

CHEMICAL & MINING CO OF CHILE INC
Form 20-F
April 19, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2017

OR

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

for the transition period from _____ to

OR

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

Date of event requiring this shell company report _____

Commission file number 33-65728

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

(Exact name of Registrant as specified in its charter)

CHEMICAL AND MINING COMPANY OF CHILE INC.

(Translation of Registrant's name into English)

CHILE

(Jurisdiction of incorporation)

El Trovador 4285, 6th floor, Santiago, Chile +56 2 2425 2000

(Address of principal executive offices)

Gerardo Illanes +56 2 2425-2485 gerardo.illanes@sqm.com El Trovador 4285, 6th floor, Santiago, Chile

(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

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

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

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

None

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards [†] provided pursuant to Section 13(a) of the Exchange Act. ☐

[†] The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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

U.S. GAAP ☐ International Financial Reporting Standards as issued
by the International Accounting Standards Board ☒ Other ☐

If “Other” has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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

Series A Common Shares 142,819,552

Series B Common Shares 120,376,972

TABLE OF CONTENTS

	Page
<u>PRESENTATION OF INFORMATION</u>	<u>iii</u>
<u>GLOSSARY</u>	<u>iii</u>
<u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS</u>	<u>vi</u>
<u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	<u>1</u>
<u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u>	<u>1</u>
<u>ITEM 3. KEY INFORMATION</u>	<u>1</u>
<u>ITEM 4. INFORMATION ON THE COMPANY</u>	<u>21</u>
<u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u>	<u>68</u>
<u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	<u>69</u>
<u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	<u>90</u>
<u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	<u>104</u>
<u>ITEM 8. FINANCIAL INFORMATION</u>	<u>107</u>
<u>ITEM 9. THE OFFER AND LISTING</u>	<u>117</u>
<u>ITEM 10. ADDITIONAL INFORMATION</u>	<u>119</u>
<u>ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>133</u>
<u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	<u>134</u>
<u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	<u>135</u>
<u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	<u>135</u>
<u>ITEM 15. CONTROLS AND PROCEDURES</u>	<u>135</u>
<u>ITEM 16. [Reserved]</u>	<u>136</u>
<u>ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT</u>	<u>136</u>
<u>ITEM 16B. CODE OF ETHICS</u>	<u>136</u>
<u>ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	<u>136</u>
<u>ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	<u>137</u>
<u>ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	<u>137</u>
<u>ITEM 16G. CORPORATE GOVERNANCE</u>	<u>138</u>
<u>ITEM 16H. MINE SAFETY AND DISCLOSURE</u>	<u>138</u>
<u>ITEM 17. FINANCIAL STATEMENTS</u>	<u>139</u>
<u>ITEM 18. FINANCIAL STATEMENTS</u>	<u>139</u>
<u>ITEM 19. EXHIBITS</u>	<u>139</u>
<u>SIGNATURES</u>	<u>141</u>
<u>CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>142</u>

EXHIBIT 1.1
EXHIBIT 8.1
EXHIBIT 12.1
EXHIBIT 12.2
EXHIBIT 13.1
EXHIBIT 13.2
EXHIBIT 23.1
EXHIBIT 23.2
EXHIBIT 23.3
EXHIBIT 99.1
EXHIBIT 99.2
EXHIBIT 99.3
EXHIBIT 99.4
EXHIBIT 99.5

PRESENTATION OF INFORMATION

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

All references to “\$,” “US\$,” “U.S. dollars,” “USD” and “dollars” are to United States dollars, references to “**pesos**,” “CLP” “Ch\$” are to Chilean pesos, references to ThUS\$ are to thousands of United States dollars, references to ThCh\$ are to thousands of Chilean pesos and references to “UF” are to *Unidades de Fomento*. The UF is an inflation-indexed, peso-denominated unit that is linked to, and adjusted daily to reflect changes in, the previous month’s Chilean consumer price index. As of December 31, 2017, UF 1.00 was equivalent to US\$43.59 and Ch\$26,798.14 according to the Chilean Central Bank (*Banco Central de Chile*). As of April 18, 2018, UF 1.00 was equivalent to US\$45.39 and Ch\$26,983.06.

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

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

1 kilometer equals approximately 0.6214 miles

1 meter equals approximately 3.2808 feet

1 centimeter equals approximately 0.3937 inches

1 hectare equals approximately 2.4710 acres

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

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

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

GLOSSARY

“assay values” Chemical result or mineral component amount contained by the sample.

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

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

“CAGR” Compound annual growth rate, the year over year growth rate of an investment over a specified period of time.

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

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

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

“**CMF**” The Chilean Commission for the Financial Market (*La Comisión para el Mercado Financiero*), formerly known as the Superintendence of Securities and Insurance (*Superintendencia de Valores y Seguros* or *SVS*).

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

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

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

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

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

“**heap leaching**” A process whereby minerals are leached from a heap, or pad, of ROM (run of mine) ore by leaching solutions percolating down through the heap and collected from a sloping, impermeable liner below the pad.

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

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

“**Indicated Mineral Resource**” See “Resources—Indicated Mineral Resource.”

“Inferred Mineral Resource” See “Resources—Inferred Mineral Resource.”

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

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

“LIBOR” London Inter Bank Offered Rate.

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

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

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

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

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

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

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

“Proven Mineral Reserve” See “Reserves—Proven Mineral Reserve.”

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

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

“Resources—Indicated Mineral Resource” ** The 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 detailed exploration, sampling and testing information gathered through appropriate sampling techniques from locations such as outcrops, trenches and exploratory drill holes. The locations are too widely or inappropriately spaced to confirm geological continuity and/or grade continuity but are spaced closely enough for continuity to be assumed. An Indicated Mineral Resource has a lower level of confidence than that applying to a Measured Mineral Resource, but has a higher level of confidence than that applying to an Inferred Mineral Resource.

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

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

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

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

“Resources—Mineral Resource” ** A concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the Earth’s crust in such form or quantity and of such grade or quality that it has reasonable prospects

for economically viable extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological, metallurgical and technological evidence.

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

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

“waste” Rock or mineral which is not economical for metallurgical treatment.

“Weighted average age” The sum of the product of the age of each fixed asset at a given facility and its current gross book value as of December 31, 2017 divided by the total gross book value of the Company’s fixed assets at such facility as of December 31, 2017.

The definition of a Controller Group that has been provided is the one that applies to the Company. Chilean law *provides for a broader definition of a “controller group”, as such term is defined in Title XV of Chilean Law No. 18,045.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Form 20-F contains statements that are or may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are not based on historical facts and reflect our expectations for future events and results. Words such as “believe,” “expect,” “predict,” “anticipate,” “intend,” “estimate,” “should,” “may,” “likely,” “could” or similar expressions may identify forward-looking information. These statements appear throughout this Form 20-F and include statements regarding the intent, belief or current expectations of the Company and its management, including but not limited to any statements concerning:

- trends affecting the prices and volumes of the products we sell;
- level of reserves, quality of the ore and brines, and production levels and yields;
- our capital investment program and development of new products;
- the future impact of competition; and
- regulatory changes.

Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements included in this Form 20-F, including, without limitation, the information under Item 4. Information on the Company, Item Number 5. Operating and Financial Review and Prospects and Item 11. Quantitative and Qualitative Disclosures About Market Risk. Factors that could cause actual results to differ materially include, but are not limited to:

- volatility of global prices for our products;
- political, economic and demographic developments in certain emerging market countries, where we conduct a large portion of our business;
- changes in production capacities;
- the nature and extent of future competition in our principal markets;
- our ability to implement our capital expenditures program, including our ability to obtain financing when required;
- changes in raw material and energy prices;
- currency and interest rate fluctuations;
- risks relating to the estimation of our reserves;
- changes in quality standards or technology applications;
- adverse legal, regulatory or labor disputes or proceedings;
- changes in governmental regulations;
- a potential change of control of our company; and
- additional factors discussed below under Item 3. Key Information—Risk Factors.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

3.A. Selected Financial Data

The following table presents selected financial data as of and for the years ended December 31, 2017, 2016, 2015, 2014, and 2013. The selected financial data should be read in conjunction with the Consolidated Financial Statements and notes thereto, “Item 5. Operating and Financial Review and Prospects” and other financial information included herein.

(in millions of US\$) ⁽¹⁾	For the years ended December 31,				
	2017	2016	2015	2014	2013
Statement of income:					
Revenues	2,157.3	1,939.3	1,728.3	2,014.2	2,203.1
Cost of sales	(1,394.8)	(1,328.3)	(1,185.6)	(1,431.2)	(1,481.7)
Gross profit	762.5	611.0	542.7	583.0	721.5
Other income ⁽²⁾	17.8	15.2	15.3	24.1	96.7
Administrative expenses	(101.2)	(88.4)	(86.8)	(96.5)	(105.2)
Other expenses ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾	(61.6)	(89.7)	(106.4)	(64.3)	(49.4)
Other gains (losses)	0.5	0.7	3.8	4.4	(11.4)
Finance income	13.5	10.1	11.6	16.1	12.7
Finance expenses	(50.1)	(57.5)	(69.9)	(63.4)	(58.6)
	14.5	13.0	10.3	18.1	18.8

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

Foreign currency exchange differences	(1.3)	0.5	(12.4)	(16.5)	(12.0)
Income before income tax expense ⁽³⁾	594.6	414.9	308.3	405.0	613.1

Income tax expense ⁽⁷⁾	(166.2)	(133.0)	(83.8)	(160.7)	(138.5)
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Profit for the year ⁽³⁾⁽⁷⁾	428.4	281.9	224.5	244.3	474.6
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Profit attributable to:

Controlling interests ⁽³⁾⁽⁷⁾	427.7	278.3	220.4	236.9	467.1
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Non-controlling interests	0.7	3.6	4.2	7.4	7.5
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Profit for the year ^{(3) (7)}	428.4	281.9	224.6	244.3	474.6
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Basic earnings per share ⁽⁸⁾	1.63	1.06	0.84	0.90	1.77
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Basic earnings per ADS ⁽⁹⁾⁽¹⁰⁾	1.63	1.06	0.84	0.90	1.77
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Dividends per share ⁽¹⁰⁾⁽¹¹⁾⁽¹²⁾	1.84	1.44	0.47	1.42	1.04
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Dividends per ADS ⁽¹¹⁾⁽¹²⁾⁽¹³⁾	1.84	1.44	0.47	1.42	1.04
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Weighted average ⁽⁸⁾⁽⁹⁾ shares outstanding (000s)	263,197	263,197	263,197	263,197	263,197
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(1) Except shares outstanding, dividend and net earnings per share and net earnings per American Depositary Share (“ADS”).

- (2) Other income for 2013 includes US\$84 million for the sale of royalties for the Antucoya mining project. After taxes, this sale had a one-time effect of US\$67 million on profit for the year.
Other expenses for 2014 includes provisions of approximately US\$7 million corresponding to payments made in 2015 to the Chilean Internal Revenue Service (Servicio de Impuestos Internos or “SII”) for expenses that may not have qualified as tax expenses under the Chilean tax code. However, since such payments were made after March 3, 2015, the date on which the Company filed its statutory consolidated financial statements filed with the Chilean
- (3) Comission for the Financial Market (La Comision para el Mercado Financiero or “CMF”), such provisions were included in net income for the period ended December 31, 2015 for purposes of the Company’s statutory consolidated financial statements. For more information, see “Item 3D. Risk Factors—Risks Relating to our Business—We could be subject to numerous risks in Chile as a result of investigations by the Chilean Public Prosecutor in relation to certain payments made by SQM between the tax years 2009 and 2015.”
- (4) Other expenses for 2015 include a charge of US\$57.7 million for impairment and severance indemnities related to the restructuring of our Pedro de Valdivia operations.
Other expenses for 2016 include a charge of US\$32.8 million for impairment related to the closing of the train between Coya Sur and Tocopilla. Other expenses for 2016 also include charges of approximately US\$30.5 million related to the Company’s agreement with the U.S. Department of Justice and the administrative cease and desist order issued by the U.S. Securities and Exchange Commission in connection the inquiries arising out of the alleged
- (5) violations of the books and records and internal controls provisions of the Foreign Corrupt Practices Act. For more information, see “Item 3D. Risk Factors—Risks Relating to our Business—We could be subject to numerous risks in Chile as a result of investigations by the Chilean Public Prosecutor in relation to certain payments made by SQM between the tax years 2009 and 2015” and “Item 8.A.7 Legal Proceedings.”
Other expenses for 2017 include a charge of US\$20.4 million relating to payment by our subsidiary SQM Salar S.A. to Corfo after entering into the Corfo Arbitration Agreement (as defined in “Risks Relating to our Business”
- (6) section below) to terminate the arbitration proceedings and amend the existing Lease Agreement and Project Agreement (each as defined in “Risks Relating to our Business” section below). For more information, see “Item 8.A.7 Legal Proceedings.”
In accordance with IAS 12, the effects generated by the change in the income tax rate approved by Law No. 20.780 on income and deferred taxes have been applied to the income statement. For purposes of the Company’s statutory consolidated financial statements filed with the CMF, in accordance with the instructions issued by the CMF in its circular 856 of October 17, 2014, the effects generated by the change in the income tax rate were accounted for as
- (7) retained earnings. The amount charged to equity as of December 31, 2014 was US\$52.3 million, thereby giving rise to a difference of US\$52.3 million in profit and income tax expense in 2014 as presented in the Company’s Audited Consolidated Financial Statements compared with profit and income tax expense presented in the Company’s statutory consolidated financial statements filed with the CMF. The effects of subsequent changes in the income tax rate are recognized in profit or loss for the period in the Company’s statutory consolidated financial statements in accordance with IAS 12.
The Company has not conducted any transaction that would give rise to a potential dilutive effect on its earnings
- (8) per share in any of the indicated years. The total number of outstanding shares as of each period end is the same as the weighted average shares outstanding.
- (9) The calculation of earnings per ADSs and dividends per ADS for the years indicated is based on the ratio of 1:1.
(10) Dividends per share are calculated based on 263,196,524 shares for each of the years indicated.
- (11) Dividends are paid from net income as determined in accordance with CMF regulations. See “Item 8.A. Dividend Policy.” For dividends in Ch\$, see “Item 8.A. Dividend Policy—Dividends.”
- (12) Dividend amount paid per calendar year to shareholders of the Company. See “Item 8.A. Dividend Policy.”
- (13) Dividend amounts per share paid in Chilean pesos were Ch\$916.32 in 2017, Ch\$993.41 in 2016, Ch\$316.06 in 2015, Ch\$806.79 in 2014 and Ch\$536.16 in 2013.

(in millions of US\$)	As of December 31,				
	2017	2016	2015	2014	2013
Balance sheet data:					
Total assets	4,296.2	4,218.0	4,643.8	4,663.7	4,767.6
Total liabilities	2,048.8	1,910.8	2,243.4	2,371.1	2,335.4
Total equity	2,247.5	2,307.3	2,400.4	2,292.5	2,432.2
Equity attributable to controlling interests	2,187.8	2,246.1	2,339.8	2,232.6	2,376.6
Equity attributable to non-controlling interest	59.6	61.2	60.6	59.9	55.6
Capital stock	477.4	477.4	477.4	477.4	477.4

EXCHANGE RATES

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

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

The Observed Exchange Rate (*dólar observado*), which is reported by the Chilean Central Bank and published daily in the Chilean newspapers, is computed by taking the weighted average of the previous business day's transactions on the Formal Exchange Market. The Chilean Central Bank has the power to intervene by buying or selling foreign currency on the Formal Exchange Market to attempt to maintain the Observed Exchange Rate within a desired range. During the past few years the Chilean Central Bank has intervened to attempt to maintain the Observed Exchange Rate within a certain range only under special circumstances. Although the Chilean Central Bank is not required to purchase or sell U.S. dollars at any specific exchange rate, it generally uses spot rates for its transactions. Other banks generally carry out authorized transactions at spot rates as well.

The Informal Exchange Market reflects transactions carried out at an informal exchange rate (the "Informal Exchange Rate"). There are no limits imposed on the extent to which the Informal Exchange Rate can fluctuate above or below the Observed Exchange Rate. In recent years, the variations between the Observed Exchange Rate and the Informal Exchange Rate have not been significant.

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

The U.S. dollar is our functional currency. However, unless otherwise indicated, any amounts translated into U.S. dollars from Chilean pesos were translated using the Observed Exchange Rate for December 31, 2017, which was Ch\$614.75 per US\$1.00. As of April 18, 2018 the Observed Exchange Rate was US\$1.00 per Ch\$595.82.

Observed Exchange Rate⁽¹⁾

(Ch\$ per US\$)

Year	Low ⁽¹⁾	High ⁽¹⁾	Average ⁽¹⁾⁽²⁾	Year/Month
				End ⁽³⁾
2013	466.50	533.95	495.18	524.61
2014	527.53	621.41	570.34	606.75
2015	597.10	715.66	654.66	710.16
2016	645.22	730.31	676.83	669.47
2017	615.22	679.05	649.33	614.75

Last six months	Low ⁽¹⁾	High ⁽¹⁾	Average ⁽¹⁾⁽²⁾	Year/Month
				End ⁽³⁾
2017				
October	619.68	640.52	629.55	636.49
November	629.21	642.41	633.77	642.41
December	615.22	655.74	636.92	614.75
2018				
January	599.33	614.75	605.71	604.42
February	588.28	603.25	596.84	589.15
March	593.61	609.58	603.44	603.39

Source: Central Bank of Chile

(1) Reflects high and low rates on a day-to-day basis, for each period reported.

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

(3) Based on transactions observed during the last day of the period.

3.B. Capitalization and Indebtedness

Not applicable.

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

Not applicable.

3.D. Risk Factors

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

Risks Relating to our Business

We could be subject to numerous risks in Chile as a result of investigations by the Chilean Internal Revenue Service and the Chilean Public Prosecutor in relation to certain payments made by SQM between the tax years 2009 and 2015

The SII has conducted investigations related to the payment of invoices by SQM and its subsidiaries, SQM Salar S.A. (“SQM Salar”) and SQM Industrial S.A., for services that may not have been properly supported or that may not have been necessary to generate corporate income. The Chilean Public Prosecutor also has conducted related inquiries to determine whether such payments may be linked with alleged violations by SQM, these subsidiaries and public officials of political contribution or anti-corruption laws.

On February 26, 2015, SQM’s Board of Directors resolved to establish an ad-hoc committee of the Board of Directors (the “ad-hoc Committee”) authorized to conduct an internal investigation relating to the issues that were the subject of the SII and the Chilean Public Prosecutor investigations and to retain such independent external advice as it deemed appropriate. The original members of the ad-hoc Committee were former Board members José María Eyzaguirre B., Juan Antonio Guzmán M. and Wolf von Appen B.

The ad-hoc Committee engaged its own lawyers from Chile and the U.S. and forensic accountants from the U.S. to assist with its internal review. The U.S. lawyers retained by the ad-hoc Committee were principally charged with reviewing the relevant facts and analyzing those facts against the requirements of the U.S. Foreign Corrupt Practices Act (FCPA). The factual findings of the ad-hoc Committee, however, were ultimately shared with Chilean as well as U.S. authorities.

On March 12, 2015, José María Eyzaguirre B. resigned from the ad-hoc Committee and his position was subsequently filled by former Board member Hernán Büchi B.

On March 16, 2015, the Board of Directors decided to terminate the employment contract of the Company’s then-CEO, Patricio Contesse G. This followed his failure to cooperate with the ad-hoc Committee’s investigation.

On March 17, 2015, three members of the Board of Directors resigned, all of whom had been nominated by Potash Corporation of Saskatchewan Inc. (“PCS”), which was one of SQM’s two principal shareholder groups at such time. PCS merged with Agrium Inc. on January 1, 2018, forming Nutrien Ltd. (“Nutrien”), which is currently the owner of 32% of

the total outstanding shares of SQM. PCS issued a press release stating that the directors resigned because of their concern that they could not ensure that the Company was conducting an appropriate investigation and collaborating effectively with the Chilean Public Prosecutor.

On March 20, 2015, the Company identified to the SII approximately US\$11 million in payments of invoices that may not have been properly supported by services rendered or that may not qualify as tax expenses under the Chilean tax code. These payments originated from the office of the former CEO, Patricio Contesse G., during the six-year tax period from 2009 to 2014. As a result, the Company subsequently submitted amendments to its tax returns for the 2009 to 2014 tax years and thereafter paid taxes and interest relating to such amended returns totaling approximately US\$7 million. On April 24, 2015, the Company announced that it had identified up to an additional US\$2 million in payments by its subsidiary SQM Salar during the same six-year tax period that were also authorized by the former CEO and that may be deemed not properly supported by services rendered or that may not qualify as tax expenses under the Chilean tax code. Subsequently, SQM Salar filed amended tax returns and paid taxes and interest relating to such amended returns totaling approximately US\$1.2 million. On August 14, 2015, the Company announced that it had identified to the SII approximately US\$1.6 million in additional payments by SQM S.A. and its subsidiary SQM Industrial S.A. that may be deemed not properly supported by services rendered or that may not qualify as tax expenses under the Chilean tax code. SQM S.A. and SQM Industrial S.A. subsequently filed amended tax returns and, in early 2016, SQM Industrial S.A. paid taxes and interest relating to such amended returns totaling approximately US\$0.3 million, and SQM S.A. paid taxes and interest relating to such amended returns totaling approximately US\$1.3 million. The statute of limitations under Chilean law for tax claims is up to six years, during which period the former CEO had an annual discretionary budget covering the Company and its subsidiaries of approximately US\$6 million.

On March 23, 2015, the SII, based on the Income Tax Law (*Ley de Impuesto a La Renta*), filed a criminal claim against the Company's former CEO and the current CEO and CFO in their capacities as the Company's tax representatives relating to part of the payments referred to above. This and subsequent related similar claims filed by the SII against these officers and third parties are currently under review by the Chilean Public Prosecutor.

On March 31, 2015, the CMF filed an administrative claim against five then-current and former members of the Board of Directors, alleging that they did not release information in a timely manner relating to the payments that are subject to the tax claim referred to above. On September 30, 2015, the CMF proceeded to fine them UF1,000 each (approximately US\$36,000). They are currently appealing this decision to the Chilean courts.

On April 24, 2015, new members were elected to the Board of Directors at the Annual General Shareholders' Meeting, including three new members that were nominated by PCS, and the ad-hoc Committee was subsequently reconstituted by Board of Directors members Robert A. Kirkpatrick, Wolf von Appen B. and Edward J. Waitzer.

On April 30, 2015, the Chilean Public Prosecutor, after reviewing the claims filed by the SII, informed the Company's former CEO that it was formally investigating allegations that he approved the payment of invoices that may not be properly supported by services rendered or that may not qualify as tax expenses under the Chilean tax code and in connection therewith made intentionally false or incomplete declarations or used fraudulent procedures designed to conceal or disguise the true amount of transactions or to circumvent taxes. If he is finally adjudicated responsible, the Company may also be subject to the payment of a fine by the Chilean Criminal Court totaling 50% to 300% of the taxes paid. The Company estimates that no provision is needed at this stage.

On May 11, 2015, the SII filed an additional criminal claim against the former CEO and the current CEO and CFO in their capacities as the Company's tax representatives alleging violations of the Chilean Inheritance and Donations Law (*Ley sobre Impuesto a Las Herencias, Asignaciones y Donaciones*). The claim states that the Company paid two invoices in 2009 and 2010 totaling approximately US\$175,000 that are alleged to have been improperly supported. The claim states that these payments should have been classified as donations, and appropriate taxes should have been paid. These payments were accounted for in the amended tax returns filed with the SII. Subsequently, the SII filed a number of additional claims against these officers and third parties alleging violations of Chilean tax law and the Chilean Inheritance and Donations Law. The most recent of these criminal claims was filed by the SII on March 9, 2016. All of these claims are under review by the Chilean Public Prosecutor.

On September 29, 2015, the Company was notified of a labor lawsuit by its former CEO, Patricio Contesse, claiming payment from the Company related to the termination of his employment contract. The total amount claimed in the lawsuit is approximately Ch\$4.0 billion (approximately US\$5.7 million), including severance payments for years of service and other legal or contractual payments. The lower court held that Mr. Contesse's claim was barred by the statute of limitations. On November 8, 2016, the Santiago Court of Appeals overruled the lower court decision. On

March 27, 2017, the Company reached an agreement with Mr. Contesse to terminate the labor lawsuit Mr. Contesse filed against the Company. The amount included in the agreement was provisioned for in the financial statements as of December 31, 2016.

On October 14, 2015, two class action complaints then pending against the Company, our former CEO and current CEO and CFO, alleging violations of the U.S. securities laws in connection with the subject matter of the investigations described above, were consolidated into a single action in the United States District Court for the Southern District of New York. On November 13, 2015, our former CEO and current CEO and CFO were voluntarily dismissed from the case without prejudice. On January 15, 2016, the lead plaintiff filed a consolidated class action complaint exclusively against the Company. On January 10, 2018, the lead plaintiff filed a motion to certify a class consisting of all persons who purchased SQM ADSs between June 30, 2010 and March 18, 2015. For more information on the consolidated class action, see “Item 8.A.7 Legal Proceedings.”

During 2015, the ad-hoc Committee that was established in February 15, 2015, conducted an investigation into whether the Company faced possible liability under the FCPA. The ad-hoc Committee engaged its own separate counsel, Shearman & Sterling LLP, which presented a report to the Board of Directors on December 15, 2015.

Following the presentation by the ad-hoc Committee of its findings to the Board of Directors, the Company voluntarily shared the findings of the ad-hoc Committee investigation with authorities in Chile and the U.S. (including the U.S. Securities and Exchange Commission (“SEC”) and the U.S. Department of Justice (“DOJ”)).

On January 13, 2017, the Company and the DOJ reached agreement on the terms of a Deferred Prosecution Agreement (“DPA”) that would resolve the DOJ’s inquiry, based on alleged violations of the books and records and internal controls provisions of the Foreign Corrupt Practices Act. Among other terms, the DPA called for the Company to pay a monetary penalty of US\$15,487,500, and engage a compliance monitor for a term of two (2) years. Upon successful completion of the three (3) year term of the DPA, all charges against the Company will be dismissed. On the same date, the SEC agreed to resolve its inquiry through an administrative cease and desist order, arising out of the alleged violations of the same accounting provisions of the FCPA. Among other terms, the SEC order called for the Company to pay an additional monetary penalty of US\$15 million. These penalties were reflected in the 2016 financial statements.

On January 26, 2018, the 8th Court of Santiago approved a deferred prosecution agreement proposed by the Chilean Public Prosecutor relating to SQM and its subsidiaries SQM Salar and SQM Nitratos S.A., to suspend an investigation against these entities related to potential corruption issues and responsibility for the lack of supervision and management. Under the deferred prosecution agreement, SQM, SQM Salar and SQM Nitratos S.A., have not admitted responsibility in the matter subject to the investigation but agreed to pay an aggregate amount of (i) Ch\$900,000,000 to the Chilean government, and (ii) Ch\$1,650,000,000 to various charitable organizations. As of January 26, 2018, these amounts were equivalent to approximately US\$1.5 million and US\$2.8 million, respectively, and were accrued in the Consolidated Financial Statements of the Company for 2017. In addition, the companies have agreed to provide the Chilean Public Prosecutor with a report on the enhancements to their compliance program, implemented in recent years, with special emphasis on the incorporation of best practices in various jurisdictions. See “Item 8.A.7 Legal Proceedings.”

In the event that the applicable regulatory authorities believe that the terms of the DPA or the deferred prosecution agreement with the Chilean Public Prosecutor are not complied with, it is possible that such regulatory authorities may reinstate the suspended proceedings against us and may bring further action against us, including in the form of additional inquiries or legal proceedings. Responding to our regulators' inquiries and any future civil, criminal or regulatory inquiries or proceedings diverts our management's attention from day-to-day operations. Additionally, expenses that may arise from responding to such inquiries or proceedings, our review of responsive materials, any related litigation or other associated activities may continue to be significant. Current and former employees, officers and directors may seek indemnification, advancement or reimbursement of expenses from us, including attorneys' fees, with respect to the current inquiry or future proceedings related to this matter. The occurrence of any of the foregoing or adverse determination in litigation or other proceedings or similar actions could materially and adversely affect our business, financial condition, cash flows, results of operations and the prices of our securities.

The failure to amend the Lease Agreement and the Project Agreement relating to the Salar de Atacama concession could have a material adverse effect on our business, financial condition and results of operations

Our subsidiary SQM Salar S.A. (“SQM Salar”), as leaseholder, holds exclusive and temporary rights over 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 is entitled to exploit the mineral resources in 81,920 hectares. These rights are owned by Corfo and leased to SQM Salar pursuant to (i) a 1993 lease agreement over mining exploitation concessions between SQM Salar and Corfo, a Chilean government entity (the “Lease Agreement”), and (ii) the Salar de Atacama project agreement between Corfo and SQM Salar (the “Project Agreement”). Corfo may not unilaterally amend the Lease Agreement or the Project Agreement. The Lease Agreement establishes that SQM Salar is responsible for making quarterly lease payments to Corfo, maintaining Corfo’s rights over the mining exploitation concessions, and making annual payments to the Chilean government for such concession rights. The Lease Agreement expires on December 31, 2030.

Furthermore, under the regulations of the Chilean Nuclear Energy Commission (Comisión Chilena de Energía Nuclear or “CCHEN”), we were limited to 180,100 tons of total lithium metallic equivalent (958,672 tons of lithium carbonate equivalent) extraction in the aggregate for all periods. For the year ended December 31, 2017, revenues related to products originating from the Salar de Atacama represented 47% of our consolidated revenues, consisting of revenues from our potassium business line and our lithium and derivatives business line for the period. All of our products originating from the Salar de Atacama are derived from our extraction operations under the Lease Agreement. As of December 31, 2017, only 13 years remain on the term of the Lease Agreement and we had extracted approximately 64% of the total permitted accumulated extraction and sales limit of lithium.

On January 17, 2018, Corfo and our subsidiaries SQM Potasio S.A. and SQM Salar reached an agreement (the “Corfo Arbitration Agreement”) to (i) terminate the previously disclosed arbitration proceedings between Corfo and SQM Salar, which, among other things, sought early termination of the Lease Agreement and (ii) amend the Lease Agreement and the Project Agreement. As part of the agreement to amend the Lease Agreement, Corfo authorized an increase of the production and sales of lithium products produced in the Salar de Atacama up to 349,553 metric tons of lithium metallic equivalent (1,860,670 tons of lithium carbonate equivalent), which is in addition to the approximately 64,816 metric tons of lithium metallic equivalent (345,015 tons of lithium carbonate equivalent) remaining from the originally authorized amount. The amendments of the Lease Agreement and the Project Agreement required under Chilean Law the issuance of the applicable resolutions of the Office of the Comptroller General of the Republic (*Contraloría General de la República*) and the CCHEN.

On February 15, 2018 and February 16, 2018, the Atacamenos Indigenous Organization (*Consejo de Pueblos Atacamenos*) initiated legal actions challenging the amendments of the Lease Agreement and the Project Agreement. The legal actions are pending before the Santiago Court of Appeals. See “Item 8.A.7 Legal Proceedings.”

On March 8, 2018, the CCHEN published its authorization for the increase in the quota of the amount of lithium that may be extracted from the Salar de Atacama concession for all periods for which there are increases under the proposed Lease Agreement amendment with Corfo. In addition, the authorization by the CCHEN provides that the amendments to the Lease Agreement and the Project Agreement may be revoked if any person or entity acquires control or a significant influence (*influencia decisiva*) over SQM without prior antitrust approval. SQM has challenged the CCHEN authorization with the objective of eliminating such provision. SQM believes that its challenge will not affect the validity of the Corfo Arbitration Agreement or the amendments to the Lease Agreement or the Project Agreement. However, there can be no assurance that SQM will prevail in eliminating such provision and in the event such provision is not eliminated, there could be no assurance that the amendments to the Lease Agreement and the Project Agreement will not be revoked upon violation of such provisions. In addition, the adoption of the CCHEN authorization is currently being challenged by the Atacamenos Indigenous Organization (*Consejo de Pueblos Atacamenos*), which challenge, if successful, may result in the revocation of CCHEN authorization.

On April 10, 2018, the Office of the Comptroller General of the Republic (Contraloría General de la República) issued a resolution approving the amendments of the Lease Agreement and the Project Agreement.

In addition, in connection with the Corfo Arbitration Agreement, on December 18, 2017, the companies that are part of the Pampa Group entered into an agreement for the benefit of Corfo (the “Pampa Group Agreement”), which, among other things, provides for: (i) the termination of the Joint Operation Agreement, and (ii) an agreement to not enter into any joint action with third parties that allows Pampa Group to acquire the status of sole controller or joint controller, as defined by article 97 of the Chilean Securities Market Law. The obligations set forth in clause (ii) expire on December 31, 2030. In addition, the Pampa Group Agreement also includes numerous provisions relating to corporate governance and control. The effectiveness of the obligations of the parties to the Pampa Group Agreement is subject to the execution of the amendments of the Lease Agreement and the Project Agreement and the obtainment of all approvals under Chilean Law. See “Item 8.A.7 Legal Proceedings.” Neither SQM nor any of its subsidiaries, including SQM Potasio S.A. and SQM Salar, is a party to the Pampa Group Agreement.

In the event the Lease Agreement is not amended as contemplated by the Corfo Arbitration Agreement, or the CCHEN authorization for the increased extraction is revoked according to its terms, there can be no assurance that we will not reach the lithium extraction limit referred to above prior to the expiration of the term of the Lease Agreement. In such event, we would then be unable to continue extraction of lithium under the Lease Agreement, which could have a material adverse effect on our business, financial condition and results of operations.

Our market reputation, commercial dealings or the price of our securities could be adversely affected by the negative outcome of certain proceedings against certain former members of our Board and certain other named defendants

On September 10, 2013, the CMF issued a press release disclosing it had instituted certain administrative proceedings (the “Cascading Companies Proceedings”) against (i) Julio Ponce Lerou (who was the Chairman of the Board and a director of the Company until April 24, 2015), (ii) Patricio Contesse Fica, who was a director of the Company until April 24, 2015 and is the son of Patricio Contesse González (who was the Company’s CEO until March 16, 2015), and (iii) other named defendants. The Company has been informed that Mr. Ponce and persons related to him beneficially owned 29.97% of SQM’s total shares as of December 31, 2017. See “Item 6.E. Share Ownership.” The CMF alleged breaches of Chilean corporate and securities laws in connection with acts performed by entities with direct or indirect share ownership interests in SQM (the “Cascading Companies”). The allegations made in connection with the Cascading Companies Proceedings do not relate to the Company’s operations, nor do they relate to any acts or omissions of the Company or any of its directors, officers or employees in their capacities as such.

In connection with the Cascading Companies Proceedings, the CMF alleged the existence of a scheme involving the named defendants whereby, through a number of transactions occurring between 2009 and 2011, the Cascading Companies allegedly sold securities of various companies, including securities of SQM, at below-market prices to companies related to Mr. Ponce and other named defendants. These companies allegedly subsequently sold such securities after a lapse of time, in most cases back to the Cascading Companies, at prices higher than the purchase price. The CMF alleged violations by the defendants of a number of Chilean corporate and securities laws in furtherance of the alleged scheme.

On January 31, 2014, the CMF added a number of Chilean financial institutions and asset managers, and certain of their controlling persons, executives or other principals, as named defendants to the Cascading Companies Proceedings. On September 2, 2014, the CMF issued a decision imposing an aggregate fine against all of the defendants of UF 4.0 million (approximately US\$174 million as of December 31, 2017), including a fine against Mr. Ponce of UF 1.7 million (approximately US\$74 million as of December 31, 2017) and a fine against Mr. Contesse Fica of UF 60,000 (approximately US\$2.6 million as of December 31, 2017). The defendants are currently challenging the CMF administrative decision before Chilean courts.

The High Complexity Crimes Unit (*Unidad de Delitos de Alta Complejidad*) of the Metropolitan District Central Northern Attorney's Office (*Fiscalía Metropolitana Centro Norte*) is also investigating various criminal complaints filed against various parties to the Cascading Companies Proceedings. The SII requested payment of taxes by the Cascading Companies, and the Cascading Companies filed a complaint with the tax courts.

If, for any reason, the Company is unable to differentiate itself from the named defendants, such failure could have a material adverse effect on the Company's market reputation and commercial dealings. Furthermore, we cannot assure you that a non-appealable ruling in connection with the Cascading Companies Proceedings or the investigations of the High Complexity Crimes Unit or the SII that is adverse to Mr. Ponce or Mr. Contesse Fica will not have a material adverse effect on our market reputation, commercial dealings and the price of our securities, or that the Cascading Companies will not sell shares of the Company or vote to increase the dividends we pay to our shareholders.

We identified a material weakness in our internal controls over payments directed by the office of the former Chief Executive Officer

In the past, our management determined that the Company did not maintain effective control over payments directed by the office of the former CEO. This determination was reported in our annual report for the year ended December 31, 2014 on Form 20-F, filed with the SEC on May 18, 2015.

We believe we have taken the necessary steps to remediate the identified material weakness and enhance our internal controls. However, any failure to maintain effective internal control over financial reporting could (i) result in a material misstatement in our financial reporting or financial statements that would not be prevented or detected, (ii) cause us to fail to meet our reporting obligations under applicable securities laws or (iii) cause investors to lose confidence in our financial reporting or financial statements, the occurrence of any of which could materially and adversely affect our business, financial condition, cash flows, results of operations and the prices of our securities.

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

The prices of our products are determined principally by world prices, which, in some cases, have been subject to substantial volatility in recent years. World fertilizer and chemical prices vary depending upon the relationship between supply and demand at any given time. Supply and demand dynamics for our products are tied to a certain extent to global economic cycles, and have been impacted by circumstances related to such cycles. Furthermore, the supply of certain fertilizers or chemical products, including certain products that we provide, varies principally depending on the production of the major producers, (including us) and their respective business strategies.

World prices of potassium-based fertilizers (including some of our specialty plant nutrients and potassium chloride) fluctuated as a result of the broader global economic and financial conditions. During the second half of 2013, potassium prices declined as a result of an unexpected announcement made by the Russian company Uralkali (“Uralkali”) that it was terminating its participation in Belarus Potash Corporation (“BPC”). As a result of the termination of Uralkali’s participation in BPC, there was increased price competition in the market. The average price for our potassium chloride and potassium sulfate business line was approximately 7% higher in 2017 compared to 2016. Our sales volumes for this business line were approximately 12% lower in 2017 compared to 2016. We cannot assure you that potassium-based fertilizer prices and sales volumes will not decline in the future.

Iodine prices followed an upward trend beginning at the end of 2008 and continuing through 2012, reaching an average price of approximately US\$53 per kilogram in 2012, over 40% higher than average prices in 2011. During the following years, supply growth outpaced demand growth, causing a decline in iodine prices. We obtained an average price for iodine of approximately US\$20 per kilogram in 2017, approximately 12% less than average prices obtained in 2016. We cannot assure you that iodine prices or sales volumes will not continue to decline in the future.

Driven mostly by an increase in demand related to battery use, lithium demand growth in 2016 was accompanied by an increase in supply that was lower than expected, and as a result, average prices for this business line increased approximately 80% compared to 2015. In 2017, lithium demand continued to grow creating tight market conditions and increasing prices by 25% compared to 2016. We cannot assure you that lithium prices and sales volumes will not decline in the future.

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

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

We sell our products in more than 110 countries around the world. In 2017, approximately 42% of our sales were made in emerging market countries: 11% in Latin America (excluding Chile); 9% in Africa and the Middle East (excluding Israel); 7% in Chile and 15% in Asia and Oceania (excluding Australia, Japan, New Zealand, South Korea and Singapore). We expect to expand our sales in these and other emerging markets in the future. In addition, we may carry out acquisitions or joint ventures in jurisdictions in which we currently do not operate, relating to any of our businesses or to new businesses in which we believe we may have sustainable competitive advantages. The results of our operations and our prospects in other countries in which we establish operations will depend, in part, on the

general level of political stability and economic activity and policies in those countries. Future developments in the political systems or economies of these countries or the implementation of future governmental policies in those countries, including the imposition of withholding and other taxes, restrictions on the payment of dividends or repatriation of capital, the imposition of import duties or other restrictions, the imposition of new environmental regulations or price controls or changes in relevant laws or regulations, could have a material adverse effect on our business, financial condition and results of operations in those countries.

Our inventory levels may increase for economic or operational reasons

In general, economic conditions or operational factors can affect our inventory levels. Higher inventories carry a financial risk due to increased need for cash to fund working capital and could imply increased risk of loss of product. We cannot assure you that inventory levels will not continue to remain high or increase further in the future. These factors could have a material adverse effect on our business, financial condition and results of operations.

Our measures to minimize our exposure to bad debt may not be effective and a significant increase in our accounts receivable coupled with the financial condition of customers may result in losses that could have a material adverse effect on our business, financial condition and results of operations

Potentially negative effects of global economic conditions on the financial condition of our customers may include the extension of the payment terms of our accounts receivable and may increase our exposure to bad debt. While we have implemented certain safeguards, such as using credit insurance, letters of credit and prepayment for a portion of sales, to minimize the risk, we cannot assure you that such safeguards will be effective and a significant increase in our accounts receivable coupled with the financial condition of customers may result in losses that could have a material adverse effect on our business, financial condition and results of operations.

New production of iodine or lithium carbonate from current or new competitors in the markets in which we operate could adversely affect prices

In recent years, new and existing competitors have increased the supply of iodine and lithium carbonate, which has affected prices for both products. Further production increases could negatively impact prices. There is limited information on the status of new iodine or lithium carbonate production capacity expansion projects being developed by current and potential competitors and, as such, we cannot make accurate projections regarding the capacities of possible new entrants into the market and the dates on which they could become operational. If these potential projects are completed in the short term, they could adversely affect market prices and our market share, which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

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

Our business is capital intensive. Specifically, the exploration and exploitation of reserves, mining and processing costs, the maintenance of machinery and equipment and compliance with applicable laws and regulations require substantial capital expenditures. We must continue to invest capital to maintain or to increase our exploitation levels and the amount of finished products we produce.

In addition, we require environmental permits for our new projects. Obtaining permits in certain cases may cause significant delays in the execution and implementation of new projects and, consequently, may require us to reassess the related risks and economic incentives. We cannot assure you that we will be able to maintain our production levels or generate sufficient cash flow, or that we will have access to sufficient investments, loans or other financing alternatives, to continue our activities at or above present levels, or that we will be able to implement our projects or receive the necessary permits required for them in time. Any or all of these factors may have a material adverse effect

on our business, financial condition and results of operations.

High raw materials and energy prices could increase our production costs and cost of sales, and energy may become unavailable at any price

We rely on certain raw materials and various energy sources (diesel, electricity, liquefied natural gas, fuel oil and others) to manufacture our products. Purchases of energy and raw materials we do not produce constitute an important part of our cost of sales, approximately 14% in 2017. In addition, we may not be able to obtain energy at any price if supplies are curtailed or otherwise become unavailable. To the extent we are unable to pass on increases in the prices of energy and raw materials to our customers or we are unable to obtain energy, our business, financial condition and results of operations could be materially adversely affected.

Our reserves estimates are internally prepared and not subject to review by external geologists or an external auditing firm and could be subject to significant changes, which may have a material adverse effect on our business, financial condition and results of operations

Our caliche ore mining reserves estimates and our Salar de Atacama brine mining reserve estimates are prepared by our own geologists and hydrogeologists and are not subject to review by external geologists or an external auditing firm. Estimation methods involve numerous uncertainties as to the quantity and quality of the reserves, and reserve estimates could change upwards or downwards. A downward change in the quantity and/or quality of our reserves could affect future volumes and costs of production and therefore have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

Our facilities and business operations in Chile and abroad are insured against losses, damage or other risks by insurance policies that are standard for the industry and that would reasonably be expected to be sufficient by prudent

and experienced persons engaged in businesses similar to ours.

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

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

Our products, particularly iodine, lithium and their derivatives, are preferred raw materials for certain industrial applications, such as rechargeable batteries and liquid-crystal displays (LCDs). Changes in technology, the development of substitute raw materials or other developments could adversely affect demand for these and other products which we produce. In addition, other alternatives to our products may become more economically attractive as global commodity prices shift. Any of these events could have a material adverse effect on our business, financial condition and results of operations.

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

Over 95% of our employees are employed in Chile, of which approximately 64% were represented by 22 labor unions as of December 31, 2017. As of July 31, 2017 we renegotiated collective labor contracts with three unions. As a result, all collective labor contracts were renegotiated for the next three years as of that date. From November 2017, we started a new cycle of the individual labor contract negotiations. We are exposed to labor strikes and illegal work stoppages that could impact our production levels. If a strike or illegal work stoppage occurs and continues for a sustained period of time, we could be faced with increased costs and even disruption in our product flow that could have a material adverse effect on our business, financial condition and results of operations.

Chilean Law No. 20,123, known as the Subcontracting Law, provides that when a serious workplace accident occurs, the company in charge of the workplace must halt work at the site where the accident took place until authorities from either the National Geology and Mining Service (*Servicio Nacional de Geología y Minería* or “Sernageomin”), the Labor Board (*Dirección del Trabajo* or “Labor Board”), or the National Health Service (*Servicio Nacional de Salud*), inspect the site and prescribe the measures such company must take to minimize the risk of similar accidents taking place in the future. Work may not be resumed until the applicable 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 September 8, 2016, Chilean Law No. 20,940 was published and modified the Labor Code by introducing, among other things, changes to the formation of trade unions, the election of inter-company union delegates, the presence of women on union boards, anti-union practices and related sanctions, and collective negotiations. Due to these changes to the labor regulations, we may face an increase in our expenses that may have a significant adverse effect on our business, financial condition, and results of operations.

Lawsuits and arbitrations could adversely impact us

We are party to a range of lawsuits and arbitrations involving different matters as described in Note 19.1 of our Consolidated Financial Statements and “Item 8.A. Legal Proceedings.” Although we intend to defend our positions vigorously, our defense of these actions may not be successful and responding to such lawsuits and arbitrations diverts our management’s attention from day-to-day operations. Adverse judgments or settlements in these lawsuits may have a material adverse effect on our business, financial condition and results of operations. In addition, our strategy of being a world leader includes entering into commercial and production alliances, joint ventures and acquisitions to improve our global competitive position. As these operations increase in complexity and are carried out in different jurisdictions, we may be subject to legal proceedings that, if settled against us, could have a material adverse effect on our business, financial condition and results of operations.

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

We operate in multiple jurisdictions with complex regulatory environments that are subject to different interpretations by companies and respective governmental authorities. These jurisdictions may have different tax codes, environmental regulations, labor codes and legal framework, which adds complexity to our compliance with these regulations. Any failure to comply with such regulations could have a material adverse effect on our business, financial condition and results of operations.

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

Our operations in Chile are subject to national and local regulations relating to environmental protection. In accordance with such regulations, we are required to conduct environmental impact studies or statements before we conduct any new projects or activities or significant modifications of existing projects that could impact the environment or the health of people in the surrounding areas. We are also required to obtain an environmental license for certain projects and activities. The Environmental Evaluation Service (*Servicio de Evaluación Ambiental* or “Environmental Evaluation Service”) evaluates environmental impact studies submitted for its approval. The public, government agencies or local authorities may review and challenge projects that may adversely affect the environment, either before these projects are executed or once they are operating, if they fail to comply with applicable regulations. In order to ensure compliance with environmental regulations, Chilean authorities may impose fines up to approximately US\$9 million per infraction, revoke environmental permits or temporarily or permanently close facilities, among other enforcement measures.

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

We regularly monitor the impact of our operations on the environment and on the health of people in the surrounding areas and have, from time to time, made modifications to our facilities to minimize any adverse impact. Future developments in the creation or implementation of environmental requirements or their interpretation could result in substantially increased capital, operation or compliance costs or otherwise adversely affect our business, financial condition and results of operations.

The success of our current investments at the Salar de Atacama and Nueva Victoria is dependent on the behavior of the ecosystem variables being monitored over time. If the behavior of these variables in future years does not meet environmental requirements, our operation may be subject to important restrictions by the authorities on the maximum allowable amounts of brine and water extraction. For example, on December 13, 2017, the First Environmental Court of Antofagasta ordered the temporary and partial closure of certain water extraction wells located in the Salar de Llamara. These wells allow the Company to extract approximately 124 liters per second of water, almost 15% of the water used in the Company’s operations in the First Region of Chile for iodine and nitrate production.

Our future development depends on our ability to sustain future production levels, which requires additional investments and the submission of the corresponding environmental impact studies or statements. If we fail to obtain approval or required environmental licenses, our ability to maintain production at specified levels will be seriously

impaired, thus having a material adverse effect on our business, financial condition and results of operations.

In addition, our worldwide operations are subject to international and other local environmental regulations. Since environmental laws and regulations in the different jurisdictions in which we operate may change, we cannot guarantee that future environmental laws, or changes to existing environmental laws, will not materially adversely impact our business, financial condition and results of operations.

Our water supply could be affected by geological changes or climate change

Our access to water may be impacted by changes in geology, climate change or other natural factors, such as wells drying up or reductions in the amount of water available in the wells or rivers from which we obtain water, that we cannot control. Any such change may have a material adverse effect on our business, financial condition and results of operations.

Any loss of key personnel may materially and adversely affect our business

Our success depends in large part on the skills, experience and efforts of our senior management team and other key personnel. The loss of the services of key members of our senior management or employees with critical skills could have a negative effect on our business, financial condition and results of operations. If we are not able to attract or retain highly skilled, talented and qualified senior managers or other key personnel, our ability to fully implement our business objectives may be materially and adversely affected.

A significant percentage of our shares are held by two principal shareholder groups who may have an interest that is different from that of other shareholders and of each other. Any change in such principal shareholder groups may result in a change of control of the Company or of its Board of Directors or its management, which may have a material adverse effect on our business, financial condition and results of operations

As of February 7, 2018, two principal shareholder groups held in the aggregate 64.08% of the total outstanding shares of SQM, including a majority of our Series A common shares, and have the power to elect seven of our eight directors. The interests of the two principal shareholder groups may in some cases differ from those of other shareholders and of each other.

One of the principal shareholder groups is Nutrien (formerly PCS prior to the merger with Agrium Inc. on January 1, 2018), which currently owns 32% of the total outstanding shares of SQM. Nutrien is required to divest all of its ownership in SQM within 18 months of the merger with Agrium Inc. pursuant to the terms of the approval of the merger of PCS and Agrium Inc. by the Competition Commission of India. As of the date of this Annual Report on Form 20-F, Nutrien has not yet completed the sale of any portion of its interest in SQM.

The other principal shareholder group consists of the Pampa Group and the Kowa Group (each as defined in “Item 7.A. Major Shareholders”), which currently owns 32.49% of the total outstanding shares of SQM. This shareholder group may lose its Controller Group status under Chilean law upon the termination of the Joint Operation Agreement (as defined in “Item 7.A. Major Shareholders”) as required under the Pampa Group Agreement entered into by the Pampa Group members in connection with the Corfo Arbitration Agreement. See “Item 7.A. Major Shareholders”.

In addition, on April 17, 2017, certain entities owned by the Pampa Group, the Kowa Group and PCS entered into an agreement with respect to certain corporate governance matters of SQM. See “Item 7.A. Major Shareholders”.

The divestiture by Nutrien, the loss of the Controller Group status by the Pampa Group and the Kowa Group, or a combination thereof, may have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to Financial Markets

Currency fluctuations may have a negative effect on our financial performance

We transact a significant portion of our business in U.S. dollars, and the U.S. dollar is the currency of the primary economic environment in which we operate. In addition, the U.S. dollar is our functional currency for financial statement reporting purposes. A significant portion of our costs, however, is related to the Chilean peso. Therefore, an increase or decrease in the exchange rate between the Chilean peso and the U.S. dollar would affect our costs of production. The Chilean peso has been subject to large devaluations and revaluations in the past and may be subject to significant fluctuations in the future. As of December 31, 2017, the Chilean peso exchange rate was Ch\$614.75 per U.S. dollar, while as of December 31, 2016, the Chilean peso exchange rate was Ch\$669.47 per U.S. dollar. The Chilean peso therefore appreciated against the U.S. dollar by 8.0% in 2017. As of April 18, 2018, the Observed Exchange Rate was Ch\$595.82 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, the Thai baht and the Brazilian real. As a result, fluctuations in the exchange rates of such foreign currencies to the U.S. dollar may have a material adverse effect on our business, financial condition and results of operations.

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

As of December 31, 2017, we did not have any outstanding short or long-term debt bearing interest based on LIBOR or other variable interest rates. Should we have such debt in the future, a relative increase in the rate could materially impact our business, financial condition and results of operations.

Risks Relating to Chile

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

Our business, results of operations, financial condition and prospects could be affected by changes in policies of the Chilean government, other political developments in or affecting Chile, legal changes in the standards or administrative practices of Chilean authorities or the interpretation of such standards and practices, over which we have no control.

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

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

Changes in mining or port concessions could affect our operating costs

We conduct our mining operations, including brine extraction, under exploitation and exploration concessions granted in accordance with provisions of the Chilean constitution and related laws and statutes. Our exploitation concessions essentially grant a perpetual right (with the exception of the rights granted to SQM Salar with respect to the Salar de Atacama concessions under the Lease Agreement described above, which expires in 2030) to conduct mining operations in the areas covered by the concessions, provided that we pay annual concession fees. Our exploration concessions permit us to explore for mineral resources on the land covered thereby for a specified period of time and to subsequently request a corresponding exploitation concession.

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

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

Changes in water rights laws and other regulations could affect our operating costs

We hold water use rights that are key to our operations. These rights were obtained from the Chilean Water Authority (*Dirección General de Aguas*) for supply of water from rivers and wells near our production facilities, which we believe are sufficient to meet current operating requirements. However, the Chilean water rights code (*Código de Aguas* or the “Water Code”) is subject to changes, which could have a material adverse impact on our business, financial condition and results of operations. For example, a series of bills are currently being discussed at the Chilean National Congress that seek to desalinate seawater for use in mining production processes, amend the Mining Code for water use in mining operations, amend the Political Constitution on water and introduce changes to the regulatory framework governing the terms of inspection and sanction of water. As a result, the amount of water that we can actually use under our existing rights may be reduced or the cost of such use could increase. These and potential future changes to the Water Code or other relevant regulations could have a material adverse effect on our business, financial condition and results of operations.

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

In Chile, there is a royalty tax that is applied to mining activities developed in the country.

On September 29, 2014, Law No. 20,780 was published (the “Tax Reform”), introducing significant changes to the Chilean taxation system and strengthening the powers of the SII to control and prevent tax avoidance. Subsequently, on February 8, 2016, Law No. 20,899 that simplifies the income tax system and modifies other legal tax provisions was published. As a result of these reforms, open stock corporations like SQM are subject to the partially integrated shareholder tax regime (sistema parcialmente integrado). The corporate tax rate applicable to us increased to 25.5% in 2017 and will increase to a maximum rate of 27% in 2018.

Under the partially integrated shareholder taxation regime, shareholders bear the tax on dividends upon payment, but they will only be permitted to credit against such shareholder taxes a portion of the Chilean corporate tax paid by us on our earnings, unless the shareholder is resident in a country with a tax treaty in force with Chile or signed with Chile prior to January 1, 2017, whether or not in force. In that case, 100% of the Chilean corporate tax paid by us may be credited against the final taxes at the shareholder level.

As a result, foreign shareholders resident in a non-treaty jurisdiction will be subject to a higher effective tax rate than residents of treaty jurisdictions. There is a temporary rule in effect from January 1, 2017 through December 31, 2019 that treaty jurisdictions for this purpose will include jurisdictions with tax treaties signed with Chile prior to January 1, 2017, whether or not such treaties are in force. This is currently the status of the treaty signed between Chile and United States.

The Tax Reform tax increase prompted a US\$52.3 million increase in our deferred tax liabilities as of December 31, 2014. In accordance with IAS 12, the effects generated by the change in the income tax rate approved by Law No. 20.780 on income and deferred taxes were applied to the income statement. For purposes of the Company’s statutory consolidated financial statements filed with the CMF, in accordance with the instructions issued by the CMF in its circular 856 of October 17, 2014, the effects generated by the change in the income tax rate were accounted for as retained earnings. The amount charged to equity as of December 31, 2014 was US\$52.3 million, thereby giving rise to a difference of US\$52.3 million in profit for the year and income tax expense as presented in the Company’s Audited Consolidated Financial Statements compared with profit and income tax expense as presented in the Company’s statutory consolidated financial statements filed with the CMF.

In addition, the Tax Reform may have other material adverse effects on our business, financial condition and results of operations. Likewise, we cannot assure you that the manner in which the Royalty Law (as defined below) or the

corporate tax rate are interpreted and applied will not change in the future. The Chilean government may decide to levy additional taxes on mining companies or other corporations in Chile. Such changes could have a material adverse effect on our business, financial condition and results of operations.

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

Chile, a member of the International Labor Organization (“ILO”), has ratified the ILO’s Convention 169 (the “Indigenous Rights Convention”) concerning indigenous and tribal people. The Indigenous Rights Convention established several rights for indigenous people and communities. Among other rights, the Indigenous Rights Convention states that (i) indigenous groups should be notified and consulted prior to the development of any project on land deemed indigenous, although veto rights are not mentioned and (ii) indigenous groups have, to the extent possible, a stake in benefits resulting from the exploitation of natural resources in indigenous land. The extent of these benefits has not been defined by the Chilean government. The Chilean government has addressed item (i) above through Supreme Decree No. 66, issued by the Social Development Ministry. This decree requires government entities to consult indigenous groups that may be directly affected by the adoption of legislative or administrative measures, and it also defines criteria for the projects or activities that must be reviewed through the environmental evaluation system that also require such consultation. To the extent that the new rights outlined in the Indigenous Rights Convention become laws or regulations in Chile, they could affect the development of our investment projects in lands that have been defined as indigenous, which could have a material adverse effect on our business, financial condition and results of operations.

Chile is located in a seismically active region

Chile is prone to earthquakes because it is located along major fault lines. The most recent major earthquakes in Chile, which occurred in April 2017 in the Valparaiso region and in December 2016 in Chiloe Island, had a magnitude of 6.9 and 7.6, respectively, on the Richter scale. There were also earthquakes in 2015, 2014 and 2010 that caused substantial damage to some areas of the country. Chile has also experienced volcanic activity. A major earthquake or a volcanic eruption could have significant negative consequences for our operations and for the general infrastructure, such as roads, rail, and access to goods, in Chile. Although we maintain industry standard insurance policies that include earthquake coverage, we cannot assure you that a future seismic or volcanic event will not have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to our Shares and to our ADSs

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

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

Developments in other emerging markets could materially affect the value of our ADSs and our shares

The Chilean financial and securities markets are, to varying degrees, influenced by economic and market conditions in other emerging market countries or regions of the world. Although economic conditions are different in each country or region, investor reaction to developments in one country or region can have significant effects on the securities of issuers in other countries and regions, including Chile and Latin America. Events in other parts of the world may have a material effect on Chilean financial and securities markets and on the value of our ADSs and our shares.

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

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

Our share or ADS price may react negatively to future acquisitions and investments

As world leaders in our core businesses, part of our strategy is to look for opportunities that will allow us to consolidate and strengthen our competitive position in jurisdictions in which we currently do not operate. Pursuant to this strategy, we may carry out acquisitions or joint ventures relating to any of our businesses or to new businesses in which we believe we may have sustainable competitive advantages. Depending on our capital structure at the time of such acquisitions or joint ventures, we may need to raise significant debt and/or equity which will affect our financial condition and future cash flows. Any change in our financial condition could affect our results of operations, negatively impacting our share or ADS price.

ADS holders may be unable to enforce rights under U.S. securities laws

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

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

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

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

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

If we issue preemptive rights, United States holders of ADSs would not be able to exercise their rights unless a registration statement under the Securities Act were effective with respect to such rights and the shares issuable upon exercise of such rights or an exemption from registration were available. We cannot assure holders of ADSs that we will file a registration statement or that an exemption from registration will be available. We may, in our absolute discretion, decide not to prepare and file such a registration statement. If our holders were unable to exercise their preemptive rights because we did not file a registration statement, the depositary bank would attempt to sell their rights and distribute the net proceeds from the sale to them, after deducting the depositary's fees and expenses. If the depositary could not sell the rights, they would expire and holders of ADSs would not realize any value from them. In either case, ADS holders' equity interest in us would be diluted in proportion to the increase in our capital stock.

If we were classified as a Passive Foreign Investment Company by the U.S. Internal Revenue Service, there could be adverse consequences for U.S. investors

We believe that we were not classified as a Passive Foreign Investment Company (“PFIC”) for 2017. Characterization as a PFIC could result in adverse U.S. tax consequences to you if you are a U.S. investor in our shares or ADSs. For example, if we (or any of our subsidiaries) are a PFIC, our U.S. investors may become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to burdensome reporting requirements. The determination of whether or not we (or any of our subsidiaries or portfolio companies) are a PFIC is made on an annual basis and will depend on the composition of our (or their) income and assets from time to time. See “Item 10.E. Taxation—United States Tax Considerations.”

U.S. federal income tax reform could adversely affect us and holders of our shares and ADSs

On December 22, 2017, President Trump signed into law H.R. 1, originally known as the “Tax Cuts and Jobs Act,” which significantly reformed the Internal Revenue Code of 1986, as amended. The impact of this tax reform, or of any future administrative guidance interpreting provisions thereof, on holders of our ADSs or shares is uncertain and could be adverse. Prospective investors are urged to consult with their own legal and tax advisors with respect to any such legislation and the potential tax consequences of purchasing, holding, and disposing of our shares and ADSs.

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

Currently cash dividends paid by us to foreign shareholders are subject to a 35% Chilean withholding tax. When the Company pays a corporate income tax on the income from which the dividend is paid, known as a “First Category Tax”, a credit for the full amount of the First Category Tax effectively reduces the rate of Withholding Tax. Changes in Chilean tax regulations could have adverse consequences for U.S. investors. See “Item 3.D. Risk Factors—Risks Relating to Chile—The Chilean Government Could Levy Additional Taxes on Corporations Operating in Chile” and “Item 10.E. Taxation—Material Chilean Tax Considerations.”

ITEM 4.

INFORMATION ON THE COMPANY

4.A. History and Development of the Company

Historical Background

Sociedad Química y Minera de Chile S.A. is an open stock corporation organized under the laws of the Republic of Chile. We were constituted by public deed issued on June 17, 1968 by the Notary Public of Santiago, Mr. Sergio Rodríguez Garcés. Our existence was approved by Decree No. 1,164 of June 22, 1968 of the Ministry of Finance, and we were registered on June 29, 1968 in the Registry of Commerce of Santiago, on page 4,537 No. 1,992. Our headquarters is located at El Trovador 4285, Fl. 6, Las Condes, Santiago, Chile. Our telephone number is +56 2 2425-2000. We are legally referred to by our full name Sociedad Química y Minera de Chile S.A. as well as by the abbreviated name “SQM.”

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

We were formed in 1968 through a joint venture between Compañía Salitrera Anglo Lautaro S.A. (“Anglo Lautaro”) and 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 ADSs have traded on the NYSE under the ticker symbol “SQM” since 1993. Each ADS represents one Series B common share. We accessed international capital markets again for the issuance of additional ADSs in 1995 and 1999.

Since our inception, we have produced nitrates and iodine, which are obtained from the caliche ore deposits in northern Chile. In 1985, we began to use heap leaching processes to extract nitrates and iodine, and in 1986 we started to produce potassium nitrate at our Coya Sur facility. Between 1994 and 1999, we invested approximately US\$300 million in the development of the Salar de Atacama project in northern Chile, which enabled us to produce potassium chloride, lithium carbonate, potassium sulfate and boric acid.

From 2000 through 2004, we principally consolidated the investments carried out in the preceding five years. We focused on reducing costs and improving efficiencies throughout the organization. In addition, in 2001, we signed a commercial distribution agreement with the Norwegian company Yara International ASA, in order to take advantage of cost synergies in the Specialty Plant Nutrition business line.

Starting in 2005, we began strengthening our leadership position in our core businesses through a combination of capital expenditures and advantageous acquisitions and divestitures. Our acquisitions have included the Kemira Emirates Fertiliser Company (“Kefco”) in Dubai in 2005 and the iodine business of Royal DSM N.V. (“DSM”) in 2006. We also entered into a number of joint ventures, including a joint venture with Migao Corporation (“Migao”), signed in 2008, for the production of potassium nitrate, and SQM VITAS, our joint venture with the French Roullier Group. Pursuant to the latter joint venture, in 2010, we launched a new line of soluble phosphate products, and in 2012 we built new plants for the production of water-soluble fertilizers in Brazil (Candeias), Peru and South Africa (Durban). We have also sold: (i) Fertilizantes Olmeca, our former Mexican subsidiary, in 2006, (ii) our stake in Impronta S.R.L., our former Italian subsidiary, in 2007 and (iii) our former butyllithium plant located in Houston, Texas, in 2008. These sales allowed us to concentrate our efforts on our core products.

The capital expenditure program has allowed us to add new products to our product lines and increase the production capacity of our existing products. In 2005, we started production of lithium hydroxide at a plant in the Salar del Carmen, near the city of Antofagasta in the north of Chile. In 2007, we completed the construction of a new prilling and granulating plant for nitrates in Coya Sur. In 2011, we completed expansions of our lithium carbonate capacity, achieving 48,000 metric tons of capacity per year. Since 2010, we have 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 per year. In 2013, we completed expansions in the production capacity of our iodine plants in Nueva Victoria. Our capital expenditure program also includes exploration for metallic minerals. Our exploration efforts

have led to discoveries that in some cases may result in sales of the discovery and the generation of royalty income in the future. Within this context, in 2013 we sold our royalty rights to the Antucoya mining project to Antofagasta Minerals. In 2013 we also opened a trading office in Thailand.

In 2014, we invested in the development of new extraction sectors and production increases in both nitrates and iodine at Nueva Victoria, reaching an approximate production capacity (including the Iris facility) of 8,500 metric tons per year of iodine at the facility. We also issued a bond in the international capital markets for US\$250 million, primarily to refinance existing indebtedness.

In 2015, we focused on increasing the efficiency of our operations. Within this context, we announced a plan to restructure our iodine and nitrate operations. In an effort to take advantage of our highly efficient production facilities at our Nueva Victoria site, we decided to suspend the mining and nitrate operations and reduce iodine production at our Pedro de Valdivia site. During 2017, we increased our iodine production capacity at Nueva Victoria to approximately 10,000 metric tons per year. Including Pedro de Valdivia and Nueva Victoria, our current effective iodine capacity is approximately 11,000 metric tons per year.

In 2016, we entered into a 50/50 joint venture with Lithium Americas to develop the Minera Exar lithium project in Caucharí-Olaroz in the Jujuy province of Argentina. Under the current project timeline, we expect to commission the first stage of 25,000 metric tons plant production by 2020. We also made a capital contribution of US\$20 million to Elemental Minerals Limited (“Elemental Minerals”), an Australian based company whose main assets are various potassium deposits in the Republic of Congo. We invested approximately US\$20 million in exchange for 18% of the company, and a right of first refusal for approximately 20% of the total potash production of Elemental Minerals. Following this transaction at the end of 2016, Elemental Minerals changed its name to Kore Potash Limited. The State General Reserve Fund of Oman contributed US\$20 million. These investments are not included in the capital expenditure program amounts discussed in the section below. These investments were carried out with internal financing.

In 2017, we continued to expand our operations outside Chile and, together with our subsidiary SQM Australia Pty, acquired 50% of the assets of the Mount Holland lithium project in Western Australia, Australia. We entered into a 50/50 joint venture with Kidman Resources Limited to develop mining operations and construct concentration and refining plants to produce 40,000 metric tons per year of lithium carbonate and lithium hydroxide, starting in 2021. Kidman Resources Limited will retain the exclusive right to exploit gold within the project area. According to the agreement, SQM Australia Pty committed to pay a price of US\$35 million, subject to compliance with conditions established in the agreement. As of December 31, 2017, no payments had been made yet.

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 in Chile have been mainly related to the organic growth and sustainability of our business, including the construction of new facilities and the renovation of plants and equipment. From 2016 we began to invest in lithium projects outside Chile, starting with the Minera Exar project in Argentina and continuing with Mount Holland project in Australia in 2017.

Our capital expenditures for the years ended December 31, 2017, 2016 and 2015 were as follows:

(in millions of US\$)	2017	2016	2015
Capital expenditures	142.1	131.3	111.3

During 2017, we had total capital expenditures of US\$142.1 million, primarily related to:

- Capacity expansion projects related to lithium carbonate and lithium hydroxide production in Chile;

- Investments in mining workshop and operations centers to relocate operations from Nueva Victoria mine to mining sector Tente en el Aire;

- Capacity expansion project related to potassium nitrate production;

- General maintenance of all production units and Tocopilla port in order to ensure the fulfillment of production and sales targets.

During 2016, we had total capital expenditures of US\$131.3 million, primarily related to:

- Completion of the project related to the expansion of ponds at Nueva Victoria to increase the production of iodine and nitrates;

- Capacity expansion projects related to our potassium nitrate production;

- Capacity expansion project related to our lithium hydroxide production;

- Improvements in the open storage areas at the Port of Tocopilla;

- General maintenance of all production units in order to ensure the fulfillment of production targets and the safety of all of our employees.

During 2015, we had total capital expenditures of US\$111.3 million, primarily related to:

- Expansion of ponds at Nueva Victoria in order to increase the production of iodine and nitrates;

- Refining system at potassium nitrate plants;

- Exploration and construction of new wells to sustain production at the Salar de Atacama and

- Maintenance of production facilities in order to ensure production goals are met, as well as improvements in the open storage areas at the Port of Tocopilla.

The Board of Directors has approved a capital expenditure framework for 2018 of approximately US\$517 million focused on the maintenance of our production facilities in order to strengthen our ability to meet our production goals and to increase our production capacity, primarily in lithium. We estimate that we will invest approximately US\$360 million in our operations in Chile, including maintenance of our production facilities, an additional expansion of lithium carbonate capacity to 100,000 metric tons, completion of hydroxide capacity expansion, the expansion of iodine production capacity in Nueva Victoria and the expansion of productive capacity of potassium nitrate in Coya Sur. Our projected investments of approximately US\$157 million in projects outside Chile include the development of lithium projects Minera Exar in Argentina and Mount Holland in Australia. We do not expect that our 2018 capital investment program will require external financing. However, we always have the option to access capital markets in order to optimize our financial position.

4.B. Business Overview

The Company

We believe that we are the world's largest producer of potassium nitrate and iodine and one of the world's largest lithium producers. We also produce specialty plant nutrients, iodine derivatives, lithium derivatives, potassium chloride, potassium sulfate and certain industrial chemicals (including industrial nitrates and solar salts). Our products are sold in over 110 countries through our worldwide distribution network, with 93% of our sales in 2017 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 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 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. Potassium chloride is a commodity fertilizer that is produced and sold by us worldwide. Potassium sulfate is a specialty fertilizer used primarily in crops such as vegetables, fruits and industrial crops. 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 concentrated solar power plants as a means for energy storage. In addition, we complement our portfolio of plant nutrients through the buying and selling of other commodity fertilizers for use mainly in Chile.

For the year ended December 31, 2017, we had revenues of US\$2,157.3 million, gross profit of US\$762.5 million and profit attributable to controlling interests of US\$427.7 million. Our worldwide market capitalization as of December 31, 2017 was approximately US\$15.4 billion.

Specialty Plant Nutrition: We produce four main types of specialty plant nutrients: potassium nitrate, sodium nitrate, sodium potassium nitrate and specialty blends. We also sell other specialty fertilizers including third party products. All of these specialty plant nutrients are used in either solid or liquid form mainly on high value crops such as vegetables, fruits and flowers. Our nutrients are widely used in crops that employ modern agricultural techniques such as hydroponics, green housing, fertigation (where fertilizer is dissolved in water prior to irrigation) and foliar application. According to the type of use or application, our products are primarily marketed under the following brands: Ultrasol™ (fertigation), Qrop™ (open field application), Speedfol™ (foliar application) and Allganic™ (organic farming). Specialty plant nutrients have certain advantages over commodity fertilizers, such as rapid and effective absorption (without requiring nitrification), superior water solubility, increased soil pH (which reduces soil acidity) and low chloride content. One of the most important products in this business line is potassium nitrate, which is sold in crystalline or prill form, allowing for multiple application methods. Crystalline potassium nitrate products are ideal for application by fertigation and foliar sprays, and potassium nitrate prills are suitable for soil applications.

The new needs of more sophisticated customers demand that the industry provide integrated solutions rather than individual products. Our products, including customized specialty blends that meet specific needs along with the agronomic service provided, allow to create plant nutrition solutions that add value to crops through higher yields and

better quality production. Because our products are derived from natural nitrate compounds or natural potassium brines, they have certain advantages over synthetically produced fertilizers, including the presence of certain beneficial trace elements, which makes them more attractive to customers who prefer products of natural origin. As a result, specialty plant nutrients are sold at a premium price compared to commodity fertilizers.

Iodine and its Derivatives: We believe that we are the world's leading producer of iodine and iodine derivatives, which are used in a wide range of medical, pharmaceutical, agricultural and industrial applications, including x-ray contrast media, polarizing films for LCD and LED, antiseptics, biocides and disinfectants, in the synthesis of pharmaceuticals, electronics, pigments and dye components. We market iodine using the brand QIodine™.

Lithium and its Derivatives: We are a leading producer of lithium carbonate, which is used in a variety of applications, including electrochemical materials for batteries, frits for the ceramic and enamel industries, heat-resistant glass (ceramic glass), air conditioning chemicals, continuous casting powder for steel extrusion, primary aluminum smelting process, pharmaceuticals and lithium derivatives. We are also a leading supplier of lithium hydroxide, which is primarily used as an input for the lubricating greases industry and for certain cathodes for batteries. We market lithium using the following brands: QLithiumCarbonate™, QLithiumHydroxide™ and QLibelith™.

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

Industrial Chemicals: We produce three industrial chemicals: sodium nitrate, potassium nitrate and potassium chloride. Sodium nitrate is used primarily in the production of glass, explosives, and metal treatment. Potassium nitrate is used in the manufacturing of specialty glass, and it is also an important raw material for the production of frits for the ceramics and enamel industries. Solar salts, a combination of potassium nitrate and sodium nitrate, are used as a thermal storage medium in concentrated solar power plants. Potassium chloride is a basic chemical used to produce potassium hydroxide, and it is also used as an additive in oil drilling as well as in food processing, among other uses. We market our industrial chemicals using the following brands: QSodiumNitrate™, QPotassiumNitrate™, and QPotassiumChloride™.

Other Products and Services: We also sell other fertilizers and blends, some of which we do not produce. We are the largest company that produces and distributes the three main potassium sources: potassium nitrate, potassium sulfate and potassium chloride.

The following table shows the percentage breakdown of our revenues for 2017, 2016 and 2015 according to our product lines:

	2017	2016	2015
Specialty Plant Nutrition	32 %	32 %	38 %
Iodine and Derivatives	12 %	12 %	15 %
Lithium and Derivatives	30 %	27 %	13 %
Potassium	18 %	21 %	25 %
Industrial Chemicals	6 %	5 %	6 %
Other	2 %	3 %	4 %
Total	100 %	100 %	100 %

Business Strategy

Our business strategy is to be a global company with people committed to excellence, dedicated to the extraction of minerals and selectively integrated in the production and sale of products for the industries essential for human development (e.g. food, health, technology). This strategy was built on the following five principles:

- ensure availability of key resources required to support current goals and medium and long-term growth of the business;
- consolidate a culture of lean operations (M1 excellence) through the entire organization, including operations, sales and support areas;
- significantly increase nitrate sales in all its applications and ensure consistency with iodine commercial strategy;

- maximize the margins of each business line through appropriate pricing strategy; successfully develop and implement all lithium expansion projects of the Company, acquire more lithium and potassium assets to generate a competitive portfolio.

These principles are based on the following key concepts:

- strengthen the organizational structure to supports the development of the Company's strategic plan, focusing on the development of critical capabilities and the application of the corporate values of Excellence, Integrity and Safety;
- develop a robust risk control and mitigation process to actively manage business risk;
- improve our stakeholder management to establish links with the community and communicate to Chile and worldwide our contribution to industries essential for human development.

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. 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 nutrition business is to: (i) leverage the advantages of our specialty products over commodity-type fertilizers; (ii) selectively expand our business 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 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 where we can sell our 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; (vii) reduce our production costs through improved processes and higher labor productivity so as to compete more effectively and (viii) supply a product with consistent quality according to the specific requirements of our customers.

Iodine and its Derivatives

Our strategy in our iodine business is to: (i) reach and maintain our market share of approximately one third of the iodine market in order to optimize the use of our available production capacity; (ii) encourage demand growth and promote new iodine uses; (iii) participate in iodine recycling projects through the Ajay-SQM Group (“ASG”); (iv) reduce our production costs through improved processes and higher productivity in order to compete more effectively and (v) supply a product with consistent quality according to the requirements of our customers.

Lithium and its Derivatives

Our strategy in our lithium business is to: (i) strategically allocate our sales of lithium carbonate and lithium hydroxide; (ii) encourage demand growth and promote new lithium uses; (iii) selectively pursue opportunities in the lithium derivatives business by creating new lithium compounds; (iv) reduce our production costs through improved processes and higher productivity in order to compete more effectively; (v) supply a product with consistent quality according to the requirements of our customers and (vi) diversify our operations geographically and jurisdictionally.

Potassium

Our strategy in our potassium business is to: (i) offer a portfolio of potassium products, including potassium sulfate, potassium chloride and other fertilizers, to our traditional markets; (ii) have flexibility to offer crystalized (standard) or granular (compacted) form products according to market requirements; (iii) focus on markets where we have logistical advantages and synergies with our specialty plant nutrition business and (iv) supply a product with consistent quality according to the specific requirements of our customers.

Industrial Chemicals

Our strategy in our industrial chemical business is to: (i) maintain our leadership position in the industrial nitrates market as well as increase our supply of potassium chloride in markets where we have natural advantages; (ii) encourage demand growth in different applications; (iii) become a long-term, reliable supplier for the thermal storage industry, maintaining close relationships with R&D programs; (iv) reduce our production costs through improved processes and higher productivity in order to compete more effectively and (v) supply a product with consistent quality according to the requirements of our customers.

New Business Ventures

We always 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 continuously explore the possibility of acquiring controlling stakes or other interests in companies that have mining properties and operations in our core business areas and new businesses. Consistent with our business strategy, we will continue to evaluate acquisitions, joint ventures and alliances in our current and new businesses and, depending on all facts and circumstances, may seek to acquire controlling stakes or other interests related to our core businesses both inside and outside of Chile, including other emerging markets.

In addition, we are actively conducting exploration for metallic minerals in the mining properties we own. If such minerals are found, we may decide to exploit, sell or enter into an association to extract these resources. Our exploration efforts are currently focused on the layer of bedrock that lies beneath the caliche ore that we use as the primary raw material in the production of iodine and nitrates. This bedrock has significant potential for metallic mineralization, particularly copper and gold. A significant portion of our mining properties are located in the Antofagasta region of Chile, where many large copper producers operate.

We have an in-house geological exploration team that explores the area directly, drilling targets and assessing new prospects. In 2017, the team identified 13 new targets and confirmed mineralization in four of the targets, using its own truck-mounted drill rigs. The number of perforated meters reached 28,000 meters, and were made with three machines of which two were internal and the other external. We also have a metal business development team that works to engage partners interested in investing in metal exploration within our mining properties. As of December 31, 2017, we had ten option agreements in place with seven companies, including small junior mining companies, private equity firms and large mining companies.

Main Business Lines

Specialty Plant Nutrition

We believe that we are the world's largest producer of potassium nitrate. We estimate that our sales accounted for approximately 54% of global potassium nitrate sales for all applications by volume in 2017, an increase from 44% in 2016. During 2017, the potassium nitrate market increased by approximately 4%. These estimates do not include potassium nitrate produced and sold locally in China, only Chinese net imports and exports.

In addition to potassium nitrate, we 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”).

Our 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.

Our specialty plant nutrients advantages are:

- fully water soluble, allowing their more efficient use in hydroponics, fertigation, foliar applications and other advanced agricultural techniques;
- improve the water use efficiency of crops and help conserve water;
- chloride-free, which prevents chloride 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
- more attractive to customers who prefer products of natural origin.

In 2017, our specialty plant nutrients revenues increased to US\$697.3 million, representing 32% of our total revenues for that year and a 11.8% increase from US\$623.9 million in specialty plant nutrients revenues in 2016. Prices decreased approximately 2.7% in 2017.

Specialty Plant Nutrition: 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 ten years, the compound annual growth rate for vegetable production per capita was 3% while the compound annual growth rate for the world population was closer to 1%.

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% during the last 20 years (a pace similar to population growth). However, microirrigation 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. These applications require fully water-soluble plant nutrients. Our nitrate-based specialty plant nutrients are fully soluble in water and 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.

The ratio of microirrigation to total irrigated hectares in Asia is approximately 3%, the lowest ratio of any region in the world. This represents a high potential for microirrigation, which is reflected in the high growth rates in Asia in recent years.

Potassium nitrate in China is an important market, although currently its demand is largely fulfilled by domestic producers. Demand totals approximately 400,000 to 420,000 metric tons, of which approximately 130,000 is related to the tobacco industry and approximately 120,000 is related to the horticulture business. Of the total, between 20,000 and 30,000 metric tons are imports.

Specialty Plant Nutrition: Our Products

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

The following table shows our sales volumes of and revenues from specialty plant nutrients for 2017, 2016 and 2015:

	2017	2016	2015
Sales volumes (<i>Th. MT</i>)			
Sodium nitrate	26.7	24.4	26.0
Potassium nitrate and sodium potassium nitrate	601.4	475.8	493.6
Specialty blends ⁽¹⁾	209.0	213.5	203.9
Other specialty plant nutrients ⁽²⁾	129.1	127.2	108.4
Total revenues (<i>in US\$ millions</i>)	697.3	623.9	652.3

(1) Includes Yara's products sold pursuant to our commercial agreement.

(2) Includes trading of other specialty fertilizers.

Depending on the systems used to apply specialty nutrients, fertilizers can be classified as specialty field fertilizers or water-soluble fertilizers.

Specialty field fertilizers are applied directly to the soil, manually or in a mechanized fashion. Their high solubility levels, lack of chlorine and absence of acidic reactions make them particularly advantageous for tobacco, potatoes, coffee, cotton and a wide range of fruits and vegetables.

Water-soluble fertilizers are specialty nutrients that are delivered to the crops using modern irrigation systems. As these systems feature refined technology, the products used in them must be highly soluble, rich in nutrients, free of impurities and insoluble substances, and with a low salinity index. The leading nutrient in this segment is potassium nitrate, whose optimal balance of nitric nitrogen and chlorine-free potassium (the two macronutrients most needed by plants) make it an indispensable source of nutrition for crops that use modern irrigation systems.

Potassium nitrate is widely known to be a vital component in foliar feeding applications, where usage is recommended in order to stave off nutritional deficiencies before the first symptoms appear, correct any deficiencies that arise and prevent physiological stress. This nutrient also helps promote a suitable balance between fruit production and/or growth, and plant development, particularly in crops with physiological disorders.

Foliar feeding with potassium nitrate can have beneficial effects:

- when soil chemistry limits nutrient solubility and availability (pH, organic matter, type and percentage of clay);
- when nutrient absorption through the roots is limited as a result of conditions that hamper root growth (temperature, moisture, oxygen and loss of soil structure);

- when the plant's local internal demand may surpass real internal nutrient redistribution capacity, leaving the demand unsatisfied;
- when nutrient mobility is limited, when plants flower before the leaf growth phase, imposing limiting factors on xylem nutrient transport and
- to achieve rapid recovery from leaf stress caused by climatic conditions, soil conditions and irrigation management.

Another benefit of our potassium nitrate is that, according to a 2014 study by the consulting firm Arthur D. Little Benelux, our production process generates up to 40% less greenhouse gases compared to other major potassium nitrate producers in the world.

SQM has consolidated a product portfolio of over 200 specialty fertilizer blends, including top brands such as Ultrasol™, for fertigation; Qrop™, for application to the soil; Speedfol™, for foliar feeding and Allganic™ for organic crops.

Qrop™KS was added to our portfolio of specialty field fertilizers in 2015. This product was developed by our research and development team and is an improvement to existing products. It is more physically stable and is not required to be transported as hazardous cargo, which means it can be sold in other markets.

During 2017 we worked on the restructuring of the Qrop products portfolio: chlorine-free line for direct application to the soil with a variety of specialized formulas and unique mixtures, which make these products highly accurate and quickly available for the plant.

Specialty Plant Nutrition: Marketing and Customers

In 2017, we sold our specialty plant nutrients in approximately 99 countries and to more than 700 customers. One customer represented more than 10% of our specialty plant nutrition revenues during 2017, representing approximately 25% of our total specialty plant nutrition revenues, and our ten largest customers accounted in the aggregate for approximately 50% of revenues during that period. No supplier accounted for more than 10% of the costs of sales for this business line.

The table below shows the geographical breakdown of our revenues:

Revenues breakdown	2017	2016	2015
North America	33 %	33 %	33 %
Europe	25 %	18 %	22 %
Central and South America	10 %	11 %	28 %
Asia and Others	31 %	37 %	16 %

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

We maintain inventory of our specialty plant nutrients in our commercial offices 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.

As part of our marketing strategy, we provide technical and agronomical assistance and support to our clients. We have specific knowledge resulting from extensive research and numerous studies conducted by our agronomical teams in close contact with producers throughout the world. The solid agronomical knowledge is key for the development of specific formulas and hydroponic and fertirrigation nutritional plans, which allows us to provide expert advice for producing crops that meet high quality standards for the most efficient markets and in the most environmentally challenging conditions.

By working closely with our customers, we are able to identify their needs for new products and a possible existence of higher-value-added markets. Our specialty plant nutrients are used on a wide variety of crops, particularly value-added crops, where the use of our products enables our customers to increase yields and achieve a premium price for their own products.

Our customers are located in both the northern and southern hemispheres. Consequently, we do not believe there are any seasonal or cyclical factors that can materially affect the sales of our specialty plant nutrients.

Specialty Plant Nutrition: Joint Ventures and Agreements

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

In May 2008, we signed a joint venture agreement with Migao for the production and distribution of specialty plant nutrients in China. 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.

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 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 NPK grade fertilizers. This new facility began operating in January 2012.

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 nutrition, 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.

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 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 Candeias Industrial Complex plant in Brazil began operating in March 2012 and has a production capacity of 25,000 metric tons per year.

In 2013, the operations of SQM Vitas in Spain began with a water soluble NPK fertilizer plant that has a production capacity of 15,000 metric tons per year. In 2016 this operation became fully controlled by SQM.

In 2015, an asset transfer agreement, that was signed in December 2014 between Plantacote BV and Plantacote NV, entered into effect. As a result of this agreement, the business and Plantacote® brand were transferred to the new company Plantacote NV, but with no changes to the business or the Controlled Release Fertilizer project. SQM continues to hold a 50% ownership stake in the company.

In 2015, SQM Vitas South Africa, was acquired by Roulliers. As a result, Roullier manages the operations, and the production facilities are owned by SQM.

In 2016, we began operating soluble specialty plant nutrient production facilities through our joint ventures in Peru and the Netherlands, and a third facility in Mexico. In addition, a new logistics terminal was opened in the port of Terneuzen in the Netherlands.

In 2017, two new offices started their operations in Imbituba and Sao Paulo, Brazil.

Specialty Plant Nutrition: Fertilizer Sales in Chile

We market specialty plant nutrients in Chile through our subsidiary Soquimich Comercial S.A. (“SQMC”).

SQMC is one of the main players in the Chilean market, offering a wide range of products developed specifically for the crops grown in the country which require specialty plant nutrients.

SQMC sells local products as well as products imported from different countries around the world.

All contracts and agreements between SQMC and its foreign suppliers of fertilizers contain standard and customary commercial terms and conditions. SQMC has been able to obtain adequate supplies of these products with good pricing conditions.

SQMC’s fertilizer sales represented approximately 24% of total fertilizer sales in Chile during 2017. No customer accounted for more than 10% of SQMC’s revenues in 2017. SQMC’s consolidated revenues were approximately US\$133 million and US\$150 million in 2017 and 2016, respectively.

Specialty Plant Nutrition: Competition

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

We believe that we are the world's largest producer of sodium nitrate 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 18% of total world sales during 2017 (excluding sales by Chinese producers to the domestic Chinese market). Haifa Chemicals had production issues during 2017 and is currently operating at its 50% capacity (one plant). Our sales accounted for approximately 54% 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 Yuantong and Migao. Most of the Chinese production is consumed by the Chinese domestic market.

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 that we are the world's largest producer of iodine. In 2017, our revenues from iodine and iodine derivatives amounted to US\$252.1 million, representing 12% of our total revenues in that year. We estimate that our sales accounted for approximately 35% of world iodine sales by volume in 2017.

Iodine: Market

Iodine and iodine derivatives are used in a wide range of medical, agricultural and industrial applications as well as in human and animal nutrition products. Iodine and iodine derivatives are used as raw materials or catalysts in the formulation of products such as X-ray contrast media, biocides, antiseptics and disinfectants, pharmaceutical intermediates, polarizing films for LCD and LED screens, chemicals, 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.

X-ray contrast media is the leading application of iodine, accounting for approximately 23% of demand. Iodine's high atomic number and density make it ideally suited for this application, as its presence in the body can help to increase contrast between tissues, organs, and blood vessels with similar X-ray densities. Other applications include pharmaceuticals, which we believe account for 13% of demand; LCD and LED screens, 12%; iodophors and povidone-iodine, 9%; animal nutrition, 8%; fluoride derivatives, 7%; biocides, 5%; nylon, 4%; human nutrition, 3% and other applications, 16%.

During 2017, iodine demand grew at a higher rate than seen in 2016. Although more traditional uses grew at the same rate as during the previous year, new applications in the specialty plastics and carbon energy plants emission control industries resulted in market demand. We estimate that the global market size in 2017 was approximately 35,300 metric tons, with approximately 59% of supply coming from Chilean producers, including us.

Iodine: Our Products

We produce iodine in our Nueva Victoria plant, near Iquique, and our Pedro de Valdivia plant, close to María Elena. We have a total effective production capacity of approximately 11,000 metric tons per year of iodine, including the Iris plant, which is located close to the Nueva Victoria plant.

Through ASG, we produce organic and inorganic iodine derivatives. ASG was established in the mid-1990s and 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 shows our total sales volumes and revenues from iodine and iodine derivatives for 2017, 2016 and 2015:

	2017	2016	2015
Sales volumes (<i>Th. MT</i>)			
Iodine and derivatives	12.7	10.2	9.3
Total revenues (<i>in US\$ millions</i>)	252.1	231.1	262.6

Our revenues increased to US\$252.1 million in 2017 from US\$231.1 million in 2016. This increase was primarily attributable to the increase in iodine sales volume during 2017. Average iodine prices were more than 12% lower in 2017 than in 2016. Our sales volumes increased 24% in 2017, outpacing global iodine demand growth.

Iodine: Marketing and Customers

In 2017, we sold our iodine products in approximately 52 countries to approximately 287 customers, and most of our sales were exports. Three customers each accounted for more than 10% of our iodine revenues in 2017. These three customers accounted for approximately 43% of revenues, and our ten largest customers accounted in the aggregate for approximately 77% of revenues. No supplier accounted for more than 10% of the cost of sales of this business line.

The following table shows the geographical breakdown of our revenues:

Revenues breakdown	2017	2016	2015
North America	25 %	25 %	29 %
Europe	31 %	36 %	34 %
Central and South America	0 %	0 %	4 %
Asia and Others	43 %	38 %	33 %

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.

Iodine: Competition

The world's main iodine producers are based in Chile, Japan and the United States. Iodine is also produced in Russia, Turkmenistan, Azerbaijan, Indonesia and China.

Iodine is produced in Chile using a unique mineral known as caliche ore, whereas in Japan, the United States, Russia, Turkmenistan, Azerbaijan, 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.

Five Chilean companies accounted for approximately 59% of total global sales of iodine in 2017, including SQM, with approximately 35%, and four other producers, accounting for the remaining 24%. The other Chilean producers are: Atacama Chemical S.A. (Cosayach), controlled by the Chilean holding Inverraz S.A.; ACF Minera S.A. owned by the Chilean family Urruticoechea; Algorta Norte S.A., a joint venture between ACF Minera S.A. and Toyota Tsusho; and Atacama Minerals, recently acquired by Chinese company Tewoo.

We estimate that eight Japanese iodine producers accounted for approximately 28% of global iodine sales in 2017, including recycled iodine.

We estimate that iodine producers in the United States (one of which is owned by Toyota Tsusho and another is owned by Ise Chemicals Ltd., both of which are Japanese companies) accounted for nearly 5% of world iodine sales in 2017.

Iodine recycling is a growing trend worldwide. Several producers have recycling facilities where they recover iodine and iodine derivatives from iodine waste streams. Iodine recycling, mainly related to LCD and LED consumption, has reduced during the past year and currently represents approximately 17% of world iodine sales. It is estimated that approximately 70% of total world iodine recycling was done by Japanese iodine producers.

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

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. Iodine supply varies primarily as a result of the production levels of the iodine producers (including us) and their respective business strategies. Our annual average iodine sales prices decreased to approximately US\$20 per kilogram in 2017, continuing the downward trend observed in 2016. However, we believe that 2018 presents better price prospects.

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. Certain substitutes for iodine are available for certain applications, such as antiseptics and disinfectants, which could represent a cost-effective alternative to iodine depending on prevailing prices.

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.

Lithium and its Derivatives

We believe we are one of the world's largest producers of lithium carbonate and lithium hydroxide. In 2017, our revenues from lithium sales amounted to US\$644.6 million, representing 30% of our total revenues. We estimate that our sales volumes accounted for approximately 23% of the global lithium chemicals sales volumes.

Lithium: Market

The lithium market can be divided into (i) lithium minerals for direct use (in which market SQM does not participate directly), (ii) basic lithium chemicals, which include lithium carbonate and lithium hydroxide (as well as lithium chloride, from which lithium carbonate may be made), and (iii) inorganic and organic lithium derivatives, which include numerous compounds produced from basic lithium chemicals (in which market SQM does not participate directly).

Lithium carbonate and lithium hydroxide are principally used to produce the cathodes for rechargeable batteries, taking advantage of lithium's extreme electrochemical potential and low density. Batteries are the leading application for lithium, accounting for approximately 59% of total lithium demand, including batteries for electric vehicles, which accounted for approximately 27% of total lithium demand.

There are many other applications both for basic lithium chemicals and lithium derivatives, such as lubricating greases (approximately 9% of total lithium demand), heat-resistant glass (ceramic glass) (approximately 5% of total lithium demand), chips for the ceramics and glaze industry (approximately 4% of total lithium demand), chemicals for air conditioning (approximately 3% of total lithium demand), and many others, including air treatment systems, pharmaceutical synthesis and metal alloys.

Lithium's main properties, which facilitate its use in this range of applications, are that it:

- is the lightest solid element at room temperature;
- has a low coefficient of thermal expansion;
- has high electrochemical potential and low density and
- is the solid with the highest specific heat capacity.

During 2017, lithium chemicals demand increased by approximately 17%, reaching approximately 212,000 metric tons, with close to 37% supplied by Chilean producers. We expect applications related to energy storage to continue driving demand in the coming years.

Lithium: Our Products

We produce lithium carbonate at our Salar del Carmen facilities, near Antofagasta, Chile, from highly concentrated lithium chloride produced in the Salar de Atacama, as a by-product of the potassium chloride production. The annual production capacity of our lithium carbonate plant at the Salar del Carmen is 48,000 metric tons per year. During 2018, we plan to increase our production capacity to 70,000 metric tons per year and start the preparation for the further expansion to 100,000 metric tons per year in 2019. We believe that the technologies we use, together with the high concentrations of lithium and the 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 the same plant 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. During 2018, we plan to increase this capacity to 13,500 metric tons per year through increased efficiencies and the construction of a 7,000 metric ton plant.

The following table shows our total sales volumes and revenues from lithium carbonate and its derivatives for 2017, 2016 and 2015:

	2017	2016	2015
Sales volumes (<i>Th. MT</i>)			
Lithium and derivatives	49.7	49.7	38.7
Total revenues (<i>in US\$ millions</i>)	644.6	514.6	223.0

Our revenues in 2017 were US\$644.6 million, a 25% increase from US\$514.6 million in 2016, due to significantly higher prices during the year. The average price for 2017 was approximately 25% higher than the average price in 2016, as global demand growth outpaced supply growth.

Lithium: Marketing and Customers

In 2017, we sold our lithium products in approximately 42 countries to approximately 198 customers, and most of our sales were to customers outside of Chile. Two customers each accounted for more than 10% of our lithium revenues in 2017, accounting for approximately 22% of our lithium revenues. Our ten largest customers accounted in the aggregate for approximately 68% of revenues. Only one supplier accounted for over 10% of the cost of sales of this business line, accounting for approximately 14% of the cost of sales.

The following table shows the geographical breakdown of our revenues:

Revenues breakdown	2017	2016	2015
North America	7 %	8 %	11 %
Europe	14 %	19 %	21 %
Central and South America	1 %	1 %	1 %
Asia and Others	79 %	73 %	67 %

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.

Lithium: Competition

Lithium is produced mainly from two sources: (i) concentrated brines and (ii) minerals. During 2017, the main lithium brines producers were Chile, Argentina and China, while the main lithium mineral producers were Australia and China. With total sales of approximately 49,700 metric tons of lithium carbonate equivalent (LCE), SQM's market share of lithium chemicals was approximately 23% in 2017. One of our main competitors is Albemarle Corporation ("Albemarle"), which produces lithium carbonate and lithium chloride in Chile and the United States, along with lithium derivatives in the United States, Germany, Taiwan and China, with a market share of approximately 16%. Albemarle also owns 49% of Talison Lithium Pty Ltd. ("Talison"), an Australian company, that is the largest producer of concentrated lithium minerals in the world, based in Western Australia. The remaining 51% of Talison is owned by Sichuan Tianqi Lithium Industries ("Tianqi"), a Chinese company producing basic lithium chemicals in China from concentrated lithium minerals. Talison sells a part of its concentrated lithium mineral production to the direct use market, but most of its production, representing approximately 27% of total lithium chemical demand, is converted

into basic lithium chemicals in China by Tianqi and Albemarle.

Another important competitor is FMC Corporation (“FMC”), with an estimated market share of approximately 9%. FMC has production facilities in Argentina through Minera del Altiplano S.A., where it produces lithium chloride and lithium carbonate. In addition, FMC produces lithium derivatives in the United States and in the United Kingdom. Orocobre Ltd. is also based in Argentina and produces lithium carbonate, reaching a market share of approximately 5%.

During 2017, two companies started their production of concentrated lithium minerals in Western Australia, which are then converted into lithium chemicals in China. Together, these companies sell approximately 11% of the total lithium demand in 2017. These companies are Neometals Ltd. with operations in Mt. Marion, one of the owners is Jiangxi Ganfeng Lithium Co. (“Ganfeng”), a Chinese company producing basic chemicals and lithium derivatives, and Galaxy Resources Ltd., with operations in Mt. Cattlin. In addition, there were at least ten other companies producing lithium in China from brines or minerals, which together represented about 9% of the global market in 2017.

We believe that lithium production will increase in the near future, balancing the explosive growth in demand. A number of new projects to develop lithium deposits has been announced recently. Some of these projects are already in the advanced stages of development and others could materialize in the medium term.

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.

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. It is used to fertilize crops that can tolerate relatively high levels of chloride, and to fertilize crops that are grown under conditions with sufficient rainfall or irrigation practices that prevent chloride from accumulating to excess levels in the rooting systems of the plant.

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

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

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

In 2017, our potassium chloride and potassium sulfate revenues amounted to US\$379.3 million, representing 18% of our total revenues and a 6% decrease compared to 2016, as a result of reduced sales volumes.

Potassium: Market

During the last decade, growth in demand for potassium chloride, and for fertilizers in general, has been driven by several key factors, such as a growing world population, higher demand for protein-based diets and less arable land. All of these factors contribute to fertilizer demand growth as a result of efforts to maximize crop yields and use resources more efficiently. For the last ten years, the compound annual growth for the global potassium chloride market was approximately 1-2%. We estimate that demand totaled approximately 63 million metric tons in 2017, an increase from 59 million tons in 2016.

According to studies prepared by the International Fertilizer Industry Association, cereals account for approximately 45% of world potassium consumption, including corn (14%), rice (13%) and wheat (3%). Oilseeds, predominantly soybeans and palm oil, represent approximately 16% of total potassium demand. Fruits and vegetables account for approximately 22% of world potassium demand, and sugar crops account for close to 7%.

Potassium: Our Products

Potassium chloride differs from our specialty plant nutrition 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 this product in soluble grades.

The following table shows our sales volumes of and revenues from potassium chloride and potassium sulfate for 2017, 2016 and 2015:

	2017	2016	2015
Sales volumes (Th. MT)			
Potassium chloride and potassium sulfate	1,344.3	1,534.7	1,241.8
Total revenues (in US\$ millions)	379.3	403.3	430.6

Potassium: Marketing and Customers

In 2017, we sold potassium chloride and potassium sulfate to approximately 530 customers in over 80 countries. There were two individual customers that each accounted for more than 10% of our revenues of potassium chloride and potassium sulfate in 2017, totaling approximately 21% of the revenues of potassium chloride and potassium sulfate during this period. We estimate that our ten largest customers accounted in the aggregate for approximately 55% of such revenues. One supplier accounted for more than 10% of the cost of sales of this business line, accounting for approximately 16% of the cost of sales for the business line.

The following table shows the geographical breakdown of our revenues:

Revenues breakdown	2017	2016	2015
North America	18 %	20 %	22 %
Europe	19 %	20 %	12 %
Central and South America	38 %	38 %	42 %
Asia and Others	25 %	22 %	24 %

Potassium: Competition

We estimate that we accounted for less than 3% of global sales of potassium chloride in 2017. Our main competitors are Nutrien (formerly PCS), Uralkali, Belaruskali and Mosaic. We estimate that in 2017, PCS accounted for approximately 20% of global sales, Uralkali accounted for approximately 15% of global sales, Belaruskali accounted for approximately 14% of global sales and Mosaic accounted for approximately 14% 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 estimate that these three producers account for approximately 30% of the worldwide production of potassium sulfate. SQM accounts for less than 2% of global production.

Industrial Chemicals

In addition to producing sodium and potassium nitrate for agricultural applications, we produce different grades of these products for industrial applications. The different grades differ mainly in their chemical purity. We enjoy certain operational flexibility producing industrial nitrates, 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, market and sell industrial-grade potassium chloride.

In 2017, our revenues from industrial chemicals were US\$135.6 million, representing approximately 6% of our total revenues for that year.

Industrial Chemicals: Market

Industrial sodium and potassium nitrates are used in a wide range of industrial applications, including the production of glass, ceramics, explosives, charcoal briquettes, metal treatments together with various chemical processes.

In addition, this product line has also experienced growth from the use of industrial nitrates as thermal storage in concentrated solar power plants (commonly known as “CSP”). Solar salts for this specific application contain a blend of 60% sodium nitrate and 40% potassium nitrate by weight ratio used as a storage and heat transfer medium. Unlike traditional photovoltaic plants, these new plants use a “thermal battery” that contains molten sodium nitrate and potassium nitrate, which store the heat collected during the day. The salts are heated up during the day, while the plants are operating under direct sunlight, and at night they release the solar energy that they have captured, allowing the plants to operate even during hours of darkness. Depending on the power plant technology, solar salts are also used as a heat transfer fluid in the plant system and thereby make CSP plants even more efficient, increasing their output and reducing the Levelized Cost of Electricity (LCOE).

Experts believe that CSP plays a critical role in electricity grid stabilization and manageability due to its inherent large scale storage capability. Nevertheless, such large installations are capital intensive and are strongly influenced by the generation mix in each country. Therefore, fluctuations in solar salts demand are unavoidable in terms of quantity and timing. In 2017, we supplied CSP projects in South Africa, Morocco, Kuwait and Israel totaling over 88,000 metric tons. In 2018 we should further supply a CSP plant in Kuwait and another one in South Africa, while negotiating the supply to other very large installations in Dubai, Morocco and Chile.

As reported by the International Energy Agency (IEA), in 2016, global total cumulative electricity capacity grew by 4% and reached a total of 6,650 GW. Renewables provided almost two-thirds of this growth with a record addition of 165 GW, 6% higher compared to 2015. Renewables remain the largest source of cumulative capacity at 2,135 GW and this trend is expected to continue in the next years to come. Under these conditions, energy storage is becoming of critical importance and its role in increasing the electrical grid stability and dispatchability of the electricity generated by renewable technologies is receiving a growing interest from utilities, grid operators as well as governments and lenders.

According to the IEA, CSP capacity is expected to grow by over 5 GW over 2017-2022, with new deployment moving into nascent markets, most notably Chile, Kuwait, Morocco, South Africa and the United Arab Emirates, as well as continued growth in China. Projects with larger storage capacity and decreasing investment costs for experienced developers mark the trend for the coming five years.

We are also experiencing a growing interest in using solar salts in thermal storage solutions not related to CSP technology. Due to their proven performance, solar salts are being tested in industrial heat processes and heat waste solutions. These new applications may open new opportunities to the solar salts uses in the near future.

Industrial-grade potassium chloride is used as an additive in oil drilling as well as in food processing, among other applications.

Industrial Chemicals: Our Products

The following table shows our sales volumes of industrial chemicals and total revenues for 2017, 2016 and 2015:

	2017	2016	2015
Sales volumes (Th. MT)			
Industrial chemicals	167.6	128.9	126.1
Total revenues (in US\$ millions)	135.6	104.1	97.6

Revenues for industrial chemicals increased from US\$104.1 million in 2016 to US\$135.6 million in 2017, as a result of higher sales volumes in this business line.

Industrial Chemicals: Marketing and Customers

We sold our industrial nitrate products in approximately 55 countries in 2017 to approximately 296 customers. Four customers accounted for more than 10% of our revenues of industrial chemicals in 2017, accounting for approximately 57%, and our ten largest customers accounted in the aggregate for approximately 68% of such revenues. No supplier accounted for more than 10% of the cost of sales of this business line.

The following table shows the geographical breakdown of our revenues for 2017, 2016 and 2015:

Revenues breakdown	2017	2016	2015
North America	19 %	24 %	31 %
Europe	21 %	14 %	15 %
Central and South America	7 %	9 %	11 %
Asia and Others	53 %	54 %	43 %

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, Asia 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.

Industrial Chemicals: Competition

We believe we are one of the leading producers of sodium nitrate and potassium nitrate for industrial uses. In the case of industrial sodium nitrate, we estimate that our sales represented close to 37% of world demand in 2017 (excluding internal demand for China and India, 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 (“BASF”), 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 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 nitrate business is Haifa Chemicals (“Haifa”), which we estimate had a market share of 26%. We estimate that our market share was approximately 30% for 2017.

In the solar salts business, we believe we have been the market leader since we started selling to commercial projects in 2007. Our competitors include Haifa, which is a potassium nitrate supplier, and BASF, which is a sodium nitrate supplier.

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 industrial potassium chloride 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, iodine and potassium; and
- brines from the Salar de Atacama, which contain potassium, lithium, sulfate, boron and magnesium.

Caliche Ore Deposits

Caliche ore deposits are located in northern Chile. During 2017, our mining operations concentrated in the first Region where we worked in the mining sector Tente en el Aire and continued with the exploration of the mining sector Nueva Victoria Oeste. We believe that a concentrated mining operation allows us to capture operating synergies that will increase efficiency and reduce costs. Mining operations at the Pampa Blanca site, the El Toco mine (which is part of the María Elena site) and the Pedro de Valdivia site were suspended in March 2010, November 2013 and

November 2015, respectively, in an effort to optimize our production facilities with lower production costs.

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

Before proper mining begins, the exploration stage is carried out, including complete geological reconnaissance, sampling and drilling caliche ore to determine the quality and characteristics of each deposit. 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 (ten years), medium-term basis (three years) and short-term basis (one year). Once all of this information has been compiled, detailed planning for the exploitation of the mine takes place.

The mining process generally begins with bulldozers first breaking and then removing the overburden in the mining area. This process is followed by an inspection and review of the drill holes before production drilling and blasting occurs to break the caliche seams. Front-end loaders load the ore onto off-road trucks, which take it to the leaching heaps to be processed.

During 2017, SQM ran various tests with a continuous mining equipment replacing the drilling and blasting process and obtaining a smaller ore size (under 6 inches) that allows a better metallurgical recovery. The tests will conclude in 2018.

The run of mine ore is loaded in heaps and leached with water to produce concentrated solutions containing iodine, nitrate and potassium. 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 salts rich in nitrate and potassium are produced. These concentrated salts are then sent to Coya Sur where they are used to produce potassium nitrate.

During 2017, the Pedro de Valdivia and María Elena sites generated solutions produced by leaching the mine tailings. These solutions are treated at the iodide plants at Pedro de Valdivia and María Elena. The iodide that is produced at the María Elena plant is subsequently sent to Pedro de Valdivia in order to produce prilled iodine. After iodide is obtained at both plants, the remaining solutions, which are rich in nitrate and potassium, are sent to the solar evaporation ponds at Coya Sur in order to be used in the production of potassium nitrate.

Caliche Ore-Derived Products

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

Sodium Nitrate

During 2017, sodium nitrate for both agricultural and industrial applications was produced by inventory generated at the Pedro de Valdivia facility and subsequently processed at the Coya Sur plants. The production at the Pedro de Valdivia facility, until November 2015, generated approximately 700,000 tons of inventory. As of December 2017, we had approximately 277,000 tons of crystallized sodium nitrate in inventory, which will provide us with enough sodium nitrate to produce finished nitrates for approximately two years. For subsequent production, we are developing the project of adapting the available crystallization plants at Coya Sur to be able to produce sodium nitrate using nitrate salts from our Nueva Victoria facility.

Crystallized sodium nitrate is an intermediate product that is subsequently processed further at the Coya Sur production plants to produce sodium nitrate, potassium nitrate and sodium potassium nitrate in different chemical and physical qualities, including crystallized and prilled products. Finally, the products are transported by truck to our port

facilities in Tocopilla for shipping to customers and distributors worldwide.

Potassium Nitrate

Potassium nitrate is produced at our Coya Sur facility using a production process developed in-house. The brines generated by the leaching processes at Pedro de Valdivia and María 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 from the Salar de Atacama and nitrate and potassium salts produced at Nueva Victoria or Coya Sur, are added. A chemical reaction begins, transforming sodium nitrate into potassium nitrate and discarding formed sodium chloride. This brine is pumped to a crystallization plant, which crystallizes the potassium nitrate by cooling it at atmospheric pressure, and separating it from the liquid by centrifuge.

Our current potassium nitrate production capacity at Coya Sur is approximately 1,300,000 metric tons per year. Since the end of 2013, we have been working with external advisors to implement the "lean" method of manufacturing in our potassium nitrate plants. We achieved complete implementation of this method of manufacturing during 2015. The improvements we have achieved have enabled us to reduce costs, improve energy consumption, increase the production of potassium nitrate and decrease our accident rates. This method is based on increasing the involvement of our workers in decision-making, and strengthening the leadership of our production supervisors. The goal is to identify opportunities to improve the production process and reduce waste on an ongoing basis.

During 2017, new operational improvements have been achieved by significantly integrating the production process of the Coya Sur facilities, allowing new increases in production capacity without major investments and improving the use of raw materials from the Salar de Atacama and Nueva Victoria.

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 prilling facilities using standard, non-patented production methods we have developed. Crystallized sodium nitrate is supplied together with the crystallized potassium nitrate to the prilling plant where it is mixed producing sodium potassium nitrate, which is then melted and 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.

The sodium nitrate and potassium nitrate produced at Coya Sur are transported to Tocopilla for shipping and delivery to customers and distributors. All potassium nitrate produced in crystallized or prilled form at Coya Sur has been certified by TÜV-Rheiland under the quality standard ISO 9001:2008.

Iodine and Iodine Derivatives

During 2017, we produced iodine at our facilities at Nueva Victoria (including the Iris facility), Pedro de Valdivia and María Elena. Iodine is extracted from solutions produced by leaching caliche ore.

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 operating 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 combusting (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 in 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 metallic iodine, which is then refined through a smelting process and prilled. We have obtained patents in the United States and Chile (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. It is then packed in 20 to 50 kilogram drums or 350 to 700 kilogram maxibags and transported by truck to Antofagasta, Mejillones, or Iquique for export. Our iodine and iodine derivatives production facilities have qualified under the 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 2017 was 9,696 metric tons: 7,476 metric tons from Nueva Victoria, 1,328 metric tons from Iris, 851 metric tons from Pedro de Valdivia, and 41 metric tons from María Elena. Nueva Victoria is also equipped to toll iodine from iodide delivered from our other facilities. We have the flexibility to adjust our production according to market conditions. Following the production facility restructuring at Pedro de Valdivia and Nueva Victoria, our total current effective production capacity at our iodine production plants is approximately 11,000 metric tons per year. We are currently developing a project to expand the production capacity of iodide and iodine in Nueva Victoria to increase our total effective production capacity to 14,000 metric tons per year.

We use a portion of the iodine we produce 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 sold 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, CONAMA, currently known as the Environmental Evaluation Service, approved the environmental study of our Pampa Hermosa project in the Tarapacá Region of Chile. This environmental permit allows for an increase in the production capacity of our Nueva Victoria operations to 11,000 metric tons of iodine per year and to produce up to 1.2 million metric tons of crystallized nitrates, mine up to 37 million metric tons of caliche per year and use new water rights of up to 570.8 liters per second. In recent years, we have 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 implement new areas of mining and collection of solutions. Our current production capacity at Nueva Victoria is approximately 10,000 metric tons per year of iodine (including the Iris operations) and 900,000 metric tons per year of nitrates. Additional expansions may be done from time to time in the future, depending on market conditions.

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

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 mining exploitation rights to the Salar de Atacama are pursuant to the Lease Agreement, which expires in 2030. The Lease Agreement permits the CCHEN to establish a total accumulated extraction and sales

limit of 180,100 tons of lithium metal (958,672 tons of lithium carbonate equivalent) in the aggregate for all periods. For the year ended December 31, 2017, revenues related to products originating from the Salar de Atacama represented 47% of our consolidated revenues, consisting of revenues from our potassium business line and our lithium and derivatives business line for the period. All of our products originating from the Salar de Atacama are derived from our extraction operations under the Lease Agreement. As of December 31, 2017, only 13 years remain on the term of the Lease Agreement and we had extracted approximately 64% of the total accumulated extraction and sales limit of lithium.

On January 17, 2018, Corfo and our subsidiaries SQM Salar and SQM Potasio S.A. entered into the Corfo Arbitration Agreement, which, among other things, provide for the amendments of the Lease Agreement and the Project Agreement. As part of the agreement to amend the Lease Agreement, Corfo authorized an increase of the production and sales of lithium products produced in the Salar de Atacama up to 349,553 metric tons of lithium metallic equivalent (1,860,670 tons of lithium carbonate equivalent), which is in addition to the approximately 64,816 metric tons of lithium metallic equivalent (345,015 tons of lithium carbonate equivalent) remaining from the originally authorized amount. See “Item 3.D. Risk Factors” and “Item 8.A.7 Legal Proceedings.”

Products Derived from the Salar de Atacama Brines

The products derived from the Salar de Atacama brines are: potassium chloride, potassium sulfate, potassium salts, 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. We also sell potassium chloride to third parties, primarily as a commodity fertilizer.

In order to produce potassium chloride, brines from the Salar de Atacama are pumped to solar evaporation ponds. Evaporation of the water contained in the brine, results in a crystallized mixture of salts with various content levels of potassium, sodium and magnesium. In the first stage of the precipitation, sodium chloride salts are removed; these salts are not used in the production process of other products. After further evaporation, the sodium and potassium salts are harvested and sent for treatment at one of the wet potassium chloride plants where potassium chloride is separated by a grinding, flotation, and filtering process. In the final evaporation stage, salts containing magnesium are harvested and eventually can be treated at one of the cold leach plants where magnesium is removed. Potassium chloride is transported 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 nominal production capacity in excess of up to 2.6 million metric tons per year. Actual production capacity depends on volume, metallurgical recovery rates and quality of the mining resources pumped from the Salar de Atacama.

The by-products of the potassium chloride production process are (i) solutions remaining after removal of the potassium chloride, which are used to produce lithium carbonate as described below, with the excess amount not required for lithium carbonate production 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

After the production of potassium chloride, a portion of the solutions remaining is sent to additional solar concentration ponds adjacent to the potassium concentration ponds. At this stage, the solution is concentrated and purified by precipitation to remove impurities it may still contain, including calcium, sulfate, potassium, sodium and magnesium. Next is the process of concentration and purification of the remaining concentrated solution of lithium chloride, which is transported by truck to the Salar del Carmen production facility located near Antofagasta, approximately 230 kilometers from the Salar de Atacama. At this plant, the solution is further purified and treated with sodium carbonate to produce lithium carbonate, which is dried and then, if necessary, compacted and finally packaged for shipment. The production capacity of our lithium carbonate facility is approximately 48,000 metric tons per year. Currently, the necessary investments are being made to reach a production of 70,000 metric tons per year and start the preparation for the further expansion to 100,000 metric tons per year in 2019.

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. Our future production was also subject to the extraction limit of 180,100 tons of lithium (958,672 tons of lithium carbonate equivalent) in the aggregate for all periods of the Lease Agreement mentioned above which may be increased in the event the Lease Agreement is amended as described above. See “—Salar de Atacama Brine Deposits” and “Item 8.A.7 Legal Proceedings.”

Our 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 production, 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 2018, the necessary investments will be made to build a second lithium hydroxide plant, which will have a capacity of 7,000 metric tons per year. 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 lithium hydroxide solution is evaporated in a multiple effect evaporator and crystallized to produce the lithium hydroxide, which is filtered, dried and packaged for shipment to customers.

Our 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 the potassium sulfate process) and, depending on market conditions, 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 to produce potassium sulfate. The brine is pumped to solar evaporation ponds, where sodium chloride salts are precipitated, harvested and put into piles. After further evaporation, the sulfate and potassium salts precipitate in different concentrations and are harvested and sent for processing to the potassium sulfate plant. Potassium sulfate is produced using flotation, concentration and reaction processes, after which it is crystallized, filtered, dried, classified and packaged for shipment.

Production capacity for the potassium sulfate plant is approximately 340,000 metric tons per year, of which approximately 95,000 metric tons correspond to potassium chloride obtained as a byproduct of the potassium sulfate process. This capacity is part of the total nominal plant capacity of 2.6 million metric tons per year. In our dual plant complex, we may switch, to some extent, between potassium chloride and potassium sulfate production. Part of the pond system in this area is also used to process potassium chloride brines extracted from the low sulfate concentration areas found in the Salar de Atacama. Depending on the conditions for the optimization of the deposit operation and/or market conditions, potassium sulfate production can be modified to produce potassium chloride.

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), 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 companies, and liquefied natural gas and fuel oil for heat generation. Our raw material costs (excluding caliche ore and salar brines and including energy) represented approximately 14% of our cost of sales in 2017.

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. We have several electricity supply agreements signed with major producers in Chile, which are within the contract terms. Our electricity needs are primarily covered by the Electrical Energy Supply Agreement that we entered into with AES Gener S.A. on December 31, 2012. Pursuant to the terms of the Electrical Energy Supply Agreement, we are required to purchase an amount of electricity that exceeds the amount that we estimate we will need for our operations. The excess amount is sold at marginal cost, which could result in a material loss for us.

For the supply of liquefied natural gas, in 2013 and 2014 we had a contract with Solgas. For 2015, 2016 and 2017, we executed supply contracts with Enel Chile S.A. as with Solgas, primarily to serve our operations at the Salar del Carmen and Coya Sur.

We obtain ammonium nitrate, 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.

Water Supply

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

Government Regulations

Regulations in Chile Generally

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

We conduct our mining operations pursuant to judicial exploration concessions and exploitation concessions granted pursuant to applicable Chilean law. Exploitation concessions essentially grant a perpetual right (with the exception of the Salar de Atacama rights, which have been leased to us until 2030) to conduct mining operations in the areas covered by such concessions, provided that annual concession fees are paid. 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, we have an obligation to the CCHEN regarding the exploitation and sale of lithium from the Salar de Atacama, which prohibits the use of lithium for nuclear fusion. In addition, CCHEN has imposed quotas that limit the total tonnage of lithium authorized to be sold.

We also hold water use rights granted by the respective administrative authorities and which enable us to have a supply of water from rivers or wells near our production facilities sufficient to meet our current operating requirements. See “Item 3.D. Risk Factors—Risks Relating to Chile—Changes in water rights laws and other regulations could affect our operating costs.” The Water Code and related regulations are subject to change, which could have a material adverse impact on our business, financial condition and results of operations.

We operate port facilities at Tocopilla, Chile for the shipment of products and the delivery of raw materials in conformity with maritime concessions, which have been granted by the respective administrative authority. These concessions are normally renewable on application, provided that such facilities are used as authorized and annual concession fees are paid.

In 2005, Law No. 20,026, known as the Law to Establish a Specific Tax on Mining Activity” (*Ley que Establece un Impuesto Específico a la Actividad Minera* or the “Royalty Law”), 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 set the corporate tax rate at 20% for companies like SQM.

On September 29, 2014, Law No. 20,780 was published (the “Tax Reform”), introducing significant changes to the Chilean taxation system and strengthening the powers of the SII to control and prevent tax avoidance. Subsequently, on February 8, 2016, Law No. 20,899 that simplifies the income tax system and modifies other legal tax provisions was published. As a result of these reforms, open stock corporations, like SQM, are subject to the partially integrated shareholder tax regime (*sistema parcialmente integrado*). The corporate tax rate applicable to us increased gradually from 20% to 25.5% in 2017. It will increase to a maximum rate of 27% in 2018.

The Tax Reform tax increase prompted a US\$52.3 million increase in our deferred tax liabilities as of December 31, 2014. In accordance with IAS 12, the effects generated by the change in the income tax rate approved by Law No. 20.780 on income and deferred taxes were applied to the income statement. For purposes of the Company's statutory consolidated financial statements filed with the CMF, in accordance with the instructions issued by the CMF in its circular 856 of October 17, 2014, the effects generated by the change in the income tax rate were accounted for as retained earnings. The amount charged to equity as of December 31, 2014 was US\$52.3 million, thereby giving rise to a difference of US\$52.3 million in profit for the year and income tax expense as presented in the Company's Audited Consolidated Financial Statements compared with profit and income tax expense as presented in the Company's statutory consolidated financial statements filed with the CMF.

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.

We are also subject to the Chilean Labor Code and the Subcontracting Law, which are overseen by the Labor Authority (*Dirección del Trabajo*), the National Geology and Mining Service (*Servicio Nacional de Geología y Minería* or “Sernageomin”), and the National Health Service. Recent changes to these laws and their application may have a material adverse effect on our business, financial condition and results of operations. See “Item 3.D. Risk Factors—Risks Relating to Our Business—We are exposed to labor strikes and labor liabilities that could impact our production levels and costs.”

In addition, we are subject to Law No. 20,393, which establishes criminal liability for legal entities, for the crimes of (a) asset laundering, (b) financing terrorism and (c) bribery. Potential sanctions for violations under this law could include (i) fines, (ii) loss of certain governmental benefits during a given period, (iii) a temporary or permanent bar against the corporation executing contracts with governmental entities, and (iv) dissolution of corporation.

Finally, we are governed by the Securities Law and Law No. 18,046 on Corporations (*Ley de Sociedades Anónimas* or the “Chilean Corporations Act”), which regulates corporate governance. Specifically, the Chilean Corporations Act regulates, among other things, independent director requirements, disclosure obligations to the general public and to the CMF, 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. See “Item 6.C. Board Practices” and “Item 7.B. Related Party Transactions.”

There are currently no material legal or administrative proceedings pending against us except as discussed in Note 19.1 to our Consolidated Financial Statements and below under “Safety, Health and Environmental Regulations in Chile.”

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 us 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 Basic Conditions Act of 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 Law of 1994, amended in 2010 (*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 we have made constant efforts to maintain good health and safety conditions for the people working at our mining sites and facilities. 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 at the mining sites 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. Our Internal Mining Standards (*Reglamentos Internos Mineros*) establish our obligation to maintain a workplace where safety and health risks are managed appropriately. We are subject to 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 the Closure of Mining Sites and Facilities (*Ley que Regula el Cierre de Faenas e Instalaciones Mineras*). This statute entered in force in November 2012 and required all mining sites to present or update their closure plans as of November 2014. SQM has fulfilled this requirement for all of its mining sites and facilities. The main requirements of the law 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. The mining site closure plans are approved by Sernageomin and the corresponding financial assurances are subject to approval by the CMF. In both cases, SQM has received the requisite approvals.

The new and modified Chilean Environmental Law defines the Ministry of the Environment as the governmental agency responsible for coordinating and supervising environmental issues. The Environmental Assessment Service is responsible for reviewing environmental assessments of new projects or significant modifications of existing ones, and the decision to grant or reject environmental permits rests with the Environmental Assessment Commission. On the other hand, the Superintendence for the Environment is responsible for supervising environmental performance during the construction, operation and closure of the projects that have been evaluated for environmental permits, and it is also responsible for enforcing compliance with prevention and atmospheric decontamination plans. The Environmental Law also promotes citizen participation in project evaluation and implementation, providing more opportunities for observations or objections to be made during the environmental evaluation process. Annually, the Superintendence for the Environment audits a sample of approved projects to verify compliance with the environmental permits, and it may pursue fines or sanctions if applicable, which can be challenged in the Environmental Court.

We continuously monitor the impact of our operations on the environment and on the health of our employees and other persons who may be affected by such operations. We have made 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. We anticipate that additional laws and regulations will be enacted over time with respect to environmental matters. There can be no assurance that future legislative or regulatory developments will not impose new restrictions on our operations. We are committed to continuously improving our environmental performance through our Environmental Management System (“EMS”), voluntary evaluations, such as Ecovadis, and international certifications, such as the Responsible Conduct certification from the Chilean Industrial Chemicals Association, which applies to our operations at Nueva Victoria, and the Protect&Sustain certification from the International Fertilizer Association, which applies to our operations at Coya Sur, the Salar de Atacama, Tocopilla, Antofagasta and Santiago.

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.

International Regulations

We are subject to complex regulatory requirements in the various jurisdictions in which we operate, including the following:

The European Parliament approved a new regulatory proposal for fertilizers, which will be discussed among the European Commission, the European Parliament and the Council of Member States of the European Union during 2018, before the final approval of the regulations. Following this, there will be a transition period for its implementation. The new European regulation proposes to reduce the maximum content limit of perchlorates in inorganic fertilizer with macronutrients, such as the potassium nitrate sold by us, to 0.005%. The fertilizers that we sell contain less than 0.005% of perchlorate. However, the Food Chain Security unit of the General Health and Consumer Affairs Council initiated the revision of the perchlorate limits in food that are currently in force and effect from July 2015, following the European Food Safety Authority's ("EFSA") evaluation of human exposure to perchlorate in food and in drinkable water. The definition of the new limits of perchlorates in food is being delayed and is expected to be established by the end of 2018.

With respect to the regulation on explosives in Europe, the revision process was initiated by the European Committee. We will continue to monitor the development of changes to the regulation through our participation in the Potassium Nitrate Association as part of the public-private committee created by the European Committee.

In January 2017, the modification of the Toxic Substances Control Act (“US-TSCA”) Chemical Substance Import Certification Process Revisions by the Department of Homeland Security of the United States became effective. This modification is related to the certification process of the compliance with US-TSCA for the chemical substances imported into the United States. According to the modification, SQM North America Corp. has to certify that each shipment of the chemical products imported to the United States, complies with the regulations. To achieve that, all export documents for the products from SQM’s headquarters to its subsidiaries in the United States were modified and the US-TSCA compliance declarations were requested from external providers.

In August 2017, United States Environmental Protection Agency (“US-EPA”) published a TSCA Inventory Notification (Active-Inactive) Requirements regulation under the US-TSCA which established that SQM North America Corp. must provide information with respect to all chemical substances imported to the United States during 2006-2016. We conducted a survey of all products imported to the United States from our headquarters, affiliates and other suppliers during this period to prepare the information per chemical substance to inform the US-EPA. This disclosure has to be made once but the information will be kept on record for 5 years.

On November 22, 2016, Normative Instruction No. 45 became effective in Brazil, which defines specification requirements, guarantees, product registration requirements, authorizations, packaging requirements, labeling of fertilizer products, and tolerance of mineral fertilizers, among others; and the changes defined for all exports from 2017. Normative Instruction No. 45 also defines changes to the information presented for the new registration of products and for the renewal of existing registries, and for the labels and certificates of already registered products, when applicable.

In May 2017, Resolution 0068 of the Ecuadorian Agribusiness Assurance Agency (AGROCALIDAD) became effective in Ecuador. The resolution establishes the general regulations for the registration and control of fertilizers. According to this regulation, SQM Ecuador S.A. must update all of its fertilizer records within 2 years from the date of issue of each certificate on the record.

Research and Development, Patents and Licenses

See “Item 5.C. Research and Development, Patents and Licenses.”

4.C. Organizational Structure

All of our principal operating subsidiaries are essentially wholly-owned, except for SQMC, 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, 2017. For a list of all our consolidated subsidiaries, see Note 2.5 to our Consolidated Financial Statements.

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, Argentina, Belgium, Brazil, China, Colombia, Ecuador, Mexico, Peru, South Africa, Spain, Thailand and other locations.	Market SQM's products throughout the world	Various		

4.D. Property, Plant and Equipment

We carry out our operations through the use of mining rights, production facilities and transportation and storage facilities. Discussion of our mining rights is organized below according to the geographic location of our mining operations. Our caliche ore mining interests are located throughout the valley of the Tarapacá and Antofagasta regions of northern Chile (in a part of the country known as “el Norte Grande”). From caliche ore, we produce products based on nitrates and iodine, and caliche also contains concentrations of potassium. Our mining interests in the brine deposits of the Salar de Atacama are found within the Atacama Desert, in the eastern region of el Norte Grande. From these brines we produce products based on potassium, sulfate, lithium and boron.

The map below shows the location of our principal mining operations and the exploitation and exploration mining concessions that have been granted to us, as well as the mining properties that we lease from Corfo:

Mining Concessions

Mining Concessions for the Exploration and Exploitation of Caliche Ore Mining Resources

We hold our mining rights pursuant to mining concessions for exploration and exploitation of mining resources that have been granted pursuant to applicable law in Chile:

(1) “Mining Exploitation Concessions”: entitle us to use the land in order to exploit the mineral resources contained therein on a perpetual basis, subject to annual payments to the Chilean government; and

“Mining Exploration Concessions”: entitle us to use the land in order to explore for and verify the existence of mineral resources for a period of two years, at the expiration of which the concession may be extended one time (2) only for two additional years, if the area covered by the concession is reduced by half. We may alternatively request an exploitation concession in respect of the area covered by the original exploration concession, which must be made within the timeframe established by the original exploration concession.

A Mining Exploration Concession is generally obtained for purposes of evaluating the mineral resources in a defined area. If the holder of the Mining Exploration Concession determines that the area does not contain commercially exploitable mineral resources, the Mining Exploration Concession is usually allowed to lapse. An application also can be made for a Mining Exploitation Concession without first having obtained a Mining Exploration Concession for the area involved.

As of December 31, 2017, the surface area covered by Mining Exploitation Concessions that have been granted in relation to the caliche resources of SQM S.A.’s mining sites is approximately 576,707 hectares. In addition, as of December 31, 2017, the surface area covered by Mining Exploration Concessions in relation to the caliche resources of SQM S.A.’s mining sites is approximately 2,200 hectares. We have not requested additional mining rights.

Mining Concessions for the Exploitation of Brines at the Salar de Atacama

As of December 31, 2017, our subsidiary SQM Salar 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 is only entitled to exploit the mineral resources in 81,920 hectares. These rights are owned by Corfo and leased to SQM Salar pursuant to the Lease Agreement. Corfo cannot unilaterally amend the Lease Agreement, and the rights to

exploit the resources cannot be transferred. The Lease Agreement establishes that SQM Salar is responsible for making quarterly lease payments to Corfo according to specified percentages of the value of production of minerals extracted from the Salar de Atacama brines, maintaining Corfo's rights over the Mining Exploitation Concessions and making annual payments to the Chilean government for such concession rights. The Lease Agreement was entered into in 1993 and expires on December 31, 2030.

Under the terms of the Project Agreement, Corfo has agreed that it will not permit any other person to explore, exploit or mine any mineral resources in the approximately 140,000 hectares area of the Salar de Atacama mentioned above. The Project Agreement expires on December 31, 2030.

SQM Salar holds an additional 255,142 hectares of constituted Mining Exploitation Concessions in areas near the Salar de Atacama, which correspond to mining reserves that have not been exploited. SQM Salar also holds Mining Exploitation Concessions that are in the process of being granted covering 71,006 hectares in areas near the Salar de Atacama.

In addition, as of December 31, 2017, SQM Salar held Mining Exploration Concessions covering approximately 43,200 hectares and had applied for additional Mining Exploration Concessions of approximately 2,600 hectares. Exploration rights are valid for a period of two years, after which we can (i) request a Mining Exploitation Concession for the land, (ii) request an extension of the Mining Exploration Concession for an additional two years (the extension only applies to a reduced surface area equal to 50% of the initial area) or (iii) allow the concession to expire.

According to the terms of the Lease Agreement, with respect to lithium production, the CCHEN established a total accumulated extraction limit set at 180,100 tons of lithium (958,672 tons of lithium carbonate equivalent) in the aggregate for all periods while the Lease Agreement is in force. As of December 31, 2017, only 13 years remain on the term of the Lease Agreement and we had extracted approximately 64% of the total permitted accumulated extraction and sales limit of lithium.

On January 17, 2018, Corfo and our subsidiaries SQM Salar and SQM Potasio S.A. entered into the Corfo Arbitration Agreement which, among other things, provide for the amendments of the Lease Agreement and the Project Agreement. As part of the agreement to amend the Lease Agreement, Corfo authorized an increase of the production and sales of lithium products produced in the Salar de Atacama up to 349,553 metric tons of lithium metallic equivalent (1,860,670 tons of lithium carbonate equivalent), which is in addition to the approximately 64,816 metric tons of lithium metallic equivalent (345,015 tons of lithium carbonate equivalent) remaining from the originally authorized amount. See “Item 3.D. Risk Factors” and “Item 8.A.7 Legal Proceedings.”

Concessions Generally

As of December 31, 2017, approximately 97% of SQM’s mining interests were held pursuant to Mining Exploitation Concessions and 3% pursuant to Mining Exploration Concessions. Of the Mining Exploitation Concessions, approximately 94% already have been granted pursuant to applicable Chilean law, and approximately 6% are in the process of being granted. Of the Mining Exploration Concessions, approximately 90% already have been granted pursuant to applicable Chilean law, and approximately 10% are in the process of being granted.

In 2017, we made payments of approximately US\$7.7 million to the Chilean government for Mining Exploration and Exploitation Concessions, including the concessions we lease from Corfo. These payments do not include the payments we made directly to Corfo pursuant to the Lease Agreement, according to the percentages of the sales price of products produced using brines from the Salar de Atacama.

The following table shows the Mining Exploitation and Exploration Concessions held by SQM, including the mining properties we lease from Corfo, as of December 31, 2017:

Region of Chile	Exploitation Concessions		Exploration Concessions		Total	
	Total Number	Hectares	Total Number	Hectares	Total Number	Hectares
Region I	2,815	529,497	46	21,700	2,861	551,197
Region II	9,052	2,382,906	213	68,500	9,265	2,451,406
Region III and others	423	98,749	36	9,900	459	108,649
Total	12,290	3,011,152	295	100,100	12,585	3,111,252

The majority of the Mining Exploitation Concessions held by SQM were requested primarily for non-metallic mining purposes. However, a small percentage of our Mining Concessions were requested for metallic mining purposes. The annual payment to the Chilean government for this group of concessions is higher.

Geological studies over mining properties that were requested primarily for non-metallic mining purposes may show that the concession area is of interest for metallic mining purposes, in which case we must inform the Sernageomin, indicating that the type of substance contained by such Mining Concessions has changed, for purposes of the annual payment for these rights.

Caliche: Facilities and Reserves

Caliche: Facilities

During 2017, caliche ore mining operations were focused in the first region of Chile, and our Nueva Victoria mine was exploited. In November 2015, the mining and nitrate operations at Pedro de Valdivia were suspended, and iodine production was reduced at the Pedro de Valdivia site, in order to take advantage of the highly efficient production facilities at Nueva Victoria. Operations at the Pampa Blanca site were suspended in 2010, and operations at the María Elena site were suspended in October 2013.

Nueva Victoria

The Nueva Victoria mine and facilities are located 140 kilometers southeast of Iquique and are accessible by highway. Since 2007, the Nueva Victoria mine includes the mining properties Soronal, Mapocho and Iris. At this site, we use caliche to produce salts rich in nitrates and iodine, through heap leaching and the use of solar evaporation ponds. The main production facilities at this site include the operation centers for the heap leaching process, the iodide and iodine plants at Nueva Victoria and Iris and the evaporation ponds at the Sur Viejo sector of the site. The areas currently being mined are located approximately 4 kilometers northeast of Nueva Victoria. Solar energy and electricity are the primary sources of power for this operation. We are currently developing a project to expand the production capacity of iodide and iodine in Nueva Victoria to reach 11,000 metric tons per year.

Pampa Blanca

The mining facilities at Pampa Blanca, which is located 100 kilometers northeast of Antofagasta, have been suspended since March 2010. At this site, we used caliche to produce nitrates and iodine through heap leaching and the use of solar evaporation ponds. The main production facilities at this site included the operation centers for the heap leaching system and the iodide plant. Electricity was the primary source of power for this operation.

Pedro de Valdivia

The Pedro de Valdivia mine and facilities are located 170 kilometers northeast of Antofagasta and are accessible by highway. At this site, we used caliche to produce nitrates and iodine through vat leaching and solar evaporation ponds. The main production facilities at this site include the crushing, vat leaching, fines processing, nitrate crystallization plant, and iodide and iodine plants. In November 2015, the mining and nitrate operations at Pedro de Valdivia were suspended, and iodine production was reduced. Electricity, natural gas and fuel oil are the primary sources of power for this operation.

María Elena

The María Elena mine and facilities, named El Toco, are located 220 kilometers northeast of Antofagasta and are accessible by highway. Until February 2010, caliche was used at this facility to produce nitrates and iodine through vat leaching. Subsequently, these facilities were equipped to produce nitrates and iodine through the use of heap leaching and solar evaporation ponds. Heap leaching operations at this site were suspended in October 2013. During 2017, we continued to produce solutions rich in iodine and nitrates by leaching the mine tailings. These solutions are treated at the iodide plant at María Elena, and subsequently the prilled iodine is produced at Pedro de Valdivia.

Caliche: Reserves

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 may be subject to modifications due to natural factors that affect the distribution of mineral grades, which would, in turn, modify the recovery of nitrate and iodine. Therefore, no assurance can be given that the indicated levels of recovery of nitrates and iodine will be realized.

We estimate ore reserves based on evaluations, performed by engineers and geologists, 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 ore 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 the Company to estimate the continuity of the caliche bed based on surface geological reconnaissance and analysis of samples and trenches. Mineral resources can be calculated using the information from the drill-hole sampling.

A Mineral Resource is a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the Earth's crust in such form or quantity and of such grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological, metallurgical and technological evidence.

A Measured 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 exploration, sampling and testing information gathered through appropriate sampling techniques from locations such as outcrops, trenches, and exploratory drill holes.

An Indicated 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 reasonable level of confidence. The estimate is based on detailed exploration, sampling and testing information gathered through appropriate sampling techniques from locations such as outcrops, trenches and exploratory drill holes.

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 using a polygon-based methodology and have an uncertainty or margin of error greater than that of Proven Reserves. However, the degree of certainty of Probable Reserves is high enough to assume continuity between points of observation.

Proven Reserves are the economically mineable part of a Measured Resource. The calculation of the reserves includes the application of mining parameters including maximum overburden, minimum thickness of caliche ore, stripping ratio, cutoff grade and application of dilution factors to the grade values. Appropriate assessments, including pre-feasibility studies or feasibility studies, have been carried out and include consideration of metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified.

Probable Reserves are the economically mineable part of an Indicated Resource and in some cases a Measured Resource. The calculation of the reserves includes the application of mining parameters including maximum overburden, minimum thickness of caliche ore, stripping ratio, cutoff grade and application of dilution factors to the grade values. Appropriate assessments, including pre-feasibility studies, have been carried out or are in process and include consideration of metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified.

The estimates of Proven Reserves of caliche ore at each of our mines as of December 31, 2017 are set forth below. The Company holds 100% of the concession rights for each of these mines.

Mine	Proven Reserves (1) (millions of metric tons)	Nitrate Average Grade (percentage by weight)	Iodine Average Grade (parts per million)	Cutoff Grade Average for Mine (2)
Pedro de Valdivia	109.0	7.1	% 377	Nitrate 6.0 %
María Elena	83.3	7.2	% 436	Iodine 300 ppm
Pampa Blanca	54.7	5.7	% 538	Iodine 300 ppm
Nueva Victoria	346.2	6.3	% 426	Iodine 300 ppm

In addition, the estimates of our Probable Reserves of caliche ore at each of our principal mines as of December 31, 2017, are as follows:

Mine	Probable Reserves (3) (millions of metric tons)	Nitrate Average Grade (percentage by weight)	Iodine Average Grade (parts per million)	Cutoff Grade (2)
Pedro de Valdivia	334.7	7.3	% 421	Nitrate 6.0 %
María Elena	148.8	7.2	% 381	Iodine 300 ppm
Pampa Blanca	464.6	5.7	% 540	Iodine 300 ppm
Nueva Victoria	1,020.7	5.3	% 421	Iodine 300 ppm

The Proven Reserves set forth in the table above are shown before losses related to exploitation and mineral treatment. Proven Reserves are affected by mining exploitation methods, which result in differences between the estimated reserves that are available for exploitation in the mining plan and the recoverable material that is finally transferred to the leaching vats or heaps. The average mining exploitation factor for each of our different mines ranges between 80% and 90%, whereas the average global metallurgical recoveries of processes for nitrate and iodine contained in the recovered material vary between 60% and 70%.

- (2) The cutoff grades for the Proven and Probable Reserves vary according to the objectives of each mine. These amounts correspond to the averages of the different areas.

- (3) Probable Reserves can be expressed as Proven Reserves using a conversion factor, only for purposes of obtaining a projection to be used for long-term planning purposes. On average, this conversion factor is higher than 60%, depending on geological conditions and caliche ore continuity, which vary from mine to mine (Pedro de Valdivia 60%, María Elena 50%, Pampa Blanca 70% and Nueva Victoria 60%).

The complete technical supporting documentation for the information set forth in the table above is contained in the report “Methodology, Procedure, and Classification of SQM’s Nitrate and Iodine Resources and Reserves for the Year 2017,” was prepared for each mine by the geologist Vladimir Tejerina and other engineering professionals employed by SQM and validated by Mr. Sergio Alarcón and Mr. Orlando Rojas.

Mr. Sergio Alarcón is a geologist with more than 30 years of experience in the field. He is currently employed by SQM as a Senior Geologist in the Mining Production area. Mr. Alarcón is a Competent Person (*Persona Competente*), as that term is defined under Chilean Law No. 20,235, known as the Law that Regulates the Position of Competent Person and Creates the Qualifying Committee for Competencies in Mining Resources and Reserves (*Ley que Regula la Figura de las Personas Competentes y Crea la Comisión Calificadora de Competencias de Recursos y Reservas Mineras* or “Competent Person Law”). He is registered under No. 164 in the Public Registry of Competent Persons in Mining Resources and Reserves in accordance with the Competent Person Law and related regulations. He has worked as a geologist with both metallic and non-metallic deposits, with vast experience in the latter.

Mr. Orlando Rojas is a civil mining engineer and independent consultant. He is Partner and Chief Executive Officer of the company EMI-Ingenieros y Consultores S.A., whose offices are located at Renato Sánchez No. 3357, Las Condes, Santiago, Chile. He is a member of the Institute of Mining Engineers and is registered under No. 118 in the Public Registry of Competent Persons in Mining Resources and Reserves in accordance with the Competent Person Law and related regulations. He has worked as a mining engineer for 40 years since graduating from university, including more than 34 years working on estimates for reserves and resources.

Copies of the certificates of qualified competency issued by the Chilean Mining Commission are attached hereto as Exhibits 99.1 and 99.2.

The proven and probable reserves shown above are the result of the evaluation of approximately 20.98% of the total caliche-related mining property of our Company. However, we have explored more intensely the areas in which we believe there is a higher potential of finding high-grade caliche ore minerals. The remaining 79.02% of this area has not been explored or has had limited reconnaissance, which is not sufficient to determine the sources of potential and hypothetical resources. In 2017, we did not carry out basic reconnaissance of new mining properties. With respect to detailed explorations, in 2017, we carried out recategorizations of indicated resources in the Nueva Victoria West South and Tente en el Aire sectors, totaling 1,493.9 hectares, which is still in process. Our 2018 exploration program includes the exploration of the Tente en el Aire section, which totals 3,114 hectares, and the basic study of 24,607 hectares of Franja Oeste sector. The reserves shown in these tables are calculated based on properties that are not involved in any legal disputes between SQM and other parties.

Caliche ore is the key raw material used in the production of iodine, specialty plant nutrients and industrial chemicals. The following gross margins for the business lines specified were calculated on the same basis as cut off grades used to estimate our reserves. We expect costs to remain relatively stable in the near future.

	2017		2016		2015
	Gross Price		Gross Price		Gross Price
	Margin		Margin		Margin
Iodine and Derivatives	21 % US\$20/kg		17 % US\$23/kg		30 % US\$28/kg
Specialty Plant Nutrition	20 % US\$722/ton		23 % US\$742/ton		29 % US\$784/ton
Industrial Chemicals	32 % US\$809/ton		35 % US\$808/ton		27 % US\$770/ton

We maintain an ongoing program of exploration and resource evaluation on the land surrounding our production mines, and other sites for which we have the appropriate concessions.

Brines from the Salar de Atacama: Facilities and Reserves

Salar de Atacama: Facilities

Salar de Atacama

Our facilities at the Salar de Atacama are located 208 kilometers to the east of the city of Antofagasta and 188 kilometers to the southeast of the city of María Elena. At this site we use brines extracted from the salar to produce potassium chloride, potassium sulfate, boric acid, magnesium chloride salts and lithium solutions, which are subsequently sent to our lithium carbonate plant at the Salar del Carmen for processing. The main production plants at this site include the potassium chloride flotation plants (MOP-H I and II), the potassium carnallite plants (PC I and extension), the potassium sulfate flotation plant (SOP-H), the boric acid plant (ABO), the potassium chloride drying plant (Dual Plant or MOP-S), the potassium chloride compacting plant (MOP-G), the potassium sulfate drying plant (SOP-S) and the potassium sulfate compacting plant (SOP-G). Solar energy is the primary energy source used for the Salar de Atacama operations.

Salar de Atacama: Reserves

Our in-house staff of hydro-geologists and geologists prepares our estimates of the reserve base of potassium, sulfate, lithium and boron dissolved in brines at the Salar de Atacama. We have exploitation concessions covering an area of 81,920 hectares, in which we have carried out geological exploitation, brine sampling and geostatistical analysis. We estimate that our proven and probable reserves as of December 31, 2017, based on economic restrictions, geological exploitation, brine sampling and geostatistical analysis up to a depth of 110 meters of our total exploitation concessions, and additionally, up to a depth of 300 meters over approximately 47% of the same total area, are as follows:

	Proven Reserves (1) <i>(millions of metric tons)</i>	Probable Reserves (1) <i>(millions of metric tons)</i>	Total Reserves <i>(millions of metric tons)</i>
Potassium (K+) ⁽²⁾	52.00	38.47	90.47
Sulfate (SO ₄ -2) ⁽³⁾	42.71	39.65	82.35
Lithium (Li+) ⁽⁴⁾	4.80	3.33	8.13
Boron (B3+) ⁽⁵⁾	1.56	1.27	2.83

Metric tons of potassium, sulfate, lithium and boron considered in the proven and probable reserves are shown (1) before losses from evaporation processes and metallurgical treatment. The recoveries of each ion depend on both brine composition and the process applied to produce the desired commercial products.

(2) Recoveries for potassium vary from 47% to 77%.

(3) Recoveries for sulfate vary from 27% to 45%.

(4) Recoveries for lithium vary from 28% to 40%.

(5) Recoveries for boron vary from 28% to 32%.

The information set forth in the table above was validated in February 2018 by Messrs. Álvaro Henríquez and Orlando Rojas using information that was prepared by SQM's hydrogeologists, geologists and engineers and external advisors.

Mr. Henríquez is a geologist with more than 14 years of experience in the field of mining hydrogeology. He is currently employed by SQM as Superintendent of Hydrogeology, in the Salar Hydrogeology department. He is a Competent Person and is registered under No. 226 in the Public Registry of Competent Persons in Mining Resources

and Reserves, in accordance with the Competent Person Law. As a hydrogeologist in Chile and abroad, he has evaluated multiple brine-based projects and has experience evaluating resources and reserves.

Mr. Orlando Rojas is a civil mining engineer and independent consultant. He is Partner and Chief Executive Officer of the company EMI-Ingenieros y Consultores S.A., whose offices are located at Renato Sánchez No. 3357, Las Condes, Santiago, Chile. He is a member of the Institute of Mining Engineers and is registered under No. 118 in the Public Registry of Competent Persons in Mining Resources and Reserves in accordance with the Competent Person Law and related regulations. He has worked as a mining engineer for 40 years since graduating from university, including more than 34 years working on estimates for reserves and resources.

Copies of the certificate of qualified competency issued by the Chilean Mining Commission for Mr. Rojas and Mr. Henríquez are attached hereto as Exhibit 99.2 and 99.3.

A cutoff grade of 1.0% K is used in the calculation, considering a low margin scenario using only MOP-S as and using diluted brine with higher levels of contaminants as the raw material and with recovery yields of approximately 47%, which is on the lower end of the range. In this scenario, considering current market conditions and market conditions from recent years, the production cost of MOP production is still competitive.

The cutoff grade for lithium extraction is set at 0.05% Li. The cost of the process is competitive in the market despite a small cost increase due to the expansions in the evaporation area (to reach the required Li concentration) and to the use of additives to maintain the quality of the brine that is used to feed the plant.

The proven and probable reserves are based on production experience, drilling, brine sampling and geo-statistic reservoir modeling in order to estimate brine volumes and their composition. We calculate the reserve base, which is the volume of brine effectively drainable or exploitable in each evaluation unit, by building a three-dimensional block model. The following variables are used to populate the model:

Porosity: obtained from measurements of drainable porosity in core rocks, test pumping data, geophysical records and changes in the level of the brine. The volume of brine is estimated on the basis of the interpolation of the drainable porosity data.

Grades: The brine chemistry is subjected to an exploratory data analysis and a variographic analysis, in order to determine the chemical populations in the Salar. Subsequently, the grades are interpolated using the Kriging method.

Based on the chemical characteristics, the volume of brine and drainable porosity, we determine the number of metric tons for each of the chemical ions being evaluated.

Reserves are defined as hydrogeological units with proven historical brine yield production, and a quality and piezometric brine monitoring network to control brine evolution over time. Reserve classification is finally achieved by using the geostatistical estimation error and hydrogeological knowledge of the units that have been explored, as an indicator between proven and probable reserves.

Probable reserves and inferred resources are being explored in order to be able to reclassify them as proven reserves and indicated or measured resources, respectively. This exploration includes systematic packer testing, chemical brine sampling and long-term pilot production pumping tests.

We consider chemical parameters to determine the process to be applied to the brines. These parameters are used to estimate potential restrictions on production yields, and the economic feasibility of producing such commercial products as potassium chloride, potassium sulfate, lithium carbonate and boric acid is determined on the basis of the evaluation.

Complementing the reserves information, SQM has an environmental impact assessment (RCA 226/06) which defines a maximum brine extraction until the end of the Lease Agreement (December 31, 2030). Considering the authorized maximum brine production rates, and including reinjection factors, we have performed several hydrogeological numeric simulations to estimate changes in the volume and quality of the brine during the life of the project, considering the same ponds infrastructure existing on January 1, 2018. According to these simulations, a total of 20.9 million metric tons of potassium and 1.55 million metric tons of lithium will be extracted from the producing wells, without considering the returns by direct and indirect reinjection. On the other hand, the proven and probable base reserve, within the authorized area of environmental extraction (RCA 226/06), corresponds to 34.01 million metric tons of potassium and 3.99 million metric tons of lithium, enough to satisfy the demand of the project until the end of the concession.

Brines from the Salar de Atacama are the key raw material used in the production of potassium chloride and potassium sulfate, and lithium and its derivatives. The following gross margins for the business lines specified were calculated on the same basis as cut off grades used to estimate our reserves. We expect costs to remain relatively stable in the near future.

	2017		2016		2015
	Gross	Price	Gross	Price	Gross
	Margin		Margin		Margin
Potassium Chloride and Potassium Sulfate	17 %	US\$282/ton	11 %	US\$263/ton	29 %
Lithium and Derivatives	71 %	US\$12,970/ton	66 %	US\$10,362/ton	51 %
					US\$5,759/ton

Other Production Facilities

Coya Sur

The Coya Sur site is located approximately 15 kilometers south of María Elena, and production activities undertaken there are associated with the production of potassium nitrate and finished products. The main production plants at this site include four potassium nitrate plants with a total capacity of 1,300,000 metric tons per year. There are also five production lines for crystallized nitrates, with a total capacity of 1,200,000 metric tons per year, and a prilling plant with a capacity of 320,000 metric tons per year. The potassium nitrate produced at Coya Sur is an intermediate product that is used as a raw material for the production of finished products (crystallized nitrates and prilled nitrates). Therefore, the production capacities listed above are not independent of one another and cannot be added together to obtain an overall total capacity. Natural gas is the main source of energy for our Coya Sur operation.

Salar del Carmen

The Salar del Carmen site is located approximately 14 kilometers to the east of Antofagasta. The production plants at this facility include the lithium carbonate plant, with a production capacity of 48,000 metric tons per year, and the lithium hydroxide plant, with a production capacity of 6,000 metric tons per year. Electricity and natural gas are the main sources of energy for our Salar del Carmen operation.

The following table provides a summary of our production facilities as of December 31, 2017:

Facility	Type of Facility	Approximate Size (hectares) ⁽¹⁾	Nominal Production Capacity (thousands of metric tons/year) Potassium nitrate: 1,300 Crystallized nitrates: 1,200 Prilled nitrates: 320 Nitrates: n/a Iodine: 1.6 Prilled nitrates: 300 Iodine: 10.0 Nitrates: n/a Iodine: n/a Nitrates: n/a Iodine: 3.2 Potassium chloride: 2,680 Potassium sulfate: 245 Boric acid: 15 Lithium carbonate: 48 Lithium hydroxide: 6 -	Weighted Average Age (years) ⁽²⁾ ⁽²⁾	Gross Book Value (millions of US\$)
Coya Sur ⁽³⁾ ⁽⁴⁾	Nitrates production	1.518		8.3	573.1
María Elena ⁽⁵⁾ ⁽⁶⁾	Nitrates and iodine production	35.830		14.5	433.2
Nueva Victoria ⁽⁷⁾	Concentrated nitrate salts and iodine production	47.492		8.3	490.6
Pampa Blanca ⁽⁵⁾ ⁽⁷⁾ ⁽⁸⁾	Concentrated nitrate salts and iodide production	10.441		9.5	7.1
Pedro de Valdivia ⁽³⁾ ⁽⁹⁾	Nitrates and iodine production	253.880		12.4	217.8
Salar de Atacama ⁽³⁾ ⁽¹⁰⁾	Potassium chloride, potassium sulfate, lithium chloride, and boric acid production	35.911		9.9	1,542.5
Salar del Carmen, Antofagasta ⁽³⁾	Lithium carbonate and lithium hydroxide production	126		12.1	178.4
Tocopilla ⁽¹¹⁾	Port facilities	22		12.7	175.4

Approximate size considers both the production facilities and the mine for María Elena, Nueva Victoria, Pampa Blanca, Pedro de Valdivia and the Salar de Atacama. Mining areas are those authorized for exploitation by the environmental authority and/or Sernageomin.

(2) Weighted average age and gross book value correspond to production facilities, excluding the mine, for María Elena, Nueva Victoria, Pampa Blanca, Pedro de Valdivia and the Salar de Atacama.

(3) Includes production facilities and solar evaporation ponds.

The potassium nitrate produced at Coya Sur is an intermediate product that is used as a raw material for the production of finished products (crystallized nitrates and prilled nitrates). Therefore, the production capacities listed above are not independent of one another and cannot be added together to obtain an overall total capacity.

(5) Includes production facilities, solar evaporation ponds and leaching heaps.

(6) Operations at the El Toco mine at María Elena were suspended in November 2013.

(7) The nominal production capacity for iodine considers the capacity of our plants. The effective capacity is 11,000 metric tons per year.

(8) Operations at Pampa Blanca were suspended in March 2010.

(9)

In November 2015, the mining and nitrate operations at Pedro de Valdivia were suspended, and iodine production was reduced at the Pedro de Valdivia site, in order to take advantage of the highly efficient production facilities at Nueva Victoria.

Potassium chloride and potassium sulfate are produced in a dual plant, and the production capacity for each of (10) these products depends on the production mix. Therefore, the production capacities for these two products are not independent of one another and cannot be added together to obtain an overall total capacity.

(11) The Tocopilla port facilities were originally constructed in 1961 and have been refurbished and expanded since that time.

The railway line that runs between our Coya Sur production facilities and our Tocopilla port facilities was damaged in August 2015 as a result of storms in the north of Chile. The train is not currently operating and as a consequence, we have replaced the train with trucks to ship products from Coya Sur. Detailed engineering studies were performed to assess the damage of the railway. During the third quarter of 2016, the report was completed; it concluded that the cost and time needed to repair the railway at this time is not economical in the short and medium term. As a result of this determination, the Company wrote-off the assets related to the train. We do not believe it will materially impact future sales volumes or transportation costs.

We consider the condition of our principal plant and equipment to be good, with the exception of the railway line.

We directly or indirectly through subsidiaries own, lease or hold concessions over the facilities at which we carry out our operations. Such facilities are free of any material liens, pledges or encumbrances, and we believe they are suitable and adequate for the business we conduct in them.

Extraction Yields

The following table shows certain operating data relating to each of our mines for 2017, 2016 and 2015:

(in thousands, unless otherwise stated)	2017	2016	2015
Pedro de Valdivia⁽¹⁾			
Metric tons of ore mined	—	—	9,754
Average grade nitrate (% by weight)	—	—	7.8
Iodine (parts per million (ppm))	—	—	424
Metric tons of crystallized nitrate produced	—	—	346
Metric tons of iodine produced	0.9	0.6	2.8
Maria Elena⁽²⁾			
Metric tons of ore mined	—	—	—
Average grade nitrate (% by weight)	—	—	—
Iodine (ppm)	—	—	—
Metric tons of crystallized nitrate produced	—	—	—
Metric tons of iodine produced	0.0	0.2	0.1
Coya Sur⁽³⁾			
Metric tons of crystallized nitrate produced	613	573	611
Pampa Blanca⁽²⁾			
Metric tons of ore mined	—	—	—
Iodine (ppm)	—	—	—
Metric tons of iodine produced	—	—	—
Nueva Victoria			
Metric tons of ore mined	36,383	29,902	23,969
Iodine (ppm)	458	454	458
Metric tons of iodine produced	8.8	7.7	7.5
Salar de Atacama ⁽⁴⁾			

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Metric tons of lithium carbonate produced	45	44	33
Metric tons of potassium chloride and potassium sulfate and potassium salts produced	1,881	2,045	1,988

- In November 2015, mining and nitrate operations at Pedro de Valdivia were suspended, and iodine production was
- (1) reduced at the Pedro de Valdivia site, in order to take advantage of the highly efficient production facilities at Nueva Victoria.
 - (2) Operations at the Pampa Blanca mine were suspended in March 2010. During 2015, María Elena obtained production from caliche ore exploited in prior years.
Includes production at Coya Sur from treatment of nitrates solutions from María Elena and Pedro de Valdivia,
 - (3) nitrate salts from pile treatment at Nueva Victoria, and net production from NPT, or technical grade potassium nitrate, plants.
Lithium carbonate is extracted at the Salar de Atacama and processed at our facilities at the Salar del Carmen.
 - (4) Potassium salts include synthetic sylvinite produced in the plant and other harvested potassium salts (natural sylvinite, carnalites and harvests from plant ponds) that are sent to Coya Sur for the production of crystallized nitrates.

Transportation and Storage Facilities

The transportation of our products is carried out by trucks that are operated by dedicated third parties through long term contracts. Furthermore, we own port and storage facilities for the transportation and management of finished products and consumable materials.

Our main centers for the production and storage of raw materials are the Nueva Victoria, Coya Sur and Salar de Atacama facilities. Other facilities include chemical plants for the finished products of lithium carbonate and lithium hydroxide at the Salar del Carmen plant. The Port of Tocopilla terminal, which we own, has a surface area of approximately 22 hectares and is the principal facility for the storage and shipment of our bulk products and packaged potassium chloride (MOP), potassium sulfate (SOP) and nitrates.

The nitrate finished products are produced at our Coya Sur facilities and then transported via trucks to the Port of Tocopilla terminal where they are stored and shipped, either packaged (polypropylene bags, polyethylene or polypropylene FIBC big bags) or in bulk. The potassium chloride is produced at our Salar de Atacama facilities and we transport it by truck, either to the Port of Tocopilla terminal or the Coya Sur facility. The product transported to Coya Sur is an intermediate product that is used as a raw material for the production of potassium nitrate. On the other hand, the product transported to the Port of Tocopilla is a final product that will be shipped or transported to the client or affiliate. The raw material of nitrate for the production of potassium nitrate in Coya Sur is currently produced at Nueva Victoria and the remaining raw material is provided from historical stock stored in Coya Sur that was produced at the Pedro de Valdivia facility when it was operating. This raw material is obtained from the processing of caliche that is extracted from our mines. On the other hand, potassium sulfate is produced at our Salar de Atacama facilities and later transported by trucks to the Port of Tocopilla terminal.

The lithium chloride solution, which contains a high concentration of boron, produced at our Salar de Atacama facilities, is transported to the lithium carbon plant in the Salar del Carmen area where the finished lithium carbonate is produced. Part of the lithium carbonate is provided to the adjacent lithium hydroxide plant where the finished lithium hydroxide is produced. These two products are packed in packaging of distinct characteristics (polyethylene bags, multi-layer or polypropylene FIBC big bags), stored within the same facilities and secured in roofed storerooms. Thereafter, they are consolidated into containers that are transported by trucks to a transit warehouse or directly to port terminals for their subsequent shipment. The port terminals used are currently suited to receive container ships and are situated in Antofagasta, Mejillones and Iquique.

Iodine obtained from the same caliche used for the production of nitrates, is processed, packaged and stored exclusively in the Pedro de Valdivia and Nueva Victoria facilities. The packaging used for iodine are drums and polypropylene FIBC big bags with an internal polyethylene bag and oxygen barrier, which at the time of transportation are consolidated into containers and sent by truck to port terminals suited for their management, principally located in Antofagasta, Mejillones and Iquique. Thereafter, they are sent to distinct markets by container ship or by truck to Santiago where iodine derivatives are produced in the Ajay-SQM Chile plants.

The Port of Tocopilla terminal facilities are located approximately 186 kilometers north of Antofagasta, approximately 124 kilometers west of María Elena and Coya Sur and 372 kilometers to the west of Salar de Atacama. Our affiliate, Servicios Integrales de Tránsitos y Transferencias S.A. (SIT), operates facilities for the shipment of products and the delivery of certain raw materials based on renewable concessions granted by Chilean regulatory authorities, provided that the facilities are used in accordance with the authorization granted and we pay an annual concession fee. The Port of Tocopilla terminal facilities include a truck weighing machine that confirms product entry into the port and transfers the product to distinct storage zones, a piezometer within the shipping system to carry out bulk product loaded onto ships and a crane with a 40 ton capacity for the loading of sealed product onto ships.

The storage facilities consist of a system of six silos, with a total storage capacity of 55,000 metric tons, and a mixed storage area of open storehouses with a total storage capacity of approximately 250,000 metric tons. In addition, to fulfill future storage needs, we will continue to make investments in accordance with the investment plan outlined by management. The products are also put into bags at the Port of Tocopilla terminal facilities where the bagging capacity is established by two bag packaging machines, one for sacks and polypropylene FIBC big bags and one for FFS polyethylene. The products that are packaged in Tocopilla may be subsequently shipped at the same port or may also be consolidated into trucks or containers for its subsequent dispatch to clients by land or sea through containers from other ports, principally located in Antofagasta, Mejillones and Iquique.

For the transportation of bulk product, the transportation belt system extends across the coastline to deliver products directly to the hatches of bulk cargo ships. The nominal load capacity of this shipping system is 1,200 tons per hour. The transportation of packaged product is carried out utilizing the same bulk cargo ships using trailers without motors located in the dock and loaded by a crane with a 40 ton capacity from the Port of Tocopilla terminal. Thereafter, they are towed and unloaded using ship cranes to the respective warehouses.

We normally contract bulk cargo ships to transfer the product from the Port of Tocopilla terminal to our hubs around the world or to clients directly, who, in certain instances, use their own contracted vessels for delivery.

Tocopilla processes related to the reception, handling, storage and shipment of bulk/package nitrates produced at Coya Sur are certified by the third-party organization TÜV-Rheiland under the quality standard ISO 9001:2008.

Computer System

In addition to the above-listed facilities, we operate various computer and information systems linking our principal subsidiaries to our operating facilities throughout Chile via a local area network. The computer and information system is used mainly for accounting, monitoring of supplies and inventories, billing, quality control, research

activities and production process and maintenance control. The mainframe computing system is located at our offices in Santiago.

In addition, we have incorporated Cloud technologies to have a platform that allows us to support new business processes, related to IoT (Internet of Things), Advanced Analytics and business enablers.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The information in this Item 5 should be read in conjunction with the Company's Consolidated Financial Statements and the notes thereto included elsewhere in this Annual Report.

Since January 1, 2010, the Company's Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards as published by the International Accounting Standards Board (IASB).

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

We believe that our critical accounting policies 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 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 we do not intend to recover 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. The Company calculates the allowance for doubtful accounts corresponding to receivables that are not guaranteed or insured as a function of the delays that may occur in the collection of such accounts.

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 sum of current taxes from the different consolidated companies.

Current taxes are based on the application of the various types of taxes attributable to taxable income for the year.

Differences between the book value of assets and liabilities and their tax basis generate the balance of deferred tax assets or liabilities, which are calculated using the tax rates expected to be applicable when the assets and liabilities are realized.

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 associated credits. 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 the statement of income accounts or equity accounts in the consolidated statement of financial position, considering the origin of the gains or losses which have generated them.

At each reporting period, the carrying amount of deferred tax assets was reviewed and reduced to the extent where there would not be sufficient taxable income to allow the recovery of all or a portion of the deferred tax assets. Likewise, as of the date of the consolidated financial statements, deferred tax assets are evaluated and recognized if it is more likely than not that future taxable income will allow for recovery of the deferred tax asset.

With respect to deductible temporary differences associated with investments in subsidiaries, associated companies and interest in joint ventures, deferred tax assets are recognized solely provided that it is more likely than not 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.

Inventories

The Company measures inventories at the lower of production cost and net realizable value. The cost price of finished products and work in progress includes the direct cost of materials and, when applicable, labor costs, the depreciation of goods that are involved in the production process, the indirect costs incurred in transforming raw materials into finished products, and general expenses incurred in carrying inventories to their current location and conditions. The method used to determine the cost of inventories is the weighted average monthly cost and the average cost of warehouse storage.

Commercial discounts, rebates obtained, and other similar entries are deducted when determining the acquisition price.

The net realizable value represents the estimate of the sales price, less all the estimated costs involved in making the finished product and the costs that will be incurred in the commercialization, sales, and distribution processes.

The Company conducts an evaluation of the net realizable value of inventories at the end of each year, recording an estimate with a charge to profit or loss when the inventory costs exceed the realizable value. This estimate is made for all the finished and intermediate products in the Company's inventory. The valuation of obsolete, impaired or slow-moving products relates to their estimated net realizable value.

The provisions for uncertainties in the technical specifications for the Company's stocks of finished goods and work in progress have been made based on a technical study which covers the different variables that affect products in stock (such as density and humidity). This study is updated periodically to include new measurement technologies and the results from previous financial periods.

Inventories of raw materials, supplies, materials and parts are recorded at the lower of acquisition cost or market value. The acquisition cost is calculated according to the average acquisition price method. Nonetheless, an estimate is made for each financial period of the potential lower value of that proportion of the inventory that consists of obsolete, defective or slow-moving materials. This provision reduces the value of the Company's raw materials, supplies, materials and parts.

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 certain employees in the United States, our obligations are established through a pension plan, which was terminated in 2002.

These obligations are valued using an actuarial calculation that considers factors such as 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 originating from 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 for calculating obligations outside the United States was 5.1% and 4.5% for the periods ended as of December 31, 2017 and 2016, respectively.

The Company's subsidiary SQM North America has established pension plans for its retired employees that are calculated by measuring the projected obligation using a net salary progressive rate net of adjustments for inflation, mortality and turnover assumptions, deducting the resulting amounts at present value using a 3.75% interest rate for 2017 and 4.5% for 2016. The net balance of this obligation is presented under the "Provisions for employee benefits, non-current" line item.

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 value 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, potassium, industrial chemicals 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.

The results of the impairment tests the Company has performed on its primary intangible assets demonstrated that there was no need for the Company to make any accounting adjustments to such assets. These impairment tests were performed using conservative scenarios. For more information, see Note 13.1 to our Consolidated Financial Statements.

We have recognized impairment events derived from the following:

As a result of the rain storms that affected the Tocopilla Zone at the beginning of August 2015, SQM S.A. confirmed the existence of damages in several zones in the railway between the sites Coya Sur and Tocopilla. SQM has performed several internal and external studies with the purpose of determining the costs and terms necessary to repair the damages in the railway.

Consequently, SQM has adjusted the value of the assets associated with the railway (fixed equipment, facilities and rolling equipment), which has translated into a charge of approximately US\$32 million which are reflected in the line other expenses by function in the consolidated statement of income for 2016.

On September 22, 2015, the Company decided to close the mining operations at the Pedro de Valdivia site and a portion of such site's industrial operations. This decision has been made because the Company has continued to increase its production capacity of iodine and nitrate salts in its industrial mining operations at the Nueva Victoria site and has reduced its production costs to meet sales forecasts and increase its current worldwide market share in the iodine market. The Company recognized the impairment effect of US\$58 million in the consolidated statement of income for 2015.

Financial derivatives and hedging transactions

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

- a) Fair value hedge of assets and liabilities recognized (fair value hedges),
- b) Hedging of a single risk associated with an asset or liability recognized or a highly probable forecast transaction (cash flow hedge).

At the beginning of the transaction, the Company documents the relationship that exists between hedging instruments and those items hedged, as well as their objectives for risk management purposes and the strategy to conduct different hedging operations.

The Company also documents its evaluation both at the beginning and at the end of each period if the derivatives used in hedging transactions are highly effective to offset changes in the fair value or in cash flows of hedged items.

The fair value of derivative instruments used for hedging purposes is shown in Note 10.3 (hedging assets and liabilities) to our Consolidated Financial Statements. Changes in the cash flow hedge reserve are classified as a non-current asset or liability if the remaining expiration period of the hedged item is more than 12 months, and as a current asset or liability if the remaining expiration period of the entry is less than 12 months.

Derivatives that are not designated or do not qualify as hedging derivatives are classified as current assets or liabilities, and changes in the fair value are directly recognized through profit or loss.

a. Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps that hedge fixed rate borrowings is recognized in profit or loss within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognized in profit or loss within other income or other expenses. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity using a recalculated effective interest rate.

b. Cash flow hedge

The portion of the derivative instruments used to mitigate cash flow fluctuations related to sales revenue or expenses is recognized in gross margin as a cost or undistributed revenue. The accrued portion of these instruments is recognized in other income or expenditure.

5.A. Operating Results

Introduction

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

Our Consolidated Financial Statements are prepared in accordance with IFRS standards and prepared in U.S. dollars. The U.S. dollar is the primary currency in which we operate.

We operate as an independent corporation. Nonetheless we are a "controlled corporation," as that term is defined under Chilean law. See "Item 7.A. Major Shareholders."

Overview of Our Results of Operations

We divide our operations into the following business lines:

- the production and sale of specialty plant nutrients;
- the production and sale of iodine and its derivatives;
- the production and sale of lithium and its derivatives;
- the production and sale of potassium, including potassium chloride and potassium sulfate;
- the production and sale of 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 ("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:

- trends in demand for and supply of our products, including global economic conditions, which impact prices and sales 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.

Impact of Foreign Exchange Rates

We transact a significant portion of our business in U.S. dollars, which is the currency of the primary economic environment in which we operate and is our financial currency for financial reporting purposes. A significant portion of our costs is related to the Chilean peso as most of our operations occur in Chile, and therefore an increase or decrease in the exchange rate between the Chilean peso and the U.S. dollar affects our costs of production. Additionally, as an international company operating in Chile and several other countries, we transact a portion of our business and have assets and liabilities in Chilean pesos and other non-U.S. dollar currencies, such as the Euro, the South African Rand and the Mexican peso. As a result, fluctuations in the exchange rate of such currencies to the U.S. dollar may affect our financial condition and results of operations. See Note 22 to our Consolidated Financial Statements.

We monitor and attempt to balance our non-dollar assets and liabilities position, including through foreign exchange contracts and other hedging instruments, to minimize our exposure to foreign exchange rate risk. As of December 31, 2017, for hedging purposes we had open contracts to buy U.S. dollars and sell euros for approximately US\$33.31 million (EUR27.5 million) and sell South African rand for approximately US\$19.96 million (ZAR276.5 million), as well as forward exchange contracts to sell U.S. dollars and buy Chilean pesos for US\$84.0 million (Ch\$51,639 million). All of our UF and Chilean pesos bonds were hedged with cross-currency swaps to the U.S. dollar for approximately US\$250 million as of December 31, 2017.

In addition, we had open forward exchange contracts to buy U.S. dollars and sell Chilean pesos to hedge our time deposits in Chilean pesos for approximately US\$550 million (Ch\$351,416 million).

The following table shows our revenues (in millions of US\$) and the percentage accounted for by each of our product lines for each of the periods indicated:

	2017		2016		2015	
	US\$	%	US\$	%	US\$	%
Specialty plant nutrition	697.3	32 %	623.9	32 %	652.3	38 %
Iodine and derivatives	252.1	12 %	231.1	12 %	262.6	15 %
Lithium and derivatives	644.6	30 %	514.6	27 %	223.0	13 %
Potassium	135.6	6 %	403.3	21 %	430.6	25 %
Industrial chemicals	379.3	18 %	104.1	5 %	97.6	6 %
Other products and services	48.5	2 %	62.2	3 %	62.3	4 %
Total	2,157.3	100	1,939.3	100	1,728.3	100

The following table shows certain financial information of the Company under IFRS (in millions of US\$) for each of the periods indicated, as a percentage of revenues:

	Year Ended December 31,					
(in millions of US\$)	2017		2016		2015	
	US\$	%	US\$	%	US\$	%
Revenues	2,157.3	100.0	1,939.3	100.0	1,728.3	100.0
Cost of sales	(1,394.8)	64.7	(1,328.3)	68.5	(1,185.6)	68.6
Gross profit	762.5	35.3	611.0	31.5	542.7	31.4
Other income	17.8	0.8	15.2	0.8	15.3	0.9
Administrative expenses	(101.2)	4.7	(88.4)	4.6	(86.8)	5.0
Other expenses ⁽¹⁾⁽²⁾⁽³⁾	(61.6)	2.9	(89.7)	4.6	(106.4)	6.2
Other gains (losses)	0.5	0.0	0.6	0.0	3.8	0.2
Finance income	13.5	0.6	10.1	0.5	11.6	0.7
Finance expenses	(50.1)	2.3	(57.5)	3.0	(69.9)	4.0
Equity income of associates and joint ventures accounted for using the equity method	14.5	0.7	13.0	0.7	10.3	0.6
Foreign currency exchange differences	(1.3)	0.1	0.4	0.0	(12.4)	0.7
Income before income tax expense ⁽¹⁾⁽²⁾⁽³⁾	594.6	27.6	414.9	21.4	308.3	17.8
Income tax expense	(166.2)	7.7	(133.0)	6.9	(83.8)	4.8
Profit attributable to:						
Controlling interests ⁽¹⁾⁽²⁾⁽³⁾	427.7	19.8	278.3	14.3	220.4	12.7
Non-controlling interests	0.7	0.0	3.6	0.2	4.2	0.2
Profit for the year ⁽¹⁾⁽²⁾⁽³⁾	428.4	19.9	281.9	14.5	224.5	13.0

(1)

Other expenses for 2015 includes a charge of US\$57.7 million for impairment and severance indemnities related to the restructuring of our Pedro de Valdivia operations.

(2) Other expenses for 2016 includes a charge of US\$32.8 million for impairment related to the closure of our train between Coya Sur and Tocopilla. Other expenses for 2016 also includes charges of approximately US\$30.5 million related to the Company's agreement with the DOJ and the administrative cease and desist order issued by the SEC in connection the inquiries arising out of the alleged violations of the books and records and internal controls provisions of the Foreign Corrupt Practices Act. For more information, see “Item 3D. Risk Factors—Risks Relating to our Business—We could be subject to numerous risks in Chile as a result of investigations by the Chilean Public Prosecutor in relation to certain payments made by SQM between the tax years 2009 and 2015” and “Item 8.A.7 Legal Proceedings.”

(3) Other expenses for 2017 include a charge of US\$20.4 million relating to payment by our subsidiary SQM Salar to Corfo after entering into the Corfo Arbitration Agreement to terminate the arbitration proceedings and amend the existing Lease Agreement and Project Agreement. For more information, see “Item 8.A.7 Legal Proceedings.”

Results of Operations – 2017 compared to 2016**Revenues**

Revenues increased by 11.2% to US\$2,157.3 million in 2017 from US\$1,939.3 million in 2016. The main factors that caused the increase in revenues and variations in different product lines are described below.

Specialty Plant Nutrition

Specialty plant nutrition revenues increased 11.8% to US\$697.3 million in 2017 from US\$623.9 million in 2016. Set forth below are sales volume data for the specified years by product category in this product line:

(in Th. MT)	2017	2016	% Change	
Potassium nitrate and sodium potassium nitrate	601.4	475.8	26	%
Specialty blends	209.0	213.5	-2	%
Other specialty plant nutrients (*)	129.1	127.2	2	%
Sodium nitrate	26.7	24.4	10	%

* Includes trading of other specialty fertilizers.

We sell various products within the specialty plant nutrition business line, and most of our specialty fertilizers are sold as either field fertilizers or water soluble fertilizers. Our sales volumes in this business line increased 14.9% in 2017 compared to 2016 primarily due to demand growth and limited supply from our competitors.

Average prices in the specialty plant nutrition business line were US\$722/MT in 2017, slightly lower than US\$742/MT in 2016.

Iodine and Derivatives

Iodine and derivatives revenues increased 9.1% to US\$252.1 million in 2017 from US\$231.1 million in 2016. Set forth below are sales volume data for the specified years:

(in Th. MT)	2017	2016	% Change	
Iodine and derivatives	12.7	10.2	24	%

Our sales volumes in this business line increased by approximately 24% compared to 2016, primarily as a result of higher demand due to new applications of iodine in the specialty plastics and carbon energy plants emission control industries.

However, average prices during 2017 continued to face downward pressure. Our average price for the year was US\$20/kilogram, a decrease of over 12% compared to 2016.

Lithium and Derivatives

Lithium and derivatives revenues increased 25.3% to US\$644.6 million in 2017 from US\$514.6 million in 2016. Set forth below are sales volume data for the specified years:

(in Th. MT)	2017	2016	% Change	
Lithium and derivatives	49.7	49.7	0	%

The lithium market continued its strong growth in 2017, with total lithium demand increasing by nearly 17% according to our estimates. Supply did not keep the same pace, and therefore market conditions remained tight.

Average prices in this business line increased 25% compared to average prices during 2016, reaching almost US\$13,000/MT compared to average prices of approximately US\$10,400/MT in 2016.

Potassium

Potassium revenues decreased 5.9% to US\$379.3 million in 2017 from US\$403.3 million in 2016. Set forth below are sales volume data for the specified years:

(in Th. MT)	2017	2016	% Change
Potassium chloride and potassium sulfate	1,344.3	1,534.7	-12 %

Our revenues in the potassium chloride and potassium sulfate business line were impacted by reduced sales volumes in 2017. As anticipated, sales volumes decreased over 12% during 2017 as we focused our production efforts in the Salar de Atacama on increasing lithium yields. The potassium chloride demand increased an additional 4 million metric tons in 2017, reaching almost 63 million metric tons. As result, potash prices increased slightly during the year. Average prices in the potassium chloride and potassium sulfate business line increased approximately 7.4% during 2017 when compared to 2016, reaching US\$282/MT.

Industrial Chemicals

Industrial chemicals revenues increased 30.2% to US\$135.6 million in 2017 from US\$104.1 million in 2016. Set forth below are sales volume data for the specified years by product category:

(in Th. MT)	2017	2016	% Change
Industrial chemicals	167.6	128.9	30 %

Revenues in the industrial chemicals business line increased as a result of higher sales volumes. These higher sales volumes were primarily related to increased sales volumes of solar salts, which totaled almost 88,000 metric tons this

year, in line with our estimated volumes for the year.

Other Products and Services

Revenues from sales of other commodity fertilizers and other income decreased 22% to US\$48.5 million in 2017 from US\$62.2 million in 2016, primarily due to reduced sales volumes.

Cost of Sales

Our overall cost of sales increased 5.0% to US\$1,394.8 million in 2017, which represented 64.7% of revenues, from US\$1,328.3 million in 2016, which represented 68.5% of revenues. The main factors that caused the increase in cost of sales and variations in different product lines are described below.

Specialty Plant Nutrition

Specialty plant nutrition cost of sales increased 16.2% to US\$555.4 million in 2017 from US\$478.1 million in 2016, as a result of increased sales volumes in 2017. The average cost of sales in the specialty plant nutrition business line was US\$575/MT in 2017, slightly higher than US\$569/MT in 2016.

Iodine and Derivatives

Iodine and derivatives cost of sales increased 4.4% to US\$199.8 million in 2017 from US\$191.3 million in 2016, as a result of increased sales volumes in 2017. The average cost of sales in the iodine and derivatives business line was US\$16/kilogram in 2017, a decrease of almost