CHEMICAL & MINING CO OF CHILE INC
Form 20-F
June 30, 2004

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United States
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

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 & 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 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 which financial statement item the registrant has elected to follow.

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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*) organized under the laws of the Republic of Chile, and its consolidated subsidiaries.

Our fiscal year ends on December 31st.

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.

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 (56-2-425 2000), facsimile (56-2-425 2493) and e-mail (ir@sqm.cl).

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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:

(a) the Company's capital investment program and development of new products,
(b) trends affecting the Company's financial condition or results of operations,
(c) the future impact of competition,
(d) any statements preceded by, followed by or that include the words "believe," "expect," "predict," "anticipate," "intend," "estimate," "should," "may", "could" or similar expressions; and
(e) 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, and 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:

i) SQM's ability to implement its capital expenditures, including its ability to arrange financing when required;
ii) the nature and extent of future competition in SQM's principal markets;
iii) political, economic and demographic developments in the emerging market countries of Latin America and Asia where SQM conducts a large portion of its business;
iv) and the factors discussed below under "Risk Factors" beginning on page 8.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

ITEM 3. KEY INFORMATION

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 for each year in the five-year period ended December 31, 2003. The Company's Consolidated Financial Statements are prepared in accordance with Chilean GAAP, which differs in certain material respects from U.S. GAAP. Note 27to the Consolidated Financial Statements for December 31, 2003 provides a description of the principal differences between Chilean GAAP and U.S. GAAP and a reconciliation to U.S. GAAP of net income and total shareholders equity as of and for the years ended December 31, 2003, 2002 and 2001.

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	Year ended December 31				
Income Statement Data:	**1999**	**2000**	**2001**	**2002**	**2003**
			(In millions of US$) (1)		
Chilean GAAP					
Total Revenues	493.7	501.8	526.4	553.8	691.8
Operating Income	83.0	67.3	73.7	82.7	87.3
Non-operating results, net	(28.4)	(32.8)	(29.2)	(30.0)	(21.2)
Net income	48.1	27.1	30.1	40.2	46.8
Net earnings per share (2)	0.19	0.10	0.11	0.15	0.18
Net earnings per ADS (2)	1.85	1.03	1.14	1.53	1.78
Dividend per share (3)(4)	0.091	0.051	0.056	0.076	0.08
Weighted average shares					
Outstanding (000s) (2)	258,683	263,197	263,197	263,197	263,197
U.S. GAAP (4)					
Total Revenues	493.8	501.8	526.4	553.8	691.8
Operating Income	87.5	71.5	74.6	86.4	76.4
Non-operating results, net	(33.3)	(38.7)	(40.9)	(24.8)	(1.9)
Effect of change in accounting principles	□	□	□	0.5	□
Net income	41.0	24.6	24.4	46.9	57.8
Basic and diluted earnings per share	0.16	0.09	0.09	0.18	0.22
Basic and diluted earnings per ADS	1.59	0.94	0.93	1.78	2.19
Weighted average shares					
Outstanding (000s)	258,683	263,197	263,197	263,197	263,197
Balance Sheet Data:					
Chilean GAAP:					
Total assets	1,426.1	1,402.3	1,413.4	1,322.3	1,363.5
Long-term debt	405.9	400.0	412.0	324.0	260.0
Total shareholders' equity	824.4	824.1	831.7	849.7	890.0
Capital Stock	477.4	477.4	477.4	477.4	477.4
U.S. GAAP					
Total assets	1,373.6	1,327.8	1,354.8	1,274.6	1,319.4
Long-term debt	403.0	400.0	412.0	324.00	260.0
Total shareholders' equity	713.9	712.3	721.4	747.3	794.7
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 27 to the Consolidated Financial Statements of December 31, 2003.
(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 258,683 thousand shares outstanding for the period ended December 31, 1999 and based on 263,197 thousand shares for the periods ended December 31, 2000, 2001, 2002 and 2003.

(4) Dividends may only be paid from net income before amortization of negative goodwill as determined in accordance with Chilean GAAP; therefore dividends per share have not been calculated under U.S. GAAP.

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EXCHANGE RATES

Prior to 1989, Chilean law authorized the purchase and sale of foreign exchange only in those cases explicitly authorized by the Central Bank of Chile, the "Central Bank". The *Ley Orgánica Constitucional del Banco Central de Chile No. 18,840*, the Central Bank Law, enacted in 1989, liberalized the rules that govern the ability to buy and sell foreign exchange.

The Central Bank Law now provides that the Central Bank may determine that certain purchases and sales of foreign exchange specified by law must be carried out exclusively in the Formal Exchange Market. The Formal Exchange Market is formed by the banks and other entities authorized by the Central Bank. All payments and distributions with respect to the New ADSs described herein must be transacted exclusively in the Formal Exchange Market.

For the purposes of the operation of the Formal Exchange Market, the Central Bank sets a reference exchange rate (*dólar acuerdo*), the "Reference Exchange Rate". The Reference Exchange Rate is determined daily by the Central Bank, taking into account internal and external inflation and is adjusted daily to reflect variation in parities between the Chilean peso and each of the U.S. dollar, the Japanese yen and the euro. The purpose of the Reference Exchange Rate is to establish the range of spot market exchange rates at which transactions may occur, while the Observed Exchange Rate is the average exchange rate at which transactions are actually carried out in the Formal Exchange Market on a particular day. Authorized transactions by banks are generally conducted within a certain band above or below the Reference Exchange Rate. In January 1992, the Central Bank reduced the Reference Exchange Rate by 5% and widened the band for transactions in the Formal Exchange Market from 5% to 10%. In November 1994, the Central Bank reduced the Reference Exchange Rate by approximately 10%. In November 1995, the Central Bank reduced the Reference Exchange Rate by approximately 2%. In January 1997, the Central Bank widened the band for transactions in the Formal Exchange Market to 12.5%. In June 1998, the Central Bank narrowed the band for transactions in the Formal Exchange Market to 3.5% in the case of purchases and 2% in the case of sales. In September 1998, the Central Bank widened the band for transactions in the Formal Exchange Market to 3.5% in the case of sales and introduced a formula on which the band increases daily by a fixed amount. In December 1998, the Central Bank widened the band for transactions in the Formal Exchange Market to 8% and maintained the formula for the expansion of the band introduced in September 1998. In January 1999, the Central Bank replaced the German mark with the euro in its formula to determine the Reference Exchange Rate. In September 1999, the Central Bank decided to suspend its formal commitment to the band, but agreed to intervene in the market by buying or selling foreign exchange on the Formal Exchange Market only in exceptional cases.

The Central Bank is authorized to carry out its transactions at the Reference Exchange Rate and at the spot market rate. It generally carries out its transactions at the spot market rate. However, when commercial banks request to buy dollars from the Central Bank or request to sell dollars to the Central Bank, the Central Bank is authorized to apply an increase in the rate with respect to the Reference Exchange Rate for its sales or a decrease in the rate with respect to the Reference Exchange Rate. Authorized transactions by banks are generally transacted at the spot market rate.

Purchases and sales of foreign exchange that may be carried out outside the Formal Exchange Market can be carried out in the Informal Exchange Market, which is a recognized currency market in Chile. The Informal Exchange Market and its predecessor, the "Unofficial Market," reflect the supply and demand for foreign currency. 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. Since 1992, the difference between the Formal Exchange Market and the Informal Exchange Market has narrowed, particularly as a result of measures taken to liberalize the Formal Exchange Market during 1996 and 1997.

The following table sets forth, for the periods and dates indicated, certain information concerning the Observed Exchange Rate reported by the Central Bank. No representation is made that the Chilean peso or U.S. dollar amounts referred to in this prospectus could have been or could be converted into U.S. dollars or Chilean pesos, as the case may be, at the rates indicated or at any other rate. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

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On June 18, 2004, the Observed Exchange Rate was Ch$648.16 = US$1.00.

	Observed Exchange Rate (1)			
Year/Month	**Low (1)**	**High (1)**	**Average (2)(3)**	**Year/Month End**
			Ch$ per US$	
1994	397.87	433.69	418.86	402.92
1995	368.75	418.98	397.83	406.91
1996	402.25	424.97	413.84	424.87
1997	411.85	439.81	420.64	439.18
1998	439.18	475.41	462.20	472.41
1999	468.69	550.93	512.85	530.07
2000	501.04	580.37	542.08	573.65
2001	557.13	716.62	634.76	654.79
2002	641.75	756.56	692.32	718.61
2003	593.10	758.21	686.89	593.80
December 2003	593.10	621.27	602.90	593.80
January 2004	559.21	596.78	573.64	591.42
February 2004	571.35	598.60	584.31	592.87
March 2004	588.04	623.21	603.91	616.41
April 2004	596.61	624.84	608.19	624.98
May 2004	622.25	644.42	635.76	636.02

(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.
Source: Central Bank of Chile

CAPITALIZATION AND INDEBTEDNESS

Not applicable

REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable

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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 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 Related 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 2003, approximately 49% of our sales were made to emerging market countries in Latin America (including Chile) and Asia, and 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 the Company establishes operations can be expected to be dependent, in part, on the general level of political stability and economic activity and policies in those countries. Although certain countries in Latin America and other emerging markets have experienced substantial improvement in their economies in the past decade, which has resulted in increased political stability, overall increased economic growth, lower inflation rates and revitalized economies, during the past 5 years these areas have been affected by a series of global and/or regional economic downturns. There can be no assurance that such progress, to the extent achieved, can be maintained or that further progress will be made. 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 or 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 the Company's sales or operations in those countries.

Volatility of world fertilizer and chemical prices and changes in production capacities could impact our operating margins

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 produced by SQM, varies principally depending upon the production of the few major producers (including SQM) and their respective business strategies.

In particular, world iodine prices declined from approximately U.S.$18.40 per kilogram for large purchases in early 1990 to less than U.S.$8.00 per kilogram for large purchases in June 1994. Then, price increased to approximately US$18 in 1999, and subsequently it began to diminish, reaching approximately US$12.5 during early 2003. Recently, prices have reverted the downward trend and have begun to increase. These variations are partly the result of SQM's and certain other producers' business strategies to take advantage of relatively lower production costs and to increase production at a rate greater than the increase in total demand so as to increase market shares.

Similarly, the Company started production of lithium carbonate from the Atacama Salar brines in October 1996 and started selling lithium carbonate commercially in January 1997. SQM's entrance into the market created an oversupply of lithium carbonate, resulting in a drop in prices from over U.S.$3,000 per ton before its entrance to less than U.S.$2,000 per ton. Currently, prices are slightly over U.S.$2,000 per ton.

We expect that prices for the products we manufacture will continue to be influenced by similar supply and demand factors and the business strategies of major producers, some of which (including SQM) have increased or have the ability to increase their production. As a result, the prices of the Company's 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 financial condition or results of operation.

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Currency fluctuations may have a negative effect on our financial results

The Chilean peso has been subject to large devaluations in the past and may be subject to significant fluctuations in the future. Our company transacts a significant portion of its business in U.S. dollars and the U.S. dollar is the currency of the primary economic environment in which we operate. Nevertheless, as an international company operating in Chile and several other countries, SQM transacts a portion of its business and has assets and liabilities in Chilean pesos and other non-dollar currencies. As a result, fluctuation in the exchange rate of such local currencies to the U.S. dollar may affect SQM's financial condition and results of operations.

To lessen these effects, we maintain forward contracts to protect most of the net difference between SQM's principal assets and liabilities, for currencies other than U.S. dollar, from fluctuations in exchange rates. These contracts are renewed monthly depending on the amounts in each currency that must be covered. Aside from this, we do not hedge potential future income and expenses in currencies other than the U.S. dollar with the exception of the Euro and the Chilean Peso. We estimate annual sales in Euro and secure the exchange difference with forward contracts.

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

The Company relies in certain raw materials to manufacture its products. Since raw materials (excluding caliche ore and salar brines) represent a significant part of our production costs (approximately 12.6%), to the extent we are unable to pass on increases in raw materials prices to our customers, our financial results could be reduced. See "Item 4. Information on the Company – Raw Materials". Additionally, increases in ocean freight rates raise our cost to deliver to offshore customers that purchase our products with freight costs included.

Our reserves estimates could significantly vary

The mining reserves estimates included in "Item 4. Information on the Company – Property, Plants and Equipment" are prepared by our own personnel using geological methods. Estimation methods involve numerous uncertainties as to the quantity and quality of the reserves, and these could change, up or down. A downward change could affect future production and therefore impact the Company's financial condition or results of operations.

Pending lawsuits could adversely impact us

We are currently involved in pending lawsuits and arbitrages involving insurance claims and commercial matters that arise in the normal course of business. Although we intend to defend our position vigorously, our defense of these actions may not be successful. Any judgment in or settlement of these lawsuits may have a material adverse effect on our financial condition or results of operations. See Note 22 to the Consolidated Financial Statements.

Furthermore, our strategy of being a world leader includes carrying out commercial and productive 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.

Our business is subject to many operational and other risks for which we may not be fully covered in the 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 maintained by prudent and experienced persons engaged in a business or businesses similar to those of SQM. Nonetheless, we may be subject to certain catastrophic events, including fires, major equipment failures, natural disasters, accidents, terrorist acts, war, etc, that may not be fully included in the insurance policies, and that could affect our financial condition or results of operations.

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

As part of a cost reduction effort our Company interconnected its 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 purposes 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.

We suffered partial shortages during May and June 2004 and, even though natural gas flows are recovering, we are adopting the corresponding actions in the event of any further decrease in the natural gas supply. Our diverse industrial equipments that use natural gas may also operate on diesel and some of them after certain investments may also operate on fuel oil. Diesel s purchase price is higher than natural gas price while fuel oil price is lower than that of diesel and higher than natural gas price.

The greater costs we will incur as a result of potential additional decreases in the natural gas supply, will mostly depend on the volume of such a decrease and on the extension of the period which this decrease will last. Therefore, we cannot estimate the economic impact that additional natural gas supply reductions might have. Nevertheless, you should be aware that should Argentine crisis extend, we might be faced with increased natural gas costs that could have an effect on our results of operations. During 2003, purchases of natural gas represented approximately 1.5% of our total costs.

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

Even though we have not experienced any strikes in the past 10 years and believe our relationship with SQM employees to be good, due to the number of unions (see Item 6. Directors, Senior Management and Employees) it is possible that eventually we could not reach an agreement in the various labor negotiations we have to go through. We believe that inventory levels are sufficient to protect the Company in case of a labor strike but, should a strike extend for a long 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

Risks related to regulatory actions in 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 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. Exploitation concessions, which account for the majority of the mining rights held by SQM, including those applicable to all of our properties which are currently being mined, essentially grant a perpetual right to conduct mining operations in the areas covered by the concessions, provided that we pay annual concession fees. 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 is sufficient to meet current and anticipated operational requirements. We operate port facilities at Tocopilla, Chile, for the shipment of our products and 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.

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The Chilean Congress has been considering proposals to revise the laws governing water rights. Among the changes proposed are requirements that holders of water rights forfeit their rights unless the holders use such rights and that holders must demonstrate need for the water and pay annual fees for the use of water. We cannot forecast whether any such changes to the laws governing water rights, or any others that might eventually be considered, will be enacted and, if so, what the specific changes will be. Should any changes be enacted we could incur additional costs that might affect our financial condition or results of operations.

The Chilean Government is promoting changes in the Constitutional Mining Law to impose a royalty payment, which, if enacted, could make us incur additional costs that might affect our financial condition or results of operations.

Environmental laws and regulations could expose us to higher costs, liabilities and claims

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 and its related rules and regulations. Except for particulate matter levels exceeding permissible levels in Maria Elena facilites (see Item 4. Information on the Company Environmental Regulations) we are currently in compliance in all material respects with applicable environmental regulations in Chile.

Our mining and production processes do not produce harmful industrial wastes. 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. We anticipate that additional laws and regulations will be enacted over time with respect to environmental matters. While we believe that our company will continue to be in compliance with all applicable environmental regulations of which we are aware, there is a risk that future legislative or regulatory developments will impose material restrictions on SQM.

Furthermore, our worldwide operations are 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 SQMs financial condition or results of operations.

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. Even though this risk is limited, as of December 31, 2003, we had 23% of our long-term financial debt priced at Libor, and therefore significant increases in the rate could impact our financial condition.

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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.

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 in our share price.

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.

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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

HISTORY AND DEVELOPMENT OF THE COMPANY

Historical Background

SQM, headquartered at El Trovador 4285, Piso 6, Santiago, Chile, is an open stock corporation (*sociedad anónima*, *S.A.*) 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.

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 established in 1968 by Compañía Salitrera Anglo Lautaro S.A., "Anglo Lautaro", the largest privately owned Chilean company engaged in nitrate mining and Corporación de Fomento de la Producción, Corfo, the Chilean state-owned development corporation, as part of a plan to reorganize the Chilean nitrate industry. SQM acquired its then principal properties from Anglo Lautaro and Corfo. In 1971, Anglo Lautaro sold all of its shares of SQM to Corfo and SQM remained wholly owned by the Chilean government until 1983.

In 1983, Corfo began the privatization of SQM with the sale of our shares to the public and subsequent listing of such shares on the Bolsa de Comercio de Santiago Bolsa de Valores S.A., the Santiago Stock Exchange. In subsequent years, Corfo sold additional shares of SQM and, by 1988, all of our shares were owned privately. In September 1993, we established our American Depositary Receipt (ADR) program and, in connection with an international offering and a capital increase of approximately US$170 million, our shares were listed on the New York Stock Exchange as ADRs.

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 the north of Chile. During this period, this project demanded an investment of approximately US$300 million, which was used in the construction of a 500 thousand ton capacity potassium chloride plant, a 22 thousand ton capacity lithium carbonate plant, a 250 thousand ton capacity potassium sulfate plant and a 16 thousand ton capacity boric acid plant. The potassium chloride, lithium carbonate, potassium sulfate and boric acid plants are currently under operations.

The period from 2000 through 2003 have been years of consolidation of the investments carried out in the preceding 5 years. We have focused our efforts in reducing costs and on improving the efficiencies throughout our 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. 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. The biggest effort consisted in the development of the Atacama Salar project, which, with an original investment of approximately US$300 million, enabled SQM to reduce its costs significantly by supplying its own needs of potassium chloride for the production of potassium nitrate, and to introduce new products such as potassium chloride, lithium carbonate, boric acid and potassium sulfate. Other projects included ongoing renewal of our mining equipment, revamping of our iodine and nitrate production facilities, construction of new solar evaporation ponds, installation of new drilling equipment at our mines, acquisition of new mining trucks, construction of potassium nitrate facilities at Coya Sur, increasing nitrate production capacity with the start up of the Pampa Blanca project, construction of a butyl lithium plant in the U.S.A., increase in lithium carbonate production capacity, refurbishing of Nueva Victoria production facilities and construction of several soluble/NPK mixing plants.

SQM's capital expenditures in the 1999-2003 period were the following:

Expenditures (1)	***1999***	***2000***	***2001***	***2002***	***2003***
(in millions of US$)	73.7	63.2	49.7	58.8	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.

We have developed a Capital Expenditure Program, calling for expenditures totaling approximately US$350 million in the 2004-2006 period. The capital expenditure program includes investments with the purpose of maintaining and refurbishing existing facilities, reducing production costs, increasing production capacity and efficiency at existing facilities and developing new products and new markets.

For the year 2004, the capital expenditure program includes the construction of a lithium hydroxide facility in northern Chile and the acquisition of PCS Yumbes S.C.M., a subsidiary of Potash Corporation of Saskatchewan Inc. Pursuant to a certain Promise Agreement, we will execute this operation, involving approximately US$35 million, before year-end 2004.

Additionally, the capital expenditure program includes several projects oriented to increasing production capacities in our nitrate and iodine operations in Chile□s first and second regions. Included in the first stage of these projects, scheduled to last 3 years and involving an approximate amount of US$145 million, are: i) the development of a new mining sector at María Elena, ii) the increase in iodine production capacity at Nueva Victoria, and iii) the construction of new potassium nitrate facilities. With these projects, iodine and nitrate production capacity should increase by approximately 30%.

We believe that our capital expenditure program for the years 2004-2006 will be mainly financed with internally generated cash flow and financial debt.

We continuously review our capital expenditure program and revisions are made as appropriate. The capital expenditure program is subject to change from time to time due to changes in market conditions affecting the Company's products, general economic conditions in Chile and elsewhere, interest and inflation rates, competitive conditions and other factors.

We evaluate from time to time other opportunities to expand our business both within and outside of Chile and 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.

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BUSINESS OVERVIEW

The Company

SQM is the world's largest integrated producer of specialty fertilizers, iodine, lithium carbonate and a producer of certain industrial chemicals, including industrial nitrates. We sell our products in over 100 countries through our worldwide distribution network and derive approximately 77% of our revenues from exports. Our products are 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 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 contain the highest known 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 fertilizers 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 at a plant near the city of Antofagasta 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 fertilizers, iodine, lithium, industrial chemicals and other products. Specialty fertilizers are fertilizers that have certain characteristics that enable farmers to improve yields and quality of certain crops. Iodine, lithium and their derivatives are used in human nutrition, pharmaceuticals, polymers, and in the production of ceramics, aluminum, batteries and other industrial applications. 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. In addition, supported by our own distribution network, we are the largest importer and distributor of fertilizers in Chile.

During the year 2003, specialty fertilizers accounted for approximately 50% of the Company's revenues, iodine and iodine derivatives accounted for 12%, lithium carbonate and lithium derivatives accounted for 7%, industrial chemicals (industrial grade nitrates, sodium sulfate and boric acid) accounted for 11%, and other products (mainly imported fertilizers distributed in Chile and Mexico, and potash sold to third parties) accounted for 20% of revenues.

Specialty Fertilizers: We produce five principal types of specialty fertilizers: sodium nitrate, potassium nitrate, sodium potassium nitrate, potassium sulfate and specialty blends. All of these specialty fertilizers are used in either solid or liquid form mainly in high value crops such as tobacco, fruits, vegetables, cereals and cotton and are widely used in crops that employ modern agricultural techniques such as hydroponics, greenhousing and fertigation. Specialty fertilizers have certain advantages over commodity fertilizers like 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 a plant nutrients solutions adding value to the 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 fertilizers enable our customers to achieve higher yields and better quality crops. Accordingly, specialty fertilizers 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 the manufacture of Li ion batteries, frits for the ceramics and enamel industries, specialty glass, primary aluminum, air conditioning chemicals, pharmaceuticals, and lithium derivatives. Since 2000 we have taken an active role in the production of lithium hydroxide, used primarily in the lubricating grease industry. We have recently started up our butyl lithium production, product aimed primarily at the synthetic rubber and pharmaceutical industries.

Industrial Chemicals: We produce five industrial chemicals: sodium nitrate, potassium nitrate, sodium sulfate, 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 CRT tubes (TV and computer monitors). In addition, potassium nitrate is an important raw material for the production of frits for the ceramics and enamel industries. Sodium sulfate is used primarily as a raw material in the production of detergents and for bleaching paper pulp. 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: Our remaining products consist mainly in the production and marketing of potassium chloride, which is distributed through our subsidiary Soquimich Comercial S.A. in Chile. For this product we have 100% of the market share in the domestic market. In addition, we import other fertilizers that are also 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 1999-2003 period according to our product lines:

	1999	***2000***	***2001***	***2002***	***2003***
Specialty Fertilizers	43%	46%	49%	51%	50%
Iodine and derivatives	20%	17%	16%	15%	12%
Lithium and derivatives	6%	7%	7%	7%	7%
Industrial Chemicals	16%	14%	13%	13%	11%
Other Products	15%	16%	15%	14%	20%
	100%	100%	100%	100%	100%

Business strategy

SQM's general business strategy is to: (i) participate in businesses where it is or will be a cost leader supported by strong fundamentals, (ii) differentiate itself from commodity producers by manufacturing, marketing and distributing specialty products that sell at high value, (iii) continually increase the efficiency of its production processes and reduce costs in order to increase the Company's productivity, (iv) maintain leadership in its principal business areas (specialty fertilizers, iodine and lithium) in terms of installed capacity, costs, production, pricing and development of new products and (v) vertically integrate towards more value added markets.

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We have identified market demand in each of our major business segments, 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 Fertilizers Business*:
  We expect to (i) continue to expand our sales of natural nitrate specialty fertilizers by continuing to exploit the advantages of our products over commodity nitrate and ammonia-based nitrogen and potassium chloride fertilizers; (ii) increase our sales of higher-margin natural nitrate fertilizers, particularly potassium nitrate; (iii) pursue investment opportunities in complementary businesses, such as the production of potassium sulfate, to increase production, reduce costs and add value to and improve the marketing of our products; (iv) emphasize development of new specialty blends and customized products intended to meet specific customer needs in all of our principal markets; (v) focus more in the soluble and foliar fertilizer market in order to establish a leadership position, and (vi) further develop our global distribution and marketing system directly and through strategic alliances with other producers and global or local distributors.

- *Iodine Business*:
  We expect to (i) maintain our leadership in the iodine business 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) continue reducing our production costs through improved processes and higher labor productivity so as to compete more effectively.

- *Lithium Business*:
  We expect to (i) maintain our leadership in the lithium industry by consolidating our market share of lithium carbonate and lithium hydroxide, encouraging and keeping pace with the growing demand for both products, (ii) selectively forward integrating the lithium derivatives business, and (iii) continue reducing our production costs through improved processes and higher labor productivity so as to compete more effectively.

- *Industrial Chemicals Business*:
  We expect to (i) maintain our leadership position in sodium nitrate and potassium nitrate, (ii) develop new industrial markets for our current products, and (iii) focus our sales of boric acid and sodium sulfate in niche markets.

From time to time we evaluate opportunities to expand our businesses, both within and outside Chile, and 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. There can be no assurance that we will decide to pursue any such transaction.

Prior to 1998, we had been developing our own cement project capable of producing up to 1.5 million metric tons per year of cement in Chile. On September 9, 1998, we sold our cement-related assets to Empresas Melón S.A., which is now a subsidiary of Lafarge (formerly Blue Circle Industries PLC), for US$32 million and subscribed to 14% of the common stock of Empresas Melón S.A. for a total of US$57 million.

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Production process

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

- Caliche ore deposits: contain nitrates, iodine and sodium sulfate.
- 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 and only commercially exploited source of natural nitrates in the world. The geological origin of caliche ore deposits in northern Chile is uncertain, existing 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. Our four mining areas cover in excess of 300,000 hectares.

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.

Bulldozers first rip and remove the overburden in the mining area, 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 will 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 the vat system and a fine fraction that is leached by agitation. These are followed by liquid solid separation, where solids precipitate as sediment and liquid concentrated in nitrate and iodine is sent to processing.

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

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Caliche Ore-Derived Products

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

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. Once most of the sodium nitrate is removed from the caliche ore, a final leaching stage with cold water produces 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.

The remaining material out of 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 the Company's port facilities in Tocopilla for bulk shipping to customers and distributors worldwide or for bagging and shipping to customers and distributors. The Company's current crystallized sodium nitrate production capacity at Pedro de Valdivia and María Elena is approximately 770,000 metric tons per year. A portion of the sodium nitrate produced at María Elena and Pedro de Valdivia is used in the production of a highly refined industrial grade sodium nitrate or in the production of potassium nitrate at Coya Sur and sodium potassium nitrate at María Elena.

Potassium Nitrate

Potassium nitrate is produced at our Coya Sur facility using production methods developed by SQM. The solutions from the leaching of the fine fraction of the ore, once the iodine and sodium sulfate 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.

Concentrated nitrate salts are produced at Pampa Blanca by leaching caliche ore in leach pads from which the Company extracts 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 to total dryness, where rich nitrate salt is produced. These concentrated nitrate salts are sent to Coya Sur 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 thousand metric tons per year, including 260 thousand metric tons per year of technical grade potassium nitrate at Coya Sur.

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

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 installed prilling capacity is approximately 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 in prilled form.

Sodium Sulfate

We produce sodium sulfate at our Coya Sur facilities. Crystallized sodium sulfate decahydrate (Glauber salt) is extracted 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 bulk directly to customers and distributors, principally in Brazil and Chile. The remaining solution is recycled back to the solar evaporation pond system. Our current sodium sulfate production capacity is 75,000 metric tons per year.

Iodine and Iodine Derivatives

We produce iodine at our Pedro de Valdivia and Nueva Victoria production facilities, extracting it from the solutions from the leaching of caliche ore at the Pedro de Valdivia, María Elena, Nueva Victoria and Pampa Blanca facilities. As in the case of nitrate and sulfate production, 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.

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 flaked or prilled. Our Company has obtained patents in Chile and in the United States for its iodine prilling process.

Flaked and 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 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 2003 was approximately 6.5 thousand metric tons: approximately 2.1 thousand metric tons from Pedro de Valdivia, 1.4 thousand metric tons from María Elena, 1.3 thousand metric tons from Pampa Blanca and 1.7 thousand metric tons from Nueva Victoria. The Nueva Victoria facility is also used for tolling iodine delivered from Pampa Blanca and María Elena. The Company has the flexibility to adjust its production according to market conditions. The semi-mobile plants used at Pampa Blanca allow for the processing of solutions obtained from the leaching of ores with high concentration exploited from smaller ore bodies, resulting in lower production costs.

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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 which purchases iodine from our Company. 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, beneath which lies an underground deposit of brines contained in porous rock fed by an underground inflow of water from the Andean 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.

Brines are pumped from depths between 1.5 and 40 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, potassium sulfate, boric acid and bischofite (magnesium chloride). The first stage in the Atacama Salar development project was to produce potassium chloride, an important raw material used in the manufacture of potassium nitrate, which has allowed the Company to reduce its potassium nitrate production costs. The second stage involved the production of lithium carbonate using a portion of the remaining solutions after the production of potassium chloride, a project that began its operations in late 1996 at a production facility near Antofagasta. The third stage, which has operated at the Atacama Salar since the second half of 1998, broadens the product portfolio of specialty fertilizers and industrial chemicals by introducing two new products, potassium sulfate a non chlorine potassium fertilizer and boric acid respectively.

Potassium Chloride

We began production of potassium chloride in late 1995. We use potassium chloride in the production of potassium nitrate and, before 1995, we used to purchase our potassium chloride requirements from external sources. Production of our own supplies of potassium chloride provided 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 crystallization mixture of salts of potassium chloride and sodium chloride, which is harvested and transferred by truck to a processing facility where the potassium chloride is separated by a grinding, flotation, and filtering process. Potassium chloride is trucked approximately 300 kilometers to the Company's Coya Sur facilities, where it is used in the production of potassium nitrate. We sell potassium chloride produced at the Atacama Salar and in excess of its needs to third parties. During the year 2000, we successfully finished the construction of a plant to compact potassium chloride with a capacity of 100 thousand tons per year. It is currently operating at normal conditions and has increased our potassium chloride production capacity up to 650 thousand metric tons per year.

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 and, (ii) sodium chloride, which is identical to the surface material of the Atacama Salar and is deposited at sites near the production facility.

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Lithium Carbonate

Our operation of lithium carbonate from the Atacama Salar brines began in October 1996 and has been in steady state production since January 1997. 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 production capacity is approximately 28 thousand metric tons per year.

Potassium Sulfate and Boric Acid

Approximately 12 kilometers northeast of the potassium chloride facilities, we produce potassium sulfate and boric acid from the salar brines. The plant lies 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 and concentration process, 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. We experienced some problems in relation with the unexpected leaking of the pre-concentration ponds for the production of potassium sulfate, affecting production levels and significantly impacting the cost of production. The problems surrounding potassium sulfate□s costs and production are now mainly solved.

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 Fertilizers

Our Company is the largest producer of natural specialty fertilizers. We produce the following specialty fertilizers: sodium nitrate, potassium nitrate, sodium potassium nitrate, potassium sulfate, natural boron (ulexite) and specialty blends (containing various combinations of nitrogen, phosphate and potassium and generally known as □NPK blends□). These specialty fertilizers have particular characteristics that increase productivity and enhance quality when used on certain crops and soils. Additionally, these fertilizers are well suited for high-yield agricultural techniques such as hydroponics, fertigation, greenhousing and foliar applications. High value crop farmers are prompted to invest in specialty fertilizers due to their technical advantages over commodity fertilizers (such as urea and potassium chloride), which in turn translated into products and crops with higher yields and added quality. Our specialty fertilizers have significant advantages for certain applications over commodity ammonia-based nitrogen and potassium fertilizers, such as the mentioned urea and potassium chloride.

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In particular, our specialty fertilizers:

- 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.

While the first four features can also be achieved in some degree with synthetic commodity fertilizers, only SQM's natural nitrate fertilizers offer the last three features and combine all seven.

In the year 2003, our revenues from specialty fertilizers were approximately US$346.1 million, representing approximately 50% of our total revenues for that year.

Specialty Fertilizers: Market

The target market for our specialty fertilizers are high value crops such as tobacco, fruits, vegetables and crops raised using modern agricultural techniques. Since 1987, the international market for specialty fertilizers has grown at a substantially 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 (iv) the increasing demand for higher quality crops.

Scarcity of water in certain areas force farmers to develop new agricultural techniques that maximize the use of water such as fertigation, which is widely used. These applications require fertilization through water (fertilizer is first dissolved in water and then applied to the crop) and therefore fully water-soluble fertilizers are required. Our specialty fertilizers possess high degrees of solubility.

Increasing land cost near urban centers also force farmers to maximize their yields per surface area. Specialty fertilizers, when applied to certain crops, help increase productivity for various reasons. In particular since our nitrate-based specialty fertilizers provide nitrogen in nitric form, as opposed to ammonium form as urea provides they are absorbed faster by the crop. Crops absorb nitrogen in nitric form, thus nitrogen in ammonium form has to be first converted to nitric form in the soil, a process that is not immediate and that 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.

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

The principal agricultural applications of sodium nitrate, potassium nitrate, potassium sulfate and sodium potassium nitrate fertilizers are: vegetables, tobacco, fruits, horticulture, sugar beets, cotton and other high value crops.

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Specialty Fertilizers: The Company's Products

We produce natural sodium nitrate in prilled form, which is sold under well-known brand names such as "Champion" and "Bulldog". 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 fertilizers 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 and Turkey.

The following table sets forth our sales volume of specialty fertilizer products and the revenues during the 1999-2003 period:

Sales Volume (in metric tons)	**1999**	**2000**	**2001**	**2002**	**2003**
Sodium nitrate	98,598	71,200	63,100	59,500	54,800
Potassium nitrate and sodium potassium nitrate*	415,452	472,200	544,800	558,600	676,500
Potassium Sulfate	79,892	151,600	156,600	161,000	142,900
Blended and other specialty fertilizers**	176,614	200,200	241,800	276,600	344,400
Revenues (in US$ millions)	210.4	229.9	259.1	281.4	346.1

* Includes sales of potassium nitrate purchased from PCS Yumbes S.C.M.
** Includes blended fertilizers, Yara International ASA specialty fertilizers and other specialty fertilizers

Specialty Fertilizers: Marketing and Customers

In the year 2003, we sold our specialty fertilizers to more than 80 countries. During the same year, approximately 91% of the Company's specialty fertilizers production was exported: approximately 26% was sold to customers in Central and South America, 18% to customers in North America, 20% to customers in Europe and 27% to customers in other regions. Not considering sales to related parties, no single customer accounted for more than 8% of SQM's specialty fertilizers sales in 2003 and our 10 largest customers accounted in the aggregate, during the same year, for less than 30% of such sales.

Sales Breakdown	**2001**	**2002**	**2003**
Central and South America	24%	30%	26%
North America	18%	17%	18%
Europe	14%	15%	20%
Others	31%	27%	27%
Chile	13%	11%	9%

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

The year 2003 was the first year with the benefits of a fully implemented commercial agreement with Yara International ASA (ex Norsk Hydro ASA), as signed on November 2001. This agreement allows us to make use of Yara International ASA's distribution network in countries in which its presence and commercial infrastructure are larger than ours. Similarly, in those markets where our presence is larger, our specialty fertilizers and Yara International ASA's are marketed through our offices. Both parties, however, maintain an active control in the marketing of their own products.

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In the same way, during 2003 we have also received the benefits of the Joint Venture Agreement (JVA) we settled with Yara International and Israel Chemicals Limited, which is now fully implemented. Under the JVA, SQM, Yara International ASA, and Israel Chemicals Limited will jointly develop the liquid and soluble fertilizer blends market through their participation in a company called NU3 N.V. to which SQM and Israel Chemicals Limited contributed their blending facility in Belgium, and Yara International ASA contributed its blending facility in Holland. With the JVA, important synergies have been achieved, particularly in production costs, administration and marketing of soluble blends, strengthening the development of new products and improving costumer service.

We maintain stocks of our specialty fertilizer products in North America, Central and South America and Europe to facilitate prompt deliveries to customers. In addition, we sell specialty fertilizer products directly to certain 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 agronomic assistance and support to our customers. By working closely with our customers, the Company is able to identify new higher value added products and markets. SQM□s specialty fertilizer 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. Accordingly, there are no seasonal or cyclical factors that can substantially affect the sales of our specialty fertilizer products.

Specialty Fertilizers: Fertilizer Sales in Chile

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

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

We estimate that SQMC's aggregate sales of fertilizers in the year 2003 accounted for approximately 40% of total fertilizer sales in Chile in that period. No single customer accounted for more than 5% of SQMC's total revenues from sales of fertilizers in 2003 and the 10 largest customers accounted in the aggregate, during the same year, for less than 19% of such revenues.

Revenues generated by SQMC and its subsidiary Comercial Hydro S.A. □formerly known as Norsk Hydro Chile S.A.□ accounted for 18% of the Company□s 2003 consolidated revenues. SQMC□s consolidated revenues were approximately US$121 million, US$86 million and US$91 million in 2003, 2002 and 2001 respectively.

On April 29, 2003, SQMC announced the acquisition of 100% of the shares of Norsk Hydro Chile S.A., a Chilean subsidiary of Yara International ASA in the approximate amount of US$3.2 million. Due to the similar nature of Norsk Hydro Chile S.A. commercial operations to those carried out by SQMC, this acquisition will allow the latter to improve its fertilizer distribution business in Chile. SQMC will continue with the distribution in Chile of the fertilizers produced by Yara International ASA and its affiliates, allowing the former to improve its fertilizer distribution business in Chile.

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Specialty Fertilizers: Competition

We are currently the world's largest producer of sodium nitrate for agricultural use. PCS Yumbes S.C.M., (PCS), a subsidiary of Potash Corporation of Saskatchewan, Inc., a Canadian corporation, and S.C.M. Virginia, (Virginia), a Chilean nitrate and iodine company, both produce sodium nitrate as a raw material for potassium nitrate. During 2003 we signed an agreement to acquire the PCS production facilities in Chile in order to increase our market share and fortify the leadership in the specialty fertilizer market. 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 has one significant competitor: Trans Resources International Inc. (TRI), with its subsidiary Haifa Chemicals Ltd. in Israel. During the first quarter of 2002 the TRI potassium nitrate facility in the United States called Cedar Chemicals shut down its operations. We estimate that Haifa Chemicals sales of potassium nitrate accounted for approximately 30% of total world sales during the year 2003. The principal means of competition in the sale of potassium nitrate are product quality, customer service, location, logistic and agronomic expertise and price.

On November 2002 we signed a purchasing agreement with PCS, pursuant to which SQM agreed to buy a total of 112,000 metric tons of potassium nitrate during the period beginning November 2002 and ending December 2003. After that, as mentioned before, it was signed an agreement to acquire the PCS potassium nitrate facilities in Chile.

Another competitor is Virginia, controlled by Inverraz S.A., which has also begun to produce potassium nitrate from caliche ore at a facility in northern Chile. We believe we have certain advantages over 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 the marketing of specialty fertilizers, our efficient and proved logistic, which is very important especially when the freight rates are volatile like in 2003, and our own production of potassium chloride in the north of Chile, which is an essential raw material in the production of potassium nitrate.

Kemira, a Finnish producer, has announced that it is about to shut down its potassium nitrate and NPK fertilizers facilities at Denmark, aiming to keep the site as a warehouse and distribution center for its Danish customers. Additionally, they have also stated that the startup of the new 150 thousand metric tons potassium nitrate facility they jointly own with Arab Potash, through the company Kemapco at Jordan, has been delayed.

In the potassium sulfate market, we have several competitors of which the most important are Kali und Salz GmbH, Tessenderlo Chimie and Great Salt Lake Minerals Corp., from Germany, Holland and the United States respectively. 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 the 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 are the largest Chilean producer of bulk specialty blends and with the start-up of potassium sulfate production we have broadened our variety of specialty blends to reach a wider range of clients. In Chile, our products compete principally with imported fertilizer blends that use calcium ammonium nitrate or potassium magnesium sulfate. Our specialty fertilizers 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 preferable for certain applications as described above.

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Specialty Fertilizers: Business Strategy

Our business strategy with respect to its specialty fertilizer business is to continue to be a low cost world leader in the production, distribution and sale of specialty fertilizers. As part of this strategy, SQM plans to (i) continue to expand its sales of natural nitrate specialty fertilizers by continuing to exploit the advantages of its products over commodity nitrate and ammonia-based nitrogen and potassium chloride fertilizers; (ii) increase capacity and increase its sales of higher-margin natural nitrate fertilizers, particularly potassium nitrate; (iii) pursue investment opportunities in complementary businesses, such as the production of potassium sulfate, to increase production, reduce costs and add value to and improve the marketing of the Company's products, (iv) emphasize development of new specialty blends and customized products intended to meet specific customer needs in all of its principal markets, (v) focus more in the soluble and foliar fertilizer market in order to have a leadership position and (vi) further develop its global distribution and marketing system directly and through strategic alliances with other producers and local distributors.

In line with this strategy are the three most recent agreements entered into by SQM and previously explained elsewhere in this document: the commercial agreement with Yara International ASA, the JVA, and the acquisition of the potassium nitrate facilities of PCS.

We will continue to develop and market new products, such as soluble potassium sulfate, and other tailor-made specialty blends and water-soluble NPK specialty blends.

Our Research and Development Center will continue to work with customers, international organizations, universities and research institutes to refine existing products and develop new ones. We will continue to implement programs to reduce costs and increase yields through refinement of production techniques.

Iodine

SQM is the world's largest producer of iodine. In the year 2003, our revenues from iodine and iodine derivatives amounted to approximately US$ 84.5 million, representing approximately 12% of our total revenues in that year. We estimate that our sales accounted for approximately 28% of world iodine sales by volume in the year 2003.

Iodine: Market

Iodine and iodine derivatives are used in a wide range of medical, agricultural and industrial applications. Most sales are to companies which use these products as a raw material in the formulation of their products, including, x-ray contrast media, biocides, antiseptics and disinfectants, pharmaceuticals, chemicals, herbicides, organic compounds, catalysts, pigment and ink dyes.Iodine is added in the form of potassium iodate or potassium iodide to edible salt to prevent iodine deficiency disorders.

Iodine: The Company's Products

We produce iodine and, through the joint venture Ajay-SQM, organic and inorganic iodine derivatives. Ajay-SQM is also actively participating in the iodine recycling from a variety of chemical processes in Europe and the Unites States.

Consistent with our business strategy, we are constantly working in the development of new applications for our iodine-based products, pursuing a continuing expansion of our businesses and maintaining our market leadership.

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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-9000 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 1999-2003 period:

Sales Volume (in metric tons)	**1999**	**2000**	**2001**	**2002**	**2003**
Iodine and iodine derivatives	5,820	5,700	5,600	6,400	6,600
Revenues (in US$ millions)	101.4	87.1	81.4	84.1	84.5

Iodine: Marketing and Customers

We sold our iodine products to more than 130 customers in the year 2003, in more than 35 countries. During the same year, most of our iodine production was exported: approximately 34% was sold to customers in Europe, 40% to customers in North America, 6% 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 the year 2003 and our ten largest customers accounted in the aggregate for less than 50% of such sales.

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

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, provide for prices which vary according to formulas which take into account prevailing market prices and, in some cases, provide for termination by either party after specified notification periods.

Iodine: Competition

SQM and several producers in Chile and Japan are the world□s main producers of iodine. In Japan, iodine is extracted from brines, which are mainly obtained as part of the process of extracting natural gas.

We estimate that eight Japanese iodine producers accounted for approximately 35% of world iodine sales in the year 2003 (excluding sales of production from the former Soviet Union and the People's Republic of China, for which reliable estimates are not available). We estimate that the largest Japanese producer, Ise Chemicals Ltd., (Ise Chemicals), accounted for approximately 9% of such world iodine sales. We believe that iodine producers in the United States (one of which is owned by Ise Chemicals) accounted for approximately 7% of world iodine sales in the year 2003, while five Chilean companies, including SQM, accounted for approximately 57% of such sales (28% by SQM and 29% by the other Chilean producers).

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The prices of our iodine and iodine derivative products are determined by world iodine prices, which are subject to substantial volatility. World iodine prices vary depending upon 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 the Company) and their respective business strategies. World iodine prices declined sharply, from a high of US$18.40 per kilogram for large purchases in early 1990, to less than US$8 per kilogram for large purchases as of June 1994. The decline in world iodine prices from 1990 to 1994 was in part the result of SQM's and certain other producers business strategies to take advantage of their relatively lower production costs and increase production at a rate greater than the increase in total demand so as to increase their market shares. From 1994 to 1999, iodine price recovered to levels close to US$18 per kilogram, beginning then a downward trend due to oversupply. At the end of 2003 iodine prices started to recover.

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 principal 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 principal means of competition in the sale of iodine and iodine derivative products are 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 that also produces other products (principally sodium nitrate and potassium nitrate for agricultural and industrial purposes), allowing some production costs to be shared by several product lines. 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 and the technical support and post-sales service we provide. 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 principal nutritional, pharmaceutical, animal feed, and main chemical uses of iodine, which together account for most iodine sales.

Iodine: Business Strategy

Our business strategy with respect to the iodine business is to: (i) maintain our leadership in the iodine business encouraging demand growth and expanding our production capacity together with the demand growth, (ii) develop new iodine derivatives and participate in the iodine recycling projects, and (iii) continue reducing our production costs through improved processes and higher labor productivity so as to compete more effectively.

We also plan to increase our marketing efforts, particularly in Asia, and to continue to strengthen our relationship with our larger customers through enhanced technical support.

Our Research and Development Center will continue to work with customers, international organizations, universities and research institutes to develop additional uses for iodine, particularly for water treatment, disinfectants and agricultural products.

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Lithium

We are the world's largest producer of lithium carbonate. In the year 2003, our revenues from lithium sales amounted to approximately US$ 49.6 million, representing approximately 7% of the Company's total revenues in that year. We estimate that our sales accounted for approximately 41% of world lithium carbonate and equivalents (excluding lithium minerals) supply by volume.

Lithium: Market

Lithium carbonate is used in a wide variety of applications including the production of ceramics and glass, aluminum, chemicals, pharmaceuticals, lubricants and batteries, being lithium a basic element for the development of new technologies. Lithium hydroxide is primarily used in the lubricating grease industry, as well as in the dyes and battery industries.

Lithium: The Company's Products

We produce lithium carbonate at the Salar del Carmen facilities, nearby Antofagasta, from solutions with high concentrations of lithium coming from the potassium chloride production at the Atacama Salar. The state of the art technology used together with the high concentrations of the Atacama Salar allow the Company to be one of the lowest cost producers worldwide.

Consistent with our policy of vertical integration towards value added products and markets, we have started up a butyl lithium plant in Houston, Texas, in the U.S.A. The main applications for this product are in the production of synthetic rubbers and pharmaceuticals. We are also participating in the lithium hydroxide business, and constructing a new plant that will be operating in the second half of 2005.

The following table sets forth our total sales and revenues from lithium products in the 1999-2003 period:

Sales Volume (in metric tons)	**1999**	**2000**	**2001**	**2002**	**2003**
Lithium Carbonate and derivatives	17,600	20,600	21,700	22,300	27,300
Revenues (in US$ millions)	28.2	33.0	37.0	37.3	49.6

Lithium: Marketing and Customers

We sold our lithium products to approximately 240 customers in the year 2003, in more than 45 countries. Virtually all of our lithium products were sold overseas: approximately 31% was to customers in Europe, 29% to customers in North America, 37% to customers in Asia and Oceania and 3% to customers in other regions. No single customer accounted for more than 13% of the Company's sales in the year 2003 and our ten largest customers accounted in the aggregate for approximately 50% of such sales.

Sales Breakdown	**2001**	**2002**	**2003**
Europe	31%	40%	31%
North America	43%	37%	29%
Asia & Oceania	25%	21%	37%
Others	1%	2%	3%

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Lithium: Competition

Our main competitors in the lithium carbonate business are Chemetall GmbH, a subsidiary of Dynamit Nobel Aktiengesellschaft and FMC Corporation, which we estimate together produced approximately 45% of the lithium carbonate and equivalents (excluding lithium minerals) in the year 2003. In April 2004, MGTechnologies AG announced the sale of Dynamit Nobel AG, excluding the plastics business, to Rockwood Specialties Group Inc., a US-based specialty chemicals company.

We estimate that lithium carbonate and equivalent world production (excluding lithium minerals) was approximately 63,500 tons in 2003, while our sales reached over 27,000 metric tons (including lithium hydroxide).

Lithium: Business Strategy

Our business strategy with respect to our lithium business is to: (i) maintain our leadership in the lithium industry by consolidating our market share of lithium carbonate and lithium hydroxide, encouraging and keeping pace with the growing demand for both products, (ii) selectively integrate in the lithium derivatives business, and (iii) continue to reduce our production costs through improved processes and higher labor productivity so as to compete more effectively.

We also plan to increase our marketing efforts, particularly in the segments with high demand growths.

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 grade. The three grades differ principally 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 sodium sulfate and boric acid. Sodium sulfate and boric acid are by-products of the production of sodium nitrate, and potassium sulfate respectively. In the year 2003, our revenues from industrial chemicals were approximately US$ 73.6 million, representing approximately 11% 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. Sodium sulfate is principally used for bleaching in the cellulose industry, detergent and chemical industries. Boric acid, a byproduct of potassium sulfate, is mainly used in the glass, ceramics, fiberglass, enamels and chemical industries.

We estimate that our sales of industrial sodium nitrate (excluding production in China and India, which is consumed internally), potassium nitrate and sodium sulfate in 2003 accounted for 70%, 35% and less than 2%, respectively, of world sales in that period.

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Industrial Chemicals: The Company's 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 sodium sulfate in crystalline form.

The following table sets forth our sales volumes of industrial chemicals and total revenues in the 1999-2003 period:

Sales Volume (in metric tons)	1999	2000	2001	2002	2003
Industrial nitrates	234,090	191,277	186,999	187,300	192,400
Sodium sulfate	60,956	43,400	66,742	63,200	54,200
Boric Acid	8,844	8,600	12,822	11,300	10,700
Revenues (in US$ millions)	80.5	69.8	69.6	70.8	73.6

Aggregate current sodium nitrate capacity is approximately 740,000 metric tons per year (agricultural and industrial grades). Within certain production constraints, we may use such 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, approximately 75,000 metric tons per year of sodium sulfate and 16,000 metric tons per year of boric acid.

Industrial Chemicals: Marketing and Customers

We sold our industrial nitrate products in more than 60 countries in the year 2003. Approximately 39% of our sales of industrial chemicals was to customers in North America, 25% to customers in Europe, 12% to customers in Central and South America and 24% to customers in Asia, Oceania and other regions. No single customer accounted for more than 5% of the Company's sales of industrial chemicals in 2003 and our ten largest customers accounted in the aggregate for less than 33% of such sales.

Sales Breakdown	2001	2002	2003
North America	37%	31%	39%
Europe	20%	17%	25%
Central and South America	27%	24%	12%
Others	16%	28%	24%

We sold approximately 63% of our 2003 sodium sulfate production to customers in the domestic market. Our principal customers for this product are the Chilean producers of detergents and paper pulp.

We sell our industrial chemical products principally through our own worldwide network of representative offices and through our sales, support 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 and sodium sulfate sales pursuant to renewable medium term contracts.

Our Research and Development Center, together with our foreign affiliates, provide technical support to our customers and work with them to identify new applications for the Company's products.

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Industrial Chemicals: Competition

We are the world's largest producer of industrial sodium nitrate. We estimate that we accounted for approximately 70% of world production of industrial sodium nitrate in 2003 (excluding China and India, for which reliable estimates are not available). We have some competitors mainly in Europe and Asia. These producers together represent 30% of total production and produce sodium nitrate as a by-product of other production processes. In the refined grade sodium nitrate market, Bayerische Anilinen 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. In addition to the competitors mentioned above, it is important to note that our industrial sodium nitrate products 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.

As in the case for agricultural potassium nitrate, our principal competitor in the industrial potassium nitrate market is Haifa Chemicals Ltd. (Haifa). We currently estimate our market share at 35% whereas Haifa accounts for 30%.