

CHEMICAL & MINING CO OF CHILE INC

Form 6-K

May 24, 2006

[Click here for Contents](#)

**UNITED STATES OF AMERICA
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 6-K

**REPORT OF FOREIGN ISSUER
PURSUANT TO RULE 13A-16 OR 15D-16
OF THE SECURITIES AND EXCHANGE ACT OF 1934**

Includes the free translation of a material event sent by Sociedad Química y Minera de Chile S.A. to the Superintendencia de Valores y Seguros de Chile on April 25, 2006.

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

(Exact name of registrant as specified in its charter)

CHEMICAL AND MINING COMPANY OF CHILE INC.

(Translation of registrant's name into English)

El Trovador 4285, Santiago, Chile (562) 425-2000

(Address and phone number of principal executive offices)

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

Form 20-F Form 40-F

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

Yes No

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

Edgar Filing: CHEMICAL & MINING CO OF CHILE INC - Form 6-K

On April 25, 2006, the Registrant filed with the Superintendencia de Valores y Seguros of Chile (the "SVS") a report that included information as to the Registrant's consolidated financial condition and results of operations for the three-month period ended on March 31, 2006. Attached is a summary of such consolidated financial information included in the summary and in the report filed with the Superintendencia de Valores y Seguros of Chile. This financial information was prepared on the basis of accounting principles generally accepted in Chile and does not include a reconciliation of such information to accounting principles generally accepted in the United States of America.

THIS REPORT IS AN ENGLISH TRANSLATION OF, AND A CHILEAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES PRESENTATION OF, A THREE MONTH PERIOD ENDED MARCH 31, 2006 REPORT FILED WITH THE SUPERINTENDENCIA DE VALORES Y SEGUROS (SVS) IN CHILE, AND UNLESS OTHERWISE INDICATED, FIGURES ARE IN US DOLLARS.

Consolidated Financial Statements

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Santiago, Chile

March 31, 2006 and 2005

[Back to Contents](#)

Consolidated Financial Statements

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

As of March 31, 2006 and 2005
and for the years ended March 31, 2006 and 2005
(A translation of the original in Spanish see note 2 (a))

Contents

Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Income	5
Consolidated Statements of Cash Flows	6
Notes to the Consolidated Financial Statements	7
Ch\$	- Chilean pesos
ThCh \$	- Thousands of Chilean pesos
US\$	- United States dollars
ThUS\$	- Thousands of United States dollars
UF	- The UF is an inflation-indexed, Chilean peso-denominated monetary unit. The UF rate is set daily in advance, based on the change in the Consumer Price Index of the previous month.

[Back to Contents](#)**SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.****Consolidated Balance Sheets****(A translation of the original in Spanish see note 2 (a))**

		As of March 31,	
		2006	2005
Note		ThUS\$	ThUS\$
ASSETS			
Current assets			
		19,457	21,259
		45,966	9,529
	4	63,360	128,020
	5	172,345	150,110
	5	12,442	9,724
	6	47,619	41,868
	7	376,208	283,080
		27,551	19,473
		7,313	6,175
		6,519	
		8,686	9,692
		<u>787,466</u>	<u>678,930</u>
	8	867,160	699,999
Other Assets			
	9	21,045	16,300
	10	46,387	17,048
	10	(17)	(220)
		5,152	4,428
	5	288	282
	6	2,000	
	11	50,043	49,819
		<u>124,898</u>	<u>87,657</u>
		<u>1,779,524</u>	<u>1,466,586</u>

The accompanying notes form an integral part of these consolidated financial statements.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Consolidated Balance Sheets
(A translation of the original in Spanish – see note 2 (a))

		As of March 31,	
		2006	2005
		ThUS\$	ThUS\$
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term bank debt	12	67,710	1,475
Current portion of long-term debt	12	201,088	981
Current portion of bonds payable	13	1,348	
Dividends payable		227	173
Accounts payable		83,032	58,833
Other accounts payable		1,085	2,195
Notes and accounts payable to related companies	6	2,852	3,766
Accrued liabilities	14	20,195	15,299
Withholdings		14,078	6,675
Income taxes		29,348	18,542
Deferred income taxes	15		4,353
Deferred income		6,580	987
Other current liabilities		392	615
		<u>427,935</u>	<u>113,894</u>
Long-term liabilities			
Long-term bank debt	12	100,000	300,000
Other accounts payable		986	1,008
Deferred income taxes	14	43,550	35,922
Staff severance indemnities	15	16,761	11,780
		<u>263,416</u>	<u>348,710</u>
Minority interest	16	34,950	33,294
		<u>34,950</u>	<u>33,294</u>
Shareholders' equity			
Paid-in capital	17	477,386	477,386
Other reserves	17	155,807	148,196
Retained earnings	17	420,030	345,106
		<u>1,053,223</u>	<u>970,688</u>
Total liabilities and shareholders' equity		<u>1,779,524</u>	<u>1,466,586</u>

The accompanying notes form an integral part of these consolidated financial statements.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Consolidated Statements of Income
(A translation of the original in Spanish – see note 2 (a))

	Note	For the years ended March 31,	
		2006	2005
		ThUS\$	ThUS\$
Operating results			
Sales		219,136	209,319
Cost of sales		(154,951)	(156,779)
		<u>64,185</u>	<u>52,540</u>
Gross margin			
Selling and administrative expenses		(15,633)	(14,594)
		<u>48,552</u>	<u>37,946</u>
Non-operating results			
Non-operating income	19	4,519	3,961
Non-operating expenses	19	(10,057)	(9,312)
		<u>(5,538)</u>	<u>(5,351)</u>
Non-operating loss			
Income before income taxes		43,014	32,595
Income tax expense	14	(8,391)	(7,185)
		<u>34,623</u>	<u>25,410</u>
Income before minority interest			
Minority interest	16	(387)	(719)
		<u>34,236</u>	<u>24,691</u>
Net income before negative goodwill			
Amortization of negative goodwill	10	51	60
		<u>34,287</u>	<u>24,751</u>
Net income for the year			

The accompanying notes form an integral part of these consolidated financial statements.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Consolidated Statements of Cash Flows
(A translation of the original in Spanish – see note 2 (a))

	For the years ended March 31	
	2006	2005
	ThUS\$	ThUS\$
Cash flows from operating activities		
Net income for the year	34,287	24,751
Charges (credits) to income not representing cash flows		
Depreciation expense	21,025	16,490
Amortization of intangible assets	403	122
Write-offs and accruals	3,086	9,193
Gain on equity investments in related companies	(722)	(261)
Loss on equity investments in related companies	105	128
Amortization of goodwill	705	349
Amortization of negative goodwill	(51)	(60)
(Profit) loss on sales of assets		(6)
Other credits to income not representing cash flows	(6,650)	(2,410)
Other charges to income not representing cash flows	21,334	19,835
Foreign exchange difference, net	(848)	(776)
Net changes in operating assets and liabilities:		
(Increase) decrease in trade accounts receivable	21,028	(6,309)
Increase in inventories	(40,549)	(13,356)
Decrease in other assets	(11,708)	(9,641)
(Decrease) increase in accounts payable	637	(1,732)
Increase (decrease) in interest payable	(2,019)	(3,585)
Decrease in net income taxes payable		(1,321)
(Decrease) increase in other accounts payable	(144)	(5,429)
Decrease in VAT and taxes payable	(485)	(2,011)
Minority interest	387	(704)
	<hr/>	<hr/>
Net cash provided from operating activities	39,821	23,267
	<hr/>	<hr/>
Cash flows from financing activities		
Proceeds from short term bank financing	10,000	100,000
Bonds payable	100,991	
Payment of dividends	(62)	(128)
Repayment of bank financing	(30,000)	(6,000)
	<hr/>	<hr/>
Net cash used in financing activities	80,929	93,872
	<hr/>	<hr/>
Cash flows from investing activities		
Sales of property, plant and equipment		92
Sales of permanent investments		13
Sales of investments		
Other investing income	22	24,255
	<hr/>	<hr/>

Edgar Filing: CHEMICAL & MINING CO OF CHILE INC - Form 6-K

Additions to property, plant and equipment	(50,389)	(24,713)
Capitalized interest		(768)
Purchase of permanent investments	(114,035)	(411)
Other disbursements		(666)
	<u> </u>	<u> </u>
Net cash used in investing activities	(140,169)	(25,685)
	<u> </u>	<u> </u>
Effect of inflation on cash and cash equivalents	464	209
	<u> </u>	<u> </u>
Net change in cash and cash equivalents	(18,955)	91,663
Beginning balance of cash and cash equivalents	147,956	66,753
	<u> </u>	<u> </u>
Ending balance of cash and cash equivalents	129,001	158,416
	<u> </u>	<u> </u>

The accompanying notes form an integral part of these consolidated financial statements.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 1 Company Background

Sociedad Química y Minera de Chile S.A. (the Company) was registered with the Chilean Superintendency of Securities and Insurance (SVS) on March 18, 1983.

Note 2 Summary of Significant Accounting Policies

a) Basis for the preparation of the consolidated financial statements

The accompanying consolidated financial statements have been prepared in U.S. dollars in accordance with accounting principles generally accepted in Chile (Chilean GAAP) and the regulations of the SVS. Certain accounting practices applied by the Company that conform with Chilean GAAP may not conform with generally accepted accounting principles in the United States (US GAAP). For the convenience of the reader, the consolidated financial statements and their accompanying notes have been translated from Spanish into English.

The consolidated financial statements include the accounts of Sociedad Química y Minera de Chile S.A. (the Parent Company) and subsidiaries (companies in which the Parent Company holds a controlling participation, generally equal to direct or indirect ownership of more than 50%). The Parent Company and its subsidiaries are referred to as the Company .

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

In accordance with SVS Circular No. 1,697 and Technical Bulletins Nos. 64 and 72 of the Chilean Association of Accountants, the consolidated financial statements include the following subsidiaries:

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish – see note 2 (a))

Note 2 Summary of Significant Accounting Policies (continued)**a) Basis for the preparation of the consolidated financial statements (continued)**

	Direct or indirect ownership	
	2006	2005
Foreign subsidiaries:	%	%
Nitrate Corp. of Chile Limited (United Kingdom)	100.00	100.00
Soquimich SRL Argentina	100.00	100.00
Nitratos Naturais do Chile Ltda. (Brazil)	100.00	100.00
SQM Europe NV (Belgium)	100.00	100.00
SQM North America Corp. (USA)	100.00	100.00
North American Trading Company (USA)	100.00	100.00
SQM Peru S.A.	100.00	100.00
SQM Corporation NV (Dutch Antilles)	100.00	100.00
S.Q.I. Corporation NV (Dutch Antilles)	100.00	100.00
Soquimich European Holding BV (Holland)	100.00	100.00
PTM - SQM Ibérica S.A. (Spain)	100.00	100.00
SQMC Holding Corporation LLP (USA)	100.00	100.00
SQM Ecuador S.A.	100.00	100.00
Cape Fear Bulk LLC (USA)	51.00	51.00
SQM Investment Corporation NV (Dutch Antilles)	100.00	100.00
SQM Brasil Ltda.	100.00	100.00
Royal Seed Trading Corporation AVV (Aruba)	100.00	100.00
SQM Japan Co. Ltda.	100.00	100.00
SQM Oceania PTY Limited (Australia)	100.00	100.00
SQM France S.A.	100.00	100.00
RS Agro-Chemical Trading AVV (Aruba)	100.00	100.00
SQM Comercial de México S.A. de C.V.	100.00	100.00
SQM Indonesia	80.00	80.00
SQM Virginia LLC (USA)	100.00	100.00
Agricolima S.A. de C.V. (Mexico)	100.00	100.00
SQM Venezuela S.A.	100.00	100.00
SQM Italia SRL (Italy)	95.00	95.00
Comercial Caiman Internacional S.A. (Cayman Islands)	100.00	100.00
Mineag SQM Africa Limited (South Africa)	100.00	100.00
Fertilizantes Olmeca y SQM S.A. de C.V. (Mexico)	100.00	100.00
Administración y Servicios Santiago S.A. de C.V. (Mexico)	100.00	100.00
SQM Lithium Specialties LLC (USA)	100.00	100.00
SQM Nitratos México S.A. de C.V.	51.00	51.00
Fertilizantes Naturales S.A.	66.68	50.00

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 2 Summary of Significant Accounting Policies (continued)**a) Basis for the preparation of the consolidated financial statements (continued)**

	Direct or indirect ownership	
	2006	2005
	%	%
Domestic subsidiaries:		
Servicios Integrales de Tránsitos y Transferencias S.A.	100.00	100.00
Soquimich Comercial S.A.	60.64	60.64
Isapre Norte Grande Ltda.	100.00	100.00
Almacenes y Depósitos Ltda.	100.00	100.00
Ajay SQM Chile S.A.	51.00	51.00
SQM Nitratos S.A.	99.99	99.99
Proinsa Ltda.	60.58	60.58
SQM Potasio S.A.	100.00	100.00
SQMC International Limitada	60.64	60.64
SQM Salar S.A.	100.00	100.00
SQM Industrial S.A.	100.00	100.00
Comercial Hydro S.A.	60.64	60.64
Minera Nueva Victoria S.A.	100.00	
Exploraciones Mineras S.A.	100.00	

All significant inter-company balances, transactions and unrealized gains and losses arising from transactions between these companies have been eliminated in consolidation.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 2 Summary of Significant Accounting Policies (continued)

b) Period

These consolidated financial statements have been prepared as of March 31, 2006 and 2005 and for the years then ended.

c) Reporting currency and monetary correction

The financial statements of the Company are prepared in U.S. dollars. As a significant portion of the Company's operations are transacted in U.S. dollars, the U.S. dollar is considered the currency of the primary economic environment in which the Company operates.

The Parent Company and those subsidiaries which maintain their accounting records in U.S. dollars are not required, or permitted, to restate the historical dollar amounts for the effects of inflation.

The financial statements of domestic subsidiaries, which maintain their accounting records in Chilean pesos have been restated to reflect the effects of variations in the purchasing power of Chilean pesos during the year. For this purpose, and in accordance with Chilean regulations, non-monetary assets and liabilities, equity and income statement accounts have been restated in terms of year-end constant pesos based on the change in the consumer price index during the year (-0.3% and -0.8% in 2006 and 2005, respectively). The resulting net charge or credit to income arises as a result of the gain or loss in purchasing power from the holding of non-U.S. dollar denominated monetary assets and liabilities exposed to the effects of inflation.

Prior period financial statements presented for comparative purposes have not been restated to reflect the change in the purchasing power of the Chilean pesos during the most recent year-end. In accordance with Chilean GAAP, amounts expressed in U.S. dollars, including amounts included in the consolidated financial statements as determined in prior years from the translation of financial statements of those Chilean subsidiaries which maintain their accounting records in Chilean pesos, are not adjusted for price-level changes.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 2 Summary of Significant Accounting Policies (continued)

d) Foreign currency

i) Foreign currency transactions

Monetary assets and liabilities denominated in Chilean pesos and other currencies have been translated to U.S. dollars at the observed exchange rates determined by the Central Bank of Chile in effect at each year-end of Ch\$526.18 per US\$1 at March 31, 2006 and Ch\$585.93 per US\$1 at March 31, 2005.

ii) Translation of non-U.S. dollar financial statements

In accordance with Chilean GAAP, the financial statements of foreign and domestic subsidiaries that do not maintain their accounting records in U.S. dollars are translated from the respective local currencies to U.S. dollars in accordance with Technical Bulletin No. 64 and 72 of the Chilean Association of Accountants (BT 64-BT 72) as follows:

a) For those subsidiaries and affiliates located in Chile which keep their accounting records in price-level adjusted Chilean pesos:

Balance sheet accounts are translated to U.S. dollars at the year-end exchange rate without eliminating the effects of price-level restatement.

Income statement accounts are translated to U.S. dollars at the average exchange rate each month. The monetary correction account on the income statement, which is generated by the inclusion of price-level restatement on the non-monetary assets and liabilities and shareholders' equity, is translated to U.S. dollars at the average exchange rate for each month.

Translation gains and losses, as well as the price-level restatement to the balance sheet mentioned above, are included as an adjustment in shareholders' equity, in conformity with Circular No. 1,697 of the SVS.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 2 Summary of Significant Accounting Policies (continued)

d) Foreign currency (continued)

- b) The financial statements of those foreign subsidiaries that keep their accounting records in currencies other than the U.S. dollar have been translated at historical exchange rates as follows:

Monetary assets and liabilities are translated at year-end exchange rates between the US dollar and the local currency.

All non-monetary assets and liabilities and shareholders' equity are translated at historical exchange rates between the US dollar and the local currency.

Income and expense accounts are translated at average exchange rates between the US dollar and the local currency.

Any exchange differences are included in the results of operations for the period.

Foreign exchange differences for the period ended March 31, 2006 and 2005 generated net earnings (loss) of ThUS\$ 848 and ThUS\$ 776, respectively, which have been charged to the consolidated statements of income in each respective period.

The monetary assets and liabilities of foreign subsidiaries were translated into US dollars at the exchange rates per US dollar prevailing at March 31, as follows:

	<u>2006</u>	<u>2005</u>
Brazilian Real	2.19	2.67
New Peruvian Sol	3.35	3.34
Argentine Peso	3.08	3.03
Japanese Yen	110.00	118.07
Euro	0.83	0.77
Mexican Peso	10.92	10.71
Indonesian Rupee	9,290.00	9,290.00
Australian Dollar	1.39	1.36
Pound Sterling	0.57	0.52
South African Rand	6.28	5.79

The Company uses the observed exchange rate, which is the rate determined daily by the Chilean Central Bank based on the average exchange rates at which bankers conduct authorized transactions.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 2 Summary of Significant Accounting Policies (continued)

e) Cash and cash equivalents

The Company considers all highly liquid investments with a remaining maturity of less than 90 days as of the closing date of the financial statements to be cash equivalents.

f) Time Deposits

Time deposits are recorded at cost plus accrued interest.

g) Marketable securities

Marketable securities are recorded at the lower of cost plus accrued interest or market value.

h) Allowance for doubtful accounts

The Company records an allowance for doubtful accounts based on estimated probable losses.

i) Inventories and materials

Inventories of finished products and work in process are valued at average production cost. Raw materials and products acquired from third parties are stated at average cost and materials-in-transit are valued at cost. All such values do not exceed net realizable values.

Inventories of non-critical spare parts and supplies are classified as other current assets, except for those items which the Company estimates to have a turnover period of one year or more, which are classified as other long-term assets.

j) Income taxes and deferred income taxes

Prior to 2000, income taxes were charged to results in the same period in which the income and expenses were recorded and were calculated in accordance with the enacted tax laws in Chile and the other jurisdictions in which the Company operated.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 2 Summary of Significant Accounting Policies (continued)

j) Income and deferred taxes (continued)

Under Chilean law, the Parent Company and its subsidiaries are required to file separate tax declarations.

Beginning January 1, 2000, the Company records deferred income taxes in accordance with Technical Bulletin Nos. 60, 69, 71 and 73 of the Chilean Association of Accountants, and with Circular No. 1466 issued on January 27, 2000 by the SVS, recognizing the deferred tax effects of temporary differences between the financial and tax values of assets and liabilities, using the liability method. The effect of the temporary differences at March 31, 1999 were recorded in complementary asset and liability accounts, which are recognized in the statement of operations over the estimated period in which they reverse.

k) Property, plant and equipment

Property, plant, equipment and property rights are recorded at acquisition cost, considering in general an average residual value of 5%, except for certain assets that were restated in accordance with a technical appraisal in 1989. Depreciation expense has been calculated using the straight-line method based on the estimated useful lives of the assets and is charged directly to expenses.

Property, plant and equipment acquired through financial lease agreements are accounted for at the present value of the minimum lease payments plus the purchase option based on the interest rate included in each contract. The Company does not legally own these assets and therefore cannot freely dispose of them.

In conformity with Technical Bulletin No. 31 and 33 of the Chilean Association of Accountants, the Company capitalizes interest cost associated with the financing of new assets during the construction period of such assets.

Maintenance costs of plant and equipment are charged to expenses as incurred.

The Company obtains property rights and mining concessions from the Chilean state. Other than minor filing fees, the property rights are usually obtained without initial cost, and once obtained, are retained by the Company as long as the annual fees are paid. Such fees, which are paid annually in March, are recorded as prepaid assets to be amortized over the following twelve months. Values attributable to these original mining concessions are recorded in property, plant and.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 2 Summary of Significant Accounting Policies (continued)

l) Investments in related companies

Investments in related companies over which the Company has significant influence, are included in other assets and are recorded using the equity method of accounting, in accordance with SVS Circulars Nos. 368 and 1,697 and Technical Bulletins Nos. 64 and 72 issued by the Chilean Association of Accountants. Accordingly, the Company's proportional share in the net income or loss of each investee is recognized in the non-operating income and expense classification in the consolidated statements of income on an accrual basis, after eliminating any unrealized profits from transactions with the related companies.

The translation adjustment to U.S. dollars of investments in domestic subsidiaries that maintain their accounting records and are controlled in Chilean pesos is recognized in other reserves within shareholders' equity. Direct and indirect investments in foreign subsidiaries or affiliates are controlled in U.S. dollars.

Investments in which the Company has less than 20% participation and the capacity to exert significant influence or control over the investment, because SQM forms part of its Board of Directors, have been valued using the equity method.

m) Goodwill and negative goodwill

Goodwill is calculated as the excess of the purchase price of companies acquired over their net book value, whereas negative goodwill occurs when the net book value exceeds the purchase price of companies acquired. Goodwill and negative goodwill resulting from equity method investments are maintained in the same currency in which the investment was made and are amortized based on the estimated period of investment return, generally 20 years.

n) Intangible assets

Intangible assets are stated at cost plus acquisition expenses and are amortized over a period of up to a maximum of 40 years, in accordance with Technical Bulletin No. 55 of the Chilean Association of Accountants.

o) Mining development cost

Expenses associated with mineral reserves under exploitation are included within Inventories and are amortized according to estimated reserves of minerals and expenses associated with future reserves are presented within Other long-term assets.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 2 Summary of Significant Accounting Policies (continued)

p) Accrued employee severance

The Company calculates the liability for staff severance indemnities based on the present value of the accrued benefits for the actual years of service worked assuming an average employee tenure of 24 years and a real annual discount rate of 8%.

q) Vacations

The cost of employee vacations is recognized in the financial statements on an accrual basis.

r) Sellback operations

These operations are registered in Other Current Assets at the amount of the purchase. Starting at the purchase date, the respective interest is recorded in accordance with SVS Circular 768.

s) Dividends

Dividends are generally declared in U.S. dollars but are paid in Chilean pesos.

t) Derivative Contracts

The Company maintains derivative contracts to hedge against movements in foreign currencies, which are recorded in conformity with Technical Bulletin No. 57 of the Chilean Association of Accountants. Such contracts are recorded at fair value with net losses recognized on the accrual basis and gains recognized when realized.

u) Reclassifications

For comparison purposes, certain reclassifications have been made to the 2005 financial statements.

v) Revenue recognition

Revenue is recognized on the date goods are physically delivered or when they are considered delivered according to the terms of the contract.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

w) Computer software

Computational systems developed internally using the Company's personnel and materials are charged to income during the year in which the expenses are incurred. In accordance with Circular No. 981 dated December 28, 1990 of the SVS, computer systems acquired by the Company are recorded at cost.

x) Research and development expenses

Research and development cost are charged to the income statement in the period in which they are incurred. Property, plant and equipment that are acquired for use in research and development activities and determined to provide additional benefits to the Company are recorded in property, plant and equipment.

Note 3 Changes in Accounting Principles**a) Changes in Accounting Principles**

Up to December 31, 2005, the financial statements of the subsidiary Fertilizantes Naturales S.A. were considered in consolidation given that the Company maintained the control of this subsidiary (due to its right to manage this subsidiary's financial and operating policies). Beginning on January 1, 2006, the Company no longer controls this subsidiary and therefore the aforementioned subsidiary has been excluded from consolidation in accordance with letters a) to d) of No.6 in Attachment 1 to Technical Bulletin No. 72 issued by the Chilean Association of Accountants.

There were no other changes in the accounting principles used by the Company during 2006 and 2005.

b) Reformulation of 2005 Financial Statements

For comparison purposes, the financial statements as of March 31, 2005 have been reformulated excluding and incorporate the following assets and liabilities of Fertilizantes Naturales S.A. respectively. Consequently, assets and liabilities excluded and included are detailed as follows:

	Fertilizantes Naturales S.A.
	ThUS\$
Current Asset	8,813
Property, Plant and Equipment	73
Other Assets	76
Current Liability	8,444
Results	29

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 4 Marketable Securities

As of March 31 marketable securities are detailed as follows:

	<u>2006</u>	<u>2005</u>
	<u>ThUS\$</u>	<u>ThUS\$</u>
Mutual funds	63,360	128,020
Total	<u>63,360</u>	<u>128,020</u>

Mutual funds consist of investments with Citibank in highly liquid funds invested in fixed-rate debt in the United States.

Note 5 Short-term and long-term Accounts Receivable

a) Short term and long-term accounts receivable and other accounts receivable as of March 31 are detailed as follows:

	<u>Up to 90 days</u>		<u>Between 90 days and 1 year</u>		<u>Total Short-term (net)</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	<u>ThUS\$</u>	<u>ThUS\$</u>	<u>ThUS\$</u>	<u>ThUS\$</u>	<u>ThUS\$</u>	<u>ThUS\$</u>
Short-term						
Trade accounts receivable	128,460	104,384	16,896	21,750	145,356	126,134
Allowance for doubtful accounts					(7,970)	(8,747)
Notes receivable	32,915	33,943	5,988	2,379	38,903	36,322
Allowance for doubtful accounts					(3,944)	(3,599)
Accounts receivable, net					<u>172,345</u>	<u>150,110</u>
Other accounts receivable	11,484	7,222	1,655	3,118	13,139	10,340
Allowance for doubtful accounts					(697)	(616)
Other accounts receivable, net					<u>9,688</u>	<u>9,724</u>
Long-term receivables					<u>288</u>	<u>282</u>

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 5 Short-term and Long-term Accounts Receivable (continued)**Consolidated Short-term and Long-term Receivables by Geographic Location**

	Chile		Europe, Africa and the Middle East		Asia and Oceania		USA, Mexico and Canada		Latin America and the Caribbean		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Net short-term trade accounts receivable												
Balance	25,351	20,303	42,070	32,465	8,997	6,596	33,999	36,827	26,969	21,196	137,386	117,387
% of total	18.45%	17.30%	30.62%	27.65%	6.55%	5.62%	24.75%	31.37%	19.63%	18.06%	100.00%	100.00%
Net short-term notes receivable												
Balance	26,109	25,181	3,418	3,483	654	502	344	183	4,434	3,374	34,959	32,723
% of total	74.68%	76.95%	9.78%	10.64%	1.87%	1.53%	0.99%	0.57%	12.68%	10.31%	100.00%	100.00%
Net short-term other accounts receivable												
Balance	4,150	4,046	2,946	990	98	81	4,107	4,494	1,141	113	12,442	9,724
% of total	28.00%	41.61%	19.88%	10.18%	0.66%	0.83%	43.76%	46.22%	7.70%	1.16%	100.00%	100.00%
Subtotal short-term accounts receivable, net												
Balance	55,610	49,530	48,434	36,938	9,749	7,179	40,829	41,504	32,544	24,683	187,166	159,834
% of total	29.71%	30.99%	25.88%	23.11%	5.21%	4.49%	21.81%	25.97%	17.39%	15.44%	100.00%	100.00%
Long-term accounts receivable, net												
Balance	273	190		77	—	—	—	—	15	15	288	282
% of total	94.79%	67.38%	—	27.30%	—	—	—	—	5.21%	5.32%	100.00%	100.00%
Total short and long-term accounts receivable, net												
Balance	55,883	49,720	48,434	37,015	9,749	7,179	40,829	41,504	32,559	24,698	187,454	160,116
% of total	29.81%	31.05%	25.84%	23.12%	5.20%	4.48%	21.78%	25.92%	17.37%	15.43%	100.00%	100.00%

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 6 Balances and Transactions with Related Parties

Accounts receivable from and payable to related companies are stated in US dollars and accrue no interest.

Transactions are made under terms and conditions which are similar to those offered to unrelated third parties.

a) Amounts included in balances with related parties as of March 31, 2006 and 2005 are as follows:

Accounts receivable	Short-term		Long-term	
	2006	2005	2006	2005
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Ajay Europe S.A.R.L.	2,856	2,302	—	—
Nutrisi Holding N.V.	1,468	1,573	—	—
Generale de Nutrition Vegetale S.A.	132	132	—	—
Abu Dhabi Fertilizer Ind. WLL	2,730	6,449	2,000	—
NU3 N.V.	—	403	—	—
Doktor Tarsa SQM Turkey	10,810	7,342	—	—
Yara North America	7,387	179	—	—
Yara Iberian S.A.	1,706	1,652	—	—
Sales de Magnesio S.A.	52	44	—	—
Soc. Inv. Pampa Calichera S.A.	8	—	—	—
Ajay North America LLC	2,747	1,159	—	—
Yara International Asia Trade Pte Ltd	1,762	2,282	—	—
Yara France S.A.	75	2,323	—	—
Yara Poland SP	168	406	—	—
Yara Benelux B.V	1,460	1,522	—	—
Yara Hellas S.A.	647	233	—	—
Yara UK Ltd.	480	452	—	—
Yara GMBH & CO KG	187	143	—	—
Yara AB	59	138	—	—
Yara Colombia Ltda.	412	1,153	—	—
Yara International ASA	3,898	151	—	—
Yara Agri Norge	—	7	—	—
Yara Agri CZECH Republic	17	1	—	—
Yara International Australia PTY	408	391	—	—
Yara France BU Africa	1,115	1,295	—	—
NU3 B.V.	1,018	523	—	—
Yara Argentina S.A.	611	90	—	—
Yara Fertilizers (Brazil)	20	—	—	—
Yara Fertilizers (Filipinas)	24	—	—	—
Yara Fertilizers (New Zealand)	74	—	—	—
PCS Sales Inc.	44	10	—	—
Yara France BU Latin America	—	4	—	—
Yara International Wholesale Spec. South Africa	—	3,557	—	—
Yara East Africa Limited	724	244	—	—
Impronta SRL	4,520	5,708	—	—
Total	47,619	41,868	2,000	—

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 6 Balances and Transactions with Related Parties (continued)

a) Amounts included in balances with related parties as of March 31, 2006 and 2005, continued:

Accounts payable	Short-term	
	2006	2005
	ThUS\$	ThUS\$
NU3 N.V.	653	655
Rotem Amfert Negev Limited	—	17
Yara Fertilizantes Ltda.	—	960
Yara International ASA	—	158
Yara North America	—	114
Yara France BU Latin America	126	1,431
Yara Iberian S.A.	—	431
Adubo Trevo S.A.	877	—
Charlee SQM Thailand co.	196	—
Inversiones PCS Chile Ltda.	1,000	—
Total	2,852	3,766

There were no outstanding long-term accounts payable with related parties as of March 31, 2006 and 2005

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 6 Balances and Transactions with Related Parties (continued)

b) During 2006 and 2005, principal transactions with related parties were as follows:

Company	Relationship	Type of transaction	Amount of Transaction		Impact on income (charge) credit	
			2006	2005	2006	2005
			ThUS\$	ThUS\$	ThUS\$	ThUS\$
NU3 N.V.	Indirect	Sales of products	1,640	1,598	547	155
Doktor Tarsa	Indirect	Sales of products	3,259	4,589	1,123	389
Abu Dhabi Fertilizer WLL	Indirect	Sales of products	563	—	125	—
Ajay Europe S.A.R.L.	Indirect	Sales of products	2,642	2,947	1,097	289
NU3 B.V.	Indirect	Sales of products	2,084	1,352	463	(4)
Impronta SRL	Indirect	Sales of products	913	414	254	55
Ajay North America LLC	Indirect	Sales of products	3,464	3,115	1,508	296
Adubo Trevo S.A.	Shareholder	Sales of products	1,573	921	670	179
Yara Business Support	Shareholder	Services	1,100	1,100	(1,100)	(1,100)

22

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 6 Balances and Transactions with Related Parties (continued)

Yara Hellas S.A.	Shareholder	Sales of products	641	—	175	—
Yara Argentina S.A.	Shareholder	Sales of products	615	—	216	—
Yara UK Ltd.	Shareholder	Sales of products	480	457	102	15
Yara Int. Asia Trade PTE Ltd.	Shareholder	Sales of products	1,893	2,269	621	269
Yara East Africa Ltd	Shareholder	Sales of products	313	20	—	—
Yara Benelux B.V.	Shareholder	Sales of products	2,875	2,251	482	295
Yara AB Sweden	Shareholder	Sales of products	178	303	36	3
Yara Int. Australia Ltd.	Shareholder	Sales of products	282	725	52	22
Yara Iberian S.A.	Shareholder	Sales of products	1,947	1,479	712	170
Yara Colombia Ltda.	Shareholder	Sales of products	662	1,399	192	196
Yara Plant Nutri Poland	Shareholder	Sales of products	273	446	63	4
Yara GMBH & Co Kg	Shareholder	Sales of products	293	364	74	17
Yara France	Shareholder	Sales of products	1,651	1,993	480	206
Yara France BU Africa	Shareholder	Sales of products	736	3,882	151	688
Yara North America	Shareholder	Sales of products	10,317	10,291	3,356	1,415
Yara Internacional ASA	Shareholder	Sales of products	5,108	5,561	1,905	452

Note 7 Inventories

Net inventories are summarized as follows:

	<u>2006</u>	<u>2005</u>
	ThUS\$	ThUS\$
Finished products	238,963	166,661
Work in process	119,220	103,083
Supplies	18,025	13,336
	<u> </u>	<u> </u>
Total	376,208	283,080
	<u> </u>	<u> </u>

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 8 Property, Plant and Equipment

Property, plant and equipment are summarized as follows:

	<u>2006</u>	<u>2005</u>
	ThUS\$	ThUS\$
Land		
Land	59,947	20,003
Mining Concessions	45,096	44,143
	<u>105,043</u>	<u>64,146</u>
Buildings and infrastructure		
Buildings	167,596	163,079
Installations	206,998	176,809
Construction-in-progress	169,664	58,924
Other	172,694	172,354
	<u>716,952</u>	<u>571,166</u>
Machinery and Equipment		
Machinery	452,484	417,599
Equipment	123,794	98,939
Project-in-progress	11,570	20,174
Other	18,104	18,547
	<u>605,952</u>	<u>555,259</u>
Other fixed assets		
Tools	8,804	8,156
Furniture and office equipment	14,572	14,367
Project-in-progress	17,173	11,597
Other	8,616	9,467
	<u>49,165</u>	<u>43,587</u>

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish – see note 2 (a))

Note 8 Property, Plant and Equipment (continued)

	<u>2006</u>	<u>2005</u>
	ThUS\$	ThUS\$
Amounts relating to technical revaluation of fixed assets		
Land	7,839	7,839
Buildings and infrastructure	41,439	41,439
Machinery and equipment	12,091	12,091
Other assets	53	53
	<u>61,422</u>	<u>61,422</u>
Total property, plant and equipment	<u>1,538,534</u>	<u>1,295,580</u>
Less: Accumulated depreciation		
Buildings and infrastructure	(282,361)	(237,953)
Machinery and equipment	(330,410)	(303,821)
Other fixed assets	(22,710)	(19,140)
Technical appraisal	(35,893)	(34,667)
	<u>(671,374)</u>	<u>(595,581)</u>
Net property, plant and equipment	<u>867,160</u>	<u>699,999</u>

Depreciation for the year ended March 31:

	<u>2006</u>	<u>2005</u>
	ThUS\$	ThUS\$
Buildings and infrastructure	(8,982)	(7,321)
Machinery and equipment	(10,232)	(8,502)
Other fixed assets	(1,459)	(344)
Technical revaluation	(352)	(323)
	<u>(21,025)</u>	<u>(16,490)</u>

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish – see note 2 (a))

Note 8 Property, Plant and Equipment (continued)

The Company has capitalized assets obtained through leasing, which are included in other fixed assets and are as follows:

	2006	2005
	ThUS\$	ThUS\$
Administrative office buildings	2,086	2,086
Accumulated depreciation	(545)	(482)
	1,541	1,604

The administrative office buildings were acquired for 230 installments of UF 663.75 each and an annual, contractually established interest rate of 8.5%.

The vehicles were acquired for 36 installments of ThUS\$ 98 each.

Note 9 Investments in and Receivables from Related Parties**a) Information on foreign investments**

There are no plans for the foreign investments to pay dividends, as it is the Company's policy to reinvest those earnings.

The Company has not designated their foreign investments as net investment hedges.

b) Transactions executed in 2006

* At the First General Extraordinary Shareholders' Meeting of SQM Industrial S.A. held on January 9, 2006, the shareholders approved the merger of SQM Procesos S.A. (dissolved) to the successor company SQM Industrial S.A., which acquires all the rights, shares, exceptions, assets, liabilities, obligations, shareholders' equity, shareholders and remaining assets and expectations of SQM Procesos S.A. This merger generates each and every of its effects beginning on January 1, 2006.

* On January 17, 2006, the Company informed the Superintendency of Securities and Insurance that Mr. Bernard Descazeaux Aribit resigned to his position of General Manager of Soquimich Comercial S.A. and assumed responsibility for the operations of SQM S.A. in Mexico and Central America. The Board of Directors accepted his resignation.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish – see note 2 (a))

Likewise, at the Ordinary Board of Directors Meeting held on January 16, 2006, the directors accepted the appointment of Mr. Juan Carlos Barrera Pacheco as replacement and new General Manager of Soquimich Comercial S.A. These changes will be effective beginning on March 1, 2006.

* On January 19, 2006, Sociedad Química y Minera de Chile S.A. and SQM Potasio S.A. acquired 7,021,169 and 70,921 shares, respectively of DSM Minera S.A. and its subsidiary Exploraciones Minera S.A. for the sum of ThUS\$100,067 in cash (equivalent to ownership of 99% and 1%, respectively).

This investment has been stated using the equity method under the acquisition method in accordance with Technical Bulletin No. 72 issued by the Chilean Association of Accountants and the standards established in Circular No. 1,697 issued by the SVS. Accordingly, the Company conducted a preliminary evaluation of assets and liabilities in the consolidated financial statements of DSM Minera S.A. as of December 31, 2005. This generated goodwill of ThUS\$7,351, which will be amortized over a period of 20 years.

The Company will continue to review the valuation at fair value using the term allowed to refine the adjustment as provided in paragraph No. 66 in Technical Bulletin No. 72 issued by the Chilean Association of Accountants.

In this manner, assets and liabilities and shareholders equity included in consolidation at their respective fair values as of March 31, 2006 are as follows:

	ThUS\$
Current assets	55,379
Property, plant and equipment	47,478
Other assets	515
Current liabilities	9,246
Long-term liabilities	447
Shareholders equity	93,679

* On January 19, 2006, Soquimich European Holding B.V. acquired 100% of the 20,403 shares of DSM Minera BV. For a sum of ThUS\$12,000 in cash.

This investment has been stated using the equity method under the acquisition method in accordance with Technical Bulletin No. 72 issued by the Chilean Association of Accountants and the standards established in Circular No. 1,697 issued by the SVS. Accordingly, the Company conducted a preliminary evaluation of assets and liabilities in the consolidated financial statements of DSM Minera S.A. as of December 31, 2005. This generated goodwill of ThUS\$12,566, which will be amortized over a period of 20 years.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish – see note 2 (a))

The Company will continue to review the valuation at fair value using the term allowed to refine the adjustment as provided in paragraph No. 66 in Technical Bulletin No. 72 issued by the Chilean Association of Accountants.

In this manner, assets and liabilities and shareholders equity included in consolidation at their respective fair values as of March 31, 2006 are as follows:

	ThUS\$
Current assets	3,694
Current liabilities	1,917
Shareholders equity	1,777

* On January 31, 2006, DSM Minera S.A. changed its name to Minera Nueva Victoria S.A.

* On January 24, 2006, Soquimich European Holding B.V. and Nutrisi Holding N.V. acquired 334 and 666 shares, respectively of Fenasa S.A. for a sum of ThEU75 thereby increasing their ownership to 33.35% and 66.65%, respectively.

* During February 2006, DSM Minera B.V. changed its name to Iodine Minera BV.

c) Transactions executed in 2005

* Up to December 31, 2004, the financial statements of the subsidiary Fertilizantes Naturales S.A. were considered in consolidation given that the Company maintained the control of this subsidiary (due to its right to manage this subsidiary's financial and operating policies). Beginning on January 1, 2005, the Company no longer controls this subsidiary and therefore the aforementioned subsidiary has been excluded from consolidation in accordance with letters a) to d) of No.6 in Attachment 1 to Technical Bulletin No. 72 issued by the Chilean Association of Accountants.

* On February 28, 2005, SQM Nitratos S.A. made a capital contribution of ThUS\$484 to SQM Corporation N.V., with which it obtained participation of 99.9794% in this subsidiary. SQM S.A. did not concur to this contribution thereby reducing its participation to 0.0002% and ownership held by SQI Corporation N.V. by 0.0204%. In accordance with Technical Bulletin No. 72 issued by the Chilean Association of Accountants, this investment was stated using the pooling-of-interests method. This operation gave rise to no goodwill or negative goodwill.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

* In March 2005, the subsidiary Soquimich European Holding B.V. made a capital increase of ThUS\$ 411 in its related company Misr Specialty Fertilizers. In accordance with Technical Bulletin No. 72 issued by the Chilean Association of Accountants and the regulations in Circular No. 1,697 issued by the Chilean Superintendency of Securities and Insurance, the valuation was performed in consideration of the book value of the equity of Misr Specialty Fertilizers as of December 31, 2004, which does not significantly differ from its fair value determined at that date. This operation gave rise to no goodwill or negative goodwill.

* On March 10, 2005, the subsidiary PCS Yumbes SCM, changed its name to Yumbes SCM.

* In April 2005, SQM Nitratos S.A. made a capital contribution of ThUS\$ 5,641 in SQM Corporation N.V., thereby obtaining ownership interest of 99.99835% in that subsidiary. SQM S.A. did not participate in this increase and reduced its ownership interest to 0.00002% and that of SQI Corporation N.V. by 0.00163%. In accordance with Technical Bulletin No. 72 issued by the Chilean Association of Accountants, this investment was valued using the pooling of interest method. This operation gave rise to no goodwill or negative goodwill.

* In April 2005, the subsidiary SQM Corporation N.V. acquired 13% of the affiliate Abu Dhabi Fertilizers for a sum of ThUS\$ 484. In accordance with Technical Bulletin No. 72 issued by the Chilean Association of Accountants and Circular No. 1697 issued by the Chilean Superintendency of Securities and Insurance (SVS) the Company valued this investment in consideration of the book value of equity of Abu Dhabi Fertilizers as of December 31, 2004, which does not significantly differ from its fair value at that date. This operation gave rise to no goodwill or negative goodwill.

* In April 2005, the subsidiary SQM Corporation N.V. made a capital increase of ThUS\$ 5,641 in its subsidiary Soquimich European Holding B.V., the owner of 100% of the shares of this company. This capital increase was valued in accordance with Technical Bulletin No. 72 issued by the Chilean Association of Accountants and Circular No. 1697 issued by the Chilean Superintendency of Securities and Insurance (SVS). This operation gave rise to no goodwill or negative goodwill.

* On May 11, 2005, SQM Salar S.A. distributed dividends for a sum of ThUS\$ 21,500 to its shareholders SQM Potasio S.A. (81.82%) and SQM S.A.(18.18%).

* On May 11, 2005, SQM Potasio S.A. distributed dividends for a sum of ThUS\$ 15,000 to its shareholders SQM S.A. (99.98%) and SQM Nitratos S.A.(0.02%).

* On May 11, 2005, SQM Nitratos S.A. distributed dividends for a sum of ThUS\$ 16,900 to its shareholders SQM S.A. (99.99%) and Inversiones Pascuala S.A.(0.01%).

* On July 12, 2005, SQM Nitratos S.A. made a capital contribution of ThUS\$ 100 in SQM Brazil Ltda. This operation gave rise to no goodwill or negative goodwill. In accordance with Technical Bulletin No. 72 issued by the Chilean Association of Accountants, this investment was valued using the pooling of interest method.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

* On July 12, 2005, SQM Brazil Ltda. made a capital increase of ThUS\$100. This capital was contributed by SQM Nitratos S.A. thereby obtaining ownership of 96.99% and 3.01 % by SQM S.A. SQM S.A. did not participate in this capital increase and this transaction generated no goodwill or negative goodwill. In accordance with Technical Bulletin No. 72 issued by the Chilean Association of Accountants, this investment was valued using the pooling of interest method.

* On August 9, 2005, SQM Nitratos S.A. and SQM S.A. acquired 99 and 1 shares, respectively of Kemira Emirates Fertilizar Company - Fzco in ThUS\$ 9,282 paid at the date of the acquisition. In accordance with the provisions of Technical Bulletin No. 72 issued by the Chilean Association of Accountants and Circular No. 1697 issued by the Chilean Superintendency of Securities and Insurance, the preliminary valuation was conducted by identifying the assets and liabilities in the individual financial statements of Kemira Emirates Fertilizar Company - Fzco as of July 31, 2005, by valuing them at their respective fair values, which do not significantly differ from their carrying values determined at that date. Goodwill determined for the purchase of this company amounted to ThUS\$2,058, which is amortized over a period of 20 years.

For the acquisition of Kemira Emirates Fertilizar Company - Fzco. the Company used the acquisition method.

The Company will continue to review valuation at fair value and applies the term provided to refine the adjustment established in paragraph 66 of Technical Bulletin No. 72 issued by the Chilean Association of Accountants.

* In September 2005, the subsidiary Soquimich European Holding B.V. and Charlee Industries Co, Ltd. incorporated Charlee SQM (Thailand) Co. Ltd. through a contribution by Soquimich European Holding B.V of ThUS\$ 800, which represents ownership of 40% in Charlee SQM (Thailand) Co. Ltd. This operation did not generate any negative goodwill or goodwill. In accordance with Technical Bulletin No. 72 issued by the Chilean Association of Accountants, this investment was valued using the pooling of interest method

* On September 17, 2005, Kemira Emirates Fertilizar Company - Fzco change its name to SQM Dubai - Fzco.

* At the Fifth General Extraordinary Shareholders Meeting of SQM Nitratos S.A. held on October 31, 2005, the shareholders unanimously agreed the following:

Change the line of business of SQM Nitratos S.A. with the purpose of limiting it to mining exploitation operations.

Spin-off SQM Nitratos S.A. in two companies, SQM Nitratos S.A., which maintains its name and a new company is incorporated, SQM Procesos S.A.

This spin-off will be effective on January 1, 2006.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

* At the Twenty-Second General Extraordinary Shareholders Meeting of Yumbes Sociedad Contractual Minera held on December 19, 2005, the shareholders agreed to the transformation of this company to SQM Industrial S.A.

* Assets, liabilities and equity of SQM Industrial S.A. included in consolidation at their respective fair values as of December 31, 2005 are detailed as follows:

	ThUS\$
Current assets	28,495
Property, plant and equipment	9,710
Other assets	672
Current liabilities	26,795
Long-term liabilities	23
Equity	12,059

In accordance with the provisions of Technical Bulletin No. 72 issued by the Chilean Association of Accountants and regulations contained in Circular No. 1697 issued by the Chilean Superintendency of Securities and Insurance, the company made the valuation by identifying assets and liabilities in the stand-alone financial statements of SQM Industrial S.A. (formerly - PCS Yumbes SCM) as of December 31, 2004, by valuing them at their respective fair values. The methodology applied for the acquisition of SQM Industrial S.A. (formerly - PCS Yumbes SCM), was the acquisition method.

The Company continued to review the valuation during 2005 in accordance with the term allowed to refine the adjustment established in paragraph 66 of Technical Bulletin No. 72 issued by the Chilean Association of Accountants. Accounts that presented the principal variations were property, plant and equipment, the previous valuation of which had been conducted related to the observed or reported status of the asset, in consideration that not all productive processes in plans were working. Therefore and in consideration of background information provided by external experts and our company's personnel a full review was conducted of the status of these assets, which gave rise to a new evaluation of the fair value of the company's assets.

Additionally, for the purpose of the balance at fair value of SQM Industrial S.A. (formerly - PCS Yumbes SCM) in accordance with paragraph 22 of Technical Bulletin No. 33 issued by the Chilean Association of Accountants, the company has defined property, plant and equipment that will be considered not in use for an indefinite period with the purpose of making a decision as to the future destination of these assets (sales or auction). For these assets, depreciation was suspended and were adjusted at the net estimated realizable value. This valuation was conducted in consideration of background information obtained in a valuation survey conducted by external experts and qualified personnel from our company, who conducted a full review of the status of these assets and determined the net realizable value of these assets. This adjustment generated a decrease in shareholders' equity of ThUS\$17,362, which was considered in the company's fair value.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

This generated goodwill for a sum of ThUS\$ 22,255, mainly generated by valuation adjustments explained in the preceding paragraphs, which were made in accordance with generally accepted accounting principles in Chile and specific regulations and instructions provided by the Chilean Superintendency of Securities and Insurance. Goodwill determined will be amortized over a term of 20 years. As of December 31, 2005, the amortized balance amounts to ThUS\$ 1,072.

* On December 28, 2005, SQM Nitratos S.A. sold the 2,000 shares it had of SQM Industrial S.A., equivalent to 0.0046% to SQM Potasio S.A..

d) Investments with less than 20% participation

Investments in which the Company has less than 20% participation and the capacity to exert significant influence or control over the investment, because SQM forms part of its Board of Directors, have been valued using the equity method.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 9 – Investments in and Receivables from Related Companies (continued)

d) Detail of investments in related companies

Tax Registration Number	Company	Country of origin	Controlling currency	Number of shares	Ownership interest		Equity of companies		Book value of investment		Net income (loss)		Equity participation in net income (loss)	
					2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
					%	%	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
0-E	Ajay North America LLC	USA	US\$	—	49.00	49.00	13,024	11,983	6,382	5,872	445	457	218	224
0-E	Nutrisi Holding N.V.	Belgium	US\$	—	50.00	50.00	6,814	5,035	3,407	2,517	(6)	(256)	(3)	(128)
0-E	Misr Specialty Fertilizers	Egypt	US\$	—	47.00	47.00	4,653	4,862	2,187	2,309	(198)	—	(93)	—
0-E	Ajay Europe S.A.R.L.	France	US\$	36,700	50.00	50.00	5,210	4,422	2,605	2,211	—	—	—	—
0-E	Doktor Tarsa	Turkey	Euros	—	50.00	50.00	5,556	2,170	2,778	1,085	522	—	261	—
0-E	Abu Dhabi Fertilizer Industries WLL	UAE	US\$	1,961	50.00	37.00	3,630	3,417	1,815	1,265	200	44	100	16
0-E	Charlee SQM Thailand Co. Ltd.	Thailand	US\$	—	40.00	—	2,000	—	800	—	—	—	—	—
0-E	Impronta SRL	Italia	Euros	—	50.00	50.00	2,088	967	1,044	483	268	—	134	—
0-E	SQM Eastmed Turkey	Turkey	Euros	—	50.00	50.00	476	510	238	255	—	—	—	—
0-E	Rui Xin Packaging Materials Sanhe Co.Ltd	China	US\$	—	25.00	25.00	—	482	—	121	—	—	—	—
0-E	Fertilizantes Naturales S.A.	Spain	Euros	—	25.00	25.00	(488)	—	(122)	(130)	36	—	9	7
0-E	Agro India Limitada.	India	US\$	—	49.00	—	144	—	56	—	—	—	—	—
77557430-5	Sales de Magnesio Ltda.	Chile	—	—	50.00	50.00	804	573	402	287	(18)	55	(9)	28
81767200-0	Asoc. Garantizadora Pensiones	Chile	—	—	3.00	3.00	1,000	794	30	25	—	—	—	—
Total									21,622	16,300				

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 10 Goodwill and Negative Goodwill

Goodwill and negative goodwill and the related amortization is summarized as follows:

a) Goodwill

Tax Registration Number	Company	March 31, 2006		March 31, 2005	
		Amount amortized during the period	Goodwill balance	Amount amortized during the period	Goodwill balance
		ThUS\$	ThUS\$	ThUS\$	ThUS\$
96864750-4	SQM Potassium S.A.	36	1,554	36	1,699
96801610-5	Comercial Hydro S.A.	43	1,217	37	1,195
79947100-0	Yumbes SCM	318	20,865	159	12,479
79768170-9	Soquimich Comercial S.A.			38	84
79626800-K	SQM Salar S.A.			11	29
78602530-3	Minera Nueva Victoria S.A.	92	7,259		
0-E	Doktor Tarsa			19	3
0-E	SQM México S.A. de C.V.	14	877	14	933
0-E	Comercial Caiman Internacional S.A.	6	148	6	171
0-E	Fertilizantes Olmeca S.A. de C.V.	14	98	14	153
0-E	Safnits PTY Ltd.			15	302
0-E	SQM Dubai - FZCO	25	1,959		
0-E	Iodine Minera B.V.	157	12,410		
Total		705	46,387	349	17,048

b) Negative Goodwill

Tax Registration Number	Company	March 31, 2006		March 31, 2005	
		Amount amortized during the period	Negative Goodwill balance	Amount amortized during the period	Negative Goodwill balance
		ThUS\$	ThUS\$	ThUS\$	ThUS\$
96575300-1	Minera Mapocho S.A.	51	17	60	220
Total		51	17	60	220

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 11 Other Long-term Assets

Other long-term assets are summarized as follows:

	<u>2006</u>	<u>2005</u>
	ThUS\$	ThUS\$
Engine and equipment spare-parts, net	18,760	22,495
Mine development costs	23,516	21,753
Pension plan	1,133	1,165
Construction of Salar-Baquedano road	1,380	1,620
Deferred loan issuance costs	3,561	978
Other	1,693	1,808
	<u>50,043</u>	<u>49,819</u>

a) Short-term bank debt is detailed as follows:

	<u>2006</u>	<u>2005</u>
Bank or financial institution	ThUS\$	ThUS\$
Banco de Credito e Inversiones	65,784	
Other	1,926	1,475
	<u>67,710</u>	<u>1,475</u>
Annual average interest rate	4.68%	2.92%

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 12 Bank Debt (continued)

b) Long-term bank debt is detailed as follows:

	<u>2006</u>	<u>2005</u>
Bank or financial institution	ThUS\$	ThUS\$
Union Bank of Switzerland (1)	200,727	200,727
BBVA Banco Bilbao Vizcaya Argentaria (2)	100,361	100,254
	<u>301,088</u>	<u>300,981</u>
Total	301,088	300,981
	<u>(201,088)</u>	<u>(981)</u>
Less: Current portion	(201,088)	(981)
	<u>100,000</u>	<u>300,000</u>
Long-term portion	100,000	300,000

(1) U.S. dollar-denominated loan without guarantee, interest rate of 7.7% per annum, paid semi-annually. The principal is due on September 15, 2006.

(2) U.S. dollar-denominated loan without guarantee, interest rate of Libor + 0.325% per annum, quarterly payment. The principal is due on March 3, 2010.

c) The maturity of long-term debt is as follows:

	<u>2006</u>	<u>2005</u>
Years to maturity	ThUS\$	ThUS\$
Current portion	201,088	981
1 to 2 years		200,000
2 to 3 years		
3 to 5 years	100,000	100,000
	<u>301,088</u>	<u>300,981</u>
Total	301,088	300,981

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 13 Short and Long-term Obligations with the Public (Promissory Notes and Bonds Payable)

Additional Information

On January 25, 2006, the Company made a placement of Series C bonds for an amount of UF 3,000,000 at an annual rate of 4.18%. This placement achieved collection equivalent to 100% of par value.

As of March 31, 2006, the short-term portion includes a balance of ThUS\$1,348 related to interest accrued at that date. The long-term portion includes an amount of ThUS\$102,119 related to principal installments for Series C bonds.

No. of Registration of the Instrument	Series	Nominal Amount	Adjustment Unit	Interest Rate	Final Period	Payment of Interest	Payment of Amortization	03/31/2006	03/31/2006	Placement in Chile or abroad
								ThUS\$	ThUS\$	
Current portion of long-term bonds payable 446	C	3,000,000	UF	4.18%	06/01/2006	Semi-annual	Semi-annual	1,348		In Chile
Total Current Portion								1,348		
Long-term bonds payable 446	C	3,000,000	UF	4.18%	03/31/2007	Semi-annual	Semi-annual	102,119		In Chile
Total Long-term								102,119		

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish – see note 2 (a))

Note 14 - Accrued Liabilities

As of March 31, 2006 and 2005, accrued liabilities are summarized as follows:

	<u>2006</u>	<u>2005</u>
	ThUS\$	ThUS\$
Provision for royalties	2,141	1,420
Quarterly bonus	369	407
Provision for employee compensation and legal costs	498	1,568
Taxes and monthly income tax installment payments	2,498	1,517
Vacation accrual	7,582	6,088
Accrued employee benefits	2,121	2,051
Yumbes work	822	
Marketing expenses	1,100	1,100
Other accruals	3,064	1,148
	<u>20,195</u>	<u>15,260</u>
Total current liabilities	20,195	15,260

Note 15 - Income and Deferred Taxes

- a) At March 31, 2006 and 2005 the Company has the following consolidated balances for retained tax earnings, income not subject to taxes, tax loss carry-forwards and credit for shareholders:

	<u>2006</u>	<u>2005</u>
	ThUS\$	ThUS\$
Accumulated tax basis retained earnings with tax credit	237,084	124,591
Accumulated tax basis retained earnings without tax credit	93,732	
Tax loss carry-forwards (1)	215,669	198,023
Credit for shareholders	46,753	25,153

(1) Income tax losses in Chile can be carried forward indefinitely.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish – see note 2 (a))

Note 15 Income and Deferred Taxes (continued)

The deferred taxes as of March 31, 2006 and 2005 represented a net liability of ThUS\$ 37,031 and ThUS\$ 40,275, respectively, and consisted of:

2006	Deferred tax asset		Deferred tax liability	
	Short-term	Long-term	Short-term	Long-term
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Temporary differences				
Allowance for doubtful accounts	1,876	18		
Vacation accrual	1,187			
Unrealized gain on sale of products	17,040			
Provision for obsolescence		1,209		
Production expenses	7,871		16,847	
Accelerated depreciation				58,629
Exploration expenses				5,345
Capitalized interest				6,273
Staff severance indemnities				2,782
Accrued expenses		170		
Capitalized expenses				432
Tax loss carry-forwards	23	37,493		
Losses from derivative transactions				
Accrued interest	78			
Fair value		2,535		
Other	1,374	2,514	20	383
	21,555	43,769	16,867	73,844
Total gross deferred taxes				
Total complementary accounts		(1,219)	(2,001)	(23,191)
Valuation allowance	(170)	(35,447)		
	21,385	7,103	14,866	50,653
Total deferred taxes				

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish – see note 2 (a))

Note 15 Income and Deferred Taxes (continued)

2005	Deferred tax asset		Deferred tax liability	
	Short-term	Long-term	Short-term	Long-term
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Temporary differences				
Allowance for doubtful accounts	1,659	546		
Vacation accrual	970			
Unrealized gain on sale of products	9,794			
Provision for obsolescence		1,976		
Production expenses	7,871		20,636	
Accelerated depreciation				53,479
Exploration expenses				5,244
Capitalized interest				5,804
Staff severance indemnities				1,990
Accrued expenses		170		
Capitalized expenses				295
Tax loss carry-forwards	23	35,733		
Losses from derivative transactions	3			
Accrued interest	57			
Provision for investment contractual obligations	170			
Other	1,478	2,336	6	236
	22,025	40,761	20,642	67,048
Total gross deferred taxes				
Total complementary accounts		(5,933)	(2,309)	(25,099)
Valuation allowance	(8,045)	(28,801)		
	13,980	6,027	18,333	41,949
Total deferred taxes				

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish – see note 2 (a))

Note 15 Income and Deferred Taxes (continued)

c) Income tax expense is summarized as follows:

	<u>2006</u>	<u>2005</u>
	ThUS\$	ThUS\$
Provision for current income tax	(7,516)	(8,752)
Tax expense adjustment (prior year)	(96)	
Effect of deferred tax assets and liabilities	(1,254)	2,653
Effect of amortization of complementary accounts	2,485	(1,067)
Effect of deferred tax assets and liabilities due to changes in the appraisal allowance	(1,641)	
Other tax charges and credits	(369)	(19)
	<u> </u>	<u> </u>
Total income tax expense	<u>(8,391)</u>	<u>(7,185)</u>

Note 16 Staff Severance Indemnities

Staff severance indemnities are summarized as follows:

	<u>2006</u>	<u>2005</u>
	ThUS\$	ThUS\$
Opening balance	16,415	11,875
Increases in obligation	1,275	1,010
Payments	(492)	(591)
Exchange difference	(437)	(514)
	<u> </u>	<u> </u>
Balance as of March 31	<u>16,761</u>	<u>11,780</u>

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish – see note 2 (a))

Note 17 Minority Interest

Minority interest is summarized as follows:

	<u>Equity</u>		<u>Net Income/(Loss)</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Soquimich Comercial S.A.	31,265	29,555	32	(539)
Ajay SQM Chile S.A.	3,335	3,333	(252)	(139)
Cape Fear Bulk LLC	258	202	(166)	(56)
SQM Italia S.R.L		21		(1)
SQM Nitratos México S.A. de C.V.	(28)	(75)	(10)	29
Fertilizantes Naturales S.A.	122		9	
SQM Indonesia S.A.	(2)	(2)		2
	<u>34,950</u>	<u>33,034</u>	<u>(387)</u>	<u>(704)</u>

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 18 Shareholders Equity

a) Changes to shareholders equity consisted of:

	Number of shares	Paid-in capital	Other reserves	Accumulated deficit of subsidiaries in development stage	Retained earnings	Net income	Total
		ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Balance as of January 1, 2005	263,196,524	477,386	150,887	(8,370)	254,493	74,232	948,628
Transfer 2004 net income to retained earnings					74,232	(74,232)	
Accumulated deficit from subsidiaries in development stage (1)							
Other comprehensive income			(2,691)				(2,691)
Net income for the year						24,751	24,751
Balance as of March 31, 2005	263,196,524	477,386	148,196	(8,370)	328,725	24,751	970,688
Balance January 1, 2006	263,196,524	477,386	157,287	(8,370)	280,607	113,506	1,020,416
Transfer 2005 net income to retained earnings					113,506	(113,506)	
Other comprehensive income (1)			(1,480)				(1,480)
Net income for the year						34,287	34,287
Balance as of March 31, 2006	263,196,524	477,386	155,807	(8,370)	394,113	34,287	1,053,223

(1) Other comprehensive income includes translation adjustments and the effect of changes in the valuation of the Company's under-funded pension as of March 31, 2005 and 2006.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 18 Shareholders Equity (continued)

b) The composition of other comprehensive income as of March 31, 2006 is as follows:

Detail	For the year ended March 31, 2006		As of March 31, 2006
		ThUS\$	ThUS\$
Technical appraisal			151,345
Changes to other comprehensive income from equity			
method investments:			
Soquimich Comercial S.A.	(1)	(1,480)	4,789
Isapre Note Grande Ltda.	(1)		(83)
Inversiones Augusta S.A.	(1)		(761)
SQM Ecuador S.A.	(3)		(270)
Almacenes y Depósitos Ltda.	(1)		22
Asociación Garantizadora de Pensiones	(1)		(10)
Sales de Magnesio Ltda.	(1)		59
SQM North America Corp.	(2)		(1)
Other Companies	(1)		717
Total other comprehensive income		(1,480)	155,807

(1) Corresponds to translation adjustments and monetary correction

(2) Corresponds to a change in the valuation of the Company's under-funded pension scheme

(3) Corresponds to the translation adjustment produced by the application of a new law implemented by the Ecuadorian Government

c) Capital consists of 263,196,524 fully authorized, subscribed and paid shares with no par value, divided into 142,819,552 Series A shares and 120,376,972 Series B shares.

The preferential voting rights of each series are as follows:

Series A : If the election of the president of the Company results in a tied vote, the Company's directors may vote once again, without the vote of the director elected by the Series B shareholders.

Series B : 1) A general or extraordinary shareholders' meeting may be called at the request of shareholders representing 5% of the Company's Series B shares.

2) An extraordinary meeting of the Board of Directors may be called with or without the agreement of the Company's president, at the request of a director elected by Series B shareholders.

[Back to Contents](#)**SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.****Notes to the Consolidated Financial Statements****(A translation of the original in Spanish see note 2 (a))****Note 19 Derivatives Instruments**

Derivative instruments are recorded at their fair value at year-end. Changes in fair value are recognized in income with the liability recorded in other current liabilities. Losses from options relate to fees paid by the Company to enter into such contracts. As of March 31, 2006 the Company's derivative instruments are as follows:

2006	Notional or covered amount	Expiration	Description of the contract type	Position purchase/sale	(Liability) Asset amount	Income (loss) recorded
Type of derivative	ThUS\$				ThUS\$	ThUS\$
US dollar Forward	5,842	2 nd quarter of 2006	Exchange rate	P	110	110
US dollar PUT	1,866	2 nd quarter of 2006	Exchange rate	P	35	35
US dollar PUT	22,766	2 nd quarter of 2006	Exchange rate	P	(194)	(194)
Swap	102,630	1 st quarter of 2006	Interest rate	P	974	974
	<u>133,104</u>				<u>925</u>	<u>925</u>

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 20 Non-Operating Income and Expenses

Amounts included in non-operating income and expenses are summarized as follows:

a) Non-operating income

	2006	2005
	ThUS\$	ThUS\$
Interest income	1,889	1,204
Reversal of allowance for doubtful accounts	4	14
Net foreign exchange	848	776
Insurance recoveries	110	40
Rental of property, plant and equipment	286	299
Fines collected from third parties	251	17
Equity participation in net income of unconsolidated subsidiaries	722	261
Compensation obtained from third parties		737
Other income	409	613
	4,519	3,961

b) Non-operating expenses

	2006	2005
	ThUS\$	ThUS\$
Write-off of investments	2,788	4,119
Interest expense	5,628	4,153
Equity participation in net losses of unconsolidated subsidiaries	105	128
Amortization of goodwill	705	349
Work disruption expenses	317	25
Increase in provision for employee compensation and legal costs		71
Other expenses	514	467
	10,057	9,312

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 21 Price-level Restatement

Amounts charged or credited to income relating to price-level restatement are summarized as follows:

	(Charge) credit to income from operations	
	2006	2005
	ThUS\$	ThUS\$
Property, plant and equipment	(20)	(10)
Other assets and liabilities	(176)	(100)
Shareholders' equity	257	644
	61	534

Note 22 Assets and Liabilities Denominated in Foreign Currency

	2006	2005
	ThUS\$	ThUS\$
Assets		
Total assets		
Chilean pesos	57,315	54,945
US dollars	1,582,657	1,312,113
Euros	36,949	26,003
Japanese Yen	9,165	6,780
Brazilian Real	301	241
Mexican pesos	8,629	7,859
UF	62,417	46,726
South African Rand	7,962	9,056
Dirhams	11,838	
Other currencies	2,291	2,863
Current liabilities		
Chilean pesos	78,134	49,071
US dollars	324,014	51,153
Euros	14,384	3,541
Japanese Yen	18	19
Brazilian Real	1,347	684
Mexican pesos	2,915	6,588
UF	5,069	145
Dirhams	671	
South African Rand	1,244	2,655
Other currencies	139	38

Long-term liabilities

Chilean pesos	103,105	10,382
US dollars	143,535	337,201
Japanese Yen	126	117
UF	16,648	1,008
Other currencies	2	2
		47

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 23 Expenses Incurred in the Issuance Shares and Debt Titles

Expenses incurred in the issuance and placement of bonds are presented under Other long-term assets, the portion to be amortized within one year is presented within Other current assets, which are amortized using the straight-line method, in accordance with the period for issuance of documents. This amortization is presented as interest expense.

As of March 31, 2006, issuance expenses net of amortization amount to ThUS\$3,228. Issuance expenses include disbursements related to reports issued by risk classifiers, legal and financial advisories, taxes, printing and placement fees. Amortization for the three-month period ended March 31, 2006 amounted to ThUS\$39.

Note 24 Cash Flow Statement

Amounts included in other investing income are summarized as follows:

	<u>2006</u>	<u>2005</u>
	ThUS\$	ThUS\$
Repayment of employee loans		31
Compensation obtained from third parties		737
Cash included in cash equivalent	24,255	
	<u> </u>	<u> </u>
Total	24,255	768
	<u> </u>	<u> </u>

On April 5, 2006, Sociedad Química y Minera de Chile S.A. has placed abroad and under Rule 144 A and regulation S of the U.S. Securities Act of 1933, a new bond issuance for a sum of US\$ 200 million at an annual interest rate of 6.125%. Interest will be paid semi-annually and principal will be paid in a single installment during April 2016.

Note 25 Commitments and Contingencies**I. Contingencies:**

(a) Material lawsuits or other legal actions of which the Company is party to:

1. Plaintiff : Miguel Negrete Ubeda
- Defendants : Marco Antonio Ortiz Castillo y SQM Nitratos S.A. and its insurers
- Date of lawsuit : May 2004
- Court : First Civil Court of Antofagasta
- Cause : Work accident
- Instance : Evidence provided
- Nominal amount : ThUS\$ 150

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

- | | | | |
|----|-----------------|---|--|
| 2. | Plaintiff | : | Mario Miles Andrade |
| | Defendants | : | Constructora Fe Grande S.A. and subsidiary and jointly and severally SQM S.A. and its insurers |
| | Date of lawsuit | : | June 2005 |
| | Court | : | Labor Court of Antofagasta |
| | Cause | : | Work accident |
| | Instance | : | The demand has been contested |
| | Nominal amount | : | ThUS\$ 270 |
| | | | |
| 3. | Plaintiff | : | Gabriela Véliz Huanchicay |
| | Defendants | : | Gilberto Mercado Barreda and subsidiary and jointly and severally SQM Nitratos S.A. and its insurers |
| | Date of lawsuit | : | August 2005 |
| | Court | : | 4th Civil Court of Santiago |
| | Cause | : | Work accident |
| | Instance | : | The demand has been contested |
| | Nominal amount | : | ThUS\$ 1,350 |
| | | | |
| 4. | Plaintiff | : | Marina Arnéz Valencia |
| | Defendants | : | Intro Ingeniería Limitada and subsidiary and joint and severally SQM S.A. and its insurers |
| | Date of lawsuit | : | September 2005 |
| | Court | : | Labor Court of Antofagasta |
| | Cause | : | Work accident |
| | Instance | : | Evidence provided |
| | Nominal amount | : | ThUS\$ 475 |
| | | | |
| 5. | Plaintiff | : | Electroandina S.A. |
| | Defendants | : | Sociedad Química y Minera de Chile S.A. |
| | Date of lawsuit | : | September 2005 |
| | Court | : | Court of arbitration |
| | Cause | : | Early termination or partial modification or temporary suspension of the Electrical Supply Agreement entered on February 12, 1999 by virtue of supposedly unforeseen events that would result in an increase in the cost of or restricted the supply of natural gas from Argentina |
| | Instance | : | Evidentiary stage |
| | Nominal amount | : | The amount has not been determined yet |

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

6. Plaintiff	:	Juana Muraña Quispe
Defendants	:	Intro Ingenieria Limitada and subsidiary and jointly and severally SQM S.A. and its insurers
Date of lawsuit	:	October 2005
Court	:	25th Civil Court of Santiago
Cause	:	Work accident
Instance	:	Rejoinder
Nominal amount	:	ThUS\$ 1,500

I. Contingencies (continued):

(b) Models for the Production of the María Elena Site

The Company is currently implementing different projects related to the María Elena Site Decontamination Plan (Note 29).

Projects that are being implemented in the María Elena site, a priori, do not generate any significant changes in the current mining reserves or forecasted production volumes.

The final execution of these projects is subject to the approval of environmental impact studies presented last December to the respective authorities.

(c) Other

The Company and its subsidiaries are involved in litigation in the ordinary course of business. Based on the advice of counsel, management believes the litigation will not have a material effect on the consolidated financial statements.

Note 26 Commitments and Contingencies (continued)

II. Commitments:

- (a) The subsidiary SQM Salar S.A. maintains an agreement with a government agency, whereby the Company must make annual payments until 2030 based on the Company's annual sales. This amount, which has been paid since the beginning of the agreement in 1996, was ThUS\$ 2,141 in 2006 (ThUS\$ 1,420 in 2005).
- (b) The Company has certain indirect guarantees, which relate to agreements with no remaining payments pending. These guarantees are still in effect and have been approved by the Company's Board of Directors; however, they have not been used by the subsidiaries.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

- (c) Bank debt of SQM S.A. and its subsidiaries has no restrictions or terms other than those that might usually be found in identical debt in the financial markets, such as maximum indebtedness and minimum equity among others.

51

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 26 Third Party Guarantees

As of March 31, 2006 and 2005 the Company has the following indirect guarantees outstanding:

Beneficiary	Debtor		Balances outstanding	
	Name	Relationship	2006	2005
			ThUS\$	ThUS\$
Phelps Dodge Corporation	SQM Potasio S.A.	Subsidiary		957
BBVA Banco Bilbao Vizcaya Argentaria.	Royal Seed Trading Corp. A.V.V.	Subsidiary	100.361	100.254

Note 27 Sureties Obtained from Third Parties

Joint and several guarantee of up to ThUS\$ 1,000 made by Tattersall Comercial S.A. to secure to Soquimich Comercial S.A. compliance with obligations contained in the commercial mandate agreement for the distribution and sale of fertilizers.

Note 28 Sanctions

During 2006 and 2005, the SVS did not apply sanctions to the Company, its directors or managers.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 29 Environmental Projects

Disbursements incurred by the Company as of March 31, 2006 relating to its investments in production processes and compliance with regulations related to industrial processes and facilities are as follows:

	<u>2006</u>	<u>Future Disbursements</u>
Project	ThUS\$	ThUS\$
Environmental department	126	735
Risk and security management	563	1,615
Dust emission control	997	681
Light normalization	755	507
Exchange bank authorization	185	115
Environmental studies Region I of Chile project	219	
Maria Elena archeology	244	756
Waste water treatment plant, washing surface P. Valdivia. N. Victoria. P. Blanca.		240
Equipment washing system	17	152
Implementation of waste water line for María Elena Treatment Plant.	4	46
Infrastructure, equipment New Offices María Elena Environment		14
Hospital Monitoring Station Project		21
Improvements in salt deposit environment	120	10
Atacama Salt Deposit Hydrologic Model	176	45
Tourist Support in Salt Deposit (Soncor)	31	49
EIA Salar	458	75
Environmental Contingency plan, Peine sector	2	73
MOP/SOP 2 Environment		200
Regularization of drinking water 2	11	83
	<u>3,908</u>	<u>5,417</u>
Total	3,908	5,417

Protecting the environment, both in regards to the Company's productive processes and the manufactured goods, is a constant concern for SQM.

SQM is currently implementing an Environmental Management System, which is based on the ISO 14000 standard, with which the Company will improve its environmental performance. The implementation program stipulates that all the operations maintained by the Company in Regions I and II of Chile, will have a fully implemented Environmental Management System by late 2005.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 29 Environmental Projects (continued)

Processes where sodium nitrate is used as a raw material are carried out in geographical areas such as the desert with favorable weather conditions for drying solid materials and evaporating liquids used in solar energy. The extraction of minerals in open pit mines, given their low waste-to-mineral ratio, gives rise to waste deposits that have little impact on the environment. The extraction process and ore crushing produce particles that are consistent with the industry of operation.

On August 10, 1993, the Ministry of Health published a resolution under the Sanitary Code that established that the levels of breathable particles present at Maria Elena Plant exceeded the level allowed for air quality and, consequently, affected the nearby city of Maria Elena. Particles mainly come from dust that results from processing the sodium nitrate, particularly at the crushing process prior to leaching. The Company has implemented a series of measures that have shown notable improvement in air quality at María Elena. A new decontamination plan for this area, released on March 13, 2004, is intended to meet air quality standards by April 1, 2006. On December 30, 2004, the Company submitted a proposal entitled Technological Change at María Elena, which intends to reduce particle emission, to the government's Environmental Impact Evaluation System. This proposal is presently pending evaluation by the environmental regulators, whose decision should be made public during the first semester of 2005.

Ore treatment operations, as they are controlled processes, produce solid residual materials that are the non-soluble by product and a certain degree of moisture.

SQM entered into a contract with the National Forestry Corporation (CONAF) aimed at researching the activities of flamingo groups that live in the Atacama Salt Mine lagoons. Such research includes a population count of the birds and wildlife, breeding research, additional behavior research and the climate phenomena of the area.

Consistent with the Company's ongoing commitment with the environmental authorities, the Company actively participates in the Joint Monitoring Research project for the Atacama Salt Mine watershed along with other mining companies that make use of the water resources that supply the Atacama Salt Mine. To perform this study, SQM has involved diverse scientists from prestigious research institutions such as Dictuc of Pontificia Universidad Católica, the University of Nevada, Cornell University and the University of Binghamton in New York.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 30 Significant Events

1. On January 17, 2006, the Company informed the Superintendency of Securities and Insurance that Mr. Bernard Descazeaux Aribit resigned to his position of General Manager of Soquimich Comercial S.A. and assumed responsibility for the operations of SQM S.A. in Mexico and Central America. The Board of Directors accepted his resignation.

Likewise, at the Ordinary Board of Directors Meeting held on January 16, 2006, the directors accepted the appointment of Mr. Juan Carlos Barrera Pacheco as replacement and new General Manager of Soquimich Comercial S.A. These changes will be effective beginning on March 1, 2006.

2. On January 19, 2006, the Company informed the SVS that Sociedad Química y Minera de Chile S.A. and certain of its subsidiaries have acquired, on this same date from the DSM Company Group from the Netherlands, all the shares of certain companies that participate in the markets for the production and commercialization of iodine and iodine by-products in Chile and abroad. Accordingly, SQM has acquired the mining and water rights, industrial plants, regulating permits and remaining assets pertaining to these companies, which will allow it have in the future proper installed capacity to produce 2,200 additional tons of iodine per year in Chile.

The purchase and sale price was ThUS\$ 72,000 and this was paid in cash. This, with no prejudice of certain minor adjustments that should be made in respect to this price in the short-term and with no prejudice of the purchase of accounts receivable and finished products and of the charge to the values of these accounts and products of certain liabilities that were a part of the accounting of such three new subsidiaries of SQM S.A., namely, DSM Minera S.A., DSM Minera B.V. and Exploraciones Mineras S.A.

3. On January 24, 2006, Sociedad Química y Minera de Chile S.A. has placed in the domestic market one bond with no guarantee for the nominal amount of UF 3 million. This placement is paid within a term of 21 years with an annual interest rate of 4.18% to refinance liabilities and to fund investment projects for the year 2006.

4. On March 29, 2006, the Company informed the SVS that the Board of Directors of Sociedad Química y Minera de Chile (SQM), at their meeting held on April 28, 2006, unanimously agreed to propose the payment of a final dividend of US\$0.27981 per share in favor of those shareholders of SQM that are registered in the related Shareholders Registry during the fifth business day prior to the date in which the bond will be paid.

This proposal, upon approval by the shareholders at the next General Ordinary Shareholders Meeting that will be held on April 28, 2006, will allow that the Company be able to effectively pay and distribute, in conformity that provided in the related dividend policy, an annual dividend equivalent to 65% of net income distributable obtained during 2005.

5. On March 29, 2006, the Company informed the SVS that Sociedad Química y Minera de Chile S.A. is negotiating the possible placement abroad of a new bond issuance for an approximate amount of US\$ 200 million that will be paid in a single installment at the expiration of the ten-year period and which will be used to pay liabilities for the same sum which expire in September 2006.

[Back to Contents](#)

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.
Notes to the Consolidated Financial Statements
(A translation of the original in Spanish see note 2 (a))

Note 31 Subsequent Events

On April 5, 2006, the Company informed the SVS that Sociedad Química y Minera de Chile S.A. has placed abroad and under Rule 144 A and regulation S of the U.S. Securities Act of 1933, a new bond issuance for a sum of US\$ 200 million at an annual interest rate of 6.125%. Interest will be paid semi-annually and principal will be paid in a single installment during April 2016.

Management is not aware of any significant subsequent events that have occurred after March 31, 2006 and that may affect the Company's financial position or the interpretation of these financial statements, (April 24, 2006).

[Back to Contents](#)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Conf: /s/ Ricardo Ramos

Ricardo Ramos

Chief Financial Officer

Date: May 24, 2006