice President *Mr. Cabello is a Mechanical Engineer from the Universidad de Santiago de Chile. He joined the Company in 2000 as Maintenance Superintendent of SQM Salar. He became Maintenance Manager of SQM Nitratos-Yodo in 2002 and Production Manager of SQM Nitratos-Yodo in 2004. He previously worked in various engineering-related positions in Pesquera San José S.A., Pesquera Coloso S.A. and Cintac S.A.*	June 2005
Pauline de Vidts S. (2)	Safety, Health & Environment and Technology Senior Vice President *Mrs. De Vidts is an Industrial Engineer from the Pontificia Universidad Católica de Chile and holds a Ph.D. in Chemical Engineering from Texas A&M University. She joined the company in 1996 to work in process development for the Salar de Atacama Operations, becoming Development Manager for this operations in 1998, and later on, in 2001, she became Corporate R&D and Environmental Issues Vice President.*	June 2005

(1) Mr. Julio Ponce's ownership interest in SQM is explained in Item 6.E. Share Ownership.

(2) The individual beneficially owns less than one percent of the Company's shares.

6.B. Compensation

Directors are paid a monthly fee (UF 300 to the Chairman and UF 50 to each of the remaining seven Directors), which is independent of the number of Board sessions held per month. In addition, the Directors receive additional compensation (in Chilean pesos) each year based on a profit-sharing program approved by the shareholders in an amount equal to 0.65% of the net income (after amortization of negative goodwill) for the Chairman of the Board and of 0.65% of the net income (after amortization of negative goodwill) for the remaining seven Directors, divided equally among those Directors. Profit-sharing payments are paid in the year following the fiscal year in respect of which they are earned.

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During 2005, the total compensation paid to each of our directors under the foregoing was as follows:

	Total per subsidiaries Ch$				Annual Total Ch$
	SQM S.A.		SQMC		
Name	Meeting	Committee	Meeting	Committee	
Ponce Lerou, Julio	343,650,861		63,194,463		406,845,324
Büchi Buc, Hernán	50,597,279				50,597,279
Brownlee, Wayne R.	50,597,279	10,530,061			61,127,340
Eyzaguirre, José María	50,597,279				50,597,279
Silva, José Antonio	50,597,279	10,530,061			61,127,340
Wallace, Kendrick T.	50,597,279				50,597,279
Yarur, Daniel	50,597,279	8,804,534			59,401,813
Von Appen Wolf	7,081,298				7,081,298
Milstein, Avi (1)	40,931,363	864,145			41,795,508
Total	**695,247,196**	**30,728,801**	**63,194,463**	**0**	**789,170,460**

(1) On January 18, 2005 Mr. Avi Milstein presented his resignation to the Board of Directors.

For the year ended December 31, 2005, the aggregate compensation paid to our 82 main executives based in Chile was app