CHEMICAL & MINING CO OF CHILE INC
Form 20-F
April 27, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2011

OR

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

OR

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

Date of event requiring this shell company report_____ .

For the transition period from _____to_____ .

Commission file number 33-65728

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, 6th Floor, Santiago, Chile +56 2 425-2000

(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 B shares, in the form of American Depositary Shares	New York Stock Exchange

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

NONE

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

NONE

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

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

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

x YES ¨ NO

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

¨ YES x NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

x YES ¨ NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

¨ YES ¨ NO

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

x Large accelerated filer ¨ Accelerated filer ¨ Non- accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

¨ U.S. GAAP xInternational Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

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

¨ Item 17 x Item 18

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

¨ YES x NO

TABLE OF CONTENTS

PRESENTATION OF INFORMATION

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

All references to "**$**," "**US$**," "**U.S. dollars,**" "USD" and "**dollars**" are to United States dollars, references to "**pesos,**" "**CLP**" and "**Ch$**" are to Chilean pesos, references to ThUS$ are to thousands of United States dollars, references to ThCh$ are to thousands of Chilean pesos and references to "**UF**" are to *Unidades de Fomento*. The UF is an inflation-indexed, peso-denominated unit that is linked to, and adjusted daily to reflect changes in, the previous month's Chilean consumer price index. As of December 31, 2011, UF 1.00 was equivalent to US$42.94 and Ch$22.294,03.

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

Our fiscal year ends on December 31.

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

1 kilometer equals approximately 0.6214 miles

1 meter equals approximately 3.2808 feet

1 centimeter equals approximately 0.3937 inches

1 hectare equals approximately 2.4710 acres

1 metric ton ("MT") equals 1,000 kilograms or approximately 2,205 pounds.

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

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

GLOSSARY

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

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

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

"**CAGR**" Compound annual growth rate, the year over year growth rate of an investment over a specified period of time

"**cash and cash equivalents**" The International Accounting Standards Board (IASB) defines cash and cash equivalents as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

"**Controller Group**"** A person or company or group of persons or companies that according to Chilean law, have executed a joint performance agreement, that have a direct or indirect share in a company's ownership and have the power to influence the decisions of the company's management.

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

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

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

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

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

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

"**heap leaching**" A process whereby minerals are leached from a heap, or pad, of crushed ore by leaching solutions percolating down through the heap and collected from a sloping, impermeable liner below the pad.

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

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

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

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

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

“**Kriging Method”** A technique used to estimate ore reserves, in which the spatial distribution of continuous geophysical variables is estimated using control points where values are known.

“LIBOR” London Inter Bank Offered Rate.

“**limited reconnaissance**” Low or limited level of geological knowledge.

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

“**metallurgical treatment**” A set of chemical and physical processes applied to the caliche ore and to the salar brines to extract their useful minerals (or metals).

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

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

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

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

“**Proved Mineral Reserve**” See “Reserves—Proved Mineral Reserve.”

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

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

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

A deposit may be classified as an Indicated Mineral Resource when the nature, quality, amount and distribution of data are such as to allow the Competent Person, as that term is defined under Chilean Law Number 20,235, determining the Mineral Resource to confidently interpret the geological framework and to assume continuity of mineralization. Confidence in the estimate is sufficient to allow the appropriate application of technical and economic parameters and to enable an evaluation of economic viability.

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

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

A deposit may be classified as a Measured Mineral Resource when the nature, quality, amount and distribution of data are such as to leave no reasonable doubt, in the opinion of the Competent Person, as that term is defined under Chilean Law Number 20,235, determining the Mineral Resource, that the tonnage and grade of the deposit can be estimated within close limits and that any variation from the estimate would not significantly affect potential economic viability. This category requires a high level of confidence in, and understanding of, the geology and controls of the mineral deposit. Confidence in the estimate is sufficient to allow the appropriate application of technical and economic parameters and to enable an evaluation of economic viability.

"**solar salts**" A mixture of 60% sodium nitrate and 40% potassium nitrate used in the storage of thermo-storage energy.

"**vat leaching**" A process whereby minerals are extracted from crushed ore by placing the ore in large vats containing leaching solutions.

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

"**Weighted Average Age**" The sum of the product of the age of each fixed asset at a given facility and its current gross book value as of December 31, 2011 divided by the total gross book value of the Company's fixed assets at such facility as of December 31, 2011.

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

** The definition of a Controller Group that has been provided is the one that applies to the Company. Chilean law provides for a broader definition of a Controller Group.

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 are not based on historical facts and reflect our expectations for future events and results. Words such as "believe," "expect," "predict," "anticipate," "intend," "estimate," "should," "may," "likely", "could" or similar expressions may identify forward-looking information. These statements appear throughout this Form 20-F and include statements regarding the intent, belief or current expectations of the Company and its management, including but not limited to any statements concerning:

- the Company's capital investment program and development of new products;
- trends affecting the Company's financial condition or results of operations;
- level of production, quality of the ore and brines, and production levels and yields;
- the future impact of competition; and
- regulatory changes

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

- SQM's ability to implement its capital expenditures, including its ability to arrange financing when required;
- the nature and extent of future competition in SQM's principal markets;
- political, economic and demographic developments in the emerging market countries of Latin America and Asia where SQM conducts a large portion of its business;
- volatility of global prices for SQM’s products;

- changes in production capacities;
- changes in raw material and energy prices;
- currency and interest rate fluctuations; and
- additional factors discussed below under Item 3. Key Information—Risk Factors

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PART 1

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

3.A. Selected Financial Data

The following table presents selected financial data as of December 31, 2011 and the previous two years. The selected financial data should be read in conjunction with the Audited Consolidated Financial Statements and notes thereto, “Item 5. Operating and Financial Review and Prospects” and other financial information included herein.

Since January 1, 2010, the Company’s consolidated financial statements are and will be prepared in accordance with the International Financial Reporting Standards as published by the International Accounting Standards Board (IASB).

The Company’s consolidated financial information as of and for the year ended December 31, 2009 included in the Company’s annual consolidated financial statements was restated in accordance with IFRS. See Note 2 to the Audited Consolidated Financial Statements of the Company.

Year ended December 31,

	2011	2010	2009

Income Statement Data	**(in millions of US$)** (1)		
I.F.R.S			
Sales	2,145.3	1,830.4	1,438.7
Cost of sales	(1,290.5)	(1,204.4)	(908.5)
Gross profit	854.8	626.0	530.2
Administrative expenses	(91.8)	(78.8)	(75.5)
Operating Income	763.0	547.2	454.7
Net finance costs	(16.1)	(22.1)	(17.5)
Foreign currency transactions	(25.3)	(5.8)	(7.6)
Equity in gains (losses) of associates and joint ventures accounted for using the equity method	21.8	10.7	4.5
Other gains(losses), net	(9.6)	(36.7)	(18.5)
Profit before income tax expense	733.8	493.3	415.6
Income Tax expense	(179.7)	(106.0)	(75.8)
Profit (loss)	554.1	387.3	339.8
Equity holders of the parent	545.8	382.1	338.3
Non-controlling interest	8.4	5.7	1.5
Basic earnings per share (2)	2.07	1.45	1.29
Basic earnings per ADR (2) (3)	2.07	1.45	1.29
Dividend per share (4) (5) (6)	1.04	0.66	1.24
Weighted average shares outstanding (000s) (2)	263,197	263,197	263,197

Year ended December 31,

Balance Sheet Data	2011 (in millions of US$)	2010	2009
I.F.R.S			
Total assets	3,871.6	3,372.8	3,141.8
Total Liabilities	2,007.2	1,702.0	1,677.4
Total Equity	1,864.4	1,670.8	1,464.5
Equity attributable to the owners of the controlling entity	1,812.8	1,622.8	1,418.8
Equity attributable to non-controlling interest	51.5	48.0	45.7
Capital stock	477.4	477.4	477.4

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

(2) There are no authoritative pronouncements related to the calculation of earnings per share in accordance with IFRS.

(3) The Series A ADRs were delisted from the New York Stock Exchange on March 27, 2008. The ratio of ordinary shares to Series B ADRs changed from 10:1 to 1:1 on March 28, 2008. The calculation of earnings per ADR is based on the ratio of 1:1.

(4) Dividends per share are calculated based on 263,196,524 shares for the periods ended December 31, 2009 and 2010, 2011.

(5) Dividends may only be paid from net income as determined in accordance with IFRS; see Item 8.A.8. Dividend Policy. For dividends in Ch$ see Item 8.A.8.Dividend Policy — Dividends.

(6) Dividend amount paid per calendar year.

EXCHANGE RATES

Chile has two currency markets, the *Mercado Cambiario Formal*, or the "Formal Exchange Market," in which SQM conducts its transactions, and the *Mercado Cambiario Informal*, or the "Informal Exchange Market." The Formal

Exchange Market comprises banks and other entities authorized by the Banco Central de Chile (the "Chilean Central Bank"). The Informal Exchange Market comprises entities that are not expressly authorized to operate in the Formal Exchange Market, such as certain foreign exchange houses and travel agencies, among others. The Chilean Central Bank is empowered to determine that certain purchases and sales of foreign currencies be carried out on the Formal Exchange Market.

Both the Formal Exchange Market and the Informal Exchange Market are driven by free market forces. Current regulations require that the Chilean Central Bank be informed of certain transactions and that these transactions be effected through the Formal Exchange Market.

The *dólar observado*, or "Observed Exchange Rate," which is reported by the Chilean Central Bank and published daily in the Chilean newspapers, is computed by taking the weighted average of the previous business day's transactions on the Formal Exchange Market. Nevertheless, the Chilean Central Bank has the power to intervene by buying or selling foreign currency on the Formal Exchange Market to attempt to maintain the Observed Exchange Rate within a desired range.

On January 3, 2011, the Chilean Central Bank decided to intervene in the Formal Exchange Market by increasing the level of international reserves by US$12 billion, the biggest-ever exchange rate intervention aimed at suppressing the rising peso. This plan was implemented in January 2011 and it was terminated in December 2011.

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

The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

Observed Exchange Rate (1)
Ch$ per US$

Year	Low (1)	High (1)	Average (1)(2)	Year/Month End(3)
2005	509.70	592.75	559.86	512.50
2006	511.44	549.63	530.26	532.39
2007	493.14	548.67	522.69	496.89
2008	431.22	676.75	521.79	636.45
2009	491.09	643.87	559.15	507.10
2010	468.01	549.17	510.22	468.01
2011	455.91	533.74	483.57	519.20

Last six months	Low (1)	High (1)	Average (1)(2)	Year/Month End(3)
2011				
October	490.29	533.74	510.09	490.29
November	494.08	526.83	509.73	517.37
December	508.67	522.62	517.26	519.20
2012				
January	485.35	518.20	499.96	488.75
February	475.29	487.73	480.89	476.27
March	480.62	491.57	485.90	487.44

Source: Central Bank of Chile

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

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

(3) The Year/Month End exchange rate is based on transactions observed during the last day of the month/year.

3.B. Capitalization and Indebtedness

Not applicable.

3.C. Reasons for the Offer and Use of Proceeds

Not applicable.

3.D. Risk Factors

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

Risks Relating to our Business

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

We sell our products in more than 100 countries around the world. In 2011, approximately 49% of our sales were made in emerging market countries: 14% in Central and South America (excluding Chile); 8% to Africa and the Middle East; 13% in Chile; and 14% in Asia & Oceania (excluding Japan). We expect to expand our sales in these and other emerging markets in the future. The results of and prospects of our operations in these regions and in other countries in which we establish operations will depend, in part, on the general level of political stability and economic activity and policies in those countries. Future developments in the political systems or economies of these countries or the implementation of future governmental policies in those countries, including the imposition of withholding and other taxes, restrictions on the payment of dividends or repatriation of capital, the imposition of import duties or other restrictions, the imposition of new environmental regulations or price controls or changes in relevant laws or regulations, could have a material adverse effect on our sales or operations in those countries.

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

The prices of our products, specifically potassium chloride, 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. Supply and demand dynamics for our products are tied to a certain extent to global economic cycles, and have been impacted by current global economic conditions. Furthermore, the supply of certain fertilizers or chemical products, including certain products that we provide, varies principally depending on the production of the major producers, including SQM, and their respective business strategies.

During 2008, world prices of potassium-based fertilizers (including some of our specialty plant nutrients and potassium chloride) increased significantly during the first nine months of the year. Towards the end of 2008, fertilizer prices generally fell as a result of the global economic and financial slowdown. During 2009, volatility in prices continued to affect commodity markets around the world. During 2010, prices of potassium-based fertilizers stabilized after the conclusion of important contract negotiations between major producers and buyers at the end of 2009. During the first half of 2011, we observed consolidation in the industry on the part of producers and the settlement of important supply contracts between China and major potash producers at higher prices. Fertilizer markets for these products were stronger during 2011, with prices stabilizing in the fourth quarter. We cannot assure you that prices and sales volumes will not decline in the future.

Iodine prices have followed an upward trend since late 2003, reaching an average price of approximately US$38 per kilogram in 2011, almost 40% higher than average prices in 2010. Sales volumes of iodine and its derivatives may be affected by general decreases in the use of applications that are sensitive to economic growth. During 2011, iodine demand reached historical highs, surpassing the demand of previous years. We cannot assure you that prices or sales volumes will not decline in the future.

We started production of lithium carbonate from the brines extracted from Salar de Atacama in October 1996 and started selling lithium carbonate commercially in January 1997. Our entry into the market created an oversupply of lithium carbonate, resulting in a drop in prices from over US$3,000 per ton before our entry to less than US$2,000 per ton. At the end of 2008, prices were approximately US$6,000 per ton and remained at this level until the fourth quarter of 2009 when prices declined to approximately US$5,000 per ton. As a result of events in global markets during 2009, demand for lithium carbonate declined and, lithium prices and sales volumes for 2009 were lower compared to the previous year. In September 2009, we announced a 20% price cut for lithium carbonate and lithium hydroxide as a measure to stimulate demand. In 2010, we observed demand recovery in the lithium market, which continued in 2011, driven mostly by demand related to battery use. We cannot assure you that this positive trend will continue in the future. We cannot assure you that prices and sales volumes will not decline in the future.

We expect that prices for the products we manufacture will continue to be influenced, among other things, by worldwide supply and demand and the business strategies of major producers. Some of the major producers (including SQM) have increased or have the ability to increase production. As a result, the prices of our products may be subject to substantial volatility. High volatility or a substantial decline in the prices, or in volume demand, of one or more of our products could have a material adverse effect on our business, financial condition and results of operations.

Our inventory levels may increase because of the global economic situation

In general, the global economic slowdown experienced during 2008 and 2009 had an impact on our inventories. Demand decreased during 2009 and, as a result, inventories increased significantly. Higher inventories carry a financial risk due to increased need for cash to fund working capital. Higher inventory levels could also imply increased risk of loss of product. We cannot assure you that these changes in inventory levels will not occur in the future. These factors could have a material adverse effect on our business, financial condition and results of operations.

Our level of and exposure to unrecoverable accounts receivable may significantly increase

The potentially negative effects of the global economic crisis of 2008 and 2009 on the financial condition of our customers may include the extension of the payment terms of our accounts receivable and may increase our exposure to bad debt. While we are taking measures, such as using credit insurance, letters of credits and prepayment for a portion of sales, to minimize this risk, the increase in our accounts receivable coupled with the financial condition of customers may result in losses that could have a material adverse effect on our business, financial condition and results of operations.

New production of iodine or lithium carbonate from current or new competitors

Potential new production of iodine and lithium carbonate from current or new competitors in the markets in which we operate could adversely affect prices. There is limited information on the status of new iodine or lithium carbonate production capacity expansion projects being developed by current and potential competitors and, as such, we cannot make accurate projections regarding the capacities of possible new entrants into the market and the dates on which they could become operational. If these potential projects are completed in the short term, they could adversely affect market prices and our market share which in turn could materially affect our business, financial position and results of operations.

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

Our business is capital intensive. Specifically, the exploration and exploitation of reserves, mining and processing costs, the maintenance of machinery and equipment and compliance with applicable laws and regulations require substantial capital expenditures. We must continue to invest capital to maintain or to increase our exploitation levels and the amount of finished products we produce. We require environmental permits for our new projects. Obtaining permits in certain cases may cause significant delays in the execution and implementation of new projects and, consequently, may require us to reassess the related risks and economic incentives. We cannot assure you that we will be able to maintain our production levels or generate sufficient cash flow, or that we will have access to sufficient investments, loans or other financing alternatives, to continue our activities at or above present levels, or that we will be able to implement our projects or receive the necessary permits required for them in time. Any or all of these factors may have a material adverse impact on our business, financial condition and results of operations.

Currency fluctuations may have a negative effect on our financial performance

We transact a significant portion of our business in U.S. dollars, and the U.S. dollar is the currency of the primary economic environment in which we operate. In addition, the U.S. dollar is our functional currency for financial statement reporting purposes. A significant portion of our costs, however, is related to the Chilean peso. Therefore, an increase or decrease in the exchange rate between the Chilean peso and the U.S. dollar would affect our costs of production. The Chilean peso has been subject to large devaluations and revaluations in the past and may be subject to significant fluctuations in the future. As of December 31, 2011, the Chilean peso to U.S. dollar exchange rate was Ch$519.20 per U.S. dollar, while as of December 31, 2010, the Chilean peso to U.S. dollar exchange rate was Ch$468.01 per U.S. dollar.

As an international company operating in several other countries, we also transact business and have assets and liabilities in other non-U.S. dollar currencies, such as, among others, the euro, the South African rand, the Mexican peso, the Chinese Yuan and the Brazilian real. As a result, fluctuations in the exchange rates of such foreign currencies to the U.S. dollar may materially affect our business, financial condition and results of operations.

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

We have outstanding short and long-term debt that bears interest based on the London Interbank Offered Rate, or "LIBOR," plus a spread. Since we are currently hedging only a portion of these liabilities into fixed rates, we are exposed to interest rate risk relating to LIBOR fluctuations. As of December 31, 2011, approximately 28% our financial debt had LIBOR-based pricing that was not hedged into fixed rates. A significant increase in the rate could materially impact our financial condition and results of operations.

High raw materials and energy prices could increase our production costs and cost of goods sold

We rely on certain raw materials and various sources of energy (diesel, electricity, natural gas, including LNG, fuel oil and others) to manufacture our products. Purchases of raw materials that we do not produce and energy constitute an important part of our cost of sales, approximately 17% in 2011. To the extent we are unable to pass on increases in raw materials and energy prices to our customers, our business, financial condition and results of operations could be materially adversely affected.

Our reserves estimates could be subject to significant changes

Our mining reserves estimates are prepared by our own geologists, and were validated in March 2012, by Mrs. Marta Aguilera, a geologist with over 20 years of experience in the field. She is currently employed by SQM as Manager of Non-metallic Geology. Mrs. Aguilera is a Competent Person ("Persona Competente"), as that term is defined under Chilean Law Number 20,235. Estimation methods involve numerous uncertainties as to the quantity and quality of the reserves, and reserve estimates could change upwards or downwards. In addition, our reserve estimates are not subject to review by external geologists or an external auditing firm. A downward change in the quantity and/or quality of our reserves could affect future volumes and costs of production and therefore have a material adverse effect on our business, financial condition and results of operations.

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

In the markets in which we do business, customers may impose quality standards on our products and/or governments may enact or are enacting stricter regulations for the distribution and/or use of our products. As a result, we may not be able to sell our products if we cannot meet such new standards. In addition, our cost of production may increase in order to meet any such newly promulgated standards. Failure to sell our products in one or more markets or to important customers could materially adversely affect our business, financial condition and results of operations.

Chemical and physical properties of our products could adversely affect its commercialization

Since our products are derived from natural resources, they contain inorganic impurities that may not meet certain client and government standards. As a result, we may not be able to sell our products if we cannot meet such requirements. In addition, our cost of production may increase in order to meet such standards. Failure to meet such standards could materially adversely affect our business, financial condition and results of operations.

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

Our facilities and business operations in Chile and abroad are insured against losses, damages or other risks by insurance policies that are standard for the industry and that would reasonably be expected to be sufficient by prudent and experienced persons engaged in businesses similar to ours.

We may be subject to certain events that may not be covered under our insurance policies, and that could have a material adverse effect on our business, financial condition and results of operations. Additionally, as a result of the major earthquake in Chile in February 2010 and other natural disasters worldwide, conditions in the insurance market may change, and as a result we may face higher premiums and reduced coverage.

Changes in technology or other developments could result in preferences for substitute products

Our products, particularly iodine, lithium and their derivatives, are preferred raw materials for certain industrial applications, such as rechargeable batteries and LCD screens. Changes in technology, the development of substitute raw materials or other developments could adversely affect demand for these and other products which we produce.

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

Approximately 72% of our permanent employees in Chile are represented by 24 labor unions, as of March 31, 2012. As a result, we are exposed to labor strikes that could impact our production levels. If a strike occurs and continues for a sustained period of time, we could be faced with increased costs and even disruption in our product flow that could have a material adverse effect on our business, financial condition and results of operations.

Chilean Law No. 20,123, known as the Ley de Subcontratación ("Law on Subcontracting"), further provides when a serious accident in the workplace occurs, a company must halt work at the site where the accident took place until authorities from the National Geology and Mining Service inspect the site and prescribe the measures such company must take to prevent future risks. Work may not be resumed until such company has taken the prescribed measures, and the period of time before work may be resumed may last for a number of hours, days, or longer. The effects of this law could have a material adverse effect on our business, financial condition and results of operations.

Lawsuits and arbitrations could adversely impact us

We are party to a range of lawsuits and arbitrations involving different matters as described in Note 19 of our consolidated financial statements. Although we intend to defend our positions vigorously, our defense of these actions may not be successful. Judgments or settlements in these lawsuits may have a material adverse effect on our business, financial condition and results of operations. In addition, our strategy of being a world leader includes entering into commercial and production alliances, joint ventures and acquisitions to improve our global competitive position. As these operations increase in complexity and are carried out in different jurisdictions, we might be subject to legal proceedings that, if settled against us, could have a material adverse effect on our business, financial condition and results of operations.

The Chilean labor code has recently established new procedures for labor matters which include oral trials conducted by specialized judges. The majority of these oral trials have found in favor of the employee. These new procedures could increase the probability of adverse judgments which could have a material adverse effect on our business, financial condition and results of operations.

We have operations in multiple jurisdictions with differing regulatory, tax and other regimes

We operate in multiple jurisdictions with complex regulatory environments subject to different interpretations by companies and respective governmental authorities. These jurisdictions may each have their own tax codes, environmental regulations, labor codes and legal framework, which could complicate efforts to comply with these regulations, which could have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to Chile

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

Our business, results of operations, financial condition and prospects 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 we have no control.

Changes in regulations regarding, or any revocation or suspension of our concessions could negatively affect our business

Any adverse changes to our concession rights, or a revocation or suspension of our concessions, could have a material adverse effect on our business, financial condition and results of operations.

Changes in mining or port concessions could affect our operating costs

We conduct our mining (including brine extraction) operations under exploitation and exploration concessions granted in accordance with provisions of the Chilean constitution and related laws and statutes. Our exploitation concessions essentially grant a perpetual right to conduct mining operations in the areas covered by the concessions, provided that we pay annual concession fees (with the exception of the Salar de Atacama rights, for which we have a lease until 2030). Furthermore, under the regulations of the Comisión Chilena de Energía y Nuclear (C Chen), SQM is limited to 180,100 tons of total lithium extraction. Our exploration concessions permit us to explore for mineral resources on the land covered thereby for a specified period of time and to subsequently request a corresponding exploitation concession.

We also operate port facilities at Tocopilla, Chile for the shipment of our products and the delivery of certain raw materials, pursuant to concessions granted by Chilean regulatory authorities. These concessions are renewable provided that we use such facilities as authorized and pay annual concession fees.

Any significant changes to any of these concessions could have a material adverse effect on our business, financial condition and results of operations.

Changes in water rights laws could affect our operating costs

We hold water rights that are key to our operations. These rights were obtained from the Chilean water authority for supply of water from rivers and wells near our production facilities, which we believe are sufficient to meet current operating requirements. However, the Chilean water rights code (the "Water Code") is subject to changes, which could have a material adverse impact on our business, financial condition and results of operations. For example, an amendment published on June 16, 2005 modified the Water Code, allowing under certain conditions, the granting of permanent water rights of up to two liters per second for each well built prior to June 30, 2004, in the locations where we conduct our mining operations, without considering the availability of water, or how the new rights may affect holders of existing rights. Therefore, the amount of water we can effectively extract based on our existing rights could be reduced if these additional rights are exercised. In addition, we must pay annual concession fees to maintain water rights we are not exercising. These and potential future changes to the Water Code could have a material adverse effect on our business, financial condition and results of operations.

Our water supply could be affected by geological changes

Our access to water may be impacted by changes in geology or other natural factors, such as wells drying up, that we cannot control, and which may have a material adverse effect on our business, financial condition and results of

operations.

The Chilean government could levy additional taxes on corporations operating in Chile

In 2005, the Chilean Congress approved Law No. 20,026 (also known as the "Royalty Law"), establishing a royalty tax to be applied to mining activities developed in Chile.

After the earthquake in February 2010 in the south of Chile, the government approved changes to both the Royalty Law and the corporate tax rate that raised tax rates in order to partially fund the recovery effort.

We cannot assure you that the manner in which the Royalty Law is interpreted and applied will not change in the future. In addition, the Chilean government may decide to levy additional taxes on mining companies or other corporations in Chile. Such changes could have a material adverse effect on our business, financial condition and results of operations.

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

Our operations in Chile are subject to national and local regulations relating to environmental protection. We are required to conduct environmental impact studies of any future projects or activities (or significant modifications thereto) that may affect the environment. The Environmental Assessment Service currently evaluates environmental impact studies submitted for its approval, and private citizens, public agencies or local authorities may challenge projects that may adversely affect the environment, either before these projects are executed or once they are already operating, if they fail to comply with applicable regulations. Enforcement remedies available include fines and temporary or permanent closure of facilities.

Chilean environmental regulations have become increasingly stringent in recent years, both with respect to the approval of new projects and in connection with the implementation and development of projects already approved. This trend is likely to continue. Given public interest in environmental enforcement matters, these regulations or their application may also be subject to political considerations that are beyond our control.

We continuously monitor the impact of our operations on the environment and have, from time to time, made modifications to our facilities to minimize any adverse impacts. We believe we are currently in compliance in all material respects with applicable environmental regulations in Chile. Future developments in the creation or implementation of environmental requirements, or in their interpretation, could result in increased capital, operation or compliance costs or otherwise adversely affect our business, financial condition and results of operations. In connection with our current investments at the Salar de Atacama and Nueva Victoria, the success of these investments is dependent on the behavior of the eco-system variables being monitored over time. If the behavior of these variables in future years does not meet environmental requirements, our operation may be subject to important restrictions by the authorities on the maximum allowable amounts of brine and water extraction.

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

In addition, our worldwide operations are subject to international 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 laws, will not materially adversely impact our business, financial condition and results of operations.

Ratification of the International Labor Organization's Convention 169 concerning indigenous and tribal peoples might affect our development plans

In 2008, Chile, a member of the International Labor Organization ("ILO"), ratified the ILO's Convention 169 (the "Indigenous Rights Convention") concerning indigenous and tribal peoples. The Indigenous Rights Convention established several rights for indigenous individuals and communities. Among other rights, the Indigenous Rights Convention outlines that (i) indigenous groups be notified of and consulted prior to the development of any project on land deemed indigenous (right to veto was not included); and (ii) indigenous groups have, to the extent possible, a stake in benefits resulting from the exploitation of natural resources in alleged indigenous land. The extent of these benefits has not been defined by the government. The new rights outlined in the Indigenous Rights Convention could affect the development of our investment projects in alleged indigenous lands which could have a material adverse effect on our business, financial condition and results of operations.

Chile is located in a seismically active region

Chile is prone to earthquakes because it is located along major fault lines. A major earthquake could have significant negative consequences for our operations and for the general infrastructure, such as roads, rail, and access to goods, in Chile. Even though we maintain insurance policies standard for this industry with earthquake coverage, we cannot assure you that a future seismic event will not have a material adverse effect on our business, financial condition and results of operations.

Risks related to our shares and to our ADRs

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

Developments in other emerging markets could materially affect the value of our ADRs

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 a material effect on Chilean financial and securities markets and on the value of our ADRs.

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

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 ADRs and may impair the ability of a holder to sell our ADRs into the Chilean market in the amount and at the price and time he wishes to do so.

Our share price may react negatively to future acquisitions and investments

As world leaders in our core businesses, part of our strategy is to constantly look 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 relating to any of our businesses or to new businesses in which we believe we may have sustainable competitive advantages. Depending on our capital structure at the time of such acquisitions, we may need to raise significant debt and/or equity which will affect our financial condition and future cash flows. Any change in our financial condition could affect our results of operations, negatively impacting our share price.

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

Because we are a Chilean company subject to Chilean law, the rights of our shareholders may differ from the rights of shareholders in companies incorporated in the United States, and you may not be able to enforce or may have difficulty enforcing rights currently in effect under 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 ADRs, 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 judgments obtained in United States courts based upon the civil liability provisions of the federal securities laws of the United States against them in United States courts.

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 as to whether an action could be brought successfully in Chile in the first instance on the basis of liability based solely upon the civil liability provisions of the United States federal securities laws.

As preemptive rights may be unavailable for our ADR holders, they have the risk of their holdings 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 ADRs 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 ADRs 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 bank 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 ADRs would not realize any value from them. In either case, ADR holders' equity interest in SQM would be diluted in proportion to the increase in SQM's capital stock.

If the Company were classified as a Passive Foreign Investment Company there could be adverse consequences for U.S. investors

We believe that we were not classified as a passive foreign investment company, or PFIC, for 2011. Characterization as a PFIC could result in adverse U.S. tax consequences to you if you are a U.S. investor in our shares or ADRs. For example, if we (or any of our subsidiaries) are a PFIC, our U.S. investors may become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to burdensome reporting requirements. The determination of whether or not we (or any of our subsidiaries or portfolio companies) are a PFIC is made on an annual basis and will depend on the composition of our (or their) income and assets from time to time. See Item 10.E Taxation – United States Tax Considerations.

Changes in Chilean tax regulations could have adverse consequences for U.S. investors

Currently cash dividends paid by the Company to foreign shareholders are subject to a 35% Chilean withholding tax. If the Company has paid corporate income tax (the "First Category Tax") on the income from which the dividend is

paid, a credit for the First Category Tax effectively reduces the rate of Withholding Tax. Changes in current Chilean tax regulations could have adverse consequences for U.S. investors.

ITEM 4. INFORMATION ON THE COMPANY

4.A. History and Development of the Company

Historical Background

Sociedad Química y Minera de Chile S.A. "SQM" is an open stock corporation (*sociedad anónima abierta*) organized under the laws of the Republic of Chile. The Company was constituted by public deed issued on June 17, 1968 by the Notary Public 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 Registry of Commerce of Santiago, on page 4,537 No. 1,992. SQM's headquarters are located at El Trovador 4285, Fl. 6, Las Condes, Santiago, Chile. The Company's telephone number is +56 2 425-2000.

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

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

Since its inception, in addition to producing nitrates, the Company has produced iodine, which is also found in the caliche ore deposits in northern Chile.

Between the years 1994 and 1999, we invested approximately US$300 million in the development of the Salar de Atacama project in northern Chile. The project involved the construction of a potassium chloride plant, a lithium

carbonate plant, a potassium sulfate plant, and a boric acid plant.

To help finance the above projects, we accessed the international capital markets by issuing additional Series B ADRs on the New York Stock Exchange in 1995. In 1999 we issued additional Series A shares, which were also listed on the New York Stock Exchange as ADRs. Effective March 27, 2008, the Company voluntarily delisted its Series A ADR ("SQM-A") from the New York Stock Exchange.

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

Since 2005, we have strengthened our leadership in our main businesses by increasing our capital expenditure program and making appropriate acquisitions and divestitures. During this period we acquired Kefco in Dubai and the iodine business of DSM. We also sold (i) Fertilizantes Olmeca, our Mexican subsidiary, (ii) our butyllithium plant located in Houston, Texas and (iii) our stake in Impronta S.R.L., our Italian subsidiary. These sales allowed SQM to concentrate its efforts on its core products. In 2007, we completed the construction of a new prilling and granulating plant. In 2008, we completed our lithium carbonate capacity expansion and began work on the engineering stage of a new potassium nitrate plant. During 2010 and 2011, we continued expansion of potassium-based products in the Salar de Atacama. During the fourth quarter of 2011, we completed the construction of a new potassium nitrate facitly in Coya Sur, increasing capacity 300,000 metric tons. We also inaugurated a facility to produce 40,000 of KNO_3, a result of a joint venture with Migao, which was signed in 2008. Through this JV, we constructed a potassium nitrate plant with a production capacity of 40,000 metric tons per year. The plant was opened in January 2011.

In September 2011, the subsidiary Soquimich European Holding B.V., purchased from its associate Nutrisi Holding N.V., 66.6% of the shares it held in the subsidiary Fertilizantes Naturales S.A. In December of 2011, Ferilizantes Naturales S.A. changed its company name to SQM Iberian S.A.

In December 2011, the subsidiary Socuimich European Holding B.V. sold its 50% interest Nutrisi Holding N.V.

Capital Expenditure Program

We are constantly reviewing different opportunities to improve our production methods, reduce costs, increase production capacity of existing products and develop new products and markets. Additionally, significant capital expenditures are required every year in order to sustain our production capacity. We are focused on developing new products in response to identified customer demand, as well as new products that can be derived as part of our existing production or other products that could fit our long-term development strategy. Our capital expenditures during the past five years were mainly related to the acquisition of new assets, construction of new facilities and renewal of plant and equipment.

SQM's capital expenditures in the 2009-2011 period were the following:

(in millions of US$)	2011	2010	2009
Capital Expenditures (1)	501.1	336.0	376.2

(1) For purposes of this item, capital expenditures include investments aimed at sustaining, improving or increasing production levels, including acquisitions and investments in related companies.

In 2009, we had total capital expenditures of US$376.2 million, primarily relating to:

- investment in a new potassium nitrate production facility in Coya Sur;
- investments related to increased production capacity of potassium-based products in the Salar de Atacama;
- upgrade of our railroad system to handle expanded production capacity; and
- various projects designed to maintain production capacity, increase yields and reduce costs.

During 2010, we had total capital expenditures of US$336.0 million, primarily relating to:

- continued investment of a new potassium nitrate production facility in Coya Sur;
- investments related to increasing production capacity of potassium-based products in the Salar de Atacama;
- upgrade of our railroad system to handle expanded production capacity; and
- various projects designed to maintain production capacity, increase yields and reduce costs.

In 2011, we completed a capital expenditure program that included investments totalling approximately US$501.1 million. We focused our capital expenditures projects on:

- increased production capacity of potassium-based products at the Salar de Atacama, with the continued construction and completion of MOP and granulated MOP facilities at the Salar de Atacama;
- increased capacity and efficiencies at nitrate and iodine facilities;
- optimization of our rail system;
- various projects designed to maintain production capacity, increase yields and reduce costs.

For 2012, SQM has developed a capital expenditure program calling for investments totalling approximately $550 million. Among other things, the program would focus on:

- capacity expansion projects in the Tarapaca Region, significantly increasing the production of iodine and nitrates;
- continued investments related to increased production capacity of potassium based products at the Salar de Atacama, including various projects related to finishing products at the Salar de Atacama;
- various projects designed to maintain production capacity, increase yields and reduce costs.

We expect substantially all of the US$550 million of the capital expenditures under our current capital expenditure program to be made in Chile. No external financing is required to finance the capital expenditure program for the 2012 period; however, SQM reserves its right to access capital markets in order to optimize its financial position.

4.B. Business Overview

The Company

We believe that we are the world's largest integrated producer of potassium nitrate, iodine and lithium carbonate. We produce specialty plant nutrients, iodine and derivatives, lithium and derivatives, potassium chloride and certain industrial chemicals (including industrial nitrates). Our products are sold in over 100 countries through our worldwide distribution network, with more than 87% of our sales derived from countries outside Chile in 2011.

Our products are mainly derived from mineral deposits found in northern Chile. We mine and process caliche ore and brine deposits. The caliche ore in northern Chile contains the only known nitrate and iodine deposits in the world and is the world's largest commercially exploited source of natural nitrates. The brine deposits of the Salar de Atacama, a salt-encrusted depression within the Atacama desert in northern Chile, contain high concentrations of lithium and potassium as well as significant concentrations of sulfate and boron.

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

Our products are divided into six categories: specialty plant nutrients; iodine and its derivatives; lithium and its derivatives; industrial chemicals; potassium; and other commodity fertilizers. Specialty plant nutrients are premium fertilizers that enable farmers to improve yields and the quality of certain crops. Iodine, lithium and their derivatives are used in human nutrition, pharmaceuticals and other industrial applications. Specifically, iodine and its derivatives are mainly used in the x-ray contrast media and biocides industries and in the production of polarizing film, which is an important component in liquid crystal display ("LCD") screens. Lithium and its derivatives are mainly used in batteries, greases and frits for production of ceramics. Industrial chemicals have a wide range of applications in certain chemical processes such as the manufacturing of glass, explosives and ceramics, and, more recently, industrial nitrates are being used in solar energy plants as a means for energy storage. Potassium chloride is a commodity fertilizer that is produced and sold by the Company worldwide. In addition, we complement our portfolio of plant nutrients through the buying and selling of other fertilizers for use mainly in Chile.

For the year ended December 31, 2011, we had revenues of US$2,145.3 million, gross margin of US$854.8 million and net income of US$545.8 million. Our market capitalization as of December 31, 2011 was approximately US$14.0 billion.

Our Series A and Series B common shares are listed on the Santiago Stock Exchange. Our Series B ADRs have been listed on the NYSE since 1993. Our ticker symbols on the Santiago Stock Exchange for our Series A and Series B shares are “SQM-A” and “SQM-B,” respectively, and our ticker symbol on the NYSE for the Series B ADRs is “SQM.”

Specialty Plant Nutrition: We produce four principal types of specialty plant nutrients: potassium nitrate, sodium nitrate, sodium potassium nitrate, and specialty blends. Furthermore, SQM sells other specialty fertilizers including trading of third party products. All of these specialty plant nutrients are used in either solid or liquid form mainly on high value crops such as vegetables, fruits, flowers, potatoes and cotton, and they are widely used in crops that employ modern agricultural techniques such as hydroponics, greenhousing, fertigation (where fertilizer is dissolved in water prior to irrigation) and foliar application. According to the type of use or application the products are marketed under the brands: Ultrasol™ (fertigation), Qrop™ (field application), Speedfol™ (foliar application), and Allganic™ (organic farming). Specialty plant nutrition has certain advantages over commodity fertilizers, such as rapid and effective absorption (without requiring nitrification), superior water solubility, alkaline pH (which reduces soil acidity) and low chlorine content. One of the most important products in the SPN business line is potassium nitrate, which is available in crystalline and prill form, allowing for multiple application methods. Crystalline potassium nitrate products are ideal for application by fertigation and foliar sprays and potassium nitrate prills are suitable for split soil applications.

These advantages, plus customized specialty blends that meet specific needs along with technical service provided by us, allow us to create plant nutrition solutions that add value to crops through higher yields and better quality production. Because our products are derived from natural nitrate compounds or natural potassium brines, they have certain advantages over synthetically produced fertilizers, including the presence of certain beneficial trace elements, which makes them more attractive to customers who prefer products of natural origin. As a result, our specialty plant nutrients enable our customers to achieve higher yields and better quality crops, and consequently, specialty plant nutrients are sold at a premium price.

Iodine and its derivatives: 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, polarizing films for liquid crystal displays (LCDs), antiseptics, biocides and disinfectants in the synthesis of pharmaceuticals, herbicides, electronics, pigments, dye components and heat stabilizers.

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

Industrial Chemicals: We produce four industrial chemicals: sodium nitrate, potassium nitrate, boric acid and potassium chloride. Sodium nitrate is used primarily in the production of glass, explosives, charcoal briquettes and metal treatment. Potassium nitrate is used in the manufacturing of specialty glass, and it is also an important raw material for the production of frits for the ceramics and enamel industries. Solar salts, a combination of potassium nitrate and sodium nitrate are used as a thermal storage medium in solar-based electricity generating plants. Boric acid is used in the manufacture of frits for the ceramics and enamel industries, liquid crystal displays (LCD), glass and fiberglass. Potassium chloride is used as an additive in oil drilling as well as in the production of carragenine.

Potassium: We produce potassium chloride and potassium sulfate from brines extracted from the Salar de Atacama. Potassium chloride is a commodity fertilizer used to fertilize a variety of crops including corn, rice, sugar, soybean, and wheat. Potassium sulfate is a specialty fertilizer used mainly in crops such as vegetables, fruits and industrial crops.

Other Products and Services: We also sell other fertilizers and blends, some of which we do not produce.

SQM is the only company that produces and distributes the three main potassium fertilizers: potassium nitrate, potassium sulphate and potassium chloride.

The following table sets forth the percentage breakdown of our revenues for 2011, 2010 and 2009 according to our product lines:

	2011		2010		2009	
Specialty Plant Nutrition	34	%	33	%	37	%
Iodine and Derivatives	21	%	17	%	13	%
Lithium and Derivatives	9	%	8	%	8	%
Industrial Chemicals	7	%	8	%	8	%
Potassium	26	%	29	%	28	%
Other	4	%	4	%	6	%
Total	100	%	100	%	100	%

19

Business Strategy

Our general business strategy is to:

- maintain leadership in specialty plant nutrients, iodine, lithium and industrial nitrates, in terms of production capacity, low costs, competitive pricing and the development of new products;
- increase our production capacity of potassium-related fertilizers from the Salar de Atacama;
- continue to increase the efficiency of our production processes and reduce costs;
- evaluate acquisitions, joint ventures and commercial alliances in each of our core businesses; and
- maintain a solid, conservative financial position and investment grade ratings for our debt securities.

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

Specialty Plant Nutrition

Our strategy in our specialty plant nutrients business is to: (i) continue expanding our sales of natural nitrates by continuing to leverage the advantages of our specialty products over commodity-type fertilizers; (ii) increase our sales of higher margin specialty plant nutrients based on potassium and natural nitrates, particularly soluble potassium nitrate and NPK blends; (iii) pursue investment opportunities in complementary businesses to increase production, reduce costs, and add value to and improve the marketing of our products; (iv) develop new specialty nutrient blends produced in our mixing plants that are strategically located in or near our principal markets, in order to meet specific customer needs; (v) focus primarily on the markets for plant nutrients in soluble and foliar applications in order to establish a leadership position; (vi) further develop our global distribution and marketing system directly and through strategic alliances with other producers and global or local distributors; and (vii) reduce our production costs through improved processes and higher labor productivity so as to compete more effectively.

Iodine and its derivatives

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

Lithium and its derivatives

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

Industrial Chemicals

Our strategy in our industrial chemical business is to (i) maintain our leadership position in the industrial nitrates for thermal storage market and become a long-term, reliable source for the industry; and (ii) pursue to reduce our production costs through improved processes and higher productivity in order to compete more effectively.

Potassium

Our strategy is to significantly increase our production capacity of potassium chloride and potassium sulfate. Our distribution strategy is to; (i) offer a portfolio of potassium products including potassium sulfate, potassium chloride and other fertilizers to our traditional markets; (ii) create flexibility to offer standard or compacted products according to market requirements; (iii) focus in markets where we have logistical advantages.

New Business Ventures

From time to time we evaluate opportunities to expand our business in our current core businesses or within new businesses in which we believe we may have sustainable competitive advantages, both within and outside Chile, and we expect to continue to do so in the future. We are currently exploring concessions for certain metallic minerals. If found, we may decide to exploit, sell or enter into a joint venture to extract these resources. 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.

Main Business Lines

Specialty Plant Nutrition

We believe we are the world's largest producer of potassium nitrate. We estimate that our sales accounted for almost 50% of world potassium nitrate sales by volume in 2011, this estimate does not consider potassium nitrate produced by local Chinese market and sold to the local Chinese market, only net imports to the Chinese market. During 2011, the potassium nitrate market was stable compared with 2010, despite the significant increase on prices. Moreover, global sales totaled around 1 million metric tons in 2011. We also produce the following specialty plant nutrients: sodium nitrate, sodium potassium nitrate, and specialty blends (containing various combinations of nitrogen, phosphate and potassium and generally known as "NPK blends").

These specialty plant nutrients have specific characteristics that increase productivity and enhance quality when used on certain crops and soils. Our specialty plant nutrients have significant advantages for certain applications over commodity fertilizers based on nitrogen and potassium, such as urea and potassium chloride.

In particular, our specialty plant nutrients:

- are fully water soluble, allowing their use in hydroponics, fertigation, foliar applications and other advanced agricultural techniques;
- improve the water use efficiency of crops and saves water;
- provide nitrogen in nitric form, thereby allowing crops absorb nutrients faster than they absorb urea or ammonium-based fertilizers;
- do not release hydrogen after application, thereby avoiding increased soil acidity;
- possess trace elements, which promote disease resistance in plants; and
- are more attractive to customers who prefer products of natural origin.

In 2011, our sales from specialty plant nutrients were US$721.7 million, representing 34% of our total sales for that year and 20% higher than the US$604 million recorded in 2010. Improved economic conditions supported higher demand for premium vegetables and fruits, which has reinforced the consumption of specialty fertilizers.

Specialty Plant Nutrition: Market

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

For instance, over the last ten years the CAGR for vegetable production per capita has grown 3% while the CAGR for world population only reached 1.5%.

Worldwide scarcity of water and arable land drives the development of new agricultural techniques to maximize the use of these resources. It is important to remark that irrigation has been growing at an average annual rate of 1.5% during last 20 years, at a pace equal with population growth. However, micro-irrigation has been growing at 10% per year in the same period. Micro-irrigation systems, which include drip-irrigation and micro-sprinklers, are the most efficient forms of technical irrigation. These applications require fully water-soluble plant nutrients.

Specialty Plant Nutrition: Our Products

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

The following table shows our sales volumes of and revenues from specialty plant nutrients for 2011, 2010 and 2009.

	2011	2010	2009
Sales Volume (Th. MT)			
Sodium nitrate	22.2	16.8	16.5
Potassium nitrate and sodium potassium nitrate	551.1	534.7	392.1
Blended and other specialty plant nutrients(1)	276.0	263.9	256.9
Total Revenues (in US$ millions)	721.7	603.7	527.0

(1) Includes blended and other specialty plant nutrients.

Specialty Plant Nutrition: Marketing and Customers

In 2011, we sold our specialty plant nutrients in close to 90 countries. During the same year, sales of the Company's specialty plant nutrients were exported to the following regions: 14% were sold to customers in Central and South America (not including Chile), 17% to customers in Chile, 24% to customers in North America, 26% to customers in Europe and 19% to customers in other regions. No single customer represented more than 9% of SQM's specialty

plant nutrient sales during 2011, and our 10 largest customers accounted in the aggregate for no more than 33% of sales during that period.

Sales Breakdown	2011	2010	2009
Central & South America	14 %	14 %	22 %
North America	24 %	25 %	26 %
Europe	26 %	22 %	22 %
Chile	17 %	16 %	10 %
Others	19 %	23 %	20 %

We sell our specialty plant nutrients products outside Chile mainly through our own worldwide network of representative offices and through our distribution affiliates.

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

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

In 2005, SQM acquired 100% of the shares of Kefco, which has a urea phosphate plant located in Dubai. Urea phosphate is a specialty plant nutrient that is used primarily in drip irrigation systems. The plant has an annual production capacity of 30,000 metric tons.

In 2005, SQM and Yara formed a joint venture called MISR Specialty Fertilizers ("MSF"), for the production of tailor-made liquid NPK (nitrogen-phosphate-potassium) fertilizers. The plant is located in Egypt and has a production capacity of 80,000 metric tons per year. As of April 2012, the Company has divested from this investment.

In May 2008, we signed a commitment letter for a joint venture with Migao Corporation ("Migao") for the production and distribution of specialty plant nutrients in China. In 2009, we signed a shareholders agreement in connection with this joint venture. Through the joint venture, we constructed a potassium nitrate plant with a production capacity of 40,000 metric tons per year. The plant was opened in January 2011. This joint venture will enable us to increase our presence in China, which represents one of the most important and fastest-growing markets for the fertilizer industry.

In May 2009, SQM's subsidiary Soquimich European Holdings, entered into an agreement with Coromandel Fertilizers Ltd. to create a joint venture for the production and distribution of water soluble fertilizers in India. The agreement established a 50⁄50 contribution to the joint venture. As part of the agreement, a new 15,000 metric ton facility will be constructed in the city of Kakinada to produce water soluble fertilizers (NPK grades). This new facility will require a total investment of approximately US$ 2.6 million and was opened on January 2012.

In October 2009, SQM S.A. signed an agreement with Qingdao Star Plant Protection Technology Co., Ltd., resulting in the creation of the joint venture SQM Qingdao, for the production, distribution and sale of soluble NPK specialty plant nutrients in China. The agreement, a 50/50 joint venture, entails a total investment of US$2 million. The plant, located in the city of Jimo, province of Shangdong, is currently operational and will have an annual production capacity of 15,000 metric tons.

In December 2009, SQM signed an agreement with the French Roullier Group to form the joint venture "SQM VITAS." This agreement joins two of the largest companies in the businesses of specialty plant nutrients, specialty animal nutrition and professional hygiene. Peru, Brazil and Dubai will be the main focus of this joint venture. As part of the agreement, the SQM phosphate plant located in Dubai becomes part of this joint venture. In September 2010, SQM VITAS implemented a new phosphate line that will allow the production of two of the main water soluble phosphorus products in the world: Mono Ammonium Phosphate and Urea Phosphate.

In September 2011, the subsidiary Soquimich European Holding B.V., purchased from its associate Nutrisi Holding N.V., 66.6% of the shares it held in the subsidiary Fertilizantes Naturales S.A. In December of 2011, Ferilizantes Naturales S.A. changed its company name to SQM Iberian S.A. In December 2011, the subsidiary Soquimich European Holding B.V. sold its 50% interest Nutrisi Holding N.V.

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

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

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

Specialty Plant Nutrition: Fertilizer Sales in Chile

We market specialty plant nutrients in Chile through Soquimich Comercial S.A. which sells these products either alone or in blends with other imported products, mainly triple super phosphate (TSP) and diammonium phosphate (DAP), among others.

Soquimich Comercial sells imported fertilizers to farmers in Chile mainly for application in the production of sugar beets, cereals, industrial crops, potatoes, grapes and other fruits. Most of the fertilizers that Soquimich Comercial S.A. imports are purchased on a spot basis from different countries in the world.

We believe that all contracts and agreements between Soquimich Comercial S.A. and third party suppliers, with respect to imported fertilizers, contain standard and customary commercial terms and conditions. During the preceding ten years, Soquimich Comercial S.A. has experienced no material difficulties in obtaining adequate supplies of such fertilizers at satisfactory prices, and we don’t expect problems in the future.

We estimate that Soquimich Comercial S.A.'s sales of fertilizers represented approximately 30% of total fertilizer sales in Chile during 2011. No single customer represented more than 5% of Soquimich Comercial S.A.'s total fertilizer sales revenues, and its 10 largest customers in total represented less than 30% of revenues

Revenues generated by Soquimich Comercial S.A. represented 10.2% of the Company's 2011 consolidated revenues. Soquimich Comercial S.A.'s consolidated revenues were approximately US$218 million and US$178 million in 2011 and 2010 respectively.

Specialty Plant Nutrition: Competition

We believe we are the world's largest producer of sodium and potassium 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 our largest competitor is Haifa Chemicals Ltd. ("Haifa"), in Israel, which is a subsidiary of Trans Resources International Inc. We estimate that sales of potassium nitrate by Haifa accounted for approximately 32% of total world sales during 2011 (excluding sales by Chinese producers into the domestic Chinese market).

S.C.M. Virginia, a Chilean iodine producer, ultimately controlled by Inverraz S.A., also produces potassium nitrate from caliche ore. However, they have focused on the production of sodium potassium nitrate during the last few years. ACF, another Chilean producer, mainly oriented to iodine production, began production of potassium nitrate from caliche ore and potassium chloride during 2005. Kemapco, a Jordanian producer owned by Arab Potash, produces potassium nitrate in a plant located close to the Port of Aqaba, Jordan. In addition, there are several potassium nitrate producers in China, the largest of which are Wentong and Migao. Most of the Chinese production is consumed by the Chinese domestic market.

The principal means of competition in the sale of potassium nitrate are product quality, customer service, location, logistics, agronomic expertise and price.

In 2011, through a partially owned facility, NU3, we also produced soluble and liquid fertilizers using our potassium nitrate as a raw material. Through this activity, we have acquired production technology and marketing know-how, which we believe will be useful for selling our products to greenhouse growers and for use in certain high-technology processes such as fertigation and hydroponics.

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

Iodine and its derivatives

We are the world's largest producer of iodine. In 2011, our revenues from iodine and iodine derivatives amounted to US$454.5 million, representing 21% of our total revenues in that year. We estimate that our sales accounted for around 37% of world iodine sales by volume in 2011.

Iodine: Market

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

Iodine: Our Products

We produce iodine, and through a joint venture with Ajay North America L.L.C., ("Ajay"), a U.S.-based Company, we produce organic and inorganic iodine derivatives. Ajay-SQM Group ("ASG"), established in the mid 1990s, has production plants in the United States, Chile and France. ASG is the world's leading inorganic and organic iodine derivatives producer.

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

We manufacture our iodine and iodine derivatives in accordance with international quality standards and have qualified our iodine facilities and production processes under the ISO-9001:2008 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 for 2011, 2010 and 2009:

	2011	2010	2009
Sales Volume (Th. MT)			
Iodine and derivatives	12.2	11.9	7.2
Revenues (in US$ millions)	454.5	316.3	190.9

Our sales revenues in 2011 increased from US$316.3 million in 2010 to US$454.5 million, mainly due to increases in quantity and price as a consequence of strong demand growth among most uses.

Iodine: Marketing and Customers

In 2011, we sold our iodine products to around 300 customers in 60 countries. During the same year, most of our sales were exported: 36% was sold to customers in Europe, Middle East & Africa, 32% to customers in North America, 3% to customers in Central and South America and 29% to customers in Asia, Oceania and other regions. No single customer accounted for more than 8% of the Company's iodine sales in 2011, and our ten largest customers accounted in the aggregate for no more than 45% of sales.

Sales Breakdown	2011	2010	2009
Europe, Middle East & Africa	36 %	35 %	31 %
North America	32 %	33 %	36 %
Central & South America	3 %	5 %	3 %
Others	29 %	27 %	30 %

We sell iodine through our own worldwide network of representative offices and through our sales, support and distribution affiliates. We maintain inventories 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. Sales agreements generally specify annual minimum and maximum purchase commitments, and prices are adjusted periodically, according to prevailing market prices.

Iodine: Competition

SQM and several producers in Chile, Japan and the United States are the world's main iodine producers. There is also production of iodine in Russia, Turkmenistan, Indonesia and China.

Iodine production in Chile starts from a unique mineral ore known as caliche ore, whereas in Japan, the United States, Russia, Turkmenistan and Indonesia producers extract iodine from underground brines which are mainly obtained together with the extraction of natural gas and petroleum. In China, iodine is extracted from seaweed.

Four Chilean companies, including SQM, accounted for approximately 59% of such sales (37% by SQM and 22% by the other Chilean producers). Other Chilean producers include Atacama Minerals Corp., a Canadian company, Atacama Chemical S.A. (Cosayach), which is controlled by the Chilean holding Inverraz S.A., and ACF Minera S.A. also owned by a Chilean family. A fifth Chilean producer, SCM Bullmine, started iodine exports towards the end of 2011 but still with relatively minor quantities.

ACF Minera is developing a new mining operation in the Antofagasta Region of Chile, the Algorta Norte project, in cooperation with Toyota Tsusho. At this time, it is difficult to estimate the production capacity that this operation will actually reach.

We estimate that eight Japanese iodine producers accounted for approximately 20%, without considering iodine recycling from Japan, of world iodine sales in 2011.

We estimate that iodine producers in the United States (one of which is owned by Ise Chemicals Ltd., a Japanese company) accounted for 4% of world iodine sales in 2011. In 2009, a new U.S. based player, Iofina, announced its entrance to the iodine market. Nevertheless, its production level was small during 2011. Whether Iofina could become a relevant player in coming years is uncertain.

Iodine recycling is an increasing trend worldwide. Several Japanese producers have recycling facilities where they recover iodine and iodine derivatives from iodine waste streams. Iodine recycling, mainly related to LCD consumption, has increased over the past few years and currently represents approximately 15% of world iodine sales. It is estimated that around 70% to 75% of the world recycling was done by Japanese iodine producers.

SQM, through ASG or alone, is also actively participating in the iodine recycling business using iodinated side-streams from a variety of chemical processes in Europe, the United States and Asia.

We estimate that worldwide sales of iodine amounted to between 30.5 and 31.0 thousand metric tons in 2011.

The prices of our iodine and iodine derivative products are determined by market conditions. World iodine prices vary depending upon, among other things, the relationship between supply and demand at any given time. The supply of iodine varies principally depending upon the production of the few major iodine producers (including us) and their respective business strategies. As a result of a strong demand recovery together with a tightened availability from other suppliers, iodine prices increased substantially during 2011 reaching an average of approximately US$38 per kilogram in 2011.

Demand for iodine varies depending upon overall levels of economic activity and the level of demand in the medical, pharmaceutical, industrial and other sectors that are the main users of iodine and iodine-derivative products.

The main factors of competition in the sale of iodine and iodine derivative products are reliability, price, quality, customer service and the price and availability of substitutes. We believe we have competitive advantages compared to other producers due to the size and quality of our mining reserves and the available production capacity. We believe our iodine is competitive with that produced by other manufacturers in certain advanced industrial processes. We also believe we benefit competitively from the long-term relationships we have established with our largest customers. While there are substitutes for iodine available for certain applications, such as antiseptics and disinfectants, there are limited cost-effective substitutes currently available for the main nutritional, pharmaceutical, animal feed, and main chemical uses of iodine, which together account for most iodine sales.

Lithium and its derivatives

We believe we are the world's largest producer of lithium carbonate and one of the world's largest producers of lithium hydroxide. In 2011, our revenues from lithium sales amounted to US$183.4 million, representing 9% of our total revenues. We estimate that our sales accounted for approximately 31% of the world's demand of lithium chemicals in volume.

Lithium: Market

Lithium carbonate is used in a variety of applications, including electrochemical materials for batteries, ceramic and enamel frits, heat resistant glass (ceramic glass), primary aluminum smelting process, air conditioning chemicals, continuous casting powder for steel extrusion, synthesis of pharmaceuticals and lithium derivatives.

Lithium hydroxide is primarily used as a raw material in the lubricating grease industry, as well as in the dyes and the battery industry.

Lithium: Our Products

We produce lithium carbonate at the Salar del Carmen facilities, near Antofagasta, Chile, from solutions with high concentrations of lithium coming from the potassium chloride production at the Salar de Atacama. The annual production capacity of such lithium carbonate plant is 48,000 metric tons per year. We believe that the technologies we use, together with the high concentrations of lithium and unique characteristics of the Salar de Atacama, such as high evaporation rate and concentration of other minerals, allow us to be one of the lowest cost producers worldwide.

We also produce lithium hydroxide at our facilities at the Salar del Carmen next to the lithium carbonate operation. The lithium hydroxide facility has a production capacity of 6 thousand metric tons per year and is one of the largest plants in the world.

The following table sets forth our total sales and revenues from lithium carbonate and its derivatives for 2011, 2010 and 2009:

	2011	2010	2009

Sales Volume (Th. MT)			
Lithium and derivatives	40.7	32.4	21.3
Revenues (in US$ millions)	183.4	150.8	117.8

Our sales revenues in 2011 reached US$183.4 million, an increase from US$150.8 million in 2010, due to significantly higher sales volumes resulting from a healthy demand in 2011, mainly driven by rechargeable batteries and also by uses related to construction, such as ceramic and glass. Other producers experienced some supply constraints during part of the year, allowing SQM to strengthen its position as the leader in lithium carbonate supply.

Lithium: Marketing and Customers

In 2011, we sold our lithium products to over 300 customers in approximately 50 countries. Virtually all of our lithium products were sold overseas: 28% to customers in Europe, 10% to customers in North America, 61% to customers in Asia and Oceania and 1% to customers in other regions. No single customer accounted for more than 14% of the Company's lithium sales in 2011, and our ten largest customers accounted in aggregate for no more than 51% of sales.

Sales Breakdown	2011	2010	2009
Europe, Middle East & Africa	28 %	34 %	31 %
North America	10 %	12 %	14 %
Asia & Oceania	61 %	53 %	53 %
Others	1 %	1 %	2 %

Lithium: Competition

Our main competitors in the lithium carbonate and lithium hydroxide businesses are Chemetall GmbH ("Chemetall"), a subsidiary of Rockwood Specialties Group Inc. and FMC Corporation ("FMC"). In addition, a number of Chinese producers together accounted for approximately 22% of the world market in 2011 in volume. Chemetall produces lithium carbonate in its operations located in Chile, through Sociedad Chilena del Litio Limitada, and in Nevada, United States. Its production of downstream lithium products is mostly performed in the United States, Germany and Taiwan. FMC has production facilities in Argentina, through Minera del Altiplano S.A., where they produce lithium chloride and lithium carbonate. Production of its downstream lithium products is mostly performed in the United States and the United Kingdom.

We believe that Lithium production will increase in the near future. A number of new projects to develop lithium deposits have been announced recently, of which some could materialize in the short to medium term.

We estimate that worldwide sales of lithium chemicals expressed as lithium carbonate equivalent (excluding direct use for lithium minerals) amounted to approximately 135,000 metric tons in 2011.

Industrial Chemicals

In addition to producing sodium and potassium nitrate for agricultural applications, we produce three grades of sodium and potassium nitrate for industrial applications: industrial, technical and refined grades. The three grades differ mainly in their chemical purity. We enjoy certain operational flexibility when producing industrial sodium and potassium nitrate because they are produced from the same process as their equivalent agricultural grades, 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 and commercialize other industrial chemicals such as boric acid, a by-product of the production of potassium sulfate, and industrial-grade potassium chloride, both sold into industrial markets in crystalline form. In 2011, our revenues from industrial chemicals were US$139.5 million, representing about 7 % of our total revenues for that year.

Industrial Chemicals: Market

Industrial sodium and potassium nitrates are used in a wide range of industrial applications, including the production of glass, ceramics, explosives, charcoal briquettes, metal treatment and various chemical processes. In addition, the most significant growth potential comes from industrial nitrates for thermal storage in solar energy projects. Solar salts for this specific application contain a blend of 60% sodium nitrate and 40% potassium nitrate by weight ratio. We expect a significant increase in sales volumes of solar salt applications as new solar energy projects come online.

Boric acid is mainly used as raw material in the manufacturing of glass, fiberglass, ceramic and enamel frits, and LCD flat panel displays.

Industrial potassium chloride is mainly used as an additive in oil and gas drilling fluids as well as in the production of carragenine.

Industrial Chemicals: Our Products

The following table sets forth our sales volumes of industrial chemicals and total revenues for 2011, 2010 and 2009:

	2011	2010	2009
Sales Volume (Th. MT)			
Industrial nitrates	181.2	198.9	149.2
Boric Acid	2.4	2.6	3.4
Revenues (in US$ millions)	139.5	149.7	115.4

Sales of industrial chemicals decreased from US$149.7 million in 2010 to US$139.5 million in 2011.

Industrial Chemicals: Marketing and Customers

We sold our industrial nitrate products in more than 50 countries in 2011; 26% percent of our sales of industrial chemicals were made to customers in North America, 52% to customers in Europe, 17% to customers in Central and South America and 5% to customers in Asia, Oceania and other regions. No single customer accounted for more than 11% of the Company's sales of industrial chemicals in 2011, and our ten largest customers accounted in the aggregate for no more than 59% of such sales.

Sales Breakdown	2011		2010		2009	
Europe, Middle East & Africa	52	%	55	%	45	%
North America	26	%	18	%	30	%
Central & South America	17	%	22	%	18	%
Others	5	%	5	%	7	%

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

Industrial Chemicals: Competition

We believe we are the world's largest producer of industrial sodium and potassium nitrate. In the case of industrial sodium nitrate, we estimate that our sales represented 58% of world demand in 2011 (excluding China and India internal demand, for which we believe reliable estimates are not available). Our competitors are mainly in Europe and Asia, producing sodium nitrate as a by-product of other production processes. In refined grade sodium nitrate, BASF AG, a German corporation and several producers in China and Eastern Europe are highly competitive in the European and Asian markets. Our industrial sodium nitrate products also compete indirectly with substitute chemicals, including sodium carbonate, sodium hydroxide, sodium sulfate, calcium nitrate and ammonium nitrate, which may be used in certain applications instead of sodium nitrate and are available from a large number of producers worldwide.

Our main competitor in the industrial nitrates business, which includes sodium nitrate and potassium nitrate for industrial uses, was Israel Haifa Chemicals in 2011, with an estimated 21% of the market share. We estimate our market share at approximately 37% for 2011.

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

In the boric acid market, we are a relatively small producer mainly supplying regional needs.

In the industrial potassium chloride market, we intend to increase our current minor presence.

Potassium

We produce potassium chloride and potassium sulfate by extracting brines from the Salar de Atacama that are rich in potassium chloride and other salts.

Since 2010, investments on compacted product allowed us to increase our capacity to over 1.7 million MT, granting improved flexibility and market coverage.

In 2011, our potassium chloride and potassium sulfate revenues amounted to US$555.7 million, representing 26% of our total revenues and a 5% increase with respect to 2010. We are currently making investments in potassium chloride and potassium sulfate that will enable us to increase our production and sales of this product.

Sales of potassium chloride and potassium sulfate are reported together. This new classification better reflects the fact that both products are derived from the same natural resource that they share a production process and that potassium is the most relevant driver for costs and pricing. This new classification is also consistent with the market approach to reporting potassium products. Potassium sulfate sales include sales of third party products.

Potassium is one of the three macronutrients that a plant needs to develop. Although potassium does not form part of a plant's structure, it is essential to the development of its basic functions. Potassium chloride is the most commonly used potassium-based fertilizer, and it is used to fertilize crops that can resist high levels of chloride, such as wheat, corn and soybeans, among others.

Some benefits that can be obtained through the use of potassium are:

- Increased production of proteins;
- Increased photosynthesis;
- Intensified transport and storage of assimilates;
- Prolonged and more intense assimilation period;
- Improved water efficiency;
- Regulated opening and closure of stomata;
- synthesis of lycopene.

Potassium chloride is also an important component for our specialty plant nutrients business line. It is used as a raw material to produce potassium nitrate.

Potassium: Market

During the last decade, the potassium chloride market has experienced rapid growth due to several key factors such as a growing world population, higher demand for protein-based diets and less arable land. All of these factors have contributed to growing demand for fertilizers, and in particular potassium chloride, as efforts are being made to maximize crop yields and use resources efficiently. During this same period, major players in this industry on the supply side have produced potassium chloride according to market demand. For the last ten years the Potassium CAGR was around 3%.

We estimate that demand reached the level of 55 million metric tons for MOP and SOP in 2011. We expect historical growth trends to continue in the future.

Potassium: Our Products

Potassium chloride differs from our other specialty plant nutrient products because it is a commodity fertilizer and contains chloride. SQM offers potassium chloride in two grades: standard and compacted. Potassium sulfate is considered a specialty fertilizer and SQM offers three grades: standard, compacted and soluble.

The following table shows our sales volumes of and revenues from potassium chloride and potassium sulfate for 2011, 2010 and 2009.

	2011	2010	2009
Sales Volume (Th. MT)			
Potassium Chloride & Potassium Sulfate	1,103.4	1,273.0	690.0
Revenues (in US$ millions)	555.7	528.2	399.1

Potassium: Marketing and Customers

In 2011, we sold potassium chloride and potassium sulfate in approximately 80 countries. Eight percent of our sales were sold to customers in Chile, 32% to customers in Latin America and 60% to customers in other regions. No single customer accounted for more than 23% of the Company's sales of potassium chloride and potassium sulfate in 2011, and our ten largest customers accounted in the aggregate for no more than 56% of such sales.

Sales Breakdown	2011		2010		2009	
Chile	8	%	6	%	9	%
Latin America	32	%	21	%	18	%
Africa	15	%	16	%	16	%
North America	11	%	10	%	13	%
Others	34	%	47	%	44	%

Potassium: Competition

We estimate that SQM accounted for less than 3% of global sales of potassium chloride and potassium sulfate in 2011. We also believe that Potash Corp has the highest production capacity of potassium chloride in the world. However in 2011, we believe Uralkali accounted for approximately 19% of global sales of potassium chloride, and that Potash Corp and Belaruskali each accounted for approximately 16% of global sales. Uralkali and Silvinit finished a merger process to form a single company at the beginning of 2011.

In the potassium sulfate market, we have several competitors of which the most important are K+S KALI GmbH (Germany), Tessenderlo Chemie (Belgium) and Great Salt Lake Minerals Corp. (United States). We believe that those three producers account for approximately 45% of the world production of potassium sulfate.

Other Products

A large part of our other revenue is related to fertilizer trading, usually commodities. These fertilizers are traded in large volumes worldwide. SQM has a developed a trade, supply, and inventory management business that allows us to respond to the changing fertilizer market in which we operate and profit on these trades.

Production Process

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

- Caliche ore deposits: contain nitrates and iodine;
- Salar brines: contain potassium, lithium, sulfate, boron and magnesium.

Caliche Ore Deposits

Caliche deposits are located in northern Chile, where during 2011 we operated three mines: Pedro de Valdivia, María Elena (El Toco) and Nueva Victoria. In March 2010, operations at the El Toco (mining site of Maria Elena production facilities) and Pampa Blanca mines were temporarily suspended due to decreased global demand for nitrates and iodine during the preceding 15 months. These operations were also suspended in an effort to optimize inventory of these products. Mining activities resumed in November 2010 in Maria Elena.

Caliche ore is found under a layer of barren overburden in seams with variable thickness from twenty centimeters to five meters, and 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 carried out, including full geological reconnaissance, sampling and drilling caliche ore to determine the features of each deposit and its quality. Drill-hole samples are properly identified and 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 (three years) and short-term basis (one year). A mine production plan is a dynamic tool that details daily, weekly and monthly production plans. After drill holes are made, information is updated to offer the most accurate ore supply schedule to the processing plants.

The process generally begins with bulldozers first ripping and removing the overburden in the mining area. This process is followed by production drilling and blasting to break the caliche seams. Front-end loaders load the ore on off-road trucks. In the Pedro de Valdivia mine, trucks deliver the ore to stockpiles next to rail loading stations. The stockpiled ore is later loaded on to railcars that take the mineral to the processing facilities. Until the suspension of the mining operations at El Toco, trucks hauled the ore and delivered it directly to a crushing installation, after which a 14-kilometer-long overland conveyor belt system delivered the ore to the processing facilities.

At the Pedro de Valdivia facility, the ore is crushed and leached to produce concentrated solutions carrying the nitrate, iodine and sodium sulfate. The crushing of the ore produces a coarse fraction that is leached in a vat system and a fine fraction that is leached by agitation. These are followed by liquid-solid separation, where solids precipitate as sediment and liquids containing nitrate and iodine are sent to be processed. In November 2010, operations resumed at the El Toco mining site of Maria Elena using a heap leaching production process. In Nueva Victoria, the run of mine ore is loaded in heaps and leached to produce concentrated solutions. This process was also used at Pampa Blanca until mining operations were suspended in 2010.

Caliche Ore-Derived Products

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

Sodium Nitrate

During 2011, sodium nitrate for both agricultural and industrial applications was produced at the Pedro de Valdivia facility using the Guggenheim method, which was originally patented in 1921 and is based in a closed circuit of leaching vats. This process uses a heated brine to leach the crushed caliche in the vats and selectively dissolve the contents. The concentrated solution is then cooled, producing sodium nitrate crystals which can then be separated from the brine using basket centrifuges. After the crystallization process, the brine is pumped to the iodine facilities, where the iodide is separated using a solvent extraction plant, and finally the brine is returned to the vat leaching process. The fine fraction of caliche´s crushing process is leached at ambient temperature with water, producing a weak solution that is pumped to iodine facilities. After a solvent extraction process, the brine is pumped to solar evaporation ponds in Coya Sur 15 km south of María Elena.

The remaining material from the sodium nitrate crystallization process is vat leach tailings. These tailings are unloaded from the leaching vats and deposited at sites near the production facilities. Our total current crystallized sodium nitrate production capacity at Pedro de Valdivia facility is approximately 500,000 metric tons per year. Crystallized sodium nitrate is processed further at Coya Sur and María Elena production plants to produce potassium nitrate and/or crystallized or prilled nitrates (potassium or sodium), which is transported to our port facilities in Tocopilla by railway. A significant part of the sodium nitrate produced in Pedro de Valdivia was used in the production of potassium nitrate at Coya Sur, sodium potassium nitrate at María Elena and a highly refined industrial grade sodium nitrate at Coya Sur.

Potassium Nitrate

Potassium nitrate is produced at our Coya Sur facility using a production process developed by SQM. The brine leached with the fine fraction process at Pedro de Valdivia and the brines produced by heap leaching process in Maria Elena are pumped to Coya Sur solar evaporation ponds for a nitrate concentration process. After the nitrate concentration process, the brine is pumped to a conversion plant where potassium chloride is added and a chemical reaction begins and produces brine with dissolved potassium nitrate. This brine is pumped to a crystallization plant, which crystallizes the potassium nitrate by cooling and separating it from the mother liquid by centrifuge.

Concentrated nitrate salts were produced at Pampa Blanca up to March 2010, and are currently produced at Nueva Victoria by leaching caliche ore in heaps in order to extract solutions that are rich in iodine and nitrates. These solutions are then sent to plants where iodine is extracted through a solvent-extraction process. The remaining solutions are subsequently sent to solar evaporation ponds where the solutions are evaporated and rich nitrate salts are produced. These concentrated nitrate salts are then sent to Coya Sur where they are used to produce potassium nitrate.

Our current potassium nitrate production capacity at Coya Sur is approximately 950,000 metric tons per year, including 260,000 metric tons per year of technical grade potassium nitrate. A new potassium nitrate plant was commissioned during March 2011. At the end of 2011, the plant was running at 95% capacity, and it produced approximately 190,000 tons of technical grade potassium nitrates during 2011. During 2012, we expect a production of approximately 280,000 tons of technical grade potassium nitrate at this plant. This new plant will use raw material salts harvested in Nueva Victoria and potassium salts from Salar de Atacama.

The nitrates produced in crystallized or prilled form at Coya Sur have been certified by TÜV-Rheiland under the quality standard ISO 9001:2008. Potassium nitrate produced at Coya Sur and María Elena is transported to Tocopilla 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 priling facility using standard, non-patented production methods we have developed. 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.

With certain production restraints and following market conditions we may supply sodium nitrate, potassium nitrate or sodium potassium nitrate either in prilled or crystallized form.

Iodine and Iodine Derivatives

We produce iodine at our Pedro de Valdivia, Maria Elena and Nueva Victoria facilities. During 2011, iodine was produced by extracting it from the solutions resulting from the leaching of caliche ore at the Pedro de Valdivia facility as well as at our Iris facility in December 2011. During 2011, iodine was produced by extracting it from the solutions resulting from the heap leaching of caliche ore at the María Elena, Nueva Victoria and Iris facilities and from the vat leaching of caliche ore at the Pedro de Valdivia facilities. Production of iodine at the Iris plant will continue during 2012.

As in the case of nitrates, the process of extracting iodine from the caliche ore is well established, but variations in the iodine and other chemical contents of the treated ore and other operational parameters require a high level of know-how to manage the process effectively and efficiently.

The solutions resulting from the leaching of caliche carry iodine in iodate form. Part of the iodate solution is reduced to iodide using sulfur dioxide, which is produced by burning sulfur. The resulting iodide is combined with the rest of the untreated iodate solution to release elemental iodine in low concentrations. The iodine is then extracted from the aqueous solutions and concentrated as iodide form using a solvent extraction and stripping plant. The concentrated iodide is oxidized to solid iodine, which is then refined through a smelting process and prilled. We have obtained patents in the United States for our iodine prilling process, and recently in Chile under the Chilean patent number 47,080 for the same prilling process.

Prilled iodine is tested for quality control purposes, using international standard procedures that we have implemented, then packed in 20-50 kilogram drums or 350-700 kilogram maxibags and transported by truck to Antofagasta or Iquique for export. Our iodine and iodine derivatives production facilities have qualified under the new ISO-9001:2008 program, providing third-party certification—by TÜV-Rheiland —of the quality management system. The last recertification process was approved in February 2011. Iodine from the Iris plant will be certified under ISO-9001:2008 during 2012.

Our total iodine production in 2011 was approximately 9.0 thousand metric tons: approximately 5.1 thousand metric tons from Nueva Victoria and Iris, 3.0 thousand metric tons from Pedro de Valdivia, .034 thousand metric tons from Pampa Blanca and .78 thousand metric tons from María Elena. The Nueva Victoria facility is also used for recycling iodine from the potassium iodide contained in the LCD waste solutions imported mainly from Korea. Nueva Victoria is also equipped to toll iodine from iodide delivered from other SQM facilities. We have the flexibility to adjust our production according to market conditions. Our total current production capacity at our iodine production plants is approximately 12,500 metric tons per year.

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 that purchases iodine from us. We have in the past primarily marketed our iodine derivative products in South America, Africa and Asia, while Ajay and its affiliates have primarily sold their iodine derivative products in North America and Europe.

In September 2010, the National Environmental Commission approved the Environmental Study of our Pampa Hermosa project, in the I Region of Chile.

This approval will allow us to increase the production capacity of our Nueva Victoria operations from 4,500 to 11,000 metric tons of iodine per year. This increase will produce up to 1.2 million metric tons of nitrates, will mine up to 33 million metric tons of caliche per year and will use new water rights of up to 570.8 liters per second.

During 2011, we started to make investments in order to increase the water capacity in New Victoria operations from two water sources approved by the Environmental Study of Pampa Hermosa, and to expand the capacity of solar evaporation ponds and to implement new areas of mining and the collection of solutions. These investments will continue during 2012.

Recently, in early 2012, SQM submitted a request to the National Environmental Commission requesting approval to expand our caliche ore extraction in the second region in Chile, allowing for increased production of 10,000 tons of iodine and 1.3 million tons of nitrates. The project also requests permission to build a pipeline from the Pacific Ocean to the mining site.

Salar de Atacama Brine Deposits

The Salar de Atacama, located approximately 250 kilometers east of Antofagasta, is a salt-encrusted depression in the Atacama desert, within which lies an underground deposit of brines contained in porous sodium chloride rock fed by an underground inflow from the Andes mountains. The brines are estimated to cover a surface of approximately 2,800 square kilometers and contain commercially exploitable deposits of potassium, lithium, sulfates and boron. Concentrations vary at different locations throughout the Salar de Atacama. Our production rights to the Salar de Atacama are pursuant to a lease agreement with Corfo, expiring in 2030. Furthermore, under the same agreement and relating to lithium production, the Comisión Chilena de Energía y Nuclear (CChen), establishes a total accumulated extraction limit of 180,100 tons of lithium (Li).

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

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

Potassium Chloride

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

In order to produce potassium chloride, brines from the Salar de Atacama are pumped to solar evaporation ponds. Evaporation of the brines results in a complex crystallized mixture of salts of potassium chloride and sodium chloride. One portion of this mixture is harvested and stored, and the other portion is reprocessed and the remaining salts are transferred by truck to a processing facility where the potassium chloride is separated by a grinding, flotation, and filtering process. Potassium chloride is sent approximately 300 kilometers to our Coya Sur facilities via a dedicated truck transport system, where it is used in the production of potassium nitrate. We sell potassium chloride produced at the Salar de Atacama in excess of our needs to third parties. All of our potassium-related plants in the Salar de Atacama currently have a production capacity in excess of up to 2.6 million metric tons per year. Actual production capacity will depend on volume, metallurgical recovery rates and quality of the mining resources pumped from the Salar de Atacama. During 2011 actual production was higher than in 2010, and we expect that 2012 production will be higher than in 2011.

During 2011, we continued expanding our Dual Plant Complex to produce, at the same time, potassium sulfate and potassium chloride with a total capacity of 1,320,000 metric tons per year.

In addition we have three other plants to produce potassium chloride with a combined capacity of 1,325,000 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 amount in excess of our needs is re-injected into the Salar de Atacama; (ii) sodium chloride, which is similar to the surface material of the Salar de Atacama and is deposited at sites near the production facility; and (iii) other salts containing magnesium chloride.

Lithium Carbonate and Lithium Chloride

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 concentrated solution of lithium chloride is transported by truck to a production facility located near Antofagasta, approximately 230 kilometers from the Salar de Atacama. At the production facility, the solution is purified and treated with sodium carbonate to produce lithium carbonate, which is dried and then, if necessary, compacted and finally packaged for shipment. A portion of this purified lithium chloride solution is packaged and shipped to customers. The production capacity of our lithium carbonate facility, including the expansions made during 2011 is approximately 48,000 metric tons per year. Future production will depend on the actual volumes and quality of the lithium solutions sent by the Salar de Atacama operations, as well as prevailing market conditions.

Lithium carbonate production quality assurance program has been certified by TÜV-Rheiland under ISO 9001:2000 since 2005 and under ISO 9001:2008 since October 2009.

Lithium Hydroxide

Lithium carbonate is sold to customers, and we also use it as a raw material for our lithium hydroxide monohydrate facility, which started operations at the end of 2005. This facility has a production capacity of 6,000 metric tons per year and is located in the Salar del Carmen, adjacent to our lithium carbonate operations. In the production process, lithium carbonate is reacted with a lime solution to produce lithium hydroxide brine and calcium carbonate salt, which is filtered and piled in reservoirs. The brine is evaporated in a multiple effect evaporator and crystallized to produce the lithium hydroxide monohydrate, which is dried and packaged for shipment to customers.

Lithium hydroxide production quality assurance program has been certified by TÜV-Rheiland under ISO 9001:2000 since 2007 and under ISO 9001:2008 since October 2009.

Potassium Sulfate and Boric Acid

Approximately 12 kilometers northeast of the potassium chloride facilities at the Salar de Atacama, we use the brines from the Salar de Atacama to produce potassium sulfate, potassium chloride (as a byproduct of potassium sulfate process) and boric acid. The plant is located in an area of the Salar de Atacama where high sulfate and potassium concentrations are found in the brines. 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 flotation, concentration and reaction processes, after which it is crystallized, dried and packaged for shipment. Production capacity for the potassium sulfate plant is approximately 340,000 MT per year. This capacity is part of the total capacity of our Dual Plant Complex.

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 re-injected into the Salar de Atacama or returned to the evaporation ponds. The principal by-products of the boric acid production process are remaining solutions that are treated with sodium carbonate to neutralize acidity and then are re-injected into the Salar de Atacama.

Raw Materials

The main raw material that we require in the production of nitrate and iodine is caliche ore, which is obtained from our surface mines. The main raw material in the production of potassium chloride, lithium carbonate and potassium sulfate is the brine extracted from our operations at the Salar de Atacama.

Other important raw materials are sodium carbonate (used for lithium carbonate production and for the neutralization of iodine solutions), sulfur, sulfuric acid, kerosene, anti-caking and anti-dust agents, ammonium nitrate (used for the preparation of explosives in the mining operations), woven bags for packaging our final products, electricity acquired from electric utilities, and liquefied natural gas and fuel oil in heat generation. Our raw material costs (excluding caliche ore, salar brines and including energy) represented approximately 17% of our cost of sales in 2011.

In 1998, we entered into a long-term (15-year) electricity supply agreement with Norgener S.A., a major Chilean electricity producer. In 1999, we entered into a long-term electricity supply agreement with Electroandina S.A., also a major Chilean electricity producer. The agreement has a 10-year term, extending to 2009, with two, three-year renewal options exercisable by us. In 2009, we exercised our first extension option. Since April 2000, we have been connected to the northern power grid, which currently supplies electricity to most cities and industrial facilities in northern Chile. During 2006 and 2007, Norgener and Electroandina asked to change their contracts due to the gas

restrictions from Argentina that modified their costs. Under both contracts, the price was finally adjusted upwards and the readjustment clauses were modified.

In March 2012, we entered into a long-term (19-year) supply agreement with Norgener S.A., for 50 MW of power, which will cover part of SQM´s demand growth as well as compensate for contracts that will expire at various times in the future. The agreement will begin April, 1 2012, and expire on December 31, 2030.

In May 2001, we entered into a 10-year gas supply contract with Distrinor S.A., which would supply a maximum of 3,850,000 million Btu per year. This gas supply was sufficient to satisfy the requirements for the facilities that are connected to a natural gas supply. However, beginning in 2004, the Argentinean government has imposed restrictions on the supply of natural gas and, in 2011, the supply has come to a complete stop and we have not received natural gas from Argentina. On the other hand, in 2010, Chile began to import liquefied natural gas, using the same gas pipeline to inject the re-gasified liquefied natural gas. The main use of this fuel is linked to the generation of electricity, so there is a much smaller surplus for industrial customers such as SQM. In 2011, we received only liquefied natural gas (LNG) from the LNG terminal, on a non-continuous basis, representing approximately 13.2% of the gas received in a normal year with continuous supply from Argentina. Consequently, we have had to use other higher-cost fuels as substitutes for natural gas.

We obtain ammonium nitrate, sulfur, sulfuric acid, kerosene and soda ash from several large suppliers, mainly in Chile and the United States, under long-term contracts or general agreements, some of which contain provisions for annual revisions of prices, quantities and deliveries. Diesel fuel is obtained under contracts that provide fuel at international market prices. In addition to the potassium chloride produced by us, during 2011 we acquired potassium chloride from Sociedad Chilena del Litio Limitada, a local Chilean supplier, contract that expired in December 2011.

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

Water Supply

The main sources of water for our nitrate and iodine facilities at Pedro de Valdivia, María Elena and Coya Sur are the Loa and San Salvador rivers, which run near our production facilities. Water for our Pampa Blanca, Nueva Victoria and Salar de Atacama facilities is obtained from wells near the production facilities. We additionally buy water from third parties for our production processes at Pampa Blanca, until operations were idled, and at the Salar del Carmen. In addition, we purchase potable water from local utility companies. We have not experienced significant difficulties obtaining the necessary water to conduct our operations.

Government Regulations

Regulations in Chile Generally

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

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

Under Law No. 16,319, the Company has an agreement with the Chilean Commission of Nuclear Energy ("CCHEN") regarding the exploitation and sale of lithium from the Salar de Atacama. The agreement sets quotas for the tonnage of lithium authorized to be sold.

We also hold water rights obtained from the Chilean water regulatory authority for a supply of water from rivers or wells near our production facilities sufficient to meet our current and anticipated operating requirements. See "Item 3 – Key Information – Risk Factors – Risks Relating to Chile." The Water Code is subject to changes, which could have a material adverse impact on our business, financial condition and results of operations. Law No. 20,017, published on June 16, 2005, modified the Chilean laws relating to water rights. Under certain conditions, these modifications allow the constitution of permanent water rights of up to two liters per second for each well built prior to June 30, 2004, in the locations where we conduct our mining operations. Such rights may be constituted in favor of parties that requested water rights prior to January 1, 2000, when such request had not yet been processed as of June 16, 2005. In constituting these new water rights, the law does not consider the availability of water, or how the new rights may affect holders of existing rights. Therefore, the amount of water we can effectively extract based on our existing rights could be reduced if these additional rights are exercised. These and other potential future changes to the Water Code could have a material adverse impact on our business, financial condition and results of operations.

We operate port facilities at Tocopilla for shipment of products and delivery of certain raw materials pursuant to maritime concessions, under applicable Chilean laws, which are normally renewable on application, provided that such facilities are used as authorized and annual concession fees are paid.

In 2005, the Chilean Congress approved Law No. 20,026 (also known as the “Royalty Law”) establishing a royalty tax to be applied to mining activities developed in Chile. In 2010, modifications were made to the law. The Chilean Government may again decide to levy additional taxes on mining companies or other corporations in Chile, and such taxes could have a material adverse impact on our business, financial condition and results of operations.

In 2006, the Chilean Congress amended the Labor Code, and effective January 15, 2007, certain changes were made affecting companies that hire subcontractors to provide certain services. This new law, known as the Ley de Subcontratación ("Law on Subcontracting"), further provides when a serious accident in the workplace occurs, a company must halt work at the site where the accident took place until authorities from the National Geology and Mining Service inspect the site and prescribe the measures such company must take to prevent future risks. Work may not be resumed until such company has taken the prescribed measures, and the period of time before work may be resumed may last for a number of hours, days, or longer. The effects of this law could have a material adverse effect on our business, financial condition and results of operations.

On December 2, 2009, Law No. 20,393 went into effect, establishing a system of criminal liability for legal entities. The objective of the new regulation is to allow legal entities to be prosecuted for the crimes of (a) asset laundering (b) financing terrorism and (c) bribery, where such crimes are committed by people who hold relevant positions within a legal entity, in order to benefit that legal entity. The law establishes a prevention model that includes, among others, the designation of a person in charge of prevention and the establishment of special programs and policies. The implementation of this model can exempt the company from liability.

On January 1, 2010, Law No. 20,382 went into effect, introducing modifications to Law No. 18,045 (relating to the Securities Market) and Law No. 18,046 (relating to Corporations). The new law relates to corporate governance and, in general, seeks to improve such matters as the professionalization of senior management at shareholder corporations, the transparency of information, and the detection and resolution of possible conflicts of interest. The law establishes the concept of an independent director for certain corporations, including SQM. Such director has a preferential right to be a member of the Directors’ Committee, which position, in turn, grants the director further powers. The new independent director may be proposed by any shareholder with an ownership interest of 1% or more in the company, but he must satisfy a series of independence requirements with respect to the company and the company’s competition, providers, customers and majority shareholders. The Law also refines the regulations regarding the information that companies must provide to the general public and to the Chilean Superintendency of Securities and Insurance, as well as regulations relating to the use of inside information, the independence of external auditors, and procedures for the analysis of transactions with related parties.

41

In 2010, the Chilean Congress amended the Environmental Law to create the Ministry of Environment, the Environmental Assessment Service and the Superintendence of the Environment. These changes introduced important amendments to environmental regulations by setting up new agencies and introducing new provisions and procedures applicable to projects whose operations bear an impact on the environment. The new Ministry designs and implements environmental policies relating to environmental conservation, sustainable growth and the protection of Chile's renewable energy resources. In addition, the Ministry is responsible for enacting emission and quality standard regulations, as well as recovery and decontamination plans. The Environmental Assessment Service pursues procedures of the Environmental Impact System, where projects are environmentally approved or rejected. In procedures for obtaining an environmental license, any person, including legal entities and companies, will be allowed to file oppositions and comments. Summary procedures, such as Environmental Impact Statements, allow comments in support or opposition under certain circumstances. Technical reports from governmental agencies are considered bound for final decision. The Superintendence of the Environment will be an independent agency in charge of coordinating other governmental agencies in their environmental obligations. Likewise, it will receive, investigate and decide complaints concerning the infringement of environmental regulations and sanction violators, deliver injunction orders or levy relevant fines. The Superintendence of the Environment has its powers on hold until the First Environmental Court is installed in Santiago, which is likely to occur during the first half of 2012.

There are currently no mater