CHEMICAL & MINING CO OF CHILE INC
Form 6-K
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UNITED STATES OF AMERICA

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

PURSUANT TO RULE 13A-16 OR 15D-16

OF THE SECURITIES AND EXCHANGE ACT OF 1934

Includes SQM's consolidated financial statements as of December 31, 2012, 2011, and 2010, together with management's discussion and analysis of financial condition and results of operations and a discussion of its business.

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)

El Trovador 4285, Santiago, Chile (562) 2425-2000

(Address and phone number of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F x Form 40-F ¨

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ¨ No x

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82_____

Management's discussion and analysis of

financial condition and results of operations

Overview of our results of operations

We divide our operations into the production and sale of the following product lines:

- specialty plant nutrients;
- iodine and its derivatives;
- lithium and its derivatives;
- potassium, including potassium chloride and potassium sulfate;
- industrial chemicals, principally industrial nitrates and solar salts; and
- the purchase and sale of other commodity fertilizers for use primarily in Chile.

We sell our products through three primary channels: our own sales offices; a network of distributors; and, in the case of our fertilizer products, through Yara International ASA's (formerly Norsk Hydro ASA) ("Yara") 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.

Factors affecting our results of operations

Our results of operations substantially depend on:

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trends in demand for and supply of our products, including global economic conditions, which impact prices and volumes;

- efficient operations of our facilities, particularly as some of them run at production capacity;

- our ability to accomplish our capital expenditures program in a timely manner;

- the levels of our inventories;

- trends in the exchange rate between the U.S. dollar and Chilean peso, as a significant portion of the cost of sales is in Chilean pesos, and trends in the exchange rate between the U.S. dollar and the euro, as a significant portion of our sales is denominated in euros; and

- energy, logistics, raw materials, labor and maintenance costs.

Our revenues totaled US$2,429.2 million during 2012, representing an increase of 13.2% from revenues of US$2,145.3 million in 2011. Gross margin reached US$1,028.6 million (42.3% of revenues), 20.3% higher than gross revenues of US$854.8 million (39.8% of revenues) in 2011. Profit attributable to controlling interests increased by 18.9% to US$649.2 million in 2012, compared to US$545.8 million in 2011.

Our sales volumes in the specialty plant nutrition product line in 2012 decreased by 8.1% compared to 2011. The decrease was a result of increased supply in the market and low market growth mainly due to economic uncertainty in Europe, one of the most important markets for the product line. In general, the specialty plant nutrition markets are less volatile than commodity and fertilizer markets, but future improvement in this product line will depend on the behavior of the market for potassium based fertilizers such as potassium chloride. Potassium chloride is an important raw material in the production of potassium nitrate, a specialty fertilizer and, as a result, prices of the two products are related. We feel confident in the future of specialty plant nutrient market as food quality requirements increase, and land and fresh water scarcity impacts some parts of the world. We suspect market growth to be led primarily by potassium nitrate, and we believe we are prepared to meet the growing market demand in the future.

Our sales volumes in the iodine product line decreased by 10.0% in 2012, as a result of new supply by competitors in the market, and as we returned to normal operational inventory. This volume decrease was more than offset by prices that were more than 40% higher than the average prices in this product line during 2011, thus increasing margins in the iodine segment. This increase in average prices in 2012 was attributable to an increase in demand which was met by new supply in 2012, which stabilized average prices at higher levels compared to 2011. We continue to be a world leader in the iodine market, and these special market conditions have created unique opportunities for us. We expect to maintain our efforts to assure that world iodine needs are met in the future.

Our sales volumes in the lithium product line increased by 12% in 2012 compared to 2011. Along with increased sales volumes, we saw increased prices in this product line during 2012 when compared to 2011, resulting in increased margins in this product line by nearly 30%. The increase in sales volumes and prices were principally attributable to stronger demand and higher costs for marginal producers compared to 2011. We believe the lithium market is positioned to grow in the short and long term due to the development of new technologies, as well as strong growth in industrial applications. We expect world lithium production to increase in the near future, as a number of new projects have been announced and have begun procurement.

Our sales volumes in the potassium product line increased by almost 10% in 2012 compared to the prior year, as we took advantage of our developed distribution network. Our average prices in the potassium market remained relatively stable as compared to 2011. In the fourth quarter of 2012, the potassium market saw major contracts close at lower prices than seen earlier in 2012; during the first quarter of 2013, prices have remained stable. We expect market sales volumes to increase during 2013, but we expect that price pressures will have an impact on potassium revenues in the near term.

Our sales volumes in the industrial chemicals product line increased by 52% in 2012 compared to 2011. The increase was driven by new alternative energy projects that utilize industrial-grade sodium and potassium nitrate in solar thermal energy storage. As a result of the uncertain financial situation in Europe and continued slow growth in the United States, the market has seen higher financing costs for projects in Europe and the United States. As a result, we anticipate some project delays which, in turn, we expect will have an impact on short term sales in the industrial chemicals product line. We remain confident in the long-term prospects in the solar thermal energy storage market, and expect to see industrial chemicals sales volumes in 2014 exceed volumes seen in 2013.

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Our profit for the fourth quarter of 2012 declined by 10.8% from the comparable period in 2011 and was 14.2% lower than our profit for the third quarter of 2012, due principally to the decline in average prices in the potassium market during the fourth quarter of 2012, which affected our specialty plant nutrients product line and potassium product line, and decreased sales volumes in our iodine product line as a result of new supply by competitors in the market. Although potassium prices have remained stable in 2013 to date at the levels reached during the fourth quarter of 2012, we expect pressure on potassium prices to have an impact on our overall profits during the near term. The effect of the volume decrease in our iodine product line was partially offset by prices that were more than 40% higher for 2012 than the average prices in this product line during 2011. As mentioned above, increased supply entered the market in 2012, and we expect to see additional new supply in 2013.

The following table sets forth our revenues and the percentage accounted for by each of our product lines for each of the years indicated:

	Year Ended December 31,							
	2012		2011		2010		2009	
(in millions of U.S. dollars)	US$	%	US$	%	US$	%	US$	%
Specialty plant nutrients	675.3	28	721.7	34	603.7	33	527.0	37
Iodine and its derivatives	578.1	24	454.5	21	316.3	17	190.9	13
Lithium and its derivatives	222.2	9	183.4	9	150.8	8	117.8	8
Potassium	605.1	25	555.7	26	528.2	29	399.1	28
Industrial chemicals	245.2	10	139.5	7	149.7	8	115.4	8
Other commodity fertilizers[(1)]	103.2	4	90.5	4	81.8	5	88.5	6
Total	2,429.2	100	2,145.3	100	1,830.4	100	1,438.7	100

(1) Primarily consists of imported fertilizers distributed in Chile.

The following table sets forth certain of our financial information and the percentage of our revenues of such financial information for each of the years indicated:

	Year Ended December 31,					
	2012		2011		2010	
(in millions of U.S. dollars)	US$	%	US$	%	US$	%
Revenues	2,429.2	100.0	2,145.3	100.0	1,830.4	100.0
Cost of sales	(1,400.6)	57.7	(1,290.5)	60.2	(1,204.4)	65.8
Gross profit	1,028.6	42.3	854.8	39.8	626.0	34.2
Other income	12.7	0.5	47.7	2.2	6.5	0.4
Administrative expenses	(106.4)	4.4	(91.8)	4.3	(78.8)	4.3
Other expenses	(34.6)	1.4	(63.0)	2.9	(36.2)	2.0
Other gains (losses)	0.7	—	5.8	0.3	(7.0)	0.4
Finance income	29.1	1.2	23.2	1.1	12.9	0.7
Finance expenses	(54.1)	2.2	39.3	1.8	(35.0)	1.9
Equity income of associates and joint ventures accounted for using the equity method	24.4	1.0	21.8	1.0	10.7	0.6
Foreign currency exchange differences	(26.8)	1.1	(25.3)	1.2	(5.8)	0.3
Income before income tax expense	873.5	36.0	733.8	34.2	493.3	27.0
Income tax expense	(216.1)	8.9	(179.7)	8.4	(106.0)	5.8
Profit attributable to:						
Controlling interests	649.2	26.7	545.8	25.4	382.1	20.9
Non-controlling interests	8.2	0.3	8.4	0.4	5.1	0.3
Profit for the year	657.4	27.1	554.1	25.8	387.3	21.2

Results of operations—year ended December 31, 2012 compared to year ended December 31, 2011

Revenues

During 2012, we generated total revenues of US$2,429.2 million, a 13.2% increase compared to US$2,145.3 million in 2011.

The main factors causing the increase in revenues and the variation in the different product lines are described below.

Specialty plant nutrition

Specialty plant nutrition revenues for 2012 totaled US$675.3 million, a 6.4% decrease compared to US$721.7 million in 2011. Set forth below are sales volume data for the specified years by product category in this product line.

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(in Th. MT)	2012	2011	% Change
Potassium nitrate and sodium potassium nitrate	469.3	551.1	(15)%
Specialty blends	197.5	189.3	4 %
Other specialty plant nutrients (*)	89.0	86.7	3 %
Sodium nitrate	24.4	22.2	10 %

* Includes trading of other specialty fertilizers.

Market supplies of the specialty plant nutrition market increased during 2012, as a significant competitor returned to normal production levels. In general, the specialty plant nutrition markets are less volatile than commodity and fertilizer markets, but future improvement in this product line will depend on the behavior of the market for potassium based fertilizers such as potassium chloride.

Our overall sales volumes in the specialty plant nutrition product line in 2012 decreased compared to 2011. This was a result of increased supply in the market and low market growth due mainly to the financial situation in Europe, one of the most important markets for this product line. Prices within our specialty plant nutrition product line increased by almost 2% in 2012 as compared to 2011.

Iodine and its derivatives

Revenues for iodine and its derivatives during 2012 totaled US$578.1 million, a 27.2% increase compared to US$454.5 million in 2011. Set forth below are sales volume data for the specified years.

(in Th. MT)	2012	2011	% Change
Iodine and its derivatives	11.0	12.2	(10)%

Overall market sales volumes of iodine reached new levels in 2012 mainly as a result of increased demand. Strong demand was led primarily by X-ray contrast media and pharmaceutical applications. Increased supply entered the market in 2012, and we expect to see additional new supply in 2013.

Our sales volumes decreased by approximately 10% in 2012, as a result of new market supply, and as we returned to normal operational inventory. These volume decreases were more than offset by prices that were more than 40% higher than average prices during 2011, increasing gross profit in the iodine product line by over 38%.

Lithium and its derivatives

Revenues for lithium and its derivatives totaled US$222.2 million during 2012, a 21.2% increase compared to US$183.4 million in 2011. Set forth below are sales volume data for the specified years.

(in Th. MT)	2012	2011	**% Change**	
Lithium and its derivatives	45.7	40.7	12	%

The lithium market continued to grow in 2012, primarily due to growth in the rechargeable battery and lubricating grease markets, as has been the trend in recent years.

Our sales volumes in the lithium segment increased by 12% in 2012, as compared to 2011. We believe we supply over one-third of the world lithium chemical market, and aim to maintain this market share in coming years.

Along with increased volumes, we saw increased prices of approximately 8% in this product line during 2012 as compared to the previous year, increasing our gross margin by approximately 30% as compared with 2011.

We believe we are the lowest cost producer of lithium in the world. We produce lithium as a by-product of potassium chloride, which gives us a unique competitive advantage.

Potassium

Potassium revenues for 2012 totaled US$605.1 million, an 8.9% increase as compared to US$555.7 million in 2011. Set forth below are sales volume data for the specified years.

(in Th. MT)	2012	2011	% Change
Potassium chloride and potassium sulfate	1,209.5	1,103.4	10 %

We estimate that market sales volumes of potassium chloride decreased by 12% in 2012 as compared to 2011. Despite favorable economic conditions of relevant crops, demand was mainly affected by economic uncertainty in Europe and the behavior of influential buyers in China and India.

We increased our sales volumes in this product line approximately 10% compared to 2011, as we took advantage of our developed distribution network. Average prices in the potassium market remained relatively stable as compared to 2011. In the fourth quarter of 2012, the potassium market saw major contracts close at lower prices than seen earlier in 2012; during the first quarter of 2013, prices have remained stable.

Industrial chemicals

Industrial chemicals revenues for 2012 totaled US$245.2 million, a 75.8% increase as compared to US$139.5 million in 2011. Set forth below are sales volume data for the specified years by product category.

(in Th. MT)	2012	2011	% Change
Industrial nitrates	277.7	181.2	53 %
Boric acid	1.8	2.4	(23)%

Industrial chemical demand for traditional applications such as detergents and glass has remained relatively stable as compared to 2011.

New alternative energy projects that utilize industrial-grade sodium and potassium nitrate in solar thermal energy storage had a positive impact on our 2012 industrial chemicals volumes, which increased by over 50% as compared to 2011.

Prices for industrial chemicals increased by 15%, mainly because of the product mix, increasing our gross margins by approximately 48%.

Other products and services

Revenues from sales of other commodity fertilizers and other products totaled US$103.2 million during 2012, a 14.0% increase compared to US$90.5 million in 2011.

Cost of sales

During 2012, cost of sales increased by 8.5% to US$1,400.6 million in 2012 from US$1,290.5 million in 2011, but remained stable as a percentage of revenues, representing 58% of revenues in 2012 as compared to 60% of revenues in 2011. This increase was principally caused by higher volume production and a stronger Chilean peso. Cost of sales includes, among others, the costs of depreciation and amortization.

Gross profit

Gross profit increased by 20.3% from US$854.8 million in 2011 to US$1,028.6 million in 2012, but remained stable as percentage of revenues, representing 42.3% of revenues in 2012 as compared to 39.8% of revenues in 2011. Gross margin was impacted by generally higher average prices in 2012 compared to 2011, led by iodine prices, which increased by 40% on average in 2012 as compared to prices in 2011.

Administrative expenses

Administrative expenses as a percentage of revenues remained stable in 2012 as compared to 2011. Administrative expenses were US$106.4 million (4.4% of revenues) in 2012 and US$91.8 million (4.3% of revenues) in 2011.

Other expenses

Other expenses decreased by 45.1% to US$34.6 million in 2012 from US$63.0 million in 2011. Other expenses represented 1.4% of revenues in 2012 as compared to 2.9% of revenues in 2011. The decrease in other expenses is attributable to a decrease in expenses accounted for as depreciation of assets no longer in use.

Other gains (losses)

Other gains (losses) decreased by 87.9% to a gain of US$0.7 million in 2012 from a gain of US$5.8 million in 2011, but remained stable as a percentage of revenues, representing 0.0% of revenues in 2012 as compared to 0.3% of revenues in 2011. The decrease is attributable in part to a loss in sales of investment in associates and a provision no longer in effect for the suspension of our operations at El Toco mine at the Maria Elena facility.

Finance income

Finance income increased by 25.4% to US$29.1 million in 2012 from US$23.2 million in 2011, but remained stable as a percentage of revenues, representing 1.2% of revenues in 2012 as compared to 1.1% of revenues in 2011.

Finance expenses

Finance expenses increased by 37.7% to US$54.1 million in 2012 from US$39.3 million in 2011, but remained stable as a percentage of revenues, representing 1.8% of revenues in 2011 as compared to 2.1% of revenues in 2012. The increase in finance expenses was due to a net increase in indebtedness during 2012 and a decrease in capitalized interest related to ongoing capital expenditure projects as compared to 2011.

Equity income of associates and joint ventures accounted for using the equity method

Equity income of associates and joint ventures accounted for using the equity method increased by 11.9% to US$24.4 million in 2012 from US$21.8 million in 2011, but remained stable as a percentage of revenues, representing 1.0% of revenues both in 2012 and in 2011.

Foreign currency exchange differences

Losses from foreign currency exchange differences increased by 5.9% to a loss of US$26.8 million in 2012 from a loss of US$25.3 million in 2011, but remained stable as a percentage of revenues, representing 1.1% of revenues in 2012 as compared to 1.2% of revenues in 2011. Since most of our operations are in Chile, part of our costs of sales are related to the Chilean peso. Although we have an active hedging program and policy, we are subject to currency fluctuations. During 2012, the Chilean peso appreciated by 7.6% against the U.S. dollar.

Income tax expense

In 2012, income tax expense increased by 20.3% to US$216.1 million, representing an effective consolidated tax rate of 24.7%, compared to income tax expense of US$179.7 million in 2011. This increase was a result of an increase in gross profit of 20.3% from 2011 to 2012.

Profit for the year

Profit for the year increased by 18.6% to US$657.4 million in 2012 from US$554.1 million in 2011, as a result of the foregoing factors.

Results of operations—year ended December 31, 2011 compared to year ended December 31, 2010

Revenues

During 2011, we generated total revenues of US$2,145.3 million, a 17.2% increase compared to US$1,830.4 million in 2010.

The main factors causing the increase in revenues and the variation in the different product lines are described below:

Specialty plant nutrition

Specialty plant nutrition revenues for 2011 totaled US$721.7 million, a 19.5% increase compared to US$603.7 million in 2010. Set forth below are sales volume data for the specified years by product category in this product line.

(in Th. MT)	2011	2010	% change
Potassium nitrate and sodium potassium nitrate	551.1	534.7	3 %
Specialty blends	189.3	176.3	7 %
Other specialty plant nutrients(*)	86.7	87.6	(1)%
Sodium nitrate	22.2	16.8	32 %

* Includes trading of other specialty fertilizers.

Market sales volumes of fertilizer showed a significant improvement in 2011 over 2010 levels, and our specialty plant nutrition product line was no exception. The specialty plant nutrition market showed the same upward trend as the potash market. Additionally, tight supply issues in the potassium nitrate market created opportunities to increase sales volumes, and this, coupled with strong growth in demand in potassium, led to increased prices in 2011. North American and European markets were demand drivers during 2011.

Average prices in 2011 increased by 14% over average prices in 2010. We also had improved margins as a result of increased production from the highly efficient facility in Coya Sur.

Iodine and its derivatives

Revenues for iodine and its derivatives during 2011 totaled US$454.5 million, a 43.7% increase compared to US$316.3 million in 2010. Set forth below are sales volume data for the specified years.

(in Th. MT)	2011	2010	% change
Iodine and its derivatives	12.2	11.9	3 %

Iodine markets surpassed previous records and reached historical levels in 2011. Demand increased in most applications, but specifically in the X-ray contrast media market and for pharmaceutical uses. Weakened supply also had an impact on the iodine markets in 2011, driving spot prices to unprecedented highs. As a result of a strong demand recovery, together with a tightened availability from other suppliers, iodine prices increased substantially during 2011, and SQM saw an increase in average prices for iodine of almost 40%.

We continue to be a world leader in the iodine market, and we were uniquely positioned to take advantage of increased demands in the iodine markets and meet the shortfall in supply in 2011.

Lithium and its derivatives

Revenues for lithium and its derivatives totaled US$183.4 million during 2011, a 21.6% increase as compared to US$150.8 million in 2010. Set forth below are sales volume data for the specified years.

(in Th. MT)	2011	2010	% change
Lithium and its derivatives	40.7	32.4	26 %

The lithium market continued to grow in 2011, primarily due to growth in the rechargeable battery and lubricating grease markets. Lithium sales exceeded expectations in 2011. Prices in this product line remained relatively stable throughout 2011.

Potassium

Potassium revenues for 2011 totaled US$555.7 million, a 5.2% increase as compared to US$528.21 million in 2010. Set forth below are sales volume data for the specified years.

(in Th. MT)	2011	2010	% change
Potassium chloride & Potassium Sulfate	1,103.4	1,273.0	(13)%

The potassium chloride market continued to be robust in 2011, as farmers continued to be motivated to maximize yields and improve soil productivity through optimal fertilization. Additionally, world demand for commodity products continues to expand as the world population grows and the demand for more and better quality food increases.

Prices in the fertilizer market continued to increase over the course of 2011, and average prices in the potassium product line were 21% higher in 2011 as compared to 2010.

Industrial chemicals

Industrial chemicals revenues for 2011 totaled US$139.5 million, a 6.8% decrease from US$149.7 million in 2010. Set forth below are sales volume data for the specified years by product category.

(in Th. MT)	2011	2010	% change
Industrial nitrates	181.2	198.9	(9)%
Boric acid	2.4	2.6	(9)%

Industrial chemical demand for traditional applications such as explosives, detergents and glass, among others, remained relatively stable in 2011 as compared to 2010. Average prices for industrial chemicals in 2011 saw a slight increase compared to 2010.

Other products and services

Revenues from sales of other commodity fertilizers and other products totaled US$90.5 million during 2011, a 10.6% increase compared to US$81.8 million in 2010.

Cost of sales

During 2011, cost of sales increased by 7.1% to US$1,290.5 in 2011 from from US$1,204.4 million in 2010, but decreased as a percentage of revenues, representing 60% of revenues in 2011 as compared to 66% of revenues in 2010. This cost of sales increase was mainly caused by higher energy prices and a stronger Chilean peso. Cost of sales includes, among others, the costs of depreciation and amortization.

Gross profit

Gross profit increased by 36.5% from US$626.0 million in 2010 to US$854.8 million in 2011. As a percentage of revenues, gross profit increased from 34.2% of revenues in 2010 to 39.8% of revenues in 2011. Gross margin increased mainly as a result of higher average prices of potash (approximately 20%) and iodine (approximately 40%) in 2011as compared to 2010.

Administrative expenses

Administratives expenses as a percentage of revenues remained unchanged in 2011 as compared to 2010. Administrative expenses were US$91.8 million in 2011 and US$78.8 million in 2010, representing 4.3% of revenues in both years.

Other expenses

Other expenses increased by 74.0% to US$63.0 million in 2011 from US$36.2 million in 2010. Other expenses represented 2.9% of revenues in 2011 as compared to 2.0% of revenues in 2010. The increase in other expenses is attributable in part to the recognition of depreciation of certain assets that we no longer use.

Other gains (losses)

Other gains (losses) increased to a gain of US$5.8 million in 2011 from a loss of US$7.0 million in 2010, but remained stable as a percentage of revenues, representing 0.3% of revenues in 2011 as compared to 0.4% of revenues in 2010. This increase is attributable in part to the provision relating to the temporary suspension of our operations at El Toco mine at the Maria Elena facility.

Finance income

Finance income increased by 79.8% to US$23.2 million in 2011 from US$12.9 million in 2010, but remained stable as a percentage of revenues, representing 1.1% of revenues in 2011 as compared to 0.7% of revenues in 2010. The increase was mainly due to an increase in cash and cash equivalents in 2011, together with higher investment yields in Chile in 2011.

Finance expenses

Finance expenses increased by 12.3% to US$39.3 million in 2011 from US$35.0 million in 2010, but remained stable as a percentage of revenues, representing 1.8% of revenues in 2011 as compared to 1.9% of revenues in 2010.

Equity income of associates and joint ventures accounted for using the equity method

Equity income of associates and joint ventures accounted for using the equity method increased by 103.7% to US$21.8 million in 2011 from US$10.7 million in 2010, but remained relatively stable as a percentage of revenues, representing 1.0% of revenues in 2011 as compared to 0.6% of revenues in 2010.

Foreign currency exchange differences

Losses from foreign currency exchange differences increased to a loss of US$25.3 million in 2011 from a loss of US$5.8 million in 2010, partly due to significant depreciations in the euro and South African rand. Although we have an active hedging program and policy, we are still subject to exchange rate fluctuations.

Income tax expense

In 2011, income tax expense increased by 69.5% to US$179.7 million, representing an effective consolidated tax rate of 24.5%, as compared to income tax expense of US$106.0 million in 2010. This increase was a result of an increase in the Chilean corporate tax rate from 17% in 2010 to 20% in 2011, as well as an increase in gross profit of 36.5% from 2010 to 2011.

Profit for the year

Profit for the year increased by 43.1% to US$554.1 million in 2011 from US$387.3 million in 2010, as a result of the foregoing factors.

Liquidity and capital resources

As of December 31, 2012, we had US$568.5 million of cash and cash equivalents and time deposits. In addition, as of December 31, 2012, we had unused uncommitted working capital credit lines amounting to US$530.0 million.

Shareholders' equity increased from US$1,812.8 million as of December 31, 2011 to US$2,132.8 million as of December 31, 2012. Our ratio of total liabilities to total equity (including non-controlling interest) on a consolidated basis decreased from 1.08 as of December 31, 2011 to 1.02 as of December 31, 2012.

We evaluate from time to time our cash requirements to fund capital expenditures, dividend payouts and increases in working capital. As debt requirements also depend on the level of accounts receivables and inventories, we cannot accurately determine the amount of debt we will require.

The table below sets forth our cash flows for 2012, 2011, and 2010:

(in millions of U.S. dollars)	2012	2011	2010
Net cash from (used in):			
Net cash from operating activities	650.2	571.3	618.5

Net cash used in financing activities	(197.7)	(105.2)	(254.2)
Net cash used in investing activities	(562.9)	(516.2)	(236.8)
Effects of exchange rate fluctuations on cash and cash equivalents	(10.3)	(29.6)	21.5
Net increase (decrease) in cash and cash equivalents	(120.6)	(79.7)	149.0

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

Our capital expenditures, including the purchase of property, plant and equipment, amounted to approximately US$446.0 million in 2012. For 2013, we expect total capital expenditures of approximately US$500.0 million, which amount may be increased or decreased based on market conditions. See “Business—Business strategy—Capital expenditure program.”

Our other major use of funds is the payment of dividends. We paid dividends of US$334.8 million and US$277.3 million during 2012 and 2011, respectively. Our current dividend policy, as approved by shareholders, is to pay 50% of our profit for each fiscal year in dividends. Under Chilean law, the minimum dividend payout is 30% of profit for each fiscal year.

Financing activities

Our current ratio (current assets divided by current liabilities) was 3.69 as of December 31, 2012. The following table sets forth key information about our outstanding long- and short-term debt as of December 31, 2012.

Debt Instrument[1][2]	Interest rate	Issue date	Maturity date	Amortization
Series O Bond — UF 1.50 million	3.80 %	Apr. 4, 2012	Feb. 1, 2033	Bullet
Series H Bond — UF 4 00 million	4.90 %	Jan. 13, 2009	Jan. 5, 2030	Semiannual, beginning in 2019
Series C Bond — UF 2.1 million	4.00 %	Jan. 24, 2006	Dec. 1 , 2026	Semiannual, beginning in 2007
5.50% Notes due 2020 — US$250 million	5.50 %	Apr. 21, 2010	Apr. 21, 2020	Bullet
Series M Bond — UF 1.00 million	3.30 %	Apr. 4, 2012	Feb. 1, 2017	Bullet
Bilateral loan — US$140 million	2.69 %	Sep. 13, 2012	Sep. 13, 2017	Bullet
6.125% Notes due 2016 — US$200 million	6.13 %	Apr. 5, 2006	Apr. 15, 2016	Bullet
Bilateral loan — US$40 million	1.52 %	Oct. 6, 2011	Oct. 6, 2016	Bullet
Bilateral loan — US$50 million	1.26 %	Oct. 12, 2011	Oct. 12, 2016	Semiannual, beginning in 2014
Bilateral loan — US$50 million	1.46 %	Dec. 21, 2011	Dec. 21, 2016	Semiannual, beginning in 2014
Bilateral loan — US$50 million	1.62 %	Oct. 19, 2012	Oct. 19, 2015	Bullet
Series G Bond — CH$21,000 million	7.00 %	Jan. 13, 2009	Jan. 5, 2014	Bullet
Series I Bond — UF 1.50 million	3.00 %	May 8, 2009	Apr. 1, 2014	Bullet
Series J Bond — CH$52,000 million	5.50 %	May. 8, 2009	Apr. 1, 2014	Bullet
Bilateral loan — US$50 million	1.54 %	Sep. 12, 2011	Sep. 12, 2014	Bullet
Bilateral loan — US$20 million[3]	1.04 %	Apr. 19, 2012	Jan. 16, 2013	Bullet
Bilateral loan — US$20 million[4]	1.03 %	May 4, 2012	Feb. 28, 2013	Bullet
Bilateral loan — US$20 million	1.90 %	May 15, 2012	May 10, 2013	Bullet
Bilateral loan — US$20 million	1.64 %	Jun. 25, 2012	Jun. 20, 2013	Bullet
Bilateral loan — US$20 million	1.70 %	Jun. 29, 2012	Jun. 24, 2013	Bullet
Bilateral loan — US$20 million	1.09 %	Dec. 3, 2012	Aug. 30, 2013	Bullet

(1) UF- and Ch$-denominated bonds are fully hedged to U.S. dollars with cross-currency swaps.

(2) Some floating rate bilateral loans are currently hedged to fixed rate loans using interest rate swaps.

(3) On January 16, 2013, we repaid a short term bank loan, in the principal amount of US$20 million, with a term of nine months and an annual interest rate of approximately LIBOR + 0.72%, and we entered into a short term bank loan, in the principal amount of US$20 million, with a term of eight months and an annual interest rate of approximately LIBOR + 0.315%.

(4) On February 28, 2013, we repaid a short term bank loan, in the principal amount of US$20 million, with a term of 10 months and an annual interest rate of approximately LIBOR + 0.72%, and we entered into a short term bank loan, in an amount of US$20 million with a term of nine months and an annual interest rate of approximately LIBOR 3M + 0.35%.

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As of December 31, 2012, we had total debt of US$1,599 million, compared to total debt of US$1,398.03 million as of December 31, 2011. Taking into account the effects of financial derivatives, our total debt amounted to US$1,498.39 million as of December 31, 2012 and US$1,341.93 million as of December 31, 2011. Of the total debt as of December 31, 2012, US$152.84 million was short-term debt. All of our UF and Ch$ local bonds, as of December 31, 2012, were hedged with cross-currency swaps to the U.S. dollar.

The financial covenants related to our debt instruments include: (i) limitations on the ratio of total liabilities to equity (including non-controlling interest) on a consolidated basis, (ii) minimum net worth requirements, (iii) limitations on net financial debt to EBITDA, (iv) limitations on interest indebtedness of operating subsidiaries and (v) minimum production assets. We believe that the terms and conditions of our debt agreements are standard and customary and that we are in compliance in all material respects with such terms and conditions.

The following table sets forth the maturities of our long-term debt by year as of December 31, 2012:

Maturity[(1)] **(in millions of U.S. dollars)**	Amount
2013	7.14
2014	300.67
2015	97.14
2016	287.14
2017	194.74
2018	7.14
2019 and thereafter	568.92
Total	1,462.89

(1) Only the principal amount has been included. For the UF- and Ch$-denominated local bonds, the amounts presented reflect the real U.S. dollar obligation as of December 31, 2012, not including the effects of the cross currency swaps that hedge these bonds to the U.S. dollar and which had, as of December 31, 2012, a market value of US$100.6 million in favor of SQM.

Derivative financial instruments and hedging

We use derivative financial instruments, including foreign currency forwards and options contracts as well as cross currency and interest rate swaps, to mitigate the risks associated with fluctuations in interest and exchange rates. Such derivative financial instruments are initially recognized at fair value as of the date of the derivative contract and are subsequently remeasured at fair value quarterly. Derivatives are recorded as assets when fair value is positive and as liabilities when fair value is negative. Any gain or loss that arises from the changes of the fair value of derivatives during the year that does not qualify for hedge accounting is recorded directly to the statement of income. The fair value of cross currency and interest rate swaps is calculated using market information to estimate their net present values, which later are confirmed with the corresponding counterparty.

Off-balance sheet arrangements

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

Market risk analysis

We are exposed to market risk from changes in currency exchange rates and interest rates. Through various arrangements described below, we seek to hedge our foreign currency exposures.

For additional information concerning our hedging transactions, see note 9.3 to our audited financial statements included below.

Foreign currency risk

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. As of December 31, 2012, the Chilean peso exchange rate was Ch$479.96 per U.S. dollar, while as of December 31, 2011, the Chilean peso exchange rate was Ch$519.20 per U.S. dollar. As of March 15, 2013, the Observed Exchange Rate was Ch$471.10 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 risk

We have outstanding short- and long-term debt that bears interest based on 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, 2012, approximately 21% 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.

Critical accounting policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, which would potentially result in materially different results under different assumptions and conditions. For more information regarding our critical accounting policies, see note 3 to our see not 3 to our audited consolidated financial statements included below.

We believe that our critical accounting policies applied in the preparation of our audited consolidated financial statements are limited to those described below. It should be noted that in many cases, IFRS specifically dictates the accounting treatment of a particular transaction, limiting management’s judgment in their application. There are also areas in which management’s judgment in selecting available alternatives would not produce materially different results.

Trade and other accounts receivable

Trade and other accounts receivable relate to non-derivative financial assets with fixed payments that can be determined and are not quoted in any active market. These arise from sales operations involving the products and/or services that we sell directly to our customers that are not within the following categories:

- those which we have the intention of selling immediately in the near future and which are held-for-sale;
- those designated at their initial recognition as available-for-sale; and
- those through which the holder does not intend to partially recover substantially its entire investment for reasons other than credit impairment and therefore must be classified as available-for-sale.

These assets are initially recognized at their fair value (which is equivalent to their face value, discounting implicit interest for installment sales) and subsequently at amortized cost according to the effective interest rate method less a provision for impairment loss. When the face value of the account receivable does not significantly differ from its fair value, it is recognized at face value. An allowance for impairment loss is established for trade accounts receivable when there is objective evidence that we will not be able to collect all the amounts owed to us according to the original terms of accounts receivable.

Implicit interest in installment sales is recognized as interest income when interest is accrued over the term of the sale.

Income tax

Corporate income tax for the year is determined as the aggregate of current taxes from all of the consolidated companies. Current taxes are calculated on the basis of the tax laws enacted or substantively enacted as of the date of our statements of financial position in the countries in which we and our subsidiaries operate and generate taxable income.

Deferred tax is recognized using the liability method on temporary differences arising between the tax basis for assets and liabilities and their carrying amounts in our audited consolidated financial statements. Deferred income taxes are calculated using the tax rates expected to be applicable when the assets are realized or the liabilities are settled.

In conformity with current Chilean tax regulations, the provision for corporate income tax and taxes on mining activity is recognized on an accrual basis, presenting the net balances of accumulated monthly tax provisional payments for the fiscal period and credits associated with it. The balances of these accounts are presented in current income taxes recoverable or current taxes payable, as applicable.

Tax on companies and variations in deferred tax assets or liabilities that are not the result of business combinations are recorded in income statement accounts or net shareholders' equity accounts in our consolidated statements of financial position, depending on the origin of the gains or losses which have generated them.

At year end, the carrying value of deferred tax assets has been reviewed and reduced for as long as it is possible for there to be no sufficient taxable income to allow the recovery of all or a portion of the deferred tax asset. Likewise, at the date of the statement of financial position, deferred tax assets not recognized are revalued and recognized as long as it has become possible that future taxable income will allow the recovery of the deferred tax asset.

With respect to deductible temporary differences associated with investments in subsidiaries, associated companies and interests in joint ventures, deferred tax assets are recognized solely provided that there is a possibility that the temporary differences will be reversed in the near future and that there will be taxable income with which they may be used.

The deferred income tax related to entries directly recognized in equity is recognized with an effect on equity and not with an effect on profit or loss.

Deferred tax assets and liabilities are offset if there is a legally receivable right of offsetting tax assets against tax liabilities and the deferred tax is related to the same tax entity and authority.

Inventory

We state inventory for the lower of cost and net realizable value. The method used to determine the cost of inventory is weighted average cost. The cost of finished products and products-in-progress includes direct costs of materials and, as applicable, labor costs, indirect costs incurred to transform raw materials into finished products and general expenses incurred in carrying inventory to their current location and conditions.

The net realizable value represents the estimate of the sales price less all finishing estimated costs and costs that will be incurred in sales and distribution processes. Commercial discounts, rebates obtained and other similar entries are deducted in the determination of the cost. We conduct an evaluation of the net realizable value of inventory at the end of each year, recording a provision with a charge to income when circumstances warrant. When the circumstances that previously gave rise to the reserve cease to exist, or when there is clear evidence of an increase in the net realizable value due to a change in economic circumstances or prices of main raw materials, the estimate made previously is modified. The valuation of obsolete, impaired or slow-moving products relates to their estimated net realizable value.

Provisions on our inventory have been made based on a technical study which covers the different variables affecting products in stock (density, humidity, among others).

Raw materials, supplies and materials are recorded at the lower of acquisition cost or market value. Acquisition cost is calculated according to the annual average price method.

Obligations related to staff severance indemnities and pension commitments

Our obligations with respect to our employees are established in collective bargaining agreements and individual employment contracts. In the case of our employees in the United States, our obligations are established through a pension plan, which was terminated in 2002 (see note 3.11 to our audited financial statements included below).

These obligations are valued using the actuarial calculation, which considers such hypotheses as the mortality rate, employee turnover, interest rates, retirement dates, effects related to increases in employees' salaries, as well as the effects on variations in services derived from variations in the inflation rate.

Actuarial losses and gains that may be generated by variations in previously defined obligations are directly recorded in profit or loss for the year.

Actuarial losses and gains that have their origin in deviations between the estimate and the actual behavior of actuarial hypotheses or in the reformulation of established actuarial hypotheses are recorded in equity.

The discount rate used by us for calculating the obligation was 6% for the periods ended as of December 31, 2012.

Our subsidiary SQM North America Corp. has established pension plans for its retired employees that are calculated by measuring the projected obligation of International Accounting Standards ("IAS") using a net salary progressive rate net of adjustments to inflation, mortality and turnover assumptions, deducting the resulting amounts at present value using a 5.0% interest rate for 2012. The net balance of this obligation is presented in the line item called Noncurrent Employee Benefit Provisions.

Mining development costs

Mine exploration costs and stripping costs to maintain production of mineral resources extracted from operating mines are considered variable production costs and are included in the cost of inventory produced during the period. Mine development costs at new mines, and major development costs at operating mines outside existing areas under extraction that are expected to benefit future production, are capitalized under "other long-term assets" and amortized using a units-of-production method over the associated proven and probable reserves. We determine our proven and probable reserves based on drilling, brine sampling and geostatistical reservoir modeling in order to estimate mineral volume and composition.

All other mine exploration costs, including expenses related to low grade mineral resources rendering reserves that are not economically exploitable, are charged to the statement of income in the period in which they are incurred.

Asset value impairment

We assess on an annual basis any impairment on the amount of buildings, plant and equipment, intangible assets, goodwill and investments accounted for using the equity method of accounting in accordance with IAS 36 “Impairment of Assets.” Assets to which this method applies are:

- investments recognized using the equity method of accounting;
- property, plant and equipment;

- intangible assets; and

- goodwill.

Assets are reviewed for impairment as to the existence of any indication that the carrying value is lower than the recoverable amount. If such an indication exists, the asset recoverable amount is calculated in order to determine the extent of the impairment, if any. In the event that the asset does not generate any cash flows independent from other assets, we determine the recoverable amount of the cash generating unit to which this asset belongs according to the corresponding business segment (specialty plant nutrients, iodine and derivatives, lithium and derivatives, industrial chemicals, potassium and other products and services.)

We conduct impairment tests on intangible assets and goodwill with indefinite useful lives on an annual basis and every time there is indication of impairment. If the recoverable value of an asset is estimated at an amount lower than its carrying value, the latter decreases to its recoverable amount.

Financial derivatives and hedging transactions

Derivatives are recognized initially at fair value at the date in which the derivatives contract has been signed and subsequently they are valued at fair value at each period end. The method for recognizing the resulting loss or gain depends on whether the derivative has been designated as an accounting hedging instrument and if so, the type of hedging, which may be:

- fair value hedge of assets and liabilities recognized (fair value hedges); or

- hedging of a single risk associated with an asset or liability recognized or a highly possible foreseen transaction (cash flow hedge).

At the beginning of the transaction, we document the relationship between hedging instruments and those entries hedged, as well as their objectives for risk management purposes and the strategy to conduct different hedging operations.

We also document our evaluation both at the beginning and the end of each period of whether derivatives used in hedging transactions are highly effective to offset changes in the fair value or in cash flows of hedged entries.

The fair value of derivative instruments used for hedging purposes is shown in note 9.3 to our audited financial statements included below.

Non-hedge instruments are classified as current assets or liabilities, and the change in their fair value is recognized directly in profit or loss.

Fair value hedge

The change in the fair value of a derivative is recognized with a debit or credit to profit or loss, as applicable. The change in the fair value of the hedged entry attributable to hedged risk is recognized as part of the carrying value of the hedged entry and is also recognized with a debit or credit to profit or loss.

For fair value hedging related to items recorded at amortized cost, the adjustment of the fair value is amortized against income on the remaining year to its expiration. Any adjustment to the carrying value of a hedged financial instrument for which the effective rate is used is amortized with a debit or credit to profit or loss at its fair value attributable to the risk being covered.

If the hedged entry no longer meets the criteria for hedge accounting, the fair value not amortized is immediately recognized with a debit or credit to profit or loss.

Cash flow hedge

The effective portion of gains or losses from the hedging instrument is initially recognized as “other revenue” with a debit or credit to other comprehensive income whereas any ineffective portion is immediately recognized with a debit or credit to profit or loss, as applicable.

Amounts accumulated in equity are transferred to profit or loss when the hedged transaction affects income for the period, such as when the hedged interest income or expense is recognized when a forecasted sale occurs. When the hedged item is the cost of a non-financial asset or liability, amounts taken to equity are transferred to the initial carrying value of the non-financial asset or liability.

Should the expected firm transaction or commitment no longer be expected to occur, the amounts previously recognized other comprehensive income are transferred to income. If a hedging instrument expires, is sold, finished, and exercised without any replacement, or if a rollover is performed or if its designation as hedging is revoked, the amounts previously recognized in equity are maintained in equity until the expected firm transaction or commitment occurs.

Business

Business overview

We believe that we are the world's largest producer of potassium nitrate, iodine and lithium chemicals. We also produce specialty plant nutrients, iodine and iodine derivatives, lithium and lithium derivatives, potassium chloride, potassium sulfate and certain industrial chemicals (including industrial nitrates and solar salt). Our products are sold in more than 110 countries through our worldwide distribution network, with 89% of our sales in 2012 derived from countries outside Chile.

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 in 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; potassium chloride and potassium sulfate; industrial chemicals 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. 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 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 thermal energy plants as a means for energy storage. Potassium chloride is a commodity fertilizer that is produced and sold by SQM 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, 2012, we had revenues of US$2,429.2 million, gross profit of US$1,028.6 million and profit attributable to equity holders of SQM of US$649.2 million. Our market capitalization as of December 31, 2012 was approximately US$15.0 billion.

The following table sets forth the percentage breakdown of our revenues for the years ended December 31, 2012, 2011, 2010 and 2009 by product line:

	2012		2011		2010		2009	
Specialty plant nutrients	28	%	34	%	33	%	37	%
Iodine and its derivatives	24	%	21	%	17	%	13	%
Lithium and its derivatives	9	%	9	%	8	%	8	%
Potassium	25	%	26	%	29	%	28	%
Industrial chemicals	10	%	7	%	8	%	8	%
Other commodity fertilizers	4	%	4	%	5	%	6	%
Total	100	%	100	%	100	%	100	%

History

We were formed in 1968 through a joint venture between Compañía Salitrera Anglo Lautaro S.A. (“Anglo Lautaro”) and Corporación de Fomento de la Producción (“Corfo”), a Chilean 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 ADSs have traded on the NYSE under the ticker symbol “SQM” since 1993.

Since our inception, in addition to producing nitrates, we produced iodine, also found in the caliche ore deposits in northern Chile. Between 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. During 2000 and 2004, we focused on consolidating our business to reduce costs and improve efficiencies.

In 2005, we strengthened our leadership in our core businesses by increasing our capital expenditure program and making advantageous acquisitions and divestitures. During this period we acquired Kemira Emirates Fertiliser Company (“Kefco”) in Dubai and the iodine business of Royal DSM N.V. (“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 us to concentrate our efforts on our core products. In 2007, we completed the construction of a new prilling and granulating plant and, in 2008 we completed our lithium carbonate capacity expansion and began work on the engineering stage of a new potassium nitrate plant.

From 2010 to 2012, we continued to expand our production capacity of potassium products in our operations in the Salar de Atacama. In 2011, we completed the construction of a new potassium nitrate facility in Coya Sur, increasing

our overall production capacity of potassium nitrate by 300,000 metric tons. In addition, in 2008 we entered into a joint venture with Migao Corporation (“Migao”) for the construction of a potassium nitrate plant with a production capacity of 40,000 metric tons per year. This facility was completed and began operating in January 2011.

In the second half of 2011, we effected a corporate reorganization whereby our subsidiary Soquimich European Holding B.V. acquired a 66.6% ownership in Fertilizantes Naturales S.A. (later renamed SQM Iberian S.A.) from Nutrisi Holding N.V. Soquimich European Holding B.V. owned a non-controlling 50% stake in Nutrisi Holding N.V. which was divested following this acquisition in December 2011. The effect of these transactions has been that we indirectly control SQM Iberian S.A. through Soquimich European Holding B.V. SQM Iberian S.A. sells and distributes fertilizers, primarily in Spain.

In 2012, SQM Vitas FZ Company, our joint venture with the French Roullier Group, started the construction of new plants in Brazil (Candeias), Peru and South Africa (Durban) for the production of water soluble fertilizers containing different relative amounts of nitrogen, phosphorus and potassium, and, occasionally, smaller amounts of other chemicals. The Brazilian plant (Candeias Industrial Complex) began operating in March 2012. It has a production capacity of 25,000 metric tons per year, and represented a total investment of US$10 million.

Business strategy

Our general business strategy is to:

- maintain leadership in specialty plant nutrients, iodine, lithium and industrial nitrates, in terms of production capacity, competitive pricing and the development of new products;
- increase our production capacity of potassium-related fertilizers from the Salar de Atacama;
- maintain our competitiveness through the continued increase in the efficiency of our production processes and cost reduction;
- evaluate and execute acquisitions, joint ventures or commercial alliances which have concrete synergies with our current core businesses or provide sustainable competitive advantages; 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) selectively expand by increasing 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 enhance our product portfolio, 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 expanding our production capacity in line with demand growth; (ii) encourage demand growth and develop new iodine derivatives, (iii) participate in iodine recycling projects; and (iv) 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 a principal producer and distributor of lithium carbonate and lithium hydroxide; (ii) encourage demand growth, (iii) selectively pursue opportunities in the lithium derivatives business by creating new lithium compounds; and (iv) reduce our production costs through improved processes and higher productivity in order to compete more effectively.

Potassium

Our strategy in our potassium business 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 crystalized (standard) or granular (compacted) form products according to market requirements; and (iii) focus on markets where we have logistical advantages.

Industrial chemicals

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

New business ventures

From time to time we evaluate opportunities to expand 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 such minerals are 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. We are also exploring the possibility of acquiring controlling interests in companies that have mining properties in our core business areas, and that are in early stages of development. Consistent with our business strategy, we will continue to evaluate acquisitions, joint ventures and alliances in our core businesses and, depending on all facts and circumstances, may seek to acquire controlling stakes or other interests in companies with mining properties outside of Chile and Latin America, including in other emerging markets.

In addition we are actively conducting exploration operations in various properties we own for copper, gold and other metals deposits and we have already identified several areas in which we are conducting more targeted exploration. Fiel Rosita, a copper-gold deposit located close to the city of Vallenar, is our most advanced prospect. It is located in the same district as other deposits currently being exploited by other companies. We are completing a preliminary economic assessment, expected in 2013, based on which we will decide whether to conduct a pre-feasibility study or to sell part or all of the deposit. We may decide not to move forward with any potential metallic prospects discovered from our exploration operations.

In parallel to our exploration operations, we have entered into memoranda of understanding, option agreements and similar arrangements with third-party mining companies relating to metallic minerals. In all these agreements, we retain the rights on non-metallic minerals such as nitrate, iodine, potassium, lithium and their respective derivatives.

Capital expenditure program

We regularly review 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.

Our capital expenditures include investments aimed at sustaining, improving or increasing production levels, including acquisitions and investments in related companies.

Our capital expenditures for the years ended December 31, 2012, 2011 and 2010 were as follows:

(in millions of U.S. dollars)	2012	2011	2010
Capital Expenditures	446.0	501.1	336.0

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

- continued investment in a new potassium nitrate production facility in Coya Sur;

- investments related to increasing production capacity of potassium-based products at the Salar de Atacama;

- upgrades of our railroad system to handle expanded production capacity; and

- various projects designed to maintain production capacity, increase yields and reduce costs.

During 2011, had total capital expenditures of US$501.1 million, primarily relating to:

- increased production capacity of potassium-based products at the Salar de Atacama, with the continued construction and completion of potassium chloride and granulated potassium chloride facilities at the Salar de Atacama;

- increased capacity and efficiencies at nitrate and iodine facilities;

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· optimization of our rail system; and

· various projects designed to maintain production capacity, increase yields and reduce costs.

During 2012, we had total capital expenditures of US$446.0 million, primarily relating to:

· projects designed to increase capacity and efficiencies at nitrate and iodine facilities in the Tarapacá region;

· continued investments related to increasing production capacity of potassium-based products at the Salar de Atacama, including several projects related to production of finished products; and

· various projects designed to maintain production capacity, increase yields and reduce costs.

We have developed a capital expenditure program for 2013 calling for investments totaling approximately US$500.0 million, excluding possible mergers, acquisitions or similar arrangements. Among other things, the program will focus on:

· investments related to increasing production of potassium-based products at the Salar de Atacama;

· continued investments related to increased production capacity and efficiencies at our nitrate and iodine facilities;

· optimization of our muriate of potassium facility at the Salar de Atacama; and

· various projects designed to maintain production capacity, increased yields and reduce costs.

Our products

Specialty plant nutrition

We believe we are the world's largest producer of potassium nitrate. We estimate that our sales accounted for approximately 46% of global potassium nitrate sales by volume in 2012. This estimate does not include potassium

nitrate we produced and sold locally in China, only net imports. During 2012, the potassium nitrate market was stable compared to 2011, despite increases in price. Global sales totaled approximately 0.9 million metric tons in 2012. 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 help conserve water;
- are chlorine-free, which prevents chlorine toxicity in certain crops associated with high levels of chlorine in plant nutrients;
- provide nitrogen in nitric form, thereby allowing crops to 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 2012, our specialty plant nutrients sales were US$675.3 million, representing 28% of our total sales for that year and a 6.4% decrease from US$721.7 million specialty plant nutrients sales in 2011. This increase was a result of higher demand for premium vegetables and fruits, caused by improved economic conditions, which has reinforced the consumption of specialty fertilizers.

Market

The target market for our specialty plant nutrients includes producers of high-value crops such as vegetables, fruits, industrial crops, flowers, cotton and others. Furthermore, we sell specialty plant nutrients to producers of chloride-sensitive 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 the 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 reduce water use; and (iii) the increase in demand for higher quality crops, such as fruits and vegetables.

Over the last 10 years, the compound annual growth rate for vegetable production per capita was 3.0% while the compound annual growth rate for the world population was only 1.5%.

Worldwide scarcity of water and arable land drives the development of new agricultural techniques to maximize the use of these resources. Irrigation has grown at an average annual rate of 1.5% during last 20 years (a pace equal with population growth). However, micro-irrigation has grown at 10% per year over the same period. Microirrigation systems, which include drip-irrigation and micro-sprinklers, are the most efficient forms of technical irrigation. Global microirrigation acreage is estimated at 10 million hectares, which represents approximately 3% of total worldwide irrigated area. These applications require fully water-soluble plant nutrients. Our nitrate-based specialty plant nutrients provide nitrogen in nitric form, which helps crops absorb these nutrients faster than they absorb urea- or ammonium-based fertilizers, facilitating a more efficient application of nutrients to the plant and thereby increasing the crop’s yield and improving its quality.

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 us or our affiliates and related companies in Chile, the United States, Mexico, United Arab Emirates, South Africa, Turkey, China, India, Thailand, Brazil and Peru.

The following table shows our sales volumes and revenues from specialty plant nutrients for 2012, 2011, 2010 and 2009.

Sales Volume (in Th. MT)	2012	2011	2010	2009
Potassium nitrate and sodium potassium nitrate.	469.3	551.1	534.7	392.1
Blended and other specialty plant nutrients[(1)]	286.5	276.0	263.9	256.9
Sodium nitrate	24.4	22.2	16.8	16.5
Revenues (in millions of U.S. dollars)	675.3	721.7	603.7	527.0

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

Marketing and customers

In 2012, we sold our specialty plant nutrients in close to 90 countries. During the same year, sales of our specialty plant nutrients were exported to the following regions: 18% to customers in Central and South America (not including Chile), 19% to customers in Chile, 27% to customers in North America, 18% to customers in Europe and 18% to customers in other regions. No single customer represented more than 10% of our specialty plant nutrient sales during 2012, and we estimate that our 10 largest customers accounted in the aggregate for approximately 29% of sales during that period.

The following table shows the geographical break down of our sales for 2012, 2011, 2010 and 2009:

Sales volume breakdown	2012	2011	2010	2009
Central and South America	18 %	14 %	14 %	22 %
North America	27 %	24 %	25 %	26 %
Europe	18 %	26 %	22 %	22 %
Chile	19 %	17 %	16 %	10 %

Others	18 %	19 %	23 %	20 %

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

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 seasonal or cyclical factors that can materially affect the sales of our specialty plant nutrient products.

Joint ventures and agreements

From time to time we evaluate opportunities to expand in our current core businesses, including our specialty plant nutrients business, or within new businesses in which we believe we may have sustainable competitive advantages, both within and outside Chile. Consistent with our business strategy, we evaluate potential acquisitions, joint ventures and alliances in our core businesses with companies outside of Chile and Latin America, including in emerging markets.

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.

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, 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. We sold our stake in this joint venture in 2012.

In May 2008, we signed a commitment letter for a joint venture with 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 began operating 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, our 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 was constructed in the city of Kakinada to produce water soluble fertilizers (NPK grades). This new facility required a total investment of approximately US$2.6 million and began operating in 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 Star, for the production, distribution and sale of soluble NPK specialty plant nutrients in China. The agreement, a 50/50 joint venture, entailed a total investment of US$2 million for the construction of a new production plant. The plant, located in the city of Jimo, province of Shangdong, is currently operational and has an annual production capacity of 15,000 metric tons.

In December 2009, we 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 are the main focus markets of this joint venture. As part of the agreement, our phosphate plant located in Dubai became 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 the second half of 2011, we effected a corporate reorganization whereby our subsidiary Soquimich European Holding B.V. acquired a 66.6% ownership in Fertilizantes Naturales S.A. (later renamed SQM Iberian S.A.) from Nutrisi Holding N.V. Soquimich European Holding B.V. owned a non-controlling 50% stake in Nutrisi Holding N.V. which was sold following this acquisition. The effect of these transactions has been that we indirectly control SQM Iberian S.A. through Soquimich European Holding B.V. SQM Iberian S.A. sells and distributes fertilizers, primarily in Spain.

In 2012, SQM Vitas started the construction of new plants in Brazil (Candeias), Peru and South Africa (Durban) for the production of water soluble fertilizers containing different relative amounts of nitrogen, phosphorus and potassium, and at times, smaller amounts of other chemicals. The Brazilian plant (Candeias Industrial Complex) began operating in March 2012. It has a production capacity of 25,000 million tons per year, and represented a total investment of US$10 million.

Between 2010 and 2012, we continued to expand our production capacity of potassium products in our operations in the Salar de Atacama. In 2011, we completed the construction of a new potassium nitrate facility in Coya Sur, increasing our overall production capacity of potassium nitrate by 300,000 metric tons. In addition, as mentioned above, we entered into a joint venture with Migao in 2008 for the construction of a potassium nitrate plant with a production capacity of 40,000 metric tons per year that began operating in January 2011.

Fertilizer sales in Chile

We market specialty plant nutrients in Chile through Soquimich Comercial S.A., either as a standalone product or in blends with other imported products, in particular triple super phosphate (TSP) and diammonium phosphate (DAP).

Soquimich Comercial S.A. sells imported fertilizers to farmers in Chile principally for use 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, including China, Mexico and Venezuela.

All contracts and agreements between Soquimich Comercial S.A. and its suppliers of imported fertilizers generally contain standard and customary commercial terms and conditions. During the preceding 10 years, Soquimich Comercial S.A. has experienced no material difficulties in obtaining adequate supplies of such fertilizers at satisfactory prices.

Soquimich Comercial S.A.'s sales of fertilizers represented approximately 30% of total fertilizer sales in Chile during 2012. No single customer represented more than 8% of Soquimich Comercial S.A.'s total fertilizer sales revenues, and its 10 largest customers in total represented less than 43% of its revenues. Revenues generated by Soquimich Comercial S.A. represented 10.6% of our 2012 consolidated revenues. Soquimich Comercial S.A.'s consolidated revenues were approximately US$256 million and US$227 million in 2012 and 2011, respectively.

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 34% of total world sales during 2012 (excluding sales by Chinese producers to the domestic Chinese market), compared to our share of the market which accounted for approximately 46% of global potassium nitrate sales by volume for the period.

ACF, another Chilean producer, mainly oriented to iodine production, has produced potassium nitrate from caliche ore and potassium chloride since 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 Chile, our products mainly compete with imported fertilizer blends that use calcium ammonium nitrate or potassium magnesium sulfate. Our specialty plant nutrients also compete indirectly with lower-priced synthetic commodity-type fertilizers such as ammonia and urea, which are produced by many producers in a highly price-competitive market. Our products compete on the basis of advantages that make them more suitable for certain applications as described above

Iodine and its derivatives

We believe we are the world’s largest producer of iodine. In 2012, our revenues from iodine and iodine derivatives amounted to US$578.1 million, representing 24% of our total revenues in that year. We estimate that our sales accounted for approximately 34% of world iodine sales by volume in 2012.

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 is also added in the form of potassium iodate or potassium iodide to edible salt to prevent iodine deficiency disorders. We have seen consistent growth in the iodine market in recent years, with demand being led by uses related to X-ray contrast media and pharmaceuticals. We estimate that the global market size in 2012 was just under 31,000 metric tons, with almost 60% of supply coming from Chilean producers, including us. Increased supply entered the market in 2012 and we expect to see additional new supply in 2013.

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 2012, 2011, 2010 and 2009:

Sales Volume (in Th. MT)	2012	2011	2010	2009
Iodine and its derivatives	11.0	12.2	11.9	7.2
Revenues (in millions of U.S. dollars)	578.1	454.5	316.3	190.9

Our sales revenues increased from US$454.5 million in 2011 to US$578.1 million in 2012. This increase was primarily attributable to increases in sales volumes and increases in price as a consequence of strong demand growth among most users.

Marketing and customers

In 2012, we sold our iodine products to approximately 300 customers in 60 countries and most of our sales were exports: 31% was sold to customers in Europe, the Middle East and Africa, 36% to customers in North America, 3% to customers in Central and South America and 30% to customers in Asia and other regions. No single customer accounted for more than 8% of our iodine sales in 2012, and we estimate that our 10 largest customers accounted in the aggregate for approximately 47% of sales.

The following table sets forth the geographical breakdown of our sales for 2012, 2011, 2010 and 2009.

Sales breakdown	2012	2011	2010	2009
Europe, Middle East and Africa	31 %	36 %	35 %	31 %
North America	36 %	32 %	33 %	36 %
Central and South America	3 %	3 %	5 %	3 %
Asia and Others	30 %	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 or within the framework of supply agreements. Supply agreements generally specify annual minimum and maximum purchase commitments, and prices are adjusted periodically, according to prevailing market prices.

Competition

The world’s main iodine producers are based in Chile, Japan and the United States. Iodine is also produced 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 that are mainly obtained together with the extraction of natural gas and petroleum. In China, iodine is extracted from seaweed.

Six Chilean companies (SQM; Sirocco Mining Inc., a Canadian company previously known as Atacama Minerals; Atacama Chemical S.A. (Cosayach), controlled by the Chilean holding Inverraz S.A.; ACF Minera S.A. also owned by a Chilean family; Algorta Norte S.A., a joint venture between ACF Minera and Toyota Tsusho; and SCM Bullmine) accounted for approximately 58% of global iodine sales in 2012 (34% by SQM and 24% by the other five Chilean producers).

We estimate that eight Japanese iodine producers accounted for approximately 31% of global iodine sales in 2012, including recycled iodine.

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 2012.

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 17% of world iodine sales. It is estimated that approximately 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 were slightly less than 31.0 thousand metric tons in 2012.

The prices of 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 steadily growing demand, and despite new supply from other Chilean producers, our average iodine sales prices increased to more than US$50 per kilogram in 2012.

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 one of the principal producers of lithium carbonate and one of the world’s largest producers of lithium hydroxide. In 2012, our revenues from lithium sales amounted to US$222.2 million, representing 9% of our total revenues. We estimate that our sales accounted for approximately 35% of the sale of global lithium chemicals sales in volume.

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 industries.

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 our 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 6,000 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 2012, 2011, 2010 and 2009:

Sales Volume (in Th. MT)	2012	2011	2010	2009
Lithium and its derivatives	45.7	40.7	32.4	21.3
Revenues (in millions of U.S. dollars)	222.2	183.4	150.8	117.8

Our revenues in 2012 were US$222.2 million, a 21% increase from US$183.4 million in 2011, due to significantly higher sales volumes resulting from an increase in demand in 2012, mainly driven by an increase in demand for rechargeable batteries and by uses related to construction, such as grease and glass. Other producers experienced some supply constraints during part of the year, allowing us to strengthen our position as a leader in lithium carbonate supply.

Marketing and customers

In 2012, we sold our lithium products to over 300 customers in approximately 50 countries. Virtually all of our lithium products were sold overseas: 24% to customers in Europe, the Middle East and Africa, 10% to customers in North America, 64% to customers in Asia and Oceania and 2% to customers in other regions. No single customer accounted for more than 13% of our lithium sales in 2012, and we estimate that our 10 largest customers accounted in aggregate for approximately 50% of sales.

The following table sets forth the geographical breakdown of our sales for 2012, 2011, 2010 and 2009.

Sales breakdown	2012		2011		2010		2009	
Europe, Middle East and Africa	24	%	28	%	34	%	31	%
North America	10	%	10	%	12	%	14	%
Asia and Oceania	64	%	61	%	53	%	53	%
Central and South America	2	%	1	%	1	%	2	%

We sell lithium carbonate and lithium hydroxide through our own worldwide network of representative offices and through our sales, support and distribution affiliates. We maintain inventories of these products at our facilities throughout the world to facilitate prompt delivery to customers. Sales of lithium carbonate and lithium hydroxide are made pursuant to spot purchase orders or within the framework of supply agreements. Supply agreements generally specify annual minimum and maximum purchase commitments, and prices are adjusted periodically, according to prevailing market prices.

Competition

Our main competitors in the lithium carbonate and lithium hydroxide businesses are Rockwood Lithium ("Rockwood"), a subsidiary of Rockwood Specialties Group Inc., and FMC Corporation ("FMC"). In addition, a number of Chinese producers also contributed to the lithium chemical world market in 2012. Rockwood produces lithium carbonate at its operations 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 it produces 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, some of which 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 125,000 metric tons in 2012.

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 2009, our end product capacity has increased to over 2 million metric tons per year, granting us improved flexibility and market coverage.

In 2012, our potassium chloride and potassium sulfate revenues amounted to US$605.1 million, representing 25% of our total revenues and a 8.9% increase compared to 2011. We are currently making investments within our potassium products that will enable us to increase our production and sales of these 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 may be obtained through the use of potassium are:

- increased yield and quality;
- increased production of proteins;
- increased photosynthesis;
- intensified transport and storage of assimilates;
- prolonged and more intense assimilation period;

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- improved water efficiency;
- regulated opening and closure of stomata; and
- synthesis of lycopene.

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

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 more efficiently. For the last 10 years, the compound annual growth for the global potassium chloride market was approximately 2%.

Demand in the potassium chloride market decreased in 2012. We estimate that demand reached the level of 50 million metric tons for potassium chloride during 2012, a reduction of approximately 10% as compared to 2011. Despite favorable economic conditions for relevant crops, the demand was mainly affected by economic uncertainty. We expect the potassium chloride market to return to levels closer to 55 million during 2013.

Average prices in the potassium market remained relatively stable compared to 2011. The market has seen major industry contracts close at significantly lower prices in the early months of 2012. We believe these price pressures will have an impact on our potassium revenues in the near term.

Our products

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

The following table shows our combined sales volumes and revenues from potassium chloride and potassium sulfate for 2012, 2011, 2010 and 2009:

Sales Volume (in Th. MT)	2012	2011	2010	2009
Potassium chloride and potassium sulfate	1,209.5	1,103.4	1,273.0	690.0
Revenues (in millions of U.S. dollars)	605.1	555.7	528.2	399.1

Marketing and Customers

In 2012, we sold potassium chloride and potassium sulfate in approximately 80 countries, with 5% of our sales to customers in Chile, 42% to customers in other countries in Central and South America, 11% to customers in Africa, 15% to customers in North America and 27% to customers in other regions. No single customer accounted for more than 23% of our sales of potassium chloride and potassium sulfate in 2012, and we estimate that our 10 largest customers accounted in the aggregate for approximately 61% of such sales.

The following table sets forth the geographical breakdown of our sales for 2012, 2011, 2010 and 2009.

Sales breakdown	2012		2011		2010		2009	
Chile	5	%	8	%	6	%	9	%
Central and South America	42	%	32	%	21	%	18	%
Africa	11	%	15	%	16	%	16	%
North America	15	%	11	%	10	%	13	%
Others	27	%	34	%	47	%	44	%

Competition

We estimate that we accounted for less than 3% of global sales of potassium chloride in 2012. Our main competitors are Uralkali Group, PCS, Belaruskali and Mosaic. We believe that in 2012 the principal producers in the market were Uralkali Group, which accounted for approximately 18% of global sales, PCS and Belaruskali, which each accounted for approximately 16% of global sales, and Mosaic, which accounted for approximately 15% of global sales.

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 40% of the world production of potassium sulfate.

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 and 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 of which are sold into industrial markets in crystalline form. In 2012, our revenues from industrial chemicals were US$245.2 million, representing approximately 10% of our total revenues for that year.

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 treatments and various chemical processes. In addition, this product line enjoys long-term growth potential 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.

Boric acid is primarily 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.

Our products

The following table sets forth our sales volumes of industrial chemicals and total revenues for 2012, 2011, 2010 and 2009:

Sales Volume (in Th. MT)	2012	2011	2010	2009
Industrial nitrates	277.7	181.2	98.9	149.2
Boric Acid	1.8	2.4	2.6	3.4
Revenues (in millions of U.S. dollars)	245.2	139.5	149.7	115.4

Sales of industrial chemicals increased from US$139.5 million in 2011 to US$245.2 million in 2012 primarily as a result of an increase in sales volumes of solar salts products due to new alternative energy projects that utilize industrial grade sodium and potassium nitrate solar thermal energy.

Marketing and customers

We sold our industrial nitrate products in 50 countries in 2012, with 49% percent of our sales of industrial chemicals to customers in North America, 37% to customers in Europe, the Middle East and Africa, 7% to customers in Central and South America and 7% to customers in other regions. No single customer accounted for more than 33% of our sales of industrial chemicals in 2012, and we estimate that our 10 largest customers accounted in the aggregate for approximately 70% of such sales.

The following table sets forth the geographical breakdown of our sales for 2012, 2011, 2010 and 2009.

Sales breakdown	2012	2011	2010	2009

North America	49	%	26	%	18	%	30	%
Europe, Middle East and Africa	37	%	52	%	55	%	45	%
Central and South America	7	%	17	%	22	%	18	%
Others	7	%	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. Our Research and Development department, together with our foreign affiliates, provides technical support to our customers and continuously works with them to develop new products or applications for our products.

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 60% of world demand in 2012 (excluding China and India internal demand, for which we believe reliable estimates are not available). Our competitors are mainly based 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 potassium nitrates business is Haifa; which we estimate had a 25% of the market share. We estimate that our market share was approximately 40% for 2012.

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.

Other products

A large part of our other revenue is related to fertilizer trading, usually commodities. These fertilizers are traded in large volumes worldwide. We have developed a trade, supply, and inventory management business that allows us to respond quickly and effectively 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, which contain nitrates and iodine; and

- salar brines, which contain potassium, lithium, sulfate, boron and magnesium.

Caliche ore deposits

Caliche ore deposits are located in northern Chile. During 2012, we operated three mines in this region: Pedro de Valdivia, El Toco (mining site of Maria Elena production facilities) and Nueva Victoria. In March 2010, operations at El Toco and Pampa Blanca, two of our mines, were temporarily suspended in an effort to optimize inventory of these products due to decreased global demand for nitrates and iodine during the preceding 15 months. In November 2010, mining activities resumed in El Toco. Mining operations at Pampa Blanca have not resumed.

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 purposes. 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 mining 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 onto railcars that take the mineral to the processing facilities.

At the Pedro de Valdivia facility, the ore is crushed and leached to produce concentrated solutions carrying the nitrate and iodine. 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. Operations at the El Toco mining site of Maria Elena use a heap leaching production process. In Nueva Victoria and El Toco, the run of mine ore is loaded in heaps and leached to produce concentrated solutions.

Caliche ore-derived products

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

Sodium nitrate

During 2012, 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 on a closed circuit method of leaching vats. This process uses heated brines to leach the crushed caliche in 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 in a solvent extraction plant. 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 the iodine facilities. After a solvent extraction process, the brine is pumped to solar evaporation ponds in Coya Sur, 15 km south of María Elena.

Our total current crystallized sodium nitrate production capacity at the Pedro de Valdivia facility is approximately 500,000 metric tons per year. Crystallized sodium nitrate is processed further at the Coya Sur and María Elena production plants to produce potassium nitrate in different qualities, sodium potassium nitrate and/or crystallized or prilled nitrates (potassium or sodium), which are transported to our port facilities in Tocopilla by railway for shipping to customer and distributors worldwide.

Potassium nitrate

Potassium nitrate is produced at our Coya Sur facility using a production process developed by us. 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's solar evaporation ponds for a nitrate concentration process. After the nitrate concentration process, the brine is pumped to a conversion plant where potassium salts are added and where 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 liquid by centrifuge.

Concentrated nitrate salts were produced at Pampa Blanca until 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 both solvent-extraction and blow out processes. 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 500,000 metric tons per year of technical grade potassium nitrate. A new potassium nitrate plant began operations in 2011. During 2012, we produced approximately 246,000 tons of potassium nitrate at this plant. This new plant was designed to use raw material salts harvested in Nueva Victoria and potassium salts from the 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 Coya Sur and María Elena prilling facilities 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 2012, iodine was produced by extracting it from the solutions resulting from the heap leaching of caliche ore at María Elena and Nueva Victoria, including the Iris facility as part of the Nueva Victoria facility, and from the vat leaching of caliche ore at the Pedro de Valdivia facilities. Production of iodine at the Iris plant began in December 2011.

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 in the Pedro de Valdivia and Nueva Victoria facilities and using a blow out plant in Iris. 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 and recently in Chile under the Chilean patent number 47,080, for our iodine prilling process.

Prilled iodine is tested for quality control purposes, using international standard procedures that we have implemented, then packed in 20 to 50 kilogram drums or 350 to700 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 was certified under ISO-9001:2008 in April 2012.

Our total iodine production in 2012 was approximately 10,900 metric tons: approximately 6,000 metric tons from Nueva Victoria and Iris, 3,200 metric tons from Pedro de Valdivia, and 1,700 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. We also produce inorganic and organic iodine derivative products together with Ajay, which purchases iodine from us. In the past, we have 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 of Chile (*Comisión Nacional del Medioambiente* or "CONAMA") approved the environmental study of our Pampa Hermosa project in the Region of Tarapacá in Chile. This approval allowed us to increase the production capacity of our Nueva Victoria operations from 4,500 to 11,000 metric tons of iodine per year and to produce up to 1.2 million metric tons of nitrates, mine up to 33 million metric tons of caliche per year and use new water rights of up to 570.8 liters per second. During 2012, we made investments in order to increase the water capacity in the Nueva Victoria operations from two water sources approved by the

environmental study of Pampa Hermosa, expand the capacity of solar evaporation ponds and to implement new areas of mining and collection of solutions. Additional expansions may be done from time to time in the future, depending on market conditions.

During 2012, we submitted a request to the CONAMA requesting approval to expand our caliche ore extraction in the region of Antofagasta, which, if approved, is expected to increase production capacity by 10,000 tons of iodine and 1.3 million tons of nitrates per year. The project also requested permission to build a pipeline from the Pacific Ocean to the mining site. Currently, the request is being evaluated by the commission and other governmental agencies.

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, which expires in 2030. The lease agreement permits the CCHEN to establish a total accumulated extraction limit of 180,100 tons of lithium. More than halfway through the term of the lease agreement, we have extracted less than half of the total accumulated extraction limit of lithium.

Brines are pumped from depths of 1.5 to 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, potassium sulfate, lithium carbonate, lithium hydroxide, lithium chloride, 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, sodium and magnesium. Waste sodium chloride salts are removed by precipitation. After further evaporation, the sodium and potassium salts are harvested and sent for treatment at one of the potassium chloride plants where potassium chloride is separated by a grinding, flotation, and filtering process. Potassium salts also containing magnesium are harvested and sent for treatment at one of the cold leach plants where magnesium is removed. Potassium chloride is transferred for

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 2012, we achieved a production capacity of compacted potassium chloride in excess of 1.2 million metric tons per year and we plan to carry out further expansions of production capacity of the compaction plant during 2013.

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, with the excess amount being reinjected 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 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 by-product 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 metric tons per year. This capacity is part of the total plant capacity of 2.6 million metric tons per year, in our dual plant complex where we may switch, to some extent, between potassium chloride and potassium sulfate production.

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 reinjected 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 and salar brines and including energy) represented approximately 20% of our cost of sales in 2012.

We have several electricity supply agreements signed with major producers in Chile which are expected to cover our electricity needs until 2030. We have been connected to the northern power grid in Chile, which currently supplies electricity to most cities and Industrial facilities in northern Chile, since April 2000.

In May 2001, we entered into a 10-year gas supply contract with Distrinor S.A. (a subsidiary of E-CL) for a maximum of 3,850,000 million Btu per year. This gas supply was considered sufficient at the time to satisfy the requirements for the facilities that are connected to a natural gas supply. However, beginning in 2004, the Argentinean government imposed restrictions on the supply of natural gas to Chile and, in 2011, the supply came to a complete stop. In 2010, Chile began to import liquefied natural gas. In 2012, we received liquefied natural gas through this supply stream.

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.

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

Chilean government regulations

We are subject to the full range of government regulations and supervision generally applicable to companies engaged in business in Chile, including labor laws, social security laws, public health laws, consumer protection laws, environmental laws, 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 that created the CCHEN (*Ley 16.319 que crea la Comisión Chilena de Energía Nuclear*), we have an agreement with the 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 the supply of water from rivers or wells near our production facilities sufficient to meet our current and anticipated operating requirements. 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. 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 Chilean laws relating to water rights 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 the Royalty Law, which established a royalty tax to be applied to mining activities developed in Chile. In 2010, modifications were made to the law and taxes were increased. In 2012, new modifications to the tax laws were enacted to permanently set the corporate tax rate at 20%. 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 Subcontracting Law (*Ley de Subcontratación*), further amends the Labor Accidents Law No. 16,744 to provide that, that 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 SERNAGEOMIN, the Labor Board or the SNA, 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 a company from liability.

On January 1, 2010, Law No. 20,382 went into effect, introducing modifications to the Securities Law and Law No. 18,046 on Corporations (*Ley de Sociedades Anónimas* or the "Chilean Corporations Act"). The new law relates to corporate governance and, in general, seeks to improve such matters as the professionalization of senior management at 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 a company, but he or she must satisfy a series of independence requirements with respect to the company and the company's competition, providers, customers and majority shareholders. The new law also refines the regulations regarding the information that companies must provide to the general public and to the SVS, 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.

On January 26, 2010, the Chilean Congress amended the Environmental Law to create the Ministry of Environment, the Environmental Assessment Service and the environmental enforcement superintendence (*Superintendencia del Medioambiente* or "Environmental Enforcement Superintendence"). 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 Assessment System, pursuant to which 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 to be final. The Environmental Enforcement Superintendence is an independent agency which oversees and coordinates with other governmental agencies in charge of supervision of suspended projects and projects requiring environmental approval. Likewise, it will receive, investigate and decide complaints concerning the infringement of environmental regulations and will sanction violators, deliver injunction orders and levy relevant fines. The Environmental Enforcement Superintendence had its powers suspended until the First Environmental Court was installed in Santiago on December 28, 2012.

There are currently no material legal or administrative proceedings pending against us except as discussed in note 16.1 to our audited financial statements included below and under "Safety, health and environmental regulations in Chile" and we believe that we are in compliance in all material respects with all applicable statutory and administrative

regulations with respect to our business.

Safety, health and environmental regulations in Chile

Our operations in Chile are subject to both national and local regulations related to safety, health, and environmental protection. In Chile, the main regulations on these matters that are applicable to SQM are the Mine Health and Safety Act of 1989 (*Reglamento de Seguridad Minera* or the "Mine Health and Safety Act"), the Health Code (*Código Sanitario*), the Health and Safety Act 1999 (*Reglamento sobre Condiciones Sanitarias y Ambientales Básicas en los Lugares de Trabajo* or the "Health and Basic Conditions Act"), the Subcontracting Law, and the environmental framework law (*Ley sobre Bases Generales del Medio Ambiente* or the "Environmental Law").

Health and safety at work are fundamental aspects in the management of mining operations, which is why SQM has made constant efforts to maintain good health and safety conditions for the people working at its mining sites. In addition to the role played by us in this important matter, the Chilean government has a regulatory role, enacting and enforcing regulations in order to protect and ensure the health and safety of workers. The Chilean government, acting through the Ministry of Health and the SERNAGEOMIN, performs health and safety inspections and oversees mining projects, among other tasks, and it has exclusive powers to enforce standards related to environmental conditions and the health and safety of the people performing activities related to mining.

The Mine Health and Safety Act protects workers and nearby communities against health and safety hazards, and it provides for enforcement of the law where compliance has not been achieved. SQM's Internal Mining Standards (*Reglamentos Internos Mineros*) establish our obligation to maintain a workplace that is safe and free of health risks, in as much as this is reasonably practicable. We must comply with the general provisions of the Health and Basic Conditions Act, our own internal standards, and the provisions of the Mine Health and Safety Act. In the event of non-compliance, the Ministry of Health and particularly the SERNAGEOMIN are entitled to use their enforcement powers to ensure compliance with the law.

In November 2011, the Ministry of Mining enacted Law No. 20,551 that Regulates Mine Closure and its Facilities (*Ley que Regula el Cierre de Faenas e Instalaciones Mineras*). This new statute entered in force in November 2012. Its main requirements are related to disclosures to the SERNAGEOMIN regarding decommissioning plans for each mining site and its facilities, along with the estimated cost to implement such plans. There is a requirement to provide a form of financial assurance to the SERNAGEOMIN to secure compliance with the decommissioning plans. There are various types of financial assurance that satisfy the requirement. By November 2014, we have to inform the SERNAGEOMIN of the estimated costs for each of our decommissioning plans and the corresponding financial assurances we propose to provide, which are subject to approval by the SVS.

The Environmental Law was subjected to several important modifications that entered into effect in January 2010, including the creation of the Ministry of the Environment, the Environmental Assessment Service, and the Environmental Enforcement Superintendence. The Environmental Enforcement Superintendence began operations on December 28, 2012. The new and modified Environmental Law replaced the CONAMA with both the Ministry of the Environment, which is currently the governmental agency responsible for coordinating and supervising environmental issues and the Environmental Assessment Service. Under the new Environmental Law, we will continue to be required to conduct environmental impact studies or statements of any future projects or activities (or their significant modifications) that may affect the environment. With the above mentioned modifications to the Environmental Law, the Environmental Assessment Service, together with other public institutions with mandates related to the environment, evaluates environmental impact studies or statements submitted for its approval. The Environmental Enforcement Superintendence is responsible for auditing environmental performance during the construction, operation, and closure of the projects. The Environmental Law also promotes citizen participation in project evaluation and implementation, providing more opportunities during the environmental evaluation process.

In August 10, 1993, the Ministry of Health published in the Official Gazette a resolution establishing that atmospheric particulate levels at our production facilities in María Elena and Pedro de Valdivia exceeded air quality standards, affecting the nearby towns. The high particulate matter levels came principally from dust produced during the processing of caliche ore, particularly the crushing of the ore before leaching. Residents of the town of Pedro de Valdivia were relocated to the town of María Elena, practically removing Pedro de Valdivia from the scope of the determination of the Ministry of Health. In 1998, authorities approved a plan to reduce the atmospheric particulate levels later modified by Decree No. 37/2004 in March 2004, which called for an 80% reduction of the emissions of atmospheric particulate material, This was achieved by 2008 through the implementation of a project that modified the milling and screening systems used in the processing of the caliche ore at the María Elena facilities. Due to international market conditions, this project ceased its operation in March 2010, and today the milling and screening systems used in the processing of the caliche ore at the María Elena facilities remain closed. Air quality in the area has improved significantly and compliance of air quality standards required by law is being assessed. When the average of three consecutive years meets the Chilean air quality standard, the resolution of 1993 of the Ministry of Health may be reviewed.

On March 16, 2007, the Ministry of Health published in the Official Gazette a resolution establishing that atmospheric particulate levels exceeded air quality standards in the coast-town of Tocopilla, where we have our port operations. The high particulate matter levels are caused mainly by two thermoelectric power plants that use coal and fuel oil and are located next to our port operations. Our participation in particulate matter emissions is very small (less than 0.20% of the total). However, a decontamination plan was developed by the environmental authority, and its implementation began in October 2010. During 2008 and 2009, earlier than required, SQM implemented control measures for mitigating particulate matter emissions in its port operations according to the requirements of this plan. We do not expect any additional measures to be required of SQM following the implementation of the plan.

We continuously monitor the impact of our operations on the environment and have made, from time to time, modifications to our facilities in an effort to eliminate any adverse impacts. Also, over time, new environmental standards and regulations have been enacted, which have required minor adjustments or modifications of our operations for full compliance. We anticipate that additional laws and regulations will be enacted over time with

respect to environmental matters. While we believe that we will continue to be in compliance with all applicable environmental regulations of which we are now aware, there can be no assurance that future legislative or regulatory developments will not impose new restrictions on our operations. We are committed to both complying with all applicable environmental regulations and applying an Environmental Management System to continuously improve our environmental performance.

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

Organizational structure

All of our principal operating subsidiaries are essentially wholly-owned, except for Soquimich Comercial S.A., which is approximately 61% owned by us and whose shares are listed and traded on the Santiago Stock Exchange, and Ajay SQM Chile S.A., which is 51% owned by us. The following is a summary of our main subsidiaries as of December 31, 2012. For a list of all our consolidated subsidiaries, see note 2.5 to our audited financial statements included elsewhere below.

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

Concessions, extraction yields and reserves for the caliche ore mines and salar brines

Concessions for the caliche ore mines and salar brines

As of December 31, 2012, approximately 93% of our total mining concessions were held pursuant to exploitation concessions and 7% pursuant to exploration concessions. Of the exploitation concessions, approximately 80% already have been granted pursuant to applicable Chilean law, and approximately 20% are in the process of being granted. Of the exploration concessions, approximately 54% already have been granted pursuant to applicable Chilean law, and approximately 46% are in the process of being granted.

We made payments to the Chilean government for our exploration and exploitation concessions of approximately US$9.6 million in 2012.

Additional mining operations leased in the Salar De Atacama region

As of December 31, 2012, SQM Salar S.A. held exclusive rights to exploit the mineral resources in an area covering approximately 140,000 hectares of land in the Salar de Atacama in northern Chile, of which SQM Salar S.A. is entitled to exploit the mineral resources existing in 81,920 hectares. These rights are owned by Corfo and leased to SQM Salar S.A. pursuant to a lease agreement between Corfo and SQM Salar S.A. (the “Lease Agreement”). Corfo may not unilaterally amend the Lease Agreement, and the rights to exploit the resources cannot be transferred. The Lease Agreement provides that SQM Salar S.A. is responsible for the maintenance of Corfo’s exploitation rights and for annual payments to the Chilean government, and it expires on December 31, 2030. Furthermore, the same lease Agreement permits the CCHEN to establish a total accumulated extraction limit set at,180,100 tons of lithium per year. More than halfway through the term of the lease agreement, we have extracted less than half of the total accumulated extraction limit of lithium. SQM Salar S.A. is required to make lease-royalty payments to Corfo according to specified percentages of the value of production of minerals extracted from the Salar de Atacama brines. SQM Salar S.A. holds an additional 119,023 hectares of constituted exploitation rights in the Salar de Atacama.

In addition, as of December 31, 2012, we held constituted exploration rights covering approximately 52,400 hectares, and we had applied for additional exploration rights covering approximately 54,600 hectares. Exploration rights are valid for a period of two years, after which we can (i) request an exploitation concession for the land, (ii) request an extension of the exploration rights for an additional two years (the extension only applies to a reduced surface area equal to 50% of the initial area), or (iii) cease exploration of the zone covered by the rights. The weighted average age of the assets of our mining facilities at the Salar de Atacama is approximately 6.79 years. Solar energy is the primary source of power used by the Salar de Atacama operation.

Under the terms of the Salar de Atacama project agreement between Corfo and SQM Salar S.A., (the “Project Agreement”), Corfo has agreed that it will not permit any other person to explore, exploit or mine any mineral resources in approximately 147,000 hectares of the Salar de Atacama (which include the 140,000 hectares) mentioned above. The Project Agreement expires on December 31, 2030.

The following table sets forth our constituted exploitation and exploration concessions as of December 31, 2012:

	Exploitation concessions		Exploration concessions		Total	
Mines	Total number	Hectares	Total number	Hectares	Total number	Hectares
Pedro de Valdivia	576	147,302	—	—	576	147,302
EI Toco	611	180,964	5	1,500	616	182,464
Pampa Blanca	465	136,962	—	—	465	136,962
Nueva Victoria	303	78,654	1	1,200	304	79,854
Subtotal Caliche Ore Mines	1,955	543,882	6	2,700	1,961	546,582
Salar de Atacama	409	266,143	178	52,400	587	318,543
Subtotal Mines	2,364	810,025	184	55,100	2,548	865,125
Subtotal other Areas	7,609	1,690,433	224	70,800	7,833	1,761,233
Total	9,973	2,500,458	408	125,900	10,381	2,626,358

Extraction yields

The following table sets forth certain operating data relating to each of our mines for 2012, 2011, 2010 and 2009:

(in thousands, unless otherwise stated)	2012	2011	2010	2009
Pedro de Valdivia				
Metric tons of ore mined	12,027	12,151	11,773	11,631
Average grade nitrate (% by weight)	7.3	7.2	7.4	7.3
Iodine (parts per million (ppm))	406	417	403	363
Metric tons of crystallized nitrate produced	466	454	496	434
Metric tons of iodine produced	3.2	3.1	3.0	2.6
Maria Elena[(1)]				
Metric tons of ore mined	6,787	6,027	307	5,443
Average grade nitrate (% by weight)	6.2	5.9	5.8	6.8
Iodine (ppm)	454	466	443	375
Metric tons of crystallized nitrate produced	–	–	22	155
Metric tons of iodine produced	1.7	0.8	0.2	1.2
Coya Sur[(2)]				
Metric tons of crystallized nitrate produced	491	395	155	193
Pampa Blanca[(1)]				
Metric tons of ore mined	–	–	383	3,785
Iodine (ppm)	–	–	634	645

Metric tons of iodine produced	–	–	0.8	1.2
Nueva Victoria				
Metric tons of ore mined	23,937	18,418	14,252	17,326
Iodine (ppm)	465	457	456	463
Metric tons of iodine produced	6.0	5.2	4.8	5.1

(in thousands, unless otherwise stated)	2012	2011	2010	2009
Salar de Atacama [3]				
Metric tons of lithium carbonate produced	41	38	26	14
Metric tons of potassium chloride and potassium sulfate produced	1,977	1,448	1,409	1,075

(1) Operations at the El Toco and Pampa Blanca mines were temporarily suspended in March 2010. Mining activities resumed at El Toco in November 2010. Operations have not resumed at Pampa Blanca.

(2) Includes production at Coya Sur from treatment of fines from María Elena and Pedro de Valdivia, nitrates from pile treatment at Pampa Blanca and net production from NPT, or technical (grade) potassium nitrate, plants.

(3) Lithium carbonate is extracted at the Salar de Atacama and processed at our facilities at the Salar del Carmen.

Reserves for the caliche ore deposits

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

We estimate ore reserves based on engineering evaluations of assay values derived from sampling of drill-holes and other openings. Drill-holes have been made at different space intervals in order to recognize mining resources. Normally, we start with 400x400 meters and then we reduce spacing to 200x200 meters, 100x100 meters and 50x50 meters. The geological occurrence of caliche mineral is unique and different from other metallic and non-metallic minerals. Caliche ore is found in large horizontal layers at depths ranging from one to four meters and has an overburden between zero and two meters. This horizontal layering is a natural geological condition and allows us to estimate the continuity of the caliche bed based on surface geological reconnaissance and analysis of samples and trenches. Mining resources can be calculated using the information from the drill-hole sampling.

According to our experience in caliche ore, the grid pattern drill-holes with spacing equal to or less than 100 meters produce data on the caliche resources that is sufficiently defined to consider them measured resources and then, adjusting for technical, economic and legal aspects, as proven reserves. These reserves are obtained using the Kriging Method and the application of operating parameters to obtain economically profitable reserves. Similarly, the information obtained from detailed geologic work and samples taken from grid pattern drill-holes with spacing equal to or less than 200 meters can be used to determine indicated resources. By adjusting such indicated resources to account for technical, economic and legal factors, it is possible to calculate probable reserves. Probable reserves are calculated by evaluating polygons and have an uncertainty or error margin greater than that of proven reserves. However, the degree of certainty of probable reserves is high enough to assume continuity between points of observation.

Probable reserves are the economically mineable part of a “mineral resource” and, in some circumstances, a “measured mineral resource.” An indicated mineral resource is 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. A measured mineral resource is 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 calculation of 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.

Proven and probable reserves are determined using extensive drilling, sampling and mine modeling, in order to estimate potential restrictions on production yields, including cut-off grades, ore type, dilution, waste-to-ore ratio and ore depth. Economic feasibility is determined on the basis of this information.

The estimates of proven reserves of caliche ore at each of our mines as of December 31, 2012 are as follows:

Mine	**Proven Reserves[1]** (millions of metric tons)	**Nitrate Average Grade** (percentage by weight)		**Iodine Average Grade** (parts per million)
Pedro de Valdivia	172.3	7.0	%	365
Maria Elena	135.3	7.1	%	414
Pampa Blanca	71.4	5.6	%	544
Nueva Victoria[3]	351.2	5.7	%	451

In addition, the estimates of our probable reserves of caliche ore at each of our principal mines as of December 31, 2012, are as follows:

Mine	**Probable Reserves[1][2]** (millions of metric tons)	**Nitrate Average Grade** (percentage by weight)		**Iodine Average Grade** (parts per million)
Pedro de Valdivia	78.5	6.9	%	488
Maria Elena	98.0	7.3	%	380
Pampa Blanca	447.8	5.8	%	538
Nueva Victoria	59.1	7.6	%	