

CHEMICAL & MINING CO OF CHILE INC
Form 6-K
September 06, 2006

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 August 08, 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_____

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On August 08, 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 six-month period ended on June 30, 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 SIX MONTH PERIOD ENDED JUNE 30, 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

June 30, 2006 and 2005

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Consolidated Financial Statements

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

As of June 30, 2006 and 2005

and for the 6 month period ended June 30, 2006 and 2005

(A translation of the original in Spanish- see note 2 (a))

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Consolidated Financial Statements

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- 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))

| | Note | As of June 30, | |
|--|------|----------------|-----------|
| | | 2006 | 2005 |
| | | ThUS\$ | ThUS\$ |
| ASSETS | | | |
| Current assets | | | |
| Cash | | 27,152 | 14,483 |
| Time deposits | 4 | 155,975 | 18,780 |
| Marketable securities | 5 | 58,933 | 35,287 |
| Accounts receivable, net | 6 | 170,437 | 134,416 |
| Other accounts receivable, net | 6 | 6,786 | 11,049 |
| Accounts receivable from related companies | 7 | 63,457 | 64,006 |
| Inventories, net | 8 | 374,298 | 322,214 |
| Recoverable taxes | | 20,428 | 32,620 |
| Prepaid expenses | | 5,292 | 5,105 |
| Deferred income taxes | 16 | 6,078 | |
| Other current assets | | 18,057 | 8,682 |
| Total current assets | | 906,893 | 646,642 |
| Property, plant and equipment, net | 9 | 892,457 | 721,830 |
| Other Assets | | | |
| Investments in related companies | 10 | 20,828 | 19,051 |
| Goodwill, net | 11 | 40,931 | 16,712 |
| Negative goodwill, net | 11 | | (169) |
| Intangible assets, net | | 4,825 | 4,326 |
| Long-term accounts receivable, net | 6 | 297 | 332 |
| Long-term accounts receivable from related companies | 7 | 2,000 | |
| Other long-term assets | 12 | 51,843 | 51,006 |
| Total Other Assets | | 120,724 | 91,258 |
| Total assets | | 1,920,074 | 1,459,730 |

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))

| | Note | As of June 30, | |
|---|------|----------------|-----------|
| | | 2006 | 2005 |
| | | ThUS\$ | ThUS\$ |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | |
| Current liabilities | | | |
| Short-term bank debt | 13 | 51,600 | 1,250 |
| Current portion of long-term debt | 13 | 204,996 | 4,865 |
| Current portion of bonds payable | 14 | 5,398 | |
| Dividends payable | | 262 | 208 |
| Accounts payable | | 83,855 | 64,168 |
| Other accounts payable | | 1,019 | 1,677 |
| Notes and accounts payable to related companies | 7 | 2,331 | 1,709 |
| Accrued liabilities | 15 | 23,987 | 27,290 |
| Withholdings | | 8,553 | 4,434 |
| Income taxes | | 9,447 | 14,277 |
| Deferred income taxes | 16 | | 2,743 |
| Deferred income | | 11,346 | 1,206 |
| Other current liabilities | | 1,999 | 591 |
| Total current liabilities | | 404,793 | 124,418 |
| Long-term liabilities | | | |
| Long-term bank debt | 13 | 100,000 | 300,000 |
| Long-term Obligations with the Public (Bonds) | 14 | 298,434 | |
| Other accounts payable | | 928 | 998 |
| Deferred income taxes | 16 | 43,958 | 36,605 |
| Staff severance indemnities | 17 | 16,932 | 12,122 |
| Total long-term liabilities | | 460,252 | 349,725 |
| Minority interest | 18 | 34,908 | 31,891 |
| Shareholders equity | | | |
| Paid-in capital | 19 | 477,386 | 477,386 |
| Other reserves | 19 | 155,377 | 149,577 |
| Retained earnings | 19 | 387,358 | 326,733 |
| Total shareholders equity | | 1,020,121 | 953,696 |
| Total liabilities and shareholders equity | | 1,920,074 | 1,459,730 |

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 | |
|-------------------------------------|------|---------------------|------------|
| | | June 30, | |
| | | 2006 | 2005 |
| | | ThUS\$ | ThUS\$ |
| Operating results | | | |
| Sales | | 504,724 | 442,133 |
| Cost of sales | | (358,627) | (322,098) |
| Gross margin | | 146,097 | 120,035 |
| Selling and administrative expenses | | (33,116) | (31,019) |
| Operating income | | 112,981 | 89,016 |
| Non-operating results | | | |
| Non-operating income | 21 | 9,965 | 8,488 |
| Non-operating expenses | 21 | (27,301) | (25,378) |
| Non-operating loss | | (17,336) | (16,890) |
| Income before income taxes | | 95,645 | 72,126 |
| Income tax expense | 16 | (19,582) | (16,628) |
| Income before minority interest | | 76,063 | 55,498 |
| Minority interest | 18 | (869) | (1,104) |
| Net income before negative goodwill | | 75,194 | 54,394 |
| Amortization of negative goodwill | 11 | 68 | 102 |
| Net income for the year | | 75,262 | 54,496 |

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 June 30 | |
|---|------------------------------------|---------------|
| | 2006 | 2005 |
| | ThUS\$ | ThUS\$ |
| Cash flows from operating activities | | |
| Net income for the year | 75,262 | 54,496 |
| Charges (credits) to income not representing cash flows | | |
| Depreciation expense | 44,037 | 33,002 |
| Amortization of intangible assets | 732 | 244 |
| Write-offs and accruals | 8,051 | 13,003 |
| Gain on equity investments in related companies | (1,144) | (1,764) |
| Loss on equity investments in related companies | 131 | 35 |
| Amortization of goodwill | 1,369 | 673 |
| Amortization of negative goodwill | (68) | (102) |
| (Profit) loss on sales of assets | (767) |) |
| Other credits to income not representing cash flows | (15,489) | (5,148) |
| Other charges to income not representing cash flows | 52,287 | 45,977 |
| Foreign exchange difference, net | 3,096 | 3,136 |
| Net changes in operating assets and liabilities: | | |
| (Increase) decrease in trade accounts receivable | 11,370 | (14,359) |
| Increase in inventories | (43,626) | (53,269) |
| Decrease in other assets | 1,198 | (7,925) |
| (Decrease) increase in accounts payable | (1,794) | (2,779) |
| Increase (decrease) in interest payable | 3,889 | 330 |
| Decrease in net income taxes payable | (29,105) | (15,213) |
| (Decrease) increase in other accounts payable | (7,312) | (8,865) |
| Decrease in VAT and taxes payable | 1,303 | (5,590) |
| Minority interest | 869 | (1,070) |
| | <hr/> | <hr/> |
| Net cash provided from operating activities | 104,289 | 34,812 |
| | <hr/> | <hr/> |
| Cash flows from financing activities | | |
| Proceeds from short term bank financing | 136,281 | 100,000 |
| Bonds payable | 299,833 | |
| Payment of dividends | (74,481) | (51,540) |
| Repayment of bank financing | (171,281) | (6,000) |
| Payment of expenses for the issuance and placement of bonds payable | (6,629) |) |
| | <hr/> | <hr/> |
| Net cash used in financing activities | 183,723 | 42,460 |
| | <hr/> | <hr/> |
| Cash flows from investing activities | | |
| Sales of property, plant and equipment | 10 | |
| Other investing income | 25,182 | 740 |
| Additions to property, plant and equipment | (104,722) | (74,345) |
| Capitalized interest | | (1,928) |
| Purchase of permanent investments | (115,124) | (1,002) |
| Other disbursements | | (666) |

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| | | |
|--|-----------------------|----------------------|
| Net cash used in investing activities | <u>(194,654)</u> | <u>(77,201)</u> |
| Effect of inflation on cash and cash equivalents | <u>998</u> | <u>983</u> |
| Net change in cash and cash equivalents | 94,356 | 1,054 |
| Beginning balance of cash and cash equivalents | <u>147,956</u> | <u>66,753</u> |
| Ending balance of cash and cash equivalents | <u>242,312</u> | <u>67,807</u> |

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

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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.

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(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)**

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:

| | 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) | 100.00 | 95.00 |
| Comercial Caiman Internacional S.A. (Cayman Islands) | 100.00 | 100.00 |
| Mineag SQM Africa Limited (South Africa) | 100.00 | 100.00 |
| Fertilizantes Olmea 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. | 66.67 | |
| SQM Dubai - FZCO | 100.00 | |
| Iodine Minera B.V. | 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 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 | |
| Sociedad Prestadora de Servicios de Salud Cruz del Norte 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.

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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 June 30, 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 (1.1% and 1.0% 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.

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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\$539.44 per US\$1 at June 30, 2006 and Ch\$579.00 per US\$1 at June 30, 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.

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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) 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.

d) Foreign currency (continued)

Foreign exchange differences for the period ended June 30, 2006 and 2005 generated net earnings (loss) of ThUS\$ (3,096) and ThUS\$ (3,136), 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 June 30, as follows:

| | <u>2006</u> | <u>2005</u> |
|--------------------|-------------|-------------|
| Brazilian Real | 2.16 | 2.35 |
| New Peruvian Sol | 3.26 | 3.25 |
| Argentine Peso | 3.08 | 2.89 |
| Japanese Yen | 115.24 | 110.62 |
| Euro | 0.79 | 0.83 |
| Mexican Peso | 11.40 | 10.76 |
| Indonesian Rupee | 9,290.00 | 9,290.00 |
| Australian Dollar | 1.35 | 1.32 |
| Pound Sterling | 0.54 | 0.52 |
| South African Rand | 7.14 | 6.72 |

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.

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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.

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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 June, 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 equipment.

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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.

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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 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.

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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.

z) Obligations with the public (bonds payable)

Bonds are stated at the amount of principal owed plus interest accrued. The difference between the carrying value and the placement value is capitalized and amortized over the term in which bonds expire.

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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 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 June 30, 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. |
|-------------------------------|---|
| | <hr/> |
| | ThUS\$ |
| Current Asset | 11,203 |
| Property, Plant and Equipment | 64 |
| Other Assets | 71 |
| Current Liability | 10,868 |
| Results | 67 |

[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 - Time Deposits

| Institution which receives the deposit | Type of deposit | Origin currency | Interest rate | Placement date | Expiration date | Principal owed ThUS\$ | Interest accrued to-date ThUS\$ | Current year balance ThUS\$ | Prior year balance ThUS\$ |
|---|------------------------|------------------------|----------------------|-----------------------|------------------------|------------------------------|--|------------------------------------|----------------------------------|
| Banco Crédito e Inversiones | Fixed term | USD | 5.02 % | 04 05 2006 | 07 05 2006 | 40,000 | 480 | 40,480 | 0 |
| Banco Santander Santiago | Fixed term | USD | 0.38 % | 06 07 2005 | 07 11 2005 | 0 | 0 | 0 | 12,304 |
| Banco Santander Santiago | Fixed term | USD | 5.40 % | 04 05 2006 | 09 07 2006 | 22,000 | 284 | 22,284 | 0 |
| Banco Santander Santiago | Fixed term | USD | 5.40 % | 04 05 2006 | 09 08 2006 | 22,000 | 284 | 22,284 | 0 |
| Banco Santander Santiago | Fixed term | USD | 5.40 % | 04 05 2006 | 09 11 2006 | 22,000 | 284 | 22,284 | 0 |
| Banco Santander Santiago | Fixed term | USD | 5.40 % | 04 05 2006 | 09 12 2006 | 22,000 | 284 | 22,284 | 0 |
| Banco Santander Santiago | Fixed term | USD | 5.40 % | 04 05 2006 | 09 13 2006 | 22,000 | 284 | 22,284 | 0 |
| Citibank N.A. | Overnight | USD | 3.10 % | 06 30 2005 | 07 01 2005 | 0 | 0 | 0 | 235 |
| Citibank N.A. | Overnight | USD | 3.10 % | 06 30 2005 | 07 01 2005 | 0 | 0 | 0 | 1,620 |
| Citibank N.A. | Overnight | USD | 3.56 % | 06 30 2006 | 07 03 2006 | 577 | 0 | 577 | 0 |
| Citibank N.A. | Overnight | USD | 3.10 % | 06 30 2005 | 07 01 2005 | 0 | 0 | 0 | 1,632 |
| Citibank N.A. | Overnight | USD | 3.56 % | 06 30 2006 | 07 03 2006 | 2,078 | 0 | 2,078 | 0 |
| Citibank N.A. | Overnight | USD | 3.10 % | 06 30 2005 | 07 01 2005 | 0 | 0 | 0 | 1,537 |
| Citibank N.A. | Overnight | USD | 3.56 % | 06 30 2006 | 07 03 2006 | 1,127 | 0 | 1,127 | 0 |
| Bank Boston N.A. | Fixed term | USD | 16.32 % | 12 08 2004 | 12 05 2005 | 0 | 0 | 0 | 91 |
| Banco Unibanco S.A. | Demand deposit | Brazilian real | 1.17 % | 01 08 2003 | 12 23 2005 | 0 | 0 | 0 | 15 |
| Banco Unibanco S.A. | Demand deposit | Brazilian real | 1.17 % | 07 06 2004 | 06 21 2006 | 0 | 0 | 0 | 1 |
| Nedbank | Fixed term | ZAR | 4.95 % | 02 28 2006 | 04 01 2006 | 4 | 0 | 4 | 0 |
| Citibank N.A. | Overnight | USD | 3.56 % | 06 30 2006 | 07 03 2006 | 241 | 0 | 241 | 0 |
| Citibank N.A. | Overnight | USD | 3.10 % | 06 30 2005 | 07 01 2005 | 0 | 0 | 0 | 1,298 |
| BBVA Banco Bilbao Vizcaya Argentaria | Fixed term | Euro | 1.37 % | 03 31 2004 | 11 02 2006 | 48 | 0 | 48 | 0 |
| BBVA Banco Bilbao Vizcaya Argentaria | Fixed term | Euro | 1.37 % | 03 31 2004 | 11 02 2006 | 0 | 0 | 0 | 47 |

| | | |
|--------------|----------------|---------------|
| Total | <u>155,975</u> | <u>18,780</u> |
|--------------|----------------|---------------|

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(A translation of the original in Spanish- see note 2 (a))

Note 5 - Marketable Securities

As of June 30 marketable securities are detailed as follows:

| | <u>2006</u> | <u>2005</u> |
|--------------|---------------|---------------|
| | ThUS\$ | ThUS\$ |
| Mutual funds | 58,933 | 35,287 |
| Total | <u>58,933</u> | <u>35,287</u> |

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

Note 6 - Short-term and long-term Accounts Receivable

a) Short term and long-term accounts receivable and other accounts receivable as of June 30 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> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Short-term | | | | | | |
| Trade accounts receivable | 126,593 | 98,898 | 24,284 | 18,260 | 150,877 | 117,158 |
| Allowance for doubtful accounts | | | | | (8,083) | (9,080) |
| Notes receivable | 25,280 | 23,633 | 6,246 | 5,671 | 31,526 | 29,304 |
| Allowance for doubtful accounts | | | | | (3,883) | (2,966) |
| Accounts receivable, net | | | | | <u>170,437</u> | <u>134,416</u> |
| Other accounts receivable | 5,848 | 10,910 | 1,618 | 867 | 7,466 | 11,777 |
| Allowance for doubtful accounts | | | | | (680) | (728) |
| Other accounts receivable, net | | | | | <u>6,786</u> | <u>11,049</u> |
| Long-term receivables | | | | | <u>297</u> | <u>332</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 6 - 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 | 28,770 | 24,467 | 42,199 | 30,064 | 8,852 | 5,410 | 31,790 | 29,337 | 31,183 | 18,800 | 142,794 | 108,078 |
| % of total | 20.15 | % 22.64 | % 29.55 | % 27.82 | % 6.20 | % 5.01 | % 22.26 | % 27.14 | % 21.84 | % 17.39 | % 100.00 | % 100.00 |
| Net short-term notes receivable | | | | | | | | | | | | |
| Balance | 17,162 | 17,176 | 5,761 | 3,913 | 293 | 609 | 956 | 883 | 3,471 | 3,757 | 27,643 | 26,338 |
| % of total | 62.08 | % 65.21 | % 20.84 | % 14.86 | % 1.06 | % 2.31 | % 3.46 | % 3.36 | % 12.56 | % 14.26 | % 100.00 | % 100.00 |
| Net short-term other accounts receivable | | | | | | | | | | | | |
| Balance | 2,834 | 3,423 | 1,328 | 3,658 | 79 | 98 | 2,289 | 3,720 | 256 | 150 | 6,786 | 11,049 |
| % of total | 41.76 | % 30.98 | % 19.57 | % 33.10 | % 1.16 | % 0.89 | % 33.74 | % 33.67 | % 3.77 | % 1.36 | % 100.00 | % 100.00 |
| Subtotal short-term accounts receivable, net | | | | | | | | | | | | |
| Balance | 48,766 | 45,066 | 49,288 | 37,635 | 9,224 | 6,117 | 35,035 | 33,940 | 34,910 | 22,707 | 177,223 | 145,465 |
| % of total | 27.52 | % 30.98 | % 27.81 | % 25.87 | % 5.20 | % 4.21 | % 19.77 | % 23.33 | % 19.70 | % 15.61 | % 100.00 | % 100.00 |
| Long-term accounts receivable, net | | | | | | | | | | | | |
| Balance | 282 | 245 | | 72 | | | | | 15 | 15 | 297 | 332 |
| % of total | 94.95 | % 73.79 | % | 21.69 | % | | | | 5.05 | % 4.52 | % 100.00 | % 100.00 |
| Total short and long-term accounts receivable, net | | | | | | | | | | | | |
| Balance | 49,048 | 45,311 | 49,288 | 37,707 | 9,224 | 6,117 | 35,035 | 33,940 | 34,925 | 22,722 | 177,520 | 145,797 |
| % of total | 27.63 | % 31.08 | % 27.76 | % 25.86 | % 5.20 | % 4.20 | % 19.74 | % 23.28 | % 19.67 | % 15.58 | % 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 7 - 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 June 30, 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. | 4,319 | 2,663 | | |
| Nutrisi Holding N.V. | 1,545 | 1,470 | | |
| Generale de Nutrition Vegetale S.A. | 132 | 132 | | |
| Abu Dhabi Fertilizer Ind. WLL | 2,600 | 5,039 | 2,000 | |
| Doktor Tarsa SQM Turkey | 11,316 | 9,712 | | |
| Yara North America | 9,794 | 9,674 | | |
| Yara Iberian S.A. | 2,422 | 2,728 | | |
| Sales de Magnesio S.A. | 36 | 42 | | |
| Soc. Inv. Pampa Calichera S.A. | 8 | | | |
| Ajay North America LLC | 3,158 | 2,670 | | |
| Yara International Asia Trade Pte Ltd | 1,482 | | | |
| Yara France S.A. | 35 | 50 | | |
| Yara Poland SP | 533 | 445 | | |
| Yara Benelux B.V | 714 | 590 | | |
| Yara Hellas S.A. | 694 | 928 | | |
| Yara UK Ltd. | 322 | 443 | | |
| Yara GMBH & CO KG | 568 | 493 | | |
| Yara AB | 70 | 96 | | |
| Yara Colombia Ltda. | 724 | 707 | | |
| Yara International ASA | 6,015 | 308 | | |
| Yara Norge | 13 | 7 | | |
| Yara CZECH Republic | 16 | 12 | | |
| Yara International Australia PTY | 668 | 730 | | |
| Yara France BU Africa | 542 | 775 | | |
| NU3 B.V. | 1,400 | 902 | | |
| Yara Argentina S.A. | 6,114 | 6,817 | | |
| Yara Fertilizers (Filipinas) | | 11 | | |
| Yara International Asia Trade (Vietnam) | 21 | 58 | | |
| Yara International Asia Trade (Singapur) | | 1,680 | | |
| Yara Fertilizers (New Zealand) | 121 | 79 | | |
| PCS Sales Inc. | 16 | 25 | | |
| Yara France BU Latin America | | 2,760 | | |
| Yara International Wholesale Spec. South Africa | | 3,173 | | |
| Yara Italia SPA | 58 | 75 | | |
| Yara East Africa Limited | 140 | 626 | | |
| Adubo Trevo | 252 | 530 | | |

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| | | | | |
|------------------------------|-------------------|-------------------|-------------------|-------------------|
| SQM East Med Turkey | 13 | | | |
| Fertilizantes Naturales S.A. | | 233 | | |
| Impronta SRL | 7,596 | 7,323 | | |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total | 63,457 | 64,006 | 2,000 | |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
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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 7 - Balances and Transactions with Related Parties (continued)

a) Amounts included in balances with related parties as of June 30, 2006 and 2005, continued:

| Accounts payable | Short-term | |
|------------------------------|-------------------|---------------|
| | 2006 | 2005 |
| | ThUS\$ | ThUS\$ |
| NU3 N.V. | 647 | 944 |
| Yara Fertilizantes Ltda. | 153 | 765 |
| Yara France BU Latin America | 356 | |
| Charlee SQM Thailand co. | 175 | |
| Inversiones PCS Chile Ltda. | 1,000 | |
| Total | 2,331 | 1,709 |

There were no outstanding long-term accounts payable with related parties as of June 30, 2006 and 2005

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(A translation of the original in Spanish- see note 2 (a))

Note 7 - 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 | 3,971 | 3,009 | 1,565 | 1,023 |
| Doktor Tarsa | Indirect | Sales of products | 7,962 | 7,885 | 2,677 | 2,310 |
| Abu Dhabi Fertilizer WLL | Indirect | Sales of products | 1,403 | 1,153 | 425 | 380 |
| Ajay Europe S.A.R.L. | Indirect | Sales of products | 6,869 | 3,975 | 3,085 | 2,117 |
| NU3 B.V. | Indirect | Sales of products | 3,838 | 3,433 | 1,491 | 372 |
| Impronta SRL | Indirect | Sales of products | 2,982 | 2,567 | 1,133 | 998 |
| Ajay North America LLC | Indirect | Sales of products | 8,706 | 6,549 | 4,280 | 3,544 |
| Adubo Trevo S.A. | Shareholder | Sales of products | 1,573 | 2,006 | 685 | 864 |
| Yara Business Support | Shareholder | Services | 2,250 | 2,050 | (2,250) | (2,050) |
| Yara Hellas S.A. | Shareholder | Sales of products | 1,323 | 1,069 | 454 | 360 |
| Yara Argentina S.A. | Shareholder | Sales of products | 10,423 | 7,797 | 3,660 | 2,413 |
| Yara UK Ltd. | Shareholder | Sales of products | 802 | 907 | 256 | 114 |
| Yara Int. Asia Trade PTE Ltd. | Shareholder | Sales of products | 3,491 | 4,747 | 1,205 | 1,267 |
| Yara Benelux B.V. | Shareholder | Sales of products | 5,241 | 4,759 | 1,225 | 1,101 |
| Yara Int. Australia Ltd. | Shareholder | Sales of products | 967 | 1,397 | 320 | 237 |
| Yara Iberian S.A. | Shareholder | Sales of products | 4,478 | 4,699 | 1,851 | 1,793 |
| Yara Colombia Ltda. | Shareholder | Sales of products | 1,784 | 2,974 | 579 | 1,547 |
| Yara Plant Nutri Poland | Shareholder | Sales of products | 1,089 | 1,022 | 420 | 136 |
| Yara GMBH & Co Kg | Shareholder | Sales of products | 1,168 | 1,075 | 447 | 180 |
| Yara France | Shareholder | Sales of products | 4,388 | 5,344 | 1,451 | 1,562 |
| Yara France BU Africa | Shareholder | Sales of products | 1,177 | 7,033 | 255 | 2,485 |
| Yara North America | Shareholder | Sales of products | 26,300 | 25,436 | 6,481 | 8,685 |
| Yara Fertilizers Brasil | Shareholder | Sales of products | 4,184 | | 1,732 | |
| Yara International Wholesale | Shareholder | Sales of products | | 9,767 | | 2,259 |
| Yara Internacional ASA | Shareholder | Sales of products | 12,213 | 1,834 | 3,542 | 358 |

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(A translation of the original in Spanish- see note 2 (a))

Note 8 - Inventories

Net inventories are summarized as follows:

| | 2006 | 2005 |
|-------------------|---------------|---------------|
| | ThUS\$ | ThUS\$ |
| Finished products | 234,946 | 206,427 |
| Work in process | 120,745 | 99,650 |
| Supplies | 18,607 | 16,137 |
| Total | 374,298 | 322,214 |

Note 9 - Property, Plant and Equipment

Property, plant and equipment are summarized as follows:

| | 2006 | 2005 |
|-------------------------------------|---------------|---------------|
| | ThUS\$ | ThUS\$ |
| Land | | |
| Land | 67,750 | 20,003 |
| Mining Concessions | 30,787 | 44,183 |
| | 98,537 | 64,186 |
| Buildings and infrastructure | | |
| Buildings | 167,907 | 163,583 |
| Installations | 207,803 | 178,011 |
| Construction-in-progress | 211,429 | 84,098 |
| Other | 176,951 | 172,533 |
| | 764,090 | 598,225 |
| Machinery and Equipment | | |
| Machinery | 455,525 | 416,960 |
| Equipment | 123,565 | 99,479 |
| Project-in-progress | 10,113 | 29,805 |
| Other | 18,101 | 18,626 |
| | 607,304 | 564,870 |
| Other fixed assets | | |
| Tools | 8,840 | 8,640 |
| Furniture and office equipment | 14,600 | 14,392 |

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| | | |
|---------------------|---------------|---------------|
| Project-in-progress | 16,704 | 14,276 |
| Other | 12,782 | 7,878 |
| | <u>52,926</u> | <u>45,186</u> |
| | | 25 |

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(A translation of the original in Spanish- see note 2 (a))

Note 9 - Property, Plant and Equipment (continued)

| | 2006 | 2005 |
|--|-------------------|-------------------|
| | 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>1,584,279</u> | <u>1,333,889</u> |
| Less: Accumulated depreciation | | |
| Buildings and infrastructure | (279,967) | (235,451) |
| Machinery and equipment | (338,283) | (312,201) |
| Other fixed assets | (37,292) | (29,449) |
| Technical appraisal | (36,280) | (34,958) |
| | <u>(691,822)</u> | <u>(612,059)</u> |
| Total accumulated depreciation | <u>(691,822)</u> | <u>(612,059)</u> |
| Net property, plant and equipment | <u>892,457</u> | <u>721,830</u> |

| | 2006 | 2005 |
|---|------------------|------------------|
| | ThUS\$ | ThUS\$ |
| Depreciation for the year ended June 31: | | |
| Buildings and infrastructure | (19,500) | (14,548) |
| Machinery and equipment | (20,362) | (17,000) |
| Other fixed assets | (3,436) | (840) |
| Technical revaluation | (739) | (614) |
| | <u>(44,037)</u> | <u>(33,002)</u> |
| Total depreciation | <u>(44,037)</u> | <u>(33,002)</u> |

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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 - Property, Plant and Equipment (continued)

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

| | <u>2006</u> | <u>2005</u> |
|---------------------------------|---------------|---------------|
| | <u>ThUS\$</u> | <u>ThUS\$</u> |
| Administrative office buildings | 2,086 | 2,086 |
| Accumulated depreciation | (565) | (496) |
| Total assets in leasing | <u>1,521</u> | <u>1,590</u> |

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 10 - 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.

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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 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\$101,156 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\$2,576, 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 June 30, 2006 are as follows:

| | <u>ThUS\$</u> |
|-------------------------------|---------------|
| Current assets | 65,054 |
| Property, plant and equipment | 43,058 |
| Other assets | 8,822 |
| Current liabilities | 10,195 |
| Long-term liabilities | 495 |
| Shareholders equity | 106,244 |

* 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\$13,840 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.

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.

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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 ThEU 75,100, 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.

* On May 9, 2006, SQM Industrial S.A. and SQM Potasio S.A. formed Prestadora de Servicios de Salud Cruz del Norte S.A.

The company's capital amounts to Ch\$50,000,000 divided into 5,000 single shares with no par value, no privileges or preferences, which are paid in full upon subscription of shares and through subscription and payment by SQM Industrial S.A. of 4,950 shares for a sum of Ch\$49,500,000 paid upon subscription in cash and the subscription and payment by SQM Potasio S.A. of 50 shares for a sum of Ch\$500,000 paid upon subscription in cash. The Company's share capital and the total number of shares in which capital is divided is subscribed and paid in full in the company's social fund.

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.

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(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.

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(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.

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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:

| | <u>ThUS\$</u> |
|-------------------------------|---------------|
| 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.

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.

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(A translation of the original in Spanish- see note 2 (a))

* 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.

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(A translation of the original in Spanish- see note 2 (a))

Note 10 - 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 investments | | 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 | 11,658 | 12,713 | 5,421 | 6,229 | 186 | 1,587 | 374 | 779 |
| 0-E | Nutrisi Holding N.V. | Belgium | US\$ | | 50.00 | 50.00 | 7,752 | 5,038 | 3,876 | 2,519 | 577 | 104 | 289 | 52 |
| 0-E | Misir Specialty Fertilizers | Egypt | US\$ | | 47.00 | 47.00 | 4,503 | 5,078 | 2,138 | 2,411 | (276) | (74) | (131) | (35) |
| 0-E | Ajay Europe S.A.R.L. | France | US\$ | 36,700 | 50.00 | 50.00 | 5,481 | 4,747 | 1,981 | 2,373 | | 556 | (223) | 278 |
| 0-E | Doktor Tarsa Abu Dhabi | Turkey | Euros | | 50.00 | 50.00 | 5,557 | 4,960 | 2,778 | 2,480 | 523 | 594 | 261 | 297 |
| 0-E | Fertilizer Industries WLL | UAE | US\$ | 1,961 | 50.00 | 37.00 | 3,981 | 3,440 | 1,990 | 1,723 | 461 | 72 | 230 | 36 |
| 0-E | Charlee SQM Thailand Co. Ltd. | Thailand | US\$ | | 40.00 | | 2,118 | | 847 | | 118 | | 47 | |
| 0-E | Impronta SRL SQM Eastmed | Italia | Euros | | 50.00 | 50.00 | 2,198 | 1,540 | 1,099 | 770 | 281 | 638 | 141 | 319 |
| 0-E | Rui Xin Packaging Materials | Turkey | Euros | | 50.00 | 50.00 | 500 | 476 | 250 | 238 | | | | |
| 0-E | Sanhe Co.Ltd Fertilizantes | China | US\$ | | 25.00 | 25.00 | | 482 | | 121 | | | | |
| 0-E | Naturales S.A. Agro India | Spain | Euros | | 25.00 | 25.00 | 395 | | (132) | (118) | 28 | | (9) | (34) |
| 0-E | Limitada. Sales de Magnesio | India | US\$ | | 49.00 | | 115 | | 56 | | | | | |
| 77557430-5 | Ltda. Asoc. Garantizadora | Chile | | | 50.00 | 50.00 | 990 | 556 | 495 | 278 | 187 | 37 | 94 | 19 |
| 81767200-0 | Pensiones | Chile | | | 3.00 | 3.00 | 863 | 804 | 29 | 27 | | | | |
| Total | | | | | | | | | 20,828 | 19,051 | | | | |

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(A translation of the original in Spanish- see note 2 (a))

Note 11 - Goodwill and Negative Goodwill

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

a) Goodwill

| Tax Registration Number | Company | June 30, 2006 | | June 30, 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. | 72 | 1,518 | 72 | 1,662 |
| 96801610-5 | Comercial Hydro S.A. | 85 | 1,158 | 76 | 1,193 |
| 79947100-0 | SQM Industrial S.A. | 596 | 20,587 | 316 | 12,321 |
| 79768170-9 | Soquimich Comercial S.A. | | | 75 | 47 |
| 79626800-K | SQM Salar S.A. | | | 22 | 18 |
| 78602530-3 | Minera Nueva Victoria S.A. | 184 | 2,392 | | |
| 0-E | Doktor Tarsa | | | 18 | |
| 0-E | SQM México S.A. de C.V. | 28 | 863 | 28 | 919 |
| 0-E | Comercial Caiman Internacional S.A. | 11 | 143 | 11 | 165 |
| 0-E | Fertilizantes Olmeca S.A. de C.V. | 28 | 84 | 28 | 140 |
| 0-E | Safnits PTY Ltd. | | | 27 | 247 |
| 0-E | SQM Dubai - FZCO | 51 | 1,934 | | |
| 0-E | Iodine Minera B.V. | 314 | 12,252 | | |
| Total | | 1,369 | 40,931 | 673 | 16,712 |

b) Negative Goodwill

| Tax Registration Number | Company | June 30, 2006 | | June 30, 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. | 68 | | 102 | 169 |
| Total | | 68 | | 102 | 169 |

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(A translation of the original in Spanish- see note 2 (a))

Note 12 - Other Long-term Assets

Other long-term assets are summarized as follows:

| | 2006 | 2005 |
|---|---------------|---------------|
| | ThUS\$ | ThUS\$ |
| Engine and equipment spare-parts, net | 16,911 | 22,012 |
| Mine development costs | 25,121 | 23,745 |
| Pension plan | 1,133 | 1,133 |
| Construction of Salar-Baquedano road | 1,350 | 1,590 |
| Deferred loan issuance costs | 272 | 663 |
| Cost of issuance and placement of bonds | 5,556 | |
| Other | 1,500 | 1,863 |
| | <hr/> | <hr/> |
| Total | 51,843 | 51,006 |
| | <hr/> | <hr/> |

Note 13 - Bank Debt

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

| Bank or financial institution | 2006 | 2005 |
|--------------------------------------|---------------|---------------|
| | ThUS\$ | ThUS\$ |
| Banco de Crédito e Inversiones | 50,023 | |
| Other | 1,577 | 1,250 |
| | <hr/> | <hr/> |
| Total | 51,600 | 1,250 |
| | <hr/> | <hr/> |
| Annual average interest rate | 5.49 | % 3.00 % |

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(A translation of the original in Spanish- see note 2 (a))

Note 13 - Bank Debt (continued)

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

| Bank or financial institution | 2006 | 2005 |
|--|------------|----------|
| | ThUS\$ | ThUS\$ |
| Union Bank of Switzerland (1) | 204,620 | 204,620 |
| BBVA Banco Bilbao Vizcaya Argentaria (2) | 100,376 | 100,245 |
| | | |
| Total | 304,996 | 304,865 |
| | | |
| Less: Current portion | (204,996) | (4,865) |
| | | |
| 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 June 3, 2010.

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

| Years to maturity | 2006 | 2005 |
|-------------------|---------|---------|
| | ThUS\$ | ThUS\$ |
| Current portion | 204,996 | 4,865 |
| 1 to 2 years | | 200,000 |
| 2 to 3 years | | |
| 3 to 5 years | 100,000 | 100,000 |
| | | |
| Total | 304,996 | 304,865 |
| | | |

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(A translation of the original in Spanish- see note 2 (a))

Note 14 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 4.00%. This placement achieved collection equivalent to 100% of par value.

On April 5, 2006, the Company made a placement of single-series bonds for an amount of ThUS\$200,000 at an annual rate of 6.125%, under the regulations contained in Rule 144 and regulation S of the U.S. Securities Act of 1933 .

As of June 30, 2006, the short-term portion includes a balance of ThUS\$5,398 related to interest accrued at that date. The long-term portion includes an amount of ThUS\$298,434 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 | Placement in Chile abroad | | |
|---|--------|-------------------|--------------------|------------------|-----------------|------------------------|----------------------------|---------------------------------|------------|----------|
| | | | | | | | | 06/30/2006 | 06/30/2005 | |
| | | | | | | | | ThUS\$ | ThUS\$ | |
| Current portion of long-term bonds payable | | | | | | | | | | |
| 446 | C | 75,000 | UF | 4.00 | % 06/01/2007 | Semi-annual | Semi-annual | 2,846 | | In Chile |
| 184 | Single | | US\$ | 6.125 | % 10/15/2006 | Semi-annual | Semi-annual | 2,552 | | Abroad |
| Total Current Portion | | | | | | | | 5,398 | | |
| Long-term bonds payable | | | | | | | | | | |
| 446 | C | 2,925,000 | UF | 4.00 | % 12/01/2026 | Semi-annual | Semi-annual | 98,434 | | In Chile |
| 184 | Single | 200,000,000 | US\$ | 6.125 | % 04/15/2016 | Semi-annual | Semi-annual | 200,000 | | Abroad |
| Total Long-term | | | | | | | | 298,434 | | |

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(A translation of the original in Spanish- see note 2 (a))

Note 15 - Accrued Liabilities

As of June 30, 2006 and 2005, accrued liabilities are summarized as follows:

| | 2006 | 2005 |
|---|---------------|---------------|
| | ThUS\$ | ThUS\$ |
| Provision for royalties | 2,261 | 1,750 |
| Quarterly bonus | 299 | 248 |
| Provision for employee compensation and legal costs | 502 | 6,669 |
| Taxes and monthly income tax installment payments | 2,985 | 2,622 |
| Vacation accrual | 7,970 | 6,500 |
| Accrued employee benefits | 3,574 | 5,061 |
| Yumbes work | 822 | 1,500 |
| Marketing expenses | 2,250 | 2,050 |
| Other accruals | 3,324 | 890 |
| | <hr/> | <hr/> |
| Total current liabilities | 23,987 | 27,290 |
| | <hr/> | <hr/> |

Note 16 - Income and Deferred Taxes

a) At June 30, 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:

| | 2006 | 2005 |
|--|---------------|---------------|
| | ThUS\$ | ThUS\$ |
| Accumulated tax basis retained earnings with tax credit | 215,045 | 127,430 |
| Accumulated tax basis retained earnings without tax credit | 90,330 | 70 |
| Tax loss carry-forwards (1) | 213,951 | 236,277 |
| Credit for shareholders | 43,836 | 25,791 |

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

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(A translation of the original in Spanish- see note 2 (a))

Note 16 - Income and Deferred Taxes (continued)

The deferred taxes as of June 30, 2006 and 2005 represented a net liability of ThUS\$ 37,880 and ThUS\$ 39,348, 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 | 1,448 | | | |
| Vacation accrual | 1,266 | | | |
| Unrealized gain on sale of products | 15,663 | | | |
| Provision for obsolescence | | 1,599 | | |
| Production expenses | | | 16,696 | |
| Accelerated depreciation | | | | 58,797 |
| Exploration expenses | | | | 5,453 |
| Capitalized interest | | | | 6,596 |
| Staff severance indemnities | | | | 2,584 |
| Accrued expenses | | 140 | | |
| Capitalized expenses | | | | 1,150 |
| Tax loss carry-forwards | | 31,626 | | |
| Losses from derivative transactions | | | | |
| Accrued interest | 132 | | | |
| Fair value | | | | |
| Other | 2,132 | 3,108 | | 357 |
| Total gross deferred taxes | 20,641 | 36,473 | 16,696 | 74,937 |
| Total complementary accounts | | (212) | (2,323) | (23,953) |
| Valuation allowance | (190) | (29,235) | | |
| Total deferred taxes | 20,451 | 7,026 | 14,373 | 50,984 |

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(A translation of the original in Spanish- see note 2 (a))

Note 16 - 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 | 1,611 | | | |
| Vacation accrual | 1,043 | | | |
| Unrealized gain on sale of products | 11,118 | | | |
| Provision for obsolescence | | 2,140 | | |
| Production expenses | | | 19,788 | |
| Accelerated depreciation | | | | 59,211 |
| Exploration expenses | | | | 5,072 |
| Capitalized interest | | | | 5,859 |
| Staff severance indemnities | | 485 | | 2,095 |
| Accrued expenses | | 425 | | |
| Capitalized expenses | | | | 246 |
| Tax loss carry-forwards | | 42,657 | | |
| Losses from derivative transactions | | | | |
| Accrued interest | 34 | | | |
| Provision for investment contractual obligations | 170 | | | |
| Other | 1,220 | 3,033 | 7 | 244 |
| Total gross deferred taxes | 15,196 | 48,740 | 19,795 | 72,727 |
| Total complementary accounts | | (4,729) | (2,035) | (25,562) |
| Valuation allowance | (179) | (33,451) | | |
| Total deferred taxes | 15,017 | 10,560 | 17,760 | 47,165 |
| | | 41 | | |

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(A translation of the original in Spanish- see note 2 (a))

Note 16 - Income and Deferred Taxes (continued)

c) Income tax expense is summarized as follows:

| | 2006 | | 2005 |
|---|---------------|---|---------------|
| | ThUS\$ | | ThUS\$ |
| Provision for current income tax | (16,960 |) | (18,645 |
| Tax expense adjustment (prior year) | (616 |) | (982 |
| Effect of deferred tax assets and liabilities | 2,746 | | 5,872 |
| Effect of amortization of complementary accounts | (2,155 |) | (2,397 |
| Effect of deferred tax assets and liabilities due to changes in the appraisal allowance | (2,044 |) | (945 |
| Other tax charges and credits | (553 |) | 469 |
| | <hr/> | | <hr/> |
| Total income tax expense | (19,582 |) | (16,628 |
| | <hr/> | | <hr/> |

Note 17 Staff Severance Indemnities

Staff severance indemnities are summarized as follows:

| | 2006 | | 2005 |
|-------------------------|---------------|---|---------------|
| | ThUS\$ | | ThUS\$ |
| Opening balance | 16,415 | | 11,875 |
| Increases in obligation | 2,259 | | 2,689 |
| Payments | (891 |) | (2,048 |
| Exchange difference | (851 |) | (394 |
| | <hr/> | | <hr/> |
| Balance as of June 30 | 16,932 | | 12,122 |
| | <hr/> | | <hr/> |

[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 - Minority Interest

Minority interest is summarized as follows:

| | Equity | | Net Income/(Loss) | |
|----------------------------------|--------|--------|-------------------|----------|
| | 2006 | 2005 | 2006 | 2005 |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Soquimich Comercial S.A. | 31,044 | 28,282 | (115) | (538) |
| Ajay SQM Chile S.A. | 3,593 | 3,171 | (607) | (399) |
| Cape Fear Bulk LLC | 264 | 243 | (220) | (146) |
| SQM Italia S.R.L | | 29 | | (8) |
| SQM Nitratos México S.A. de C.V. | (104) | (67) | 64 | 21 |
| Fertilizantes Naturales S.A. | 132 | 235 | (9) | (34) |
| SQM Indonesia S.A. | (21) | (2) | 18 | |
| Total | 34,908 | 31,891 | (869) | (1,104) |

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(A translation of the original in Spanish- see note 2 (a))

Note 19 - Shareholders Equity

a) Changes to shareholders equity consisted of:

| | Number of shares | Paid-in capital ThUS\$ | Other reserves ThUS\$ | Accumulated deficit of subsidiaries in development stage ThUS\$ | Retained earnings ThUS\$ | Net income ThUS\$ | Total 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) | |
| Declared dividends 2005 | | | | | (48,118) | | (48,118) |
| Accumulated deficit from subsidiaries in development stage (1) | | | | | | | |
| Other comprehensive income | | | (1,310) | | | | (1,310) |
| Net income for the year | | | | | | 54,496 | 54,496 |
| Balance as of June 30, 2005 | 263,196,524 | 477,386 | 149,577 | (8,370) | 280,607 | 54,496 | 953,696 |
| 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) | |
| Declared dividends 2006 | | | | | (73,647) | | (73,647) |
| Other comprehensive income (1) | | | (1,910) | | | | (1,910) |
| Net income for the year | | | | | | 75,262 | 75,262 |
| Balance as of June 30, 2006 | 263,196,524 | 477,386 | 155,377 | (8,370) | 320,466 | 75,262 | 1,020,121 |

(1) Other comprehensive income includes translation adjustments and the effect of changes in the valuation of the Company's under-funded pension as of June 30, 2005 and 2006.

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(A translation of the original in Spanish- see note 2 (a))

Note 19 - Shareholders Equity (continued)

b) The composition of other comprehensive income as of June 30, 2006 is as follows:

| Detail | For the year ended June 30, 2006 | As of June 30, 2006 |
|---|-------------------------------------|---------------------------|
| | ThUS\$ | ThUS\$ |
| Technical appraisal | | 151,345 |
| Changes to other comprehensive income from equity method investments: | | |
| Soquimich Comercial S.A. | (1) (1,973 |) 4,295 |
| Isapre Note Grande Ltda. | (1) | (83) |
| Inversiones Augusta S.A. | (1) | (761) |
| SQM Ecuador S.A. | (2) | (270) |
| Almacenes y Depósitos Ltda. | (1) | 22 |
| Asociación Garantizadora de Pensiones | (1) (1 |) (12) |
| Sales de Magnesio Ltda. | (1) | 59 |
| Other Companies | (1) 64 | 782 |
| | | |
| Total other comprehensive income | (1,910 |) 155,377 |

(1) Corresponds to translation adjustments and monetary correction

(2) 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.

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(A translation of the original in Spanish- see note 2 (a))

Note 20 Derivative 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 June 30, 2006 the Company's derivative instruments are as follows:

| 2006 Type of derivative | Notional or covered amount | Expiration | Description of the contract type | Position purchase/sale | (Liability)Asset amount | Income (loss) recorded |
|--|---|---------------------------------|---|-----------------------------------|------------------------------------|-----------------------------------|
| | ThUS\$ | | | | ThUS\$ | ThUS\$ |
| US dollar Forward | 5,000 | 3 rd quarter of 2006 | Exchange rate | S | (192) | (192) |
| US dollar Forward | 5,000 | 3 rd quarter of 2006 | Exchange rate | S | (192) | (192) |
| US dollar Forward | 4,361 | 3 rd quarter of 2006 | Exchange rate | P | 208 | 208 |
| US dollar PUT | 20,000 | 3 rd quarter of 2006 | Exchange rate | S | (78) | (78) |
| US dollar PUT | 20,000 | 4 th quarter of 2006 | Exchange rate | S | (256) | (256) |
| US dollar PUT | 3,046 | 3 rd quarter of 2006 | Exchange rate | P | (23) | (23) |
| US dollar PUT | 27,792 | 3 rd quarter of 2006 | Exchange rate | P | (146) | (146) |
| Swap | 102,630 | 3 rd quarter of 2006 | Interest rate | P | (1,280) | (1,280) |
| | <u>187,829</u> | | | | <u>(1,959)</u> | <u>(1,959)</u> |

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(A translation of the original in Spanish- see note 2 (a))

Note 21 - 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 | 6,096 | 2,865 |
| Prior period equity value income | | 1,164 |
| Reversal of allowance for doubtful accounts | 62 | 394 |
| Insurance recoveries | 117 | 107 |
| Rental of property, plant and equipment | 497 | 497 |
| Fines collected from third parties | 263 | 16 |
| Equity participation in net income of unconsolidated subsidiaries | 1,144 | 1,764 |
| Compensation obtained from third parties | | 737 |
| Sale of Antucoya | 753 | |
| Discounts obtained | 336 | 289 |
| Other income | 697 | 655 |
| | <hr/> | <hr/> |
| Total | 9,965 | 8,488 |
| | <hr/> | <hr/> |

b) Non-operating expenses

| | 2006 | 2005 |
|---|---------------|---------------|
| | ThUS\$ | ThUS\$ |
| Write-off of investments | 4,122 | 6,367 |
| Interest expense | 14,193 | 8,471 |
| Equity participation in net losses of unconsolidated subsidiaries | 131 | 35 |
| Amortization of goodwill | 1,369 | 673 |
| Work disruption expenses | 1,500 | 195 |
| Net foreign exchange | 3,096 | 3,136 |
| Consulting service fees | 367 | 84 |
| Training and grant expenses | 122 | 149 |
| Loss of value in permanent investments | | 500 |
| Amortization of intangible assets | 202 | 236 |
| Non-recoverable taxes | 336 | 131 |
| Increase in provision for employee compensation and legal costs | 15 | 4,730 |
| Other expenses | 1,848 | 671 |
| | <hr/> | <hr/> |
| Total | 27,301 | 25,378 |
| | <hr/> | <hr/> |

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(A translation of the original in Spanish- see note 2 (a))

Note 22 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 | 73 | 63 |
| Other assets and liabilities | 72 | 3 |
| Shareholders' equity | (905) | (780) |
| Net price-level restatement | (760) | (714) |

Note 23 Assets and Liabilities Denominated in Foreign Currency

| | 2006 | 2005 |
|------------------------------|---------------|---------------|
| | ThUS\$ | ThUS\$ |
| Assets | | |
| Total assets | | |
| Chilean pesos | 50,875 | 48,872 |
| US dollars | 1,699,856 | 1,259,493 |
| Euros | 56,602 | 35,548 |
| Japanese Yen | 7,934 | 4,468 |
| Brazilian Real | (695) | 320 |
| Mexican pesos | 16,451 | 10,208 |
| UF | 64,689 | 90,872 |
| South African Rand | 10,678 | 6,248 |
| Dirhams | 10,832 | |
| Other currencies | 2,852 | 3,701 |
| Current liabilities | | |
| Chilean pesos | 74,755 | 55,096 |
| US dollars | 305,967 | 53,148 |
| Euros | 7,975 | 7,861 |
| Japanese Yen | 35 | 32 |
| Brazilian Real | 1,554 | 1,034 |
| Mexican pesos | 3,605 | 3,102 |
| UF | 8,733 | 2,490 |
| Dirhams | 558 | |
| South African Rand | 1,264 | 1,459 |
| Other currencies | 347 | 196 |
| Long-term liabilities | | |
| Chilean pesos | 16,897 | 10,799 |

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| | | |
|------------------|---------|---------|
| US dollars | 143,862 | 337,812 |
| Japanese Yen | 129 | 114 |
| UF | 299,362 | 998 |
| Other currencies | 2 | 2 |

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(A translation of the original in Spanish- see note 2 (a))

Note 24 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 June 30, 2006, issuance expenses net of amortization amount to ThUS\$6,629. 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 June 30, 2006 amounted to ThUS\$156.

Note 25 - Cash Flow Statement

Amounts included in other investing income are summarized as follows:

| | 2006 | 2005 |
|--|---------------|---------------|
| | ThUS\$ | ThUS\$ |
| Repayment of employee loans | | 3 |
| Compensation obtained from third parties | | 737 |
| Cash included in cash equivalent | 24,271 | |
| Income from sale of mining concessions | 911 | |
| | <hr/> | <hr/> |
| Total | 25,182 | 740 |
| | <hr/> | <hr/> |

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 26 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 : First instance sentence. Fine of ThCh\$ 15,000
- The appeal is pending.
- Nominal amount : ThUS\$ 150

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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 : Observations to the evidence
Nominal amount : ThUS\$ 1,350

4. 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

5. 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 : Evidentiary stage
Nominal amount : ThUS\$1,500

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SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

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(A translation of the original in Spanish- see note 2 (a))

1. Contingencies (continued):

6. Plaintiff : Norgener S.A.
Defendant : Sociedad Química y Minera de Chile S.A.
Date of lawsuit : April 2006
Court : Arbitration Court
Cause : Modification of the price of energy sold and of the indexation system indicated in the Electrical Energy Supply Agreement entered on January 13, 1998, by Virtue of that indicated, in the plaintiff's opinion, in this agreement.
Instance : Rejoinder
Nominal amount : Amount not determined.
7. Plaintiff : Marina Arnéz Valencia
Defendant : SQM S.A. and its insurance companies
Date of lawsuit : April 2006
Court : 2nd Civil Court of Santiago
Cause : Work accident
Instance : Conciliation audience
Nominal amount : ThUS\$ 500
8. Plaintiff : Empresa de Servicios de Montaje Ltda.
Plaintiff : SQM S.A.
Date of lawsuit : May 2006
Court : 4th Civil Court of Antofagasta
Cause : Divergences related to the agreement for the improvement of compressors and of assembly of capacitors in Pedro de Valdivia crystallization plant and compensation For damage.
Instance : Response
Nominal amount : ThUS\$ 270

(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 30).

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.

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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) 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\$ 4,426 in 2006 (ThUS\$ 3,192 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.
- (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.

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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 27 Third Party Guarantees

As of June 30, 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 | | 1,019 |
| BBVA Banco Bilbao Vizcaya Argentaria. | Royal Seed Trading Corp. A.V.V. | Subsidiary | 100,376 | 100,245 |

Note 28 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 29 - Sanctions

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

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(A translation of the original in Spanish- see note 2 (a))

Note 30 Environmental Projects

Disbursements incurred by the Company as of June 30, 2006 relating to its investments in production processes and compliance with regulations related to industrial processes and facilities are as follows:

| Project | 2006 | Future Disbursements |
|---|--------|-------------------------|
| | ThUS\$ | ThUS\$ |
| Environmental department | 294 | 889 |
| Risk and security management | 667 | 1,092 |
| Dust emission control | 1,006 | 20 |
| Light normalization | 1,014 | 250 |
| Exchange bank authorization | 236 | 64 |
| Environmental studies Region I of Chile project | 279 | 309 |
| Maria Elena archeology | 502 | 498 |
| Waste water treatment plant, washing surface P. Valdivia. N. Victoria. P. Blanca. | | 240 |
| Equipment washing system | 18 | 151 |
| Implementation of waste water line for María Elena Treatment Plant. | 6 | 44 |
| Infrastructure, equipment New Offices María Elena Environment | 11 | 3 |
| Hospital Monitoring Station Project | 1 | 20 |
| Improvements in salt deposit environment | 121 | 199 |
| Atacama Salt Deposit Hydrologic Model | 176 | |
| Tourist Support in Salt Deposit (Soncor) | 36 | 44 |
| EIA Salar | 583 | 545 |
| Environmental assessment for the KNO ₃ Plant | | 25 |
| Environmental commitments Region I of Chile | | 311 |
| Regularization of drinking water 2 | 18 | 42 |
| Nueva Victoria Plant Environmental Normalization | 25 | |
| | | |
| Total | 4,993 | 4,746 |

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

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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 Environmental Projects (continued)

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.

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.

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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 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 4.00% 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.

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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.- On April 5, 2006, the Company communicated to the Chilean Superintendency of Securities and Insurance (SVS) that Sociedad Química y Minera de Chile S.A. has placed abroad and under the regulations contained in 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 in April 2016.

Note 32 Subsequent Events

Management is not aware of any significant subsequent events that have occurred after June 30, 2006 and that may affect the Company's financial position or the interpretation of these financial statements, (August 4, 2006).

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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: September 5, 2006