

A N N U A L R E P O R T 2 0 0 2



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# S Q M ' s   W o r l d w i d e   P r e s e n c e



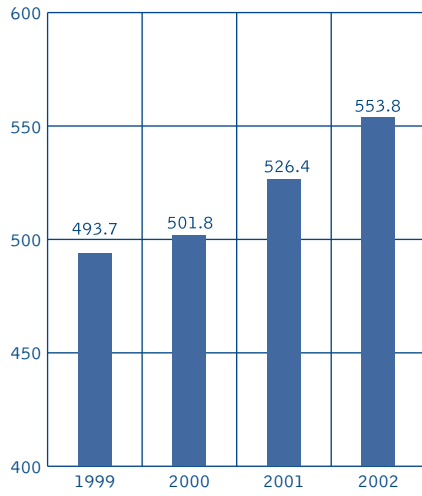
 Headquarters	 Sales offices	 Regional offices	 Blending facilities
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Geographical Sales Distribution	Mill. US\$	Contribution
Northamerica	\$ 152.0	27%
Chile	\$ 113.6	21%
Europe	\$ 110.6	20%
Latinamerica & Caribbean	\$ 79.0	14%
Asia, Oceania and others	\$ 65.0	12%
Africa and Middle East	\$ 33.7	6%
<b>Total</b>	<b>\$ 553.8</b>	<b>100%</b>

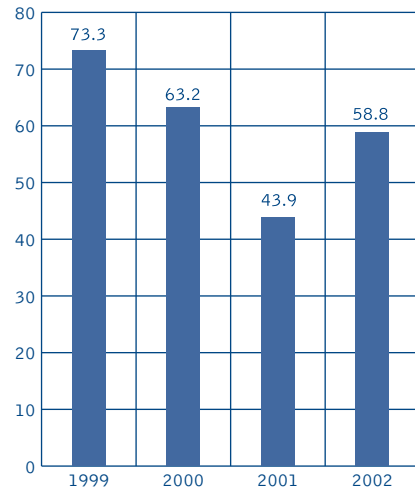
Sales Distribution by Business Area	Mill. US\$	Contribution
Specialty Fertilizers	281.4	51%
Industrial Chemicals	70.8	13%
Iodine	84.1	15%
Lithium	37.3	7%
Others	80.1	14%
<b>Total</b>	<b>553.8</b>	<b>100%</b>

# Financial Background 1999 - 2002

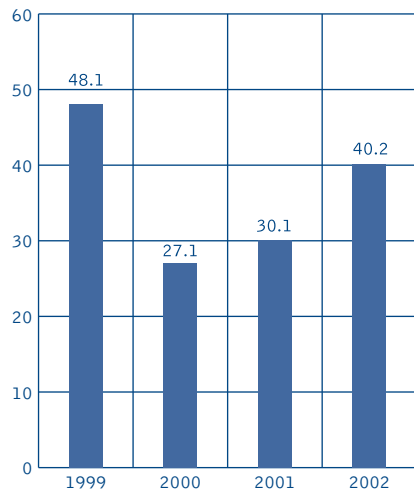
**Total Revenues**  
(Mill.US\$)



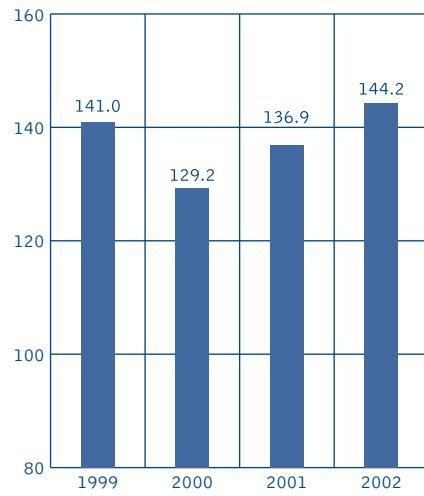
**Capital Expenditure**  
(Mill.US\$)



**Net Income**  
(Mill.US\$)



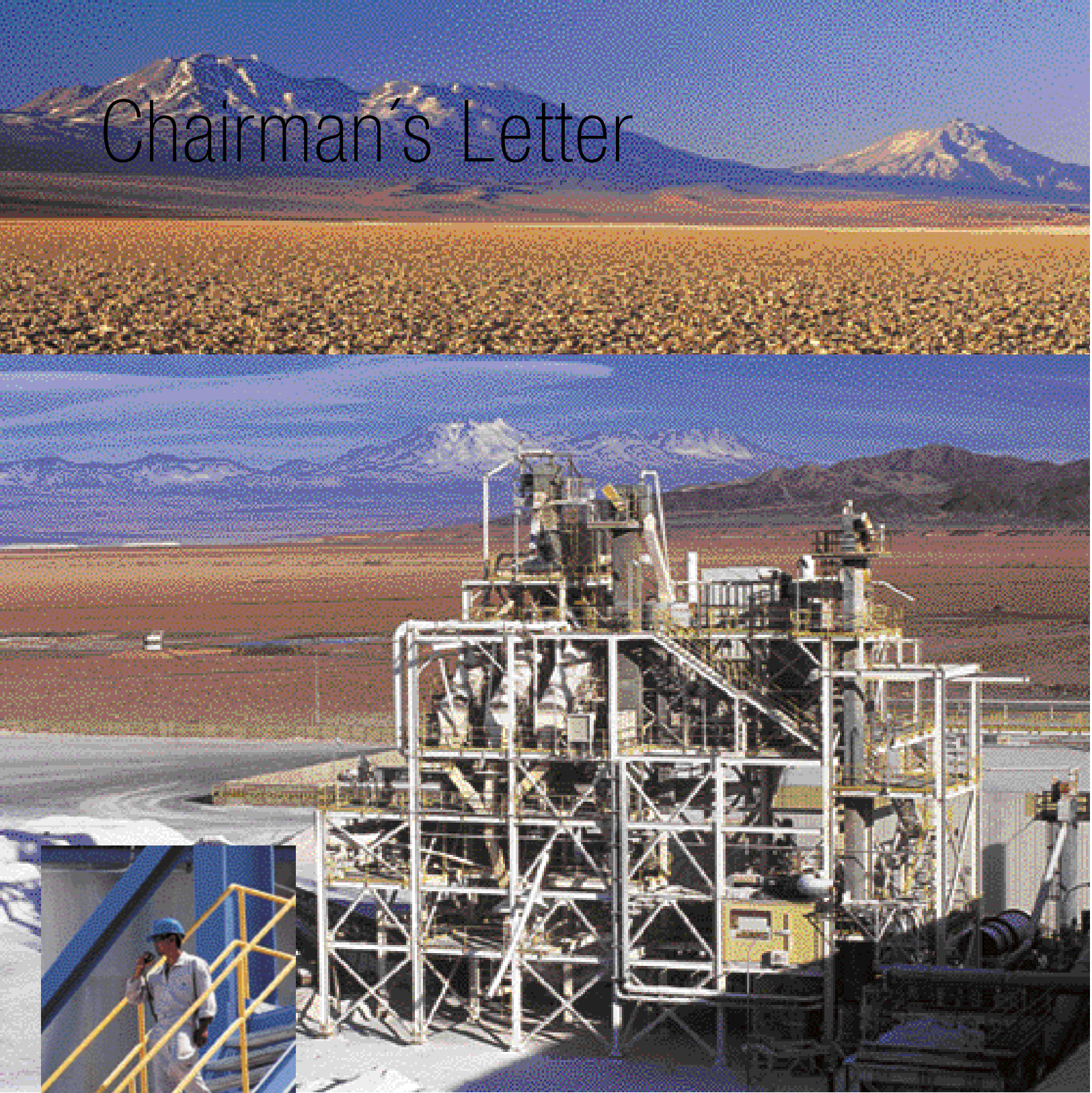
**Operating Cash Flow**  
(Mill.US\$)





SQM'S PRODUCTS ARE BASED ON THE DEVELOPMENT OF HIGH QUALITY NATURAL RESOURCES THAT ALLOW THE COMPANY TO BE LEADER IN COSTS, SUPPORTED BY A WORLDWIDE LOGISTICAL NETWORK. SQM'S DEVELOPMENT STRATEGY AIMS TO MAINTAIN AND STRENGTHEN ITS WORLD LEADERSHIP IN ITS THREE MAIN BUSINESSES: SPECIALTY FERTILIZERS, IODINE AND LITHIUM.

# Chairman's Letter



Potassium sulfate compacting-drying plant.

*The significant participation of international investors in SQM's property is a sign of trust in the Company's future, reaffirming SQM's development and leadership strategy in every market in which it participates.*





During 2002, SQM's earnings reached US\$ 40.2 million, which is significantly higher than the US\$ 30.1 million reported for the year 2001. This fact, coupled with the earnings improvement observed during the last two years, in spite of a weak international economy and a complex commercial scenario for our main products, is a clear sign of the solid foundations upon which the Company's growth is based.

From a commercial point of view, 2002 was a year of many challenges. The world economic deceleration of the last years, whose long expected recovery did not materialize in 2002, put additional pressure on the commercialization of several of SQM's products. This was especially true for those products oriented to certain industrial or technological markets whose development is strongly correlated to the growth of the world economy. To face this situation, SQM has had to continuously adapt its commercial strategies according to the prevailing market conditions.

In line with these efforts I can mention that one of the most important milestones that took place during 2002 corresponds to the consolidation of the commercial alliance with Norsk Hydro ASA in the specialty fertilizer business area. The synergies resulting from the complementary distribution networks of both companies have not only allowed us to reduce logistical and distribution costs, but also to increase our sales, thus offering a broader product portfolio to our clients. During last year, specialty fertilizer sales increased by approximately 8.6% to US\$ 281.4 million, representing an all time high in the Company's history.

In taking advantage of the logistical and commercial benefits gained from the alliance with Norsk Hydro, the Company underwent a restructuring project of its commercial structure designed to produce more efficient business processes and to reduce costs. SQM consolidated its client-oriented focus, organizing its commercial area in independent business units, capable of achieving better results through fast and flexible responses to the distinct needs of the Company's clients. This new structure deals with all aspects of the value chain and focuses corporate efforts in a much more efficient way.

These changes allowed the Company to successfully deal with the complex international business environment, characterized primarily by strong competition in two of its main business lines: specialty fertilizers and iodine. These two businesses, mainly due to temporary imbalances between supply and demand, had seen a steady reduction in sales prices in the previous years. Nevertheless, during the last half of 2002, international prices for these two business lines started to stabilize. We believe stabilization represents a break in the trend that may continue throughout 2003 in spite of the expected instability of international economy.

In addition to the Company's commercial efforts, the specialty nature of its main business lines —specialty fertilizers, iodine and lithium— has allowed the Company to enjoy continuous demand growth for these products each year. The above, together with the introduction of new products and the commercial alliances carried out during the last years, allowed SQM's total revenues to reach US\$ 553.8 million, which is 5.2% higher than the revenues achieved during 2001. Based on the strong results of this past year, we are optimistic about the future growth of the Company's businesses.



Salts loading and transport operations in the Atacama Salar.

During 2002, our efforts were not only limited to the international markets. Consistent with our competitive strategy of cost reduction, one of the main positive impacts on the Company's results during the year 2002 came as a result of the continuous and significant cost reduction efforts in all of SQM's business lines. The different cost reduction initiatives carried out since the beginning of the year 2001, have allowed the Company to increase production levels and yields, thereby reducing total production costs.

The above has helped to reaffirm the Company's position as the world's lowest cost producer in all of its core business lines. To keep this competitive position SQM has based its strategy on a continuous cost reduction process based upon the introduction of new technologies, productivity increases and a highly qualified human team committed to the Company's vision.

During 2002, SQM implemented a series of productive and commercial initiatives, the objectives of which were the consolidation of the Company's leadership in its different business lines. Among the most important of these initiatives were: the production capacity increase of the lithium carbonate plant, the commercial agreement with PCS Chile pursuant to which SQM will buy and commercialize potassium nitrate produced by this company and the introduction of different soluble fertilizer blends in different countries. Each of these initiatives were completed and will deliver results in 2003 and beyond.

On the corporate-legal front, we have seen how lawmakers from all over the world have taken important steps to try and restore investors trust in the capital markets after a series of accounting and financial scandals. Of these steps, the most emblematic is the Sarbanes-Oxley Act of 2002, most of whose regulations have been implemented or are in the process of being implemented by the Securities and Exchange Commission (SEC). This Act seeks to, among other







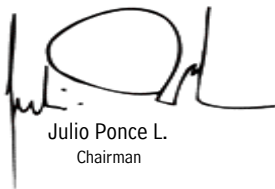
things, guarantee the independence of the external auditors, strengthen the duties and responsibilities of directors and officers, and improve and strengthen corporate governance practices.

In line with the spirit of the law and anticipating SEC final rulemaking, SQM took a decisive step by making public its Corporate Governance Framework in September 2002. The purpose of this document was to, primarily, answer the questions our shareholders often ask regarding the Company's ownership structure, the directors' and officers' backgrounds and whether there are certain safeguards for minority shareholders, among others. In addition to this we have made public our Code of Ethics and Business Conduct, which oversees the conduct of SQM's directors, officers and employees.

In addition to the efforts the Company has been carrying out to better inform and better communicate with its shareholders, three of SQM's senior executives embarked on a Roadshow during October and November 2002. The objective was to let our shareholders know what the Company was doing in terms of improving its corporate governance practices as well as to explain the status of SQM's main business lines.

In summary, SQM's capability to successfully overcome the challenges presented during 2002, allows us to be optimistic about the future. Today there are myriad uncertainties and it is likely that during 2003 the international economy will remain unstable. Nevertheless, SQM has solid arguments on which to base its future growth: world leadership in growing specialty markets, strategic position in unique natural resources, proven technological development capacity, an integrated distribution network, solid financial position and a highly qualified work force.

If the year 2003 delivers more challenges than expected, we need only remember 2002... and keep going.



Julio Ponce L.  
Chairman



## Board of Directors

As of December 31 2002, the Board of Directors was:

### Chairman

Julio Ponce Lerou  
Forestry Engineer, Universidad de Chile  
RUT: 4.250.719-9

### Vice-chairman

Wayne R. Brownlee  
Economist, University of Saskatchewan  
Passport: VG432153

### Director

Hernán Büchi Buc  
Civil Engineer, Universidad de Chile  
RUT: 5.718.666-6

### Director

Kendrick Taylor Wallace  
Lawyer, Harvard Law School  
Passport: 156674712

### Director

Avi Milstein  
Mechanical Engineer, Israeli Technical Institute, Haifa  
RUT: 14.635.935-3

### Director

Roberto Izquierdo Menéndez  
Forestry Engineer, Universidad de Chile  
RUT: 3.932.425-3

### Director

Jose María Eyzaguirre Baeza  
Lawyer, Universidad de Chile  
RUT: 7.011.679-0

### Director

Jose Antonio Silva Bafalluy  
Lawyer, Universidad Católica de Chile  
RUT: 7.055.443-7

As of December 31, 2002, the members of the Board Messrs. Avi Milstein, Roberto Izquierdo Menéndez and José Antonio Silva Bafalluy were part of the Directors Committee.

During the Annual General Shareholders Meeting that took place on April 26, 2002, the entire Board of Directors was elected, being elected Mr. José Antonio Silva B. by the series B shareholders. As a result of this election, Mr. Julio Cardenal ceased his functions as director of the Company, and Mr. Roberto Izquierdo joined the board as a director.

In the Board of Directors session celebrated on May 14, 2002 the board decided unanimously to -i- designate Mr. Julio Ponce Lerou as chairman -ii- designate Mr. Wayne R. Brownlee as vice chairman -iii- designate Mr. Roberto Izquierdo M., Mr. Avi Milstein and Mr. José Antonio Silva B. as members of the Directors Committee.

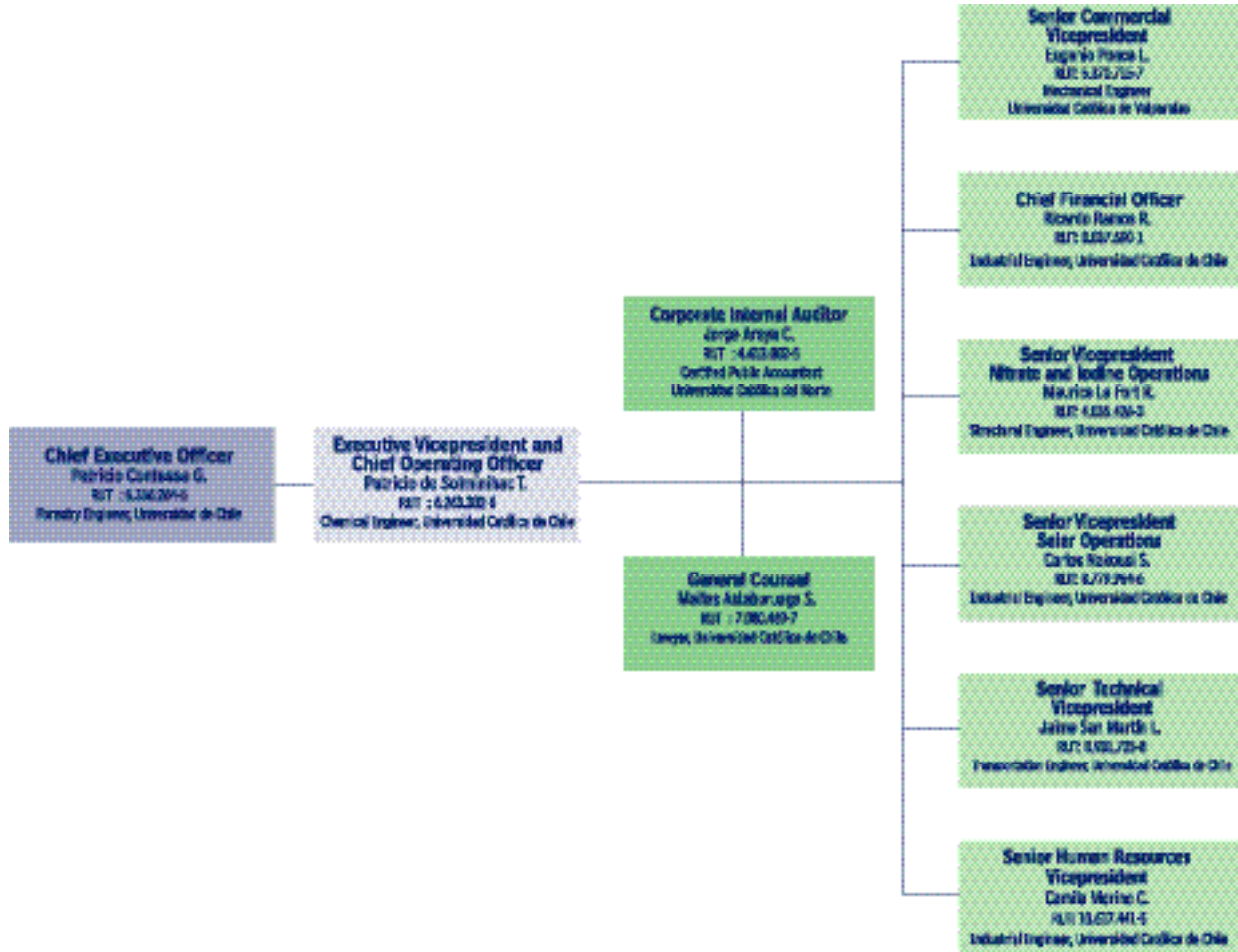
# Board of Directors



Chaxas lagoon in the Atacama Salar.



# Senior Management



Solar evaporation ponds in the Atacama Salar.

MAIN SHAREHOLDERS  
AS OF DECEMBER 31, 2002



MAIN SERIES A SHAREHOLDERS

Name	number of series A shares	% ownership of series A shares	% of total ownership
Inversiones el Boldo Ltda.(1)	53,562,519	37.50%	20.35%
Soc. de Inversiones Pampa Calichera S.A. (2)	46,434,256	32.51%	17.64%
Inversiones RAC Chile Limitada	19,200,242	13.44%	7.30%
Global Mining Investments (Chile) S.A. (2)	7,123,076	4.99%	2.71%
Inversiones la Esperanza (Chile) Ltda.	3,589,387	2.51%	1.36%
A.F.P. Habitat S.A. para Fondo de Pensiones	2,328,774	1.63%	0.88%
A.F.P. Provida S.A. para Fondo de Pensiones	1,568,465	1.10%	0.60%
The Bank of New York, según circ. 1375 S.V.S.	1,303,770	0.91%	0.50%
Kowa Co. Ltd.	781,429	0.55%	0.30%
Kochi S.A.	714,084	0.50%	0.27%
A.F.P. Habitat S.A. Fondo Tipo B	627,190	0.44%	0.24%
A.F.P. Provida S.A. Fondo Tipo B	395,476	0.28%	0.15%
<b>Subtotal main shareholders</b>	<b>137,628,668</b>	<b>96.37%</b>	<b>52.29%</b>
<b>Total series A shares</b>	<b>142,819,552</b>	<b>100.00%</b>	<b>54.26%</b>
<b>Total series A shareholders</b>	<b>893</b>		

MAIN SERIES B SHAREHOLDERS

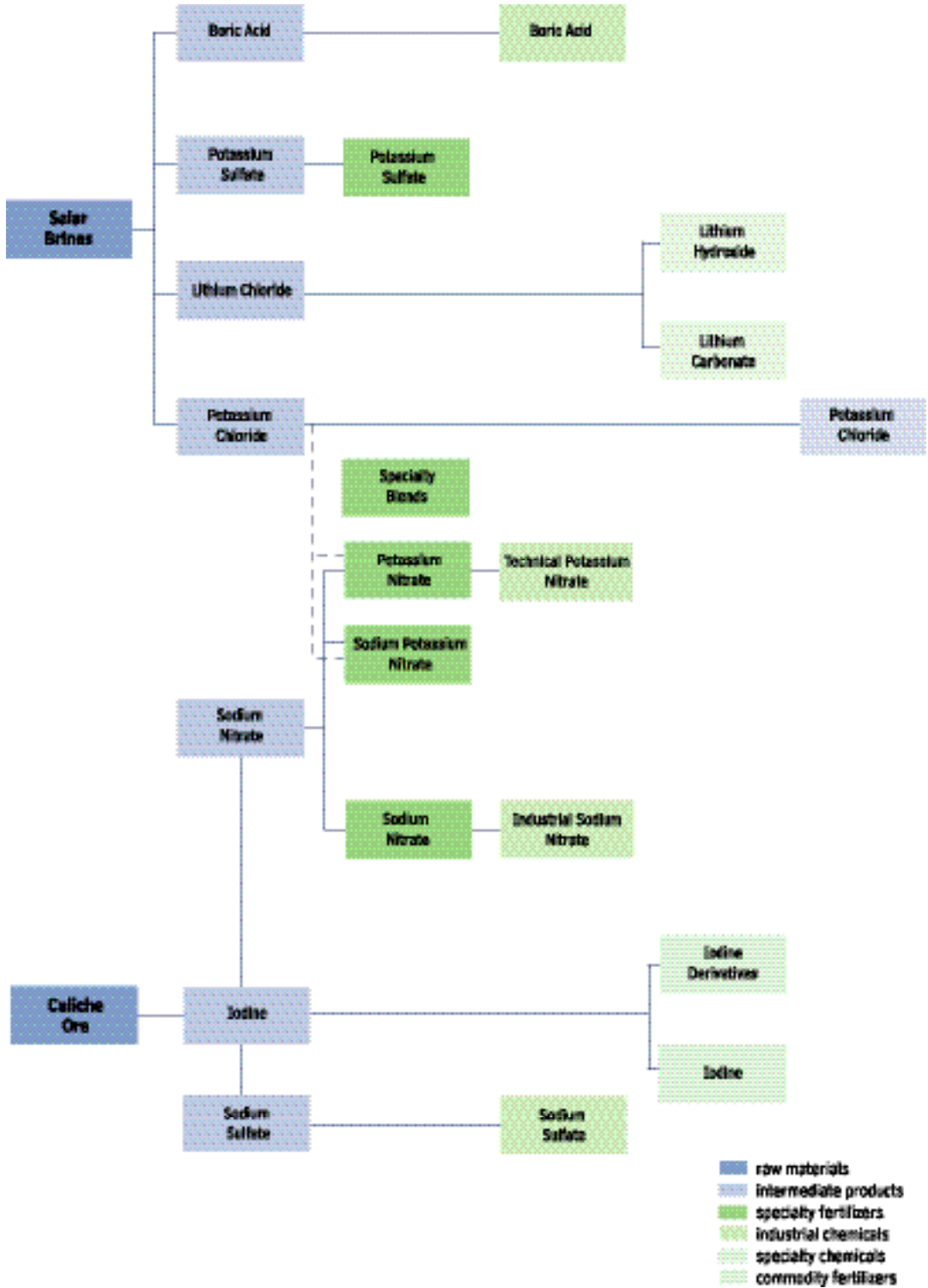
Name	number of series B shares	% ownership of series B shares	% of total ownership
The Bank of New York, según circ. 1375 S.V.S	26,321,640	21.87%	10.00%
A.F.P. Provida S.A. para Fondo de Pensiones	6,238,024	5.18%	2.37%
A.F.P. Habitat S.A. para Fondo de Pensiones	5,860,923	4.87%	2.23%
Cía. de Seguros de Vida Consorcio Nacional de Seguros	5,347,136	4.44%	2.03%
A.F.P. Santa María S.A. para Fondo de Pensiones	5,175,850	4.30%	1.97%
A.F.P. Cuprum S.A. para Fondo de Pensiones	4,514,201	3.75%	1.72%
A.F.P. Summa Bansander S.A. para Fondo de Pensiones	3,772,358	3.13%	1.43%
Moneda S.A. AFI para Pionero Fondo de Inv. Mobiliaria	3,131,033	2.60%	1.19%
Bancard S.A.	2,875,167	2.39%	1.09%
Inversiones RAC Chile Ltda.	2,699,773	2.24%	1.03%
Larraín Vial S.A. Corredora de Bolsa	2,317,875	1.93%	0.88%
A.F.P. Provida S.A. Fondo Tipo B	2,300,824	1.91%	0.87%
<b>Subtotal main shareholders</b>	<b>70,554,804</b>	<b>58.61%</b>	<b>26.81%</b>
<b>Total series B shares</b>	<b>120,376,972</b>	<b>100.00%</b>	<b>45.74%</b>
<b>Total series B shareholders</b>	<b>2,401</b>		
<b>Total Series A and B Shares</b>	<b>263,196,524</b>		<b>100.00%</b>
<b>Total Series A and B Shareholders</b>	<b>2,587</b>		

(1) In transactions occurring in April and May of 2002, Inversiones El Boldo purchased 5,288,113 series A shares in open market transactions on the Santiago Stock Exchange, reaching its current holding. Potash Corporation of Saskatchewan owns 100% of Inversiones el Boldo Ltda., therefore being the beneficial owner of 53,562,519 series A shares, which represent 20.35% of the total shares of SQM.

(2) Sociedad de Inversiones Pampa Calichera S.A. owns 100% of the stock of Global Mining Investments (Chile) S.A., therefore being the beneficial owner of 53,557,332 series A shares, which represent 20.35% of the total shares of SQM.

Other than the aforementioned, and within the major shareholders, some of them have diminished or ended their participation while others have initiated or increased their participation.

Considering the ownership structure of the shareholders, the Company does not have a controlling entity.



HISTORICAL BACKGROUND



<b>1770</b>	<b>1817</b>	<b>1924</b>	<b>1951</b>	<b>1971</b>
<b>1811</b>	<b>1910</b>	<b>1930</b>	<b>1968</b>	<b>1983</b>

1770 Jesuits start to use caliche as fertilizer.

1817 Swedish scientist August Arfvedson discovers lithium.

1924 The Guggenheim family acquires María Elena and forms "The Anglo Chilean Consolidated Nitrate Corporation", developing the current production process.

1951 A crystallizing plant is built in Coya Sur with the purpose of efficiently using the nitrate precipitation in the solar evaporation ponds.

1971 CORFO takes the control of 100 % of SQM.

1811 French chemist Bernard Courtois discovers iodine.

1910 In Germany, starting from nitrogen present in the air, the synthesis of ammonia is achieved to produce a synthetic fertilizer. Before that, Chilean fertilizers represented 65% of the world market.

1930 January 5, the construction of the caliche office "Pedro de Valdivia" is started.

1968 Merger of "Corporación de ventas de Salitre y Yodo", "Compañía Salitrera Anglo Lautaro", "Compañía Victoria" and the State in order to form SQM (62.5% Anglo-Lautaro and 37.5% CORFO).

1983 SQM's five-year privatization process starts and private pension funds take part in the property.

# Historical Background



*1985*  
*1986*

*1993*  
*1995*

*1996*  
*1997*

*1998*  
*2000*

*2001*  
*2002*

1985 The pile leaching process starts to be applied.

1993 Start up of the technical potassium nitrate plant. First offering of shares on the national and international markets through the ADR mechanism.

1996 Issuance of a US\$200 million public bond on the international markets.

1998 Start up of potassium sulfate and boric acid production.

2001 Joint venture agreement with the Norwegian company Norsk Hydro ASA, allowing SQM to achieve important cost synergies. Interconnection of productive operations to natural gas network. Construction startup at the lithium carbonate plant to increase production capacity.

1986 First potassium nitrate (KNO<sub>3</sub>) production in Coya Sur.

1995 Second offering of shares with access to the international markets through the ADR mechanism. Potassium chloride production starts at the Atacama Salar.

1997 Start up of lithium carbonate production.

2000 Construction of a new potassium nitrate (KNO<sub>3</sub>) plant. Potassium chloride production capacity increase.

2002 SQM-Norsk Hydro commercial alliance consolidation. Construction of butyllithium plant in bayport, texas, USA.



"Cordillera de la Sal", near San Pedro de Atacama.

# Company Description



Harvesting of salts from solar evaporation ponds, in the Atacama Salar



Mechanized arm for on-board product transfer in the Port of Tocopilla.



Technical potassium nitrate plant.

*SQM's strategy is based on maintaining and strengthening its position as the worldwide leader in the markets in which it has sustainable competitive advantages: specialty fertilizers, iodine and lithium.*





## General Overview



is the worldwide leader in the specialty fertilizers, iodine and lithium businesses. Its products are based on the development of two high quality natural resources, caliche ore and salar brines, which can be found on the First and Second Regions of Chile. The caliche is found in the "Pampas" of the First and Second Regions of Chile, and the salar brines are found in the Salar de Atacama on the Second region of Chile. Throughout all these areas SQM holds exploration and exploitation rights for up to 2,090,000 hectares for these resources.

The exclusive combination of its unique raw materials together with the unmatched conditions of the Atacama Desert favor the productive processes used by SQM. Other than these advantages, SQM possesses complete productive integration and synergies as well as full logistic integration. All of the aforementioned allow the Company to obtain the highest quality products and at the same time to be the lowest cost producer in each of the markets in which it participates.

With the goal of complementing its strategy of productive and logistic integration, SQM is present in over 20 countries with commercial offices and blending plants, which along with commercial alliances with important international companies, enable the company to have further geographical and client diversification. This important sales and distribution network has allowed the company to export to over 100 countries and to have revenues of more than US\$ 550 millions.



Greenhousing crops.

## Strategy

SQM's strategy is based on maintaining and strengthening its position as the worldwide leader in the markets in which it has sustainable competitive advantages: specialty fertilizers, iodine and lithium.

To achieve this strategy, SQM will:

- Focus its efforts in its three main businesses
- Maintain continuous efforts on cost reduction initiatives
- Work to develop new markets, products and applications
- Evaluate acquisitions, joint ventures and commercial alliances in each of its three main businesses
- Maintain a conservative financial position

## Vision

By the year 2010, SQM envisions that it will have further consolidated its position as the undisputed world leader and lowest-cost producer in its three core businesses, specialty fertilizers, iodine and lithium, thanks to its unmatched access to high-quality natural resources, installed capacity and great flexibility to react to sudden changes in market conditions. At the same time, SQM's management will continue to be driven by a well-defined set of values that reflect the Company's corporate culture, including a strong respect for ethics, the fair treatment of all of its constituencies—shareholders, employees and customers—a high degree of accountability to its community, as well as a strong environmental awareness.

## Natural Resources

The resources that SQM exploits are the caliche ore and the salar brines from the Atacama Salar in the First and Second Regions of Chile. From this two resources SQM obtains most of the products it commercializes with clients on over 100 countries worldwide. The geographical and climatological characteristics of the Atacama Desert, the driest in the world, favor the productive processes of the Company, most of which are based on solar evaporation.



Maxibag whit lithium carbonate.



Salar brine collecting channels.

The Caliche Ore deposits are the biggest economically exploitable natural resources of nitrate and iodine known in the world, which can only be found in the north of Chile. SQM owns exploitation and exploration rights for more than 1.8 million hectares of these deposits that represent approximately 75% of the existing economically exploitable caliche ore deposits.

The Caliche Ore is a mineral that contains high concentrations of nitrate and iodine, 6-9% and 350-600 parts per million respectively. It is found in layers that range from 2 to 3 meters in thickness deposited at no more than 2 meters of depth, allowing the exploitation process to be extensive and of relatively low cost.

The objective of the exploitation of the caliche ore deposits is the recovery of the salts contained in them, using for this crushing and leaching processes as a first step from which sodium nitrate, sodium sulfate and iodine are obtained as final products. SQM has gathered and developed a significant amount of scientific knowledge of the chemical properties and mining process of the caliche ore, which constitutes one of the corner stones for maintaining its cost leadership, allowing the sustainable development of its businesses.

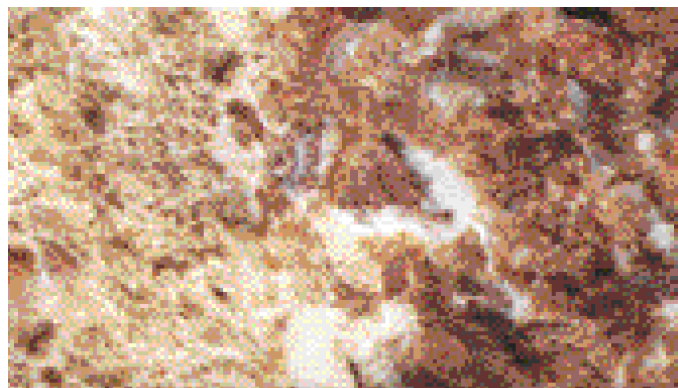
On the other hand the Salar de Atacama is a natural source for underground brines that were formed through the natural leaching of the Andes Mountains, from which it concentrated and accumulated different minerals over the years under the surface of the saline crust. Among all of the world's known saline deposits,

the Atacama Salar is the one that has the brines with the highest concentrations of lithium and potassium, as well as significant concentrations of sulfate, boron and magnesium. Also the Atacama Desert has a solar evaporation rate of 3,200 millimeters of water per year, which positively favors the concentration processes of the brines based on solar energy.

The brines, which are extracted from different brine pockets beneath the saline crust through pumping are processed in solar evaporation ponds that cover an area of approximately 1,400 hectares. The resulting solutions are subject to different processes from which potassium chloride, lithium carbonate, potassium sulfate, boric acid and magnesium chloride are obtained.

Additionally, benefiting from production synergies, SQM produces potassium nitrate from the potassium chloride extracted from the brines and from the sodium nitrate extracted from the caliche ore.

Caliche ore close-up.





SQM's natural resources possess unique characteristics in terms of grade, size and accessibility, allowing the Company to position itself as a worldwide leader and at the same time as the world's lowest cost producer in the businesses in which it participates.

### Logistics and Distribution

In order that SQM's clients efficiently receive high quality products, the Company has had to develop the most complete and efficient logistic network, extending from the Atacama Salar and reaching thousands of clients worldwide.

One of the most important stages in the complex process to which SQM products are subject to, consists of product forwarding and distribution, regardless if these are in their most elemental condition as raw materials or as finished products.

Only within the productive scope, the geographical area that SQM needs to cover presents a great logistical challenge. The Company needs to transport more than 30 million tons a year within the productive

area, where the mineral extraction and exploitation operations occur, and the productive plants and warehouses on the port of Tocopilla. In order to fulfill this task, SQM has developed a wide railroad network that is complemented by truck forwarding services, allowing the Company to efficiently achieve all of its productive requirements.

One of the key elements in all of the logistic and distribution efforts that SQM has carried out, is constituted by the facilities owned by the Company in the port of Tocopilla. Located 200 kilometers to the north of Antofagasta and connected to the productive



Lithium carbonate plant, Salar del Carmen.



Product transportation from nitrate facilities to the Port of Tocopilla, using company-owned railroad system.



plants by SQM's railroad, it is in this port were almost all of the Company's overseas shipments take place. The facilities include high-tech machinery as a mechanical arm, a mobile dump body, conveyor belts, storage silos, nitrate bagging machines and loading docks, all of which make the distribution process more efficient.

The approximate 90% of SQM's production sold to international markets, has presented an important challenge for SQM in the commercial area. To solve the aforementioned, the Company has developed a distribution network with commercial and representative offices in 20 countries throughout the world. The Company also maintains warehouses and blending facilities strategically placed in the five continents, enabling SQM to distribute its products with quality and efficiency to over 100 countries.

In line with its development strategy SQM has searched for alternatives to strengthen even more its distribution network, forming strategic alliances with important international companies taking full advantage of the synergies in the distribution areas and improving thus its worldwide reach.

### Quality and Quality Certifications

Well aware that the successful companies are the ones that are capable of satisfying their clients needs through efficient production and meeting as well as improving, the market standards, SQM created during 2002 a specialized unit for the Company's quality improvement. This new unit will have the responsibility of designing a corporate quality management system that will strengthen and improve the Company's current quality systems. With this objective SQM will



Prilled iodine ready for shipment.



Product loading in the Port of Tocopilla.



implement during the years 2003 and 2004 an integral quality plan based on highly effective quality and efficiency improvement methodologies, therefore allowing the Company to achieve its objective of constant improvement.

SQM maintains ISO certifications for its nitrate and iodine products, and during 2003 will re-certify the same products to comply with the ISO 9001 version 2000 standard. At the same time, lithium carbonate will also be incorporated under the same certification standard. The Company was one of the first Chilean companies that obtained quality certification, which took place during 1992 for the iodine plants complying with ISO 9003 standards.

Quality certification for iodine complying with ISO 9002 standards related to the processes of manufacturing and commercialization of prilled and flaked iodine in 1994 is one of the most important milestones of the certification process. On that occasion, a quality assurance system was incorporated to the iodine plants located in Maria Elena, Coya Sur and Pedro Valdivia, in the Second Region of Chile.

Additionally, in 1996 accreditations regarding the compliance with ISO 9002 standards started for the new products of potassium nitrate in its technical and refined grades, which considers the manufacturing process and commercialization of the products.

On February 2000, the first re-certification of the quality assurance system of nitrates took place, modifying the scope of the certification also to water soluble NPK fertilizers and sodic and potasic nitrate on technical and refined grades.

The idea of continuous improvement is part of the Company's philosophy, which is the reason that motivated a re-certification of the quality assurance system of the iodine plants in 2001, also including SQM's iodine plant of Nueva Victoria, located in the First Region of Chile.

A high commitment to quality enables SQM to meet the ever-growing needs of its markets, being recognized in them for its high quality and service standards. The quality of its products and focusing towards continuous



Solar evaporation ponds in the Atacama Salar.

improvement of the productive, commercial and service processes, are objectives of the utmost importance in the productive strategy of the Company.

### Research and Development

With the purpose of developing new processes and products that maximize the return from the resources the Company exploits, SQM has a Research and Development team conformed by highly qualified professionals. The main research areas cover topics such as, chemical process design, equilibrium chemistry, chemical analysis methodologies and physical properties of finished products. This unit, which depends of the GIDMA (Research and Development and Environment Department), gives technical advisory to both the production and quality areas, and the commercial area.



## Environment

Conscious of the environment's importance, SQM has created a specialized group within the GIDMA that deals with environmental issues, complementing thus the development and improvement of the company's productive processes, making them environmentally sound. These professionals are in charge of coordinating the environmental procedures of the company, following up and controlling the environmental variables on each and every operation and implementing good practices for the rational and efficient use of the Company's resources.

The above is part of the Environmental Management System, EMS, that SQM is developing at this time. The implementation of the EMS seeks to identify the environmental issues linked to each of the Company's productive processes in order to protect SQM's workers, nearby communities, renewable resources and, in general, any ecosystem existing on the desert zones where the Company carries out its operations.

Furthermore, one of SQM's main objectives in developing the EMS is to establish the basis for the preparation of the Company's certification in accordance with ISO 14,000 standards.

Finally SQM takes part in a plan to protect the ecosystem of a series of lagoons situated in the Atacama Salar. These lagoons, which are the natural habitat for the Andean, Chilean and James flamingoes, are found on the eastern borders of the Salar nucleus, approximately 30 kilometers away from SQM's operations. The monitoring of this ecosystem has been carried out together by Conaf (National Forestry Corporation) and SQM since 1995, measuring and controlling variables such as wildlife population, size and physicochemical properties of the lagoons, and meteorological conditions of the area, all of which help to ensure the continuity of this particular ecosystem.



Chilean flamingoes in the Chaxas Lagoon, Atacama Salar.

## Community

The relationship that SQM has with the communities that are related directly or indirectly with its operational centers are one of the main pillars for the sustainable development of the Company's productive strategy.

In order to strengthen this relationship, SQM has engaged in an active participation in social projects that directly benefit the community. Some of the projects the Company is developing are the following:

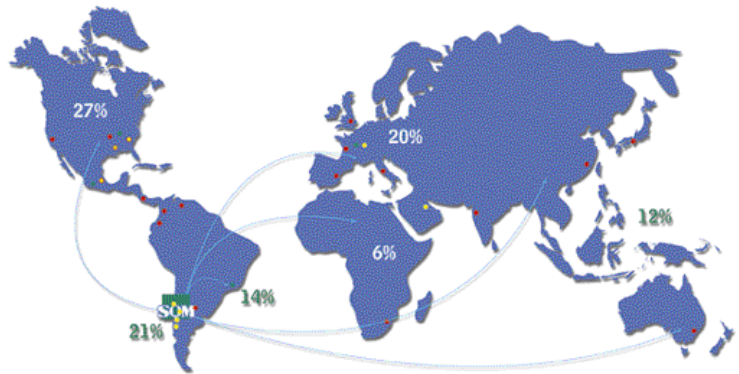
- Contributions to universities and local institutions for research in the caliche history and the refurbishment of national monuments
- Seminars directed to universities, researchers of local companies and public professionals involved in the technical area
- Educational and ecological trips for primary school students, visiting SQM's plants and the national reserves around them
- Professional internships for more than 150 technical students of the area per year.



- Contributions for cultural development through lectures, workshops and sport academies for SQM's employees, their families and the community.
- Significant contributions to social care centers on the Second Region of Chile.
- Establishment of funds available to SQM's employees on a bid format for the development and implementation of social care projects directed to the community.
- Sponsorship of cultural, educational and sports events of the region.
- Unmatchable characteristics of its two natural resources.
- The excellent conditions provided by the Chilean desert, that favor its productive processes using solar energy.
- Complete productive and logistical integration
- Specialized international commercial network
- Strategic commercial alliances
- Leadership in specialty markets with continuous growth.
- Conservative financial policy.

**Worldwide Leaders**

The reasons that allow SQM to be a worldwide leader in the Specialty Fertilizers, Iodine and Lithium businesses, as well as being the lowest cost producer in these markets, are:



SQM's world-wide distribution.



Educational visits to SQM's facilities with pre-school students.



Prilled potassium nitrate.

# Specialty Fertilizers



Vineyards in Chile.



*The world demand for potassium nitrate has doubled in the last 10 years. The reasons that made this increase possible are even stronger today than they were 10 years ago, which assures the positive growth perspectives for this business line.*



Specialty fertilizers are one of the most representative product lines of SQM, representing nearly 50% of total revenues of the Company. In the case of one of these specialty fertilizers, potassium nitrate, SQM is the main producer worldwide, with a production capacity of 650 thousand metric tons per year and a market share close to 45%.

Twenty years ago sodium nitrate was the only specialty fertilizer produced by SQM. A few years later potassium nitrate was introduced, and rapidly became the most important product in SQM's portfolio. At the same time it is the main raw material for NPK soluble fertilizer blends, considered as third generation fertilizers. Nowadays, SQM produces four main specialty fertilizers i) potassium nitrate, ii) sodium nitrate, iii) sodium potassium nitrate, iv) potassium

sulfate, and more than 200 NPK fertilizer blends. These are tailored for the specific needs of specific type of crops and geographical zones that use mainly modern agricultural techniques such as greenhouse, drip irrigation and hydroponics.

The main advantages that SQM's specialty fertilizers have compared to commodity fertilizers are that they translate in better yields and quality of the target crop. Among the technical advantages the following can be outlined:





**Chlorine free:** it has been proved that the presence of Chlorine affects the quality and yields of certain crops. Potassium nitrate and potassium sulfate are the main sources of chlorine free potassic fertilizers that are used on technified agriculture.

**100% water soluble:** modern agricultural techniques require fertilizers to be applied through irrigation water, making it necessary for SQM's fertilizers to be completely water soluble to prevent any damage to the irrigation systems.

**Rapid absorption:** SQM's specialty fertilizers contain nitric nitrogen, which is rapidly absorbed by the plant, as opposed to other nitrogen sources that must go through previous transformations, affecting thus the final yields.

**Reduce and regulate soil acidity:** one of the problems with fertilizers containing ammonium nitrate (such as urea) is that the transformation process from ammonium nitrate to nitric nitrogen produces a reaction that acidifies the soil making them less appropriate for sensitive crops such as vegetables and greens. This does not occur with SQM's specialty fertilizers.

**Natural origin:** being 100% from a natural origin, SQM's specialty fertilizers have micro-nutrient traces (boron, calcium, magnesium) which represent an additional benefit in terms of nutrition.

Nowadays agriculture, especially the one based on crops with high performances, faces big challenges: the high costs of soil, water scarcity and the demand for first class products. To face these challenges, it is necessary to increase the yield and quality of the crops through the adequate application of modern agricultural techniques and the adequate selection of supplies such as fertilizers. This explains the fast increase in the consumption of specialty fertilizers throughout the world.

As part of its permanent commitment to improve the service to its clients, as well as adding more products to its portfolio, SQM has taken decisive steps in that direction during 2002:

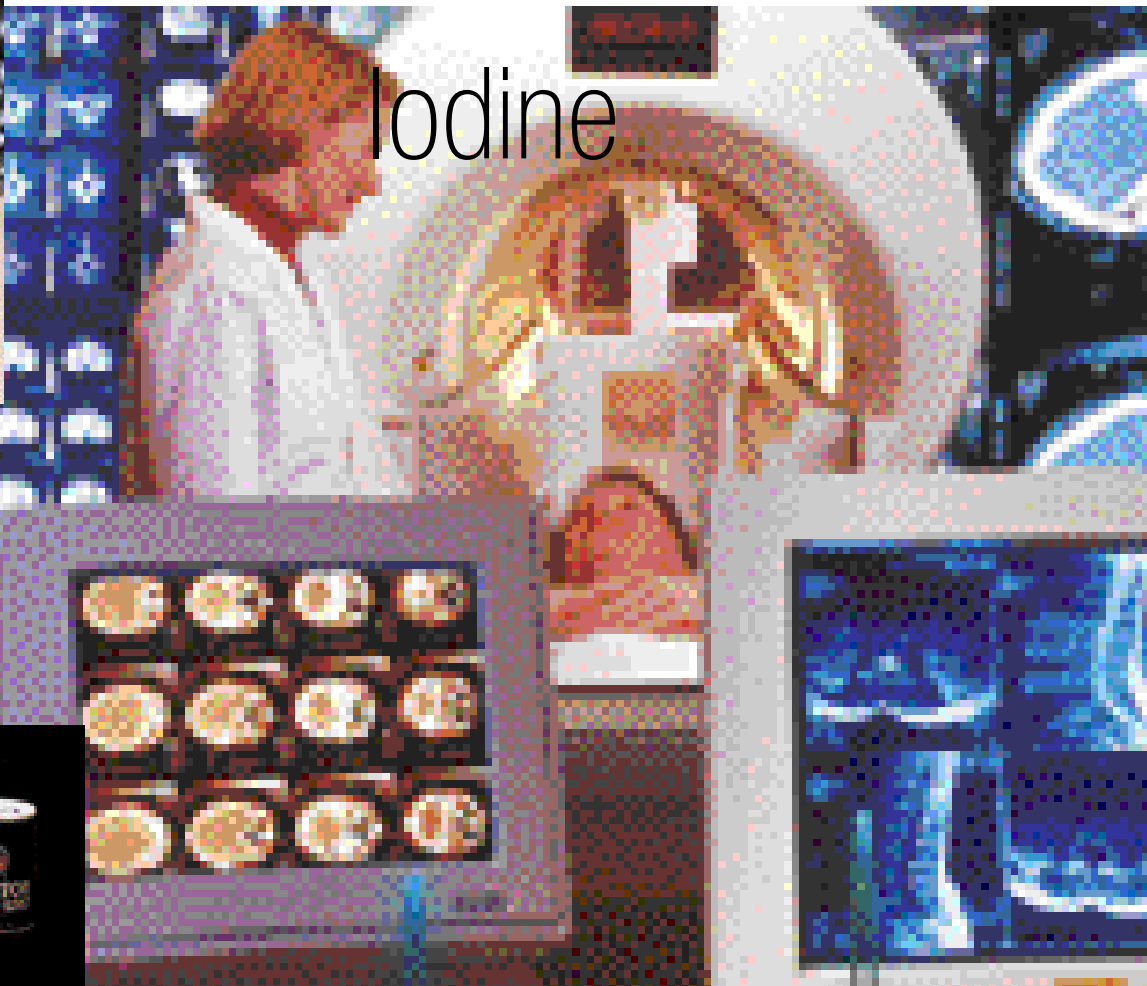
- **Consolidation of the Commercial Alliance with Norsk Hydro.** SQM entered into this agreement to obtain important synergies in the commercialization of its specialty fertilizers, complementing its sales networks with that of NH. Thanks to this commercial agreement SQM was able to increase and complement its product portfolio as well as increase its commercial reach in the Nordic Countries and Eastern Europe.
- **Restructuring of SQM's Commercial Area.** Following the trend that began in March 2001 with the restructuring of the Company's operations in Chile, SQM decided to pursue this cost reduction initiatives in its commercial area, including its foreign offices. This process ended on mid 2002 and implied a complete reorganization of this area, achieving a better and more efficient response to the needs of SQM's clients.
- **Market introduction of a new product:** In line with the Company's strategy of developing new markets and products, SQM developed Ultrasol SOP 52 a soluble type of potassium sulfate, specifically designed to be used in drip irrigation systems. The launch of the product took place during the International Fair HORTIFAIR in the Netherlands.





Prilled iodine.

# Iodine



Iodine applications in contrast media.



Iodized salts.

*Iodine is one of the scarcest, chemically pure elements, for which SQM has the largest economically exploitable reserves in the world.*

## Iodine and Derivatives

Iodine and its derivatives represented approximately 15% of the total sales of SQM, being this one of the key business lines to develop the Company's strategic plan. SQM is the major producer of iodine worldwide with a 29% global market share. As a result of SQM's strategy of consolidating its market share and the geographic diversity of the iodine derivatives, its market share has increased to reach more than 68 countries during the year 2002, being its main destinations the markets of Europe and North America. The broad client base and the great geographic diversity grant SQM's business more stability against changes in demand.

Iodine was discovered as an element by the frenchman Bernard Curtois in 1812. It is a nonmetallic element, solid, with a crystalline structure and bluish

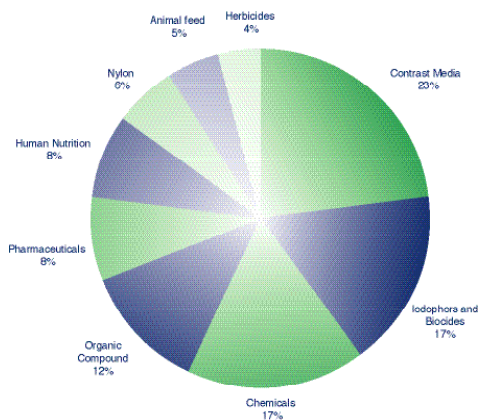
black color. It can be found in the form of sodium iodide in brines associated to the extraction of natural gas—in Japan and in fewer quantities in the USA— and also to the extraction of oil in the former Soviet Union. In the Atacama Desert, in the north of Chile, it can be found in the form of calcium iodate in the Caliche Ore, being this the main source of economically exploitable iodine reserves.

Iodine is obtained from the exploitation of the caliche ore, which can be found in grades between 300 and 600 parts per million. Iodine is extracted from solutions rich in iodine, which is then transformed into prills or granules using processes developed by the Company under registered licenses, offering clear handling and application advantages in the technified industrial processes.

Among the many uses of iodine, the most important applications concentrate in the medical, pharmaceutical, industrial and nutritional areas. In terms of applications the most important are



described in the following chart:



Iodine demand has experienced a continuous growth in the last years, higher than global economic growth.

Iodine plays an important role in medicine. Iodine deficiency may cause disorders such as mental retardation and growth disorders in children, as well as goiters and infertility, all of which can be controlled worldwide by adding iodine to table salt. For this reason, one of the main applications for this product is iodized salt. Iodine also constitutes the main component in contrast media for medical examinations and it is used directly or as an intermediary in the production of antibiotics, corticosteroids, antiarrhythmics and multiple other pharmaceutical applications. It is also present in antiseptics, disinfectants and surgical soap.

In industrial activities, iodine and its derivatives are found in countless applications, among which it is possible to mention disinfectants for the dairy industry, nutrients for animal feeding, biocides for paintings, nylon fibers, photograph films, catalysts for organic synthesis, herbicides and colorants.

The iodine world market has been characterized in the last years by strong competition, due mostly to an increase in production capacity between 1998 and 2002. As a result of this, between 1999 and 2002 iodine prices have steadily decreased due to the imbalances of supply and demand, which mainly respond to the inability of the market to absorb the

excess of installed capacity from the previous years. However, since mid 2002 the increasing demand for iodine has helped to revert the trend, showing the first signs of stabilization.

SQM is also the main producer and commercializer of iodine derivatives worldwide through a joint venture with Ajay Chemicals, with plants in Chile, USA and Europe. The Company holds approximately 24% of the world market share.

In the field of new applications methyl iodide can be mentioned as an agrochemical fungicide that may substitute methyl bromide which harms the ozone layer and will be banned in developed countries since 2005. The uses of this derivative could translate into new business opportunities.

Due to a long history of innovation and research in the productive processes, SQM's iodine and iodine derivatives comply with the most demanding international quality standards. In addition, the Company has the ISO 9002 certification for its organization, facilities, and productive processes in the iodine plants, which has rendered SQM capable to respond to the quality and service requirements of its customers, who participate in highly competitive markets. Guaranteeing its quality and providing customer satisfaction is an ongoing commitment for the company.

The great variety of applications, a stable market, the future development of specialty products based on iodine and its derivatives, along with SQM's solid presence in the world markets allow the company to be optimistic regarding the medium and long term growth perspectives.



Pharmaceutical applications.




# Lithium

Lithium applications in greases, batteries and aluminum among others.

*Lithium is used as the base for the development of a series of new applications thanks to its unique characteristics. Some of them are:*

- low thermal expansion coefficient*
- the highest electrochemical potential combined with a low equivalent weight*

## Lithium and Derivatives

 entered the lithium carbonate business in 1997, reaching a few years later a market share that borders 40%. The entrance of SQM into the market resulted in the closure of high cost productive operations and a significant reduction of international prices, situation that has been lately reverted with small but sustained price increases over the last years. During 2002, SQM reached sales of US\$37.3 million, selling its products in nearly 40 countries to 180 clients.

During 2002, SQM increased its lithium carbonate production capacity to 28,000 metric tons per year, with the purpose of being prepared to face the increasing demand for this product. With an annual market growth estimated in 3%, with annual sales reaching 21,000 tons and with a strategy of



integration towards lithium derivatives, 2002 was the perfect moment for SQM to increase its productive capacity.

Lithium carbonate production is based on lithium chloride solutions obtained from the Atacama Salar as a byproduct of the potassium chloride production. These solutions are later on processed to produce lithium carbonate in a plant located at the Salar del Carmen, near Antofagasta.

Classified within the alkali metals family and with a density of only 0.54 g/ml, lithium is, at normal temperatures, the lightest solid element, being even able to float on water without any difficulty. One of lithium's characteristics is its low thermal expansion coefficient, which allows it to be largely used in the production of glass and ceramics, improving their resistance to sudden temperature variations. Other unique characteristic of lithium is that it combines the highest electrochemical potential with a low equivalent weight, making this material very suitable for the production of electrochemical cells. Lithium batteries can not only be lighter, but also they have the best performance in a wide range of temperatures and are environmentally a much better solution than others because they do not contain toxic heavy metals. Because of this, lithium batteries have a great potential in the medium and long term, presenting annual growth rates of nearly 10%.

As part of its development strategy, SQM has been exploring different markets for lithium derivatives. Certain complex chemicals can be formed from lithium, obtaining products with a flat viscosity/temperature ratio. Lithium hydroxide is used for example in the production of lubricant greases, that can be used in extreme temperature and load conditions. Nearly 70% of lubricant greases produced in the world contain lithium.

At the end of 2002 SQM took two important steps towards its strategy for lithium. The first one was the construction of its butyllithium plant in Bayport, Texas, which demanded an investment of approximately US\$25 million. The second step was the acquisition of

a lithium hydroxide inventory in the United States. The butyllithium plant is currently in its test stage while the lithium hydroxide inventory will allow SQM to significantly increase its market share for this product.

SQM has the largest lithium reserves with the best quality, allowing the Company to be the lowest cost producer worldwide. Because of this and together with its specialized distribution network, the Company positions itself as a world leader in the lithium carbonate business and also as the main source of lithium carbonate production in the future.



Lithium applications in high-tech batteries.



# Other Products

Dyes, tiles, glass, ceramics are just a few applications of SGM's industrial products.

*Present in a great variety of applications, industrial as well as domestic, SGM's products have characteristics that significantly contribute to the quality improvement of a large number of products.*

## Industrial Chemicals



is known worldwide for being one of the most important suppliers of high quality industrial nitrates. These products are derived from agricultural nitrates, which are further processed and refined to obtain final industrial grade products with a wide range of applications in industries such as glass, explosives, transfer fluids, oxidation agents, etc. The main products in this business line are sodium nitrate in three different purity grades (industrial, refined and technical) and technical grade potassium nitrate.

In addition to the industrial nitrate, SGM participates in other industrial markets with products such as boric acid and sodium sulfate. The first one is a byproduct of

potassium sulfate, whereas the second is directly obtained from caliche.

SGM industrial chemicals hold a unique competitive position when analyzed from a productive point of view. Industrial nitrates are benefited from the process they share with specialty fertilizers, which allows the Company to not only take advantage of the scale economies implicit in the combined quantities of both nitrate groups, but also to achieve an operating flexibility that allows the Company to switch production to either one of the nitrate groups depending on current market conditions. This is traduced in a competitive advantage with respect to producers that do not have this kind of integration.

Representing approximately 13% of the company's revenues, the products classified as industrial



chemicals have made SQM worldwide known as a supplier of critical raw materials used in a great variety of products that touch virtually every aspect of our lives.

Below are just a few examples of the applications for industrial chemicals:

### At home

Nitrates are present in the porcelain enamel coatings that are fused to the metal substrates of appliances and fixtures such as refrigerators, washing machines, dryers, dishwashers, bathtubs and sinks. Producers of these products use nitrates for a broad array of reasons, ranging from improving production efficiency to enhancing the strength of the end product.

Nitrates and boric acid are used as critical ingredients in the production of both fiberglass and cellulose insulation, respectively. Nitrates, once again, serve to improve production efficiency whereas boric acid serves as a fire retardant.

Finally, sodium sulfate also has a role to play at home as an ingredient in the production of laundry detergent.

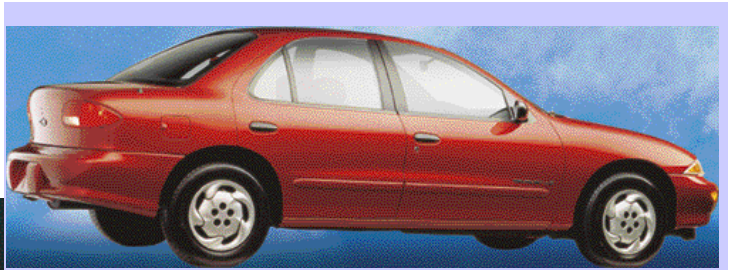
### In the Car

Millions of people do not realize that SQM plays an important role in the manufacturing of windshields and other metal parts used on cars. Nitrates are incorporated into the 'cocktail' of raw materials that form the windshields of some of the world's most popular cars. Additionally, nitrates are present in metal treatment baths designed to strengthen the metal used in many important automobile components such as brake pedals.

### Outdoors

Very few people are able to recognize that sodium nitrate is important to the enjoyment of their outdoor activities. Specifically, sodium nitrates' oxidizing properties contribute to both the ignition and the smooth burning of charcoal briquettes used in outdoor cooking.

Applications in cars.



Nautical applications with fiber-glass.



As in the case of charcoal briquettes, sodium nitrate's oxidizing properties also contribute to the ignition of fireworks in pyrotechnics.

While the aforementioned uses have represented the foundation for SQM's industrial chemical business for many years, SQM is optimistic about the future of its business as several new uses/markets are expected to provide opportunities for growth.

**New applications...**

- The use of nitrates as a nutrient to improve the in-situ growth of bacteria in oil reservoirs thereby reducing the interfacial tension and liberating what would have otherwise been unrecoverable oil. The addition of nitrates in this secondary oil recovery process is expected to improve recovery by a projected 6%.
- The use of molten nitrates as a heat transfer fluid for solar energy plants.

**New markets...**

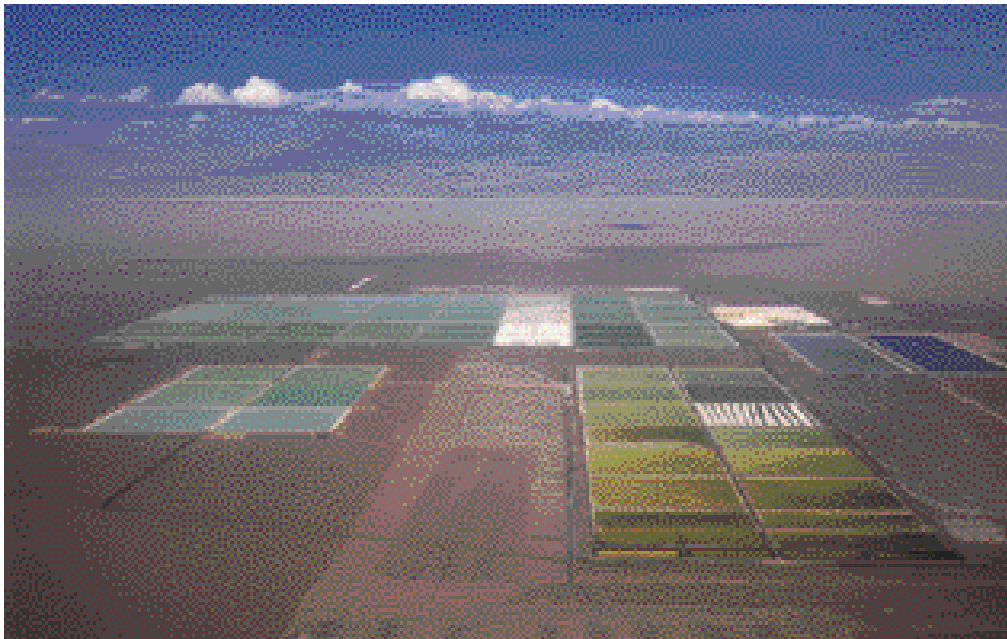
- Sales of nitrates are concentrated for the most part

in the developed world. As economies and technologies improve in the developing world, this creates opportunities for SQM's products as they are needed for infrastructure growth.

As outlined above, SQM's industrial chemicals product portfolio has a broad array of uses. This combination of breadth of traditional uses and opportunities for future growth have provided, and are expected to continue to provide, the foundation for consistently strong financial results.



Nitrates for pyrotechnics.



Aerial view of the solar evaporation ponds in the Atacama Salar.





### Potassium Chloride

The production of potassium chloride or muriate of potash (MOP) is based on the recovery of salts from the salar brines. Salts crystallized in solar evaporation ponds are raw material for an MOP plant with a production capacity of 650,000 metric tons per year. Most of the production of potassium chloride is used in the production of potassium nitrate and the rest is sold to third parties.

SQM potassium chloride is offered in two grades: Standard and Granular. The Granular grade is adequate for direct soil applications as well as for bulk blending with other fertilizers. Both grades contain a minimum of 60% potassium as K<sub>2</sub>O. The main applications of potassium chloride are as fertilizer for chlorine resistant crops and as fluid agents in drilling wells used to improve stability.

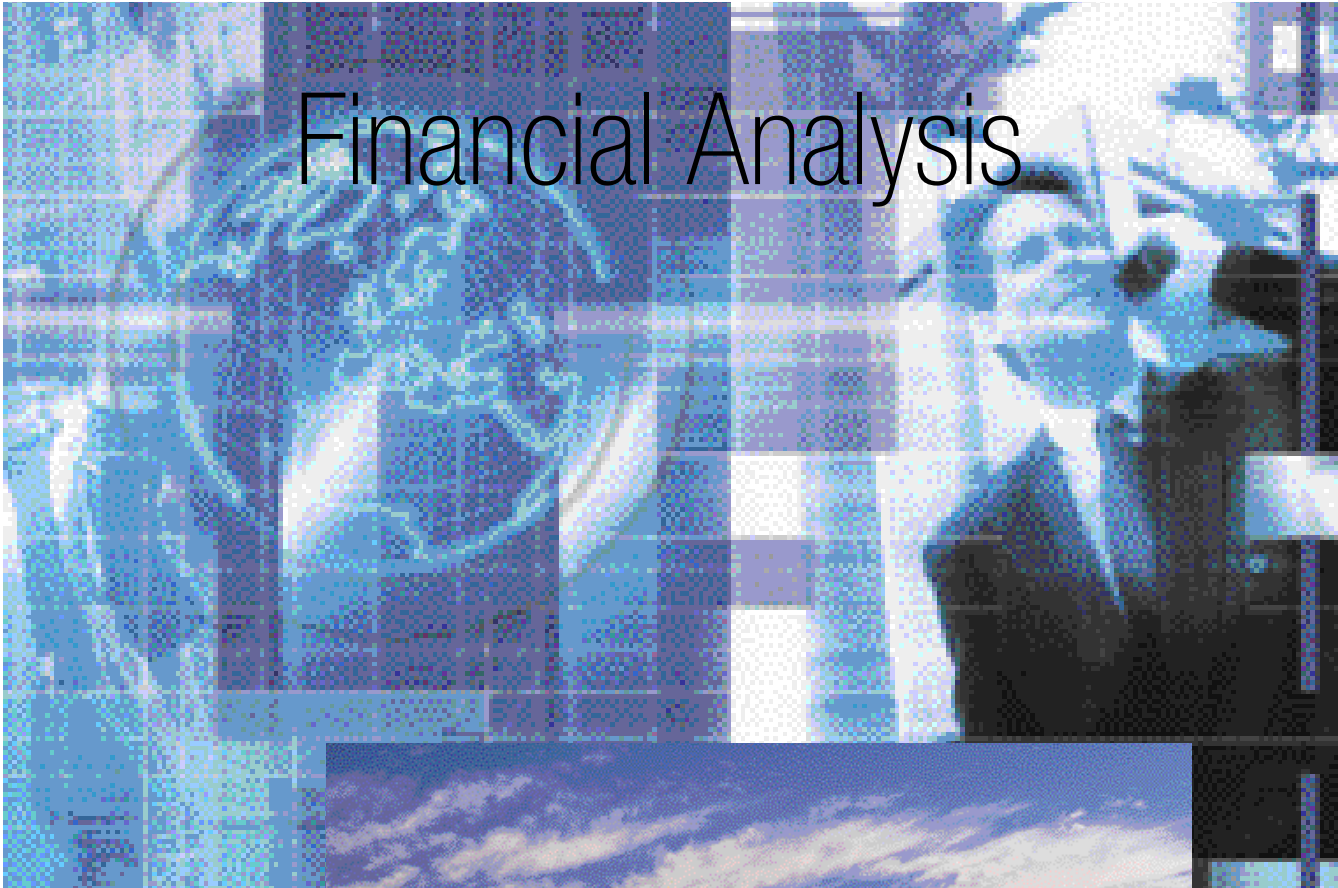
### Commodity Fertilizers

As a complement to its product portfolio, SQM offers its clients in Chile imported commodity fertilizers. These fertilizers comprise a wide array of products, among which can be found pearl urea, granulated urea and triple super phosphate, which the company distributes through its Chilean subsidiary, Soquimich Comercial S.A.

Improved resistance to temperature changes in glass.



# Financial Analysis



Productive facilities in Coya Sur.



reported earnings for the year 2002 in the amount of US\$ 40.2 million (US\$ 1.53 per ADR), 33.6% higher than the US\$ 30.1 million reported for the year 2001. Operating income for the year 2002 was US\$ 82.7 million (14.9% of revenues), higher than the US\$73.7 million (14.0% of revenues) of the previous year. The EBITDA<sup>(1)</sup> reached US\$144.2 million, higher than the US\$136.9 million recorded during the year 2001. Revenues obtained during the year 2002 reached US\$553.8 million, approximately 5.2% higher than the US\$526.4 million reported for the year 2001.



The analysis of the different business areas is the following:

## 1. Specialty Fertilizers

Revenues for specialty fertilizers for the year 2002 reached US\$ 281.4 million, higher than the US\$ 259.1 million of the previous year.

Higher revenues obtained during the full year are mainly explained by:

- Significant increase in sales volumes of potassium related products to the Latin American markets.
- Increase in potassium nitrate sales to the USA as a consequence of the TRI<sup>(2)</sup> plant closure, and an increase in soluble potassium nitrate sales to Europe. These increases were partially offset by lower sales of potassium nitrate to China compared to the previous year.
- Higher sales of Norsk Hydro ASA<sup>(3)</sup>'s calcium nitrate and other specialty fertilizers, mainly related to the startup of distribution operations contemplated in the SQM - Norsk Hydro commercial agreement.
- Slight increase in potassium sulfate and boron fertilizer sales.

		2002	2001
Sodium nitrate	Th. Ton	59.5	63.1
Potassium nitrate and sodium potassium nitrate	Th. Ton	558.6	544.8
Blended and other specialty fertilizers(*)	Th. Ton	276.6	241.8
Total Nitrate Specialty Fertilizers and Others	Th. Ton	894.7	849.7
Potassium sulfate	Th. Ton	161.0	156.6
Revenues Nitrate Specialty Fertilizers and Others(*)	MUS\$	248.6	227.6
Revenues Potassium Sulfate	MUS\$	32.8	31.4
<b>Revenues Specialty Fertilizers</b>	<b>MUS\$</b>	<b>281.4</b>	<b>259.1</b>

(\*)Includes Blended Fertilizers, Norsk Hydro Specialty Fertilizers and Other Specialty Fertilizers. Norsk Hydro Specialty Fertilizers sales for the year 2002 reached approximately US\$ 15 million.

Specialty fertilizers gross margin<sup>(4)</sup> for the year 2002 was significantly higher than the margin of the previous year. The increase in the gross margin is mainly explained by a significant reduction in production costs resulting from the various cost reduction initiatives implemented during 2001 and additionally by the increase in volume sales. The above was partially offset by a slight reduction on sales prices during the year compared to the prices observed for the year 2001.

On November 12, 2002, SQM signed a contract with PCS Chile<sup>(5)</sup> pursuant to which SQM agreed to buy from PCS Chile 8,000 metric tones per month of potassium nitrate for a period of 14 months. The main benefits of this operation are related to the logistics and commercial synergies that SQM will obtain due to the increase in sales volumes of potassium nitrate. Currently, SQM supplies PCS Chile potassium chloride, a raw material in the production of potassium nitrate.

## 2. Industrial Chemicals

Revenues for industrial chemicals for the year 2002 reached US\$ 70.8 million, slightly higher than the US\$ 69.6 million obtained during the previous year.

		2002	2001
Industrial nitrates	Th. Ton	187.3	187.0
Sodium sulfate	Th. Ton	63.2	66.7
Boric acid	Th. Ton	11.3	13.9
<b>Revenues Industrial Chemicals</b>	<b>MUS\$</b>	<b>70.8</b>	<b>69.6</b>

Industrial chemicals gross margin for 2002 was higher than the gross margin of the previous year, which is mainly explained by lower production costs.



### 3. Iodine and iodine derivatives

Revenues for iodine and iodine derivatives for 2002 reached US\$ 84.1 million, approximately 3.4% higher than the US\$ 81.4 million obtained during the previous year.

Average sales prices for the year 2002 fell by approximately US \$1.3 per kilogram compared to the previous year. However, SQM was able to recover market share and benefit from the growth of the world market.

		2002	2001
Iodine and derivatives	Th. Ton	6.4	5.6
<b>Revenues Iodine and derivatives</b>	<b>MUS\$</b>	<b>84.1</b>	<b>81.4</b>

(\*) Dollar and volume sales include iodine and a broad range of derivatives.

Iodine and iodine derivatives gross margin for the year 2002 was lower than the gross margin of the previous year. Lower production costs and the volume increase for the period allowed to partially offset the negative effect of lower sales prices.

### 4. Lithium and lithium derivatives

Revenues for lithium and lithium derivatives for 2002 reached US\$ 37.3 million, similar to the US\$ 37.0 million obtained during the previous year.

		2002	2001
Lithium carbonate and derivatives	Th. Ton	22.3	21.7
<b>Revenues Lithium and derivatives</b>	<b>MUS\$</b>	<b>37.3</b>	<b>37.0</b>

The increase in revenues observed during the fourth quarter allowed the Company to recover the lower sales observed up to September 2002. Contributing to the increase in sales observed during the fourth quarter is the increase registered in lithium hydroxide sales. These are directly related to the acquisition made by SQM at the end of the third quarter, which comprised an 18 million lbs stockpile of lithium hydroxide in the US.

Continuing with the last years trend, sales prices for the year 2002 were slightly higher than the sales prices of the previous year.

Lithium and lithium derivatives gross margin for the year 2002 was similar to the gross margin of the previous year.

### 5. Potassium Chloride

Potassium chloride revenues for the year 2002 reached US\$ 38.2 million, higher than the US\$ 36.5 million obtained during the previous year.

Higher annual volumes are mainly explained by an increase in production in potassium chloride in 2002 compared to 2001.

		2002	2001
Potassium Chloride	Th. Ton	286.0	262.9
<b>Revenues Potassium Chloride</b>	<b>MUS\$</b>	<b>38.2</b>	<b>36.5</b>

Potassium chloride gross margin for the year 2002 was significantly higher than the gross margin of the previous year due mainly to higher sales volumes.



### Selling and Administrative Expenses

Selling and Administrative Expenses reached US\$ 46.3 million (8.4% of revenues) during the year 2002 compared to the US\$ 43.6 million (8.3% of revenues) recorded during 2001.

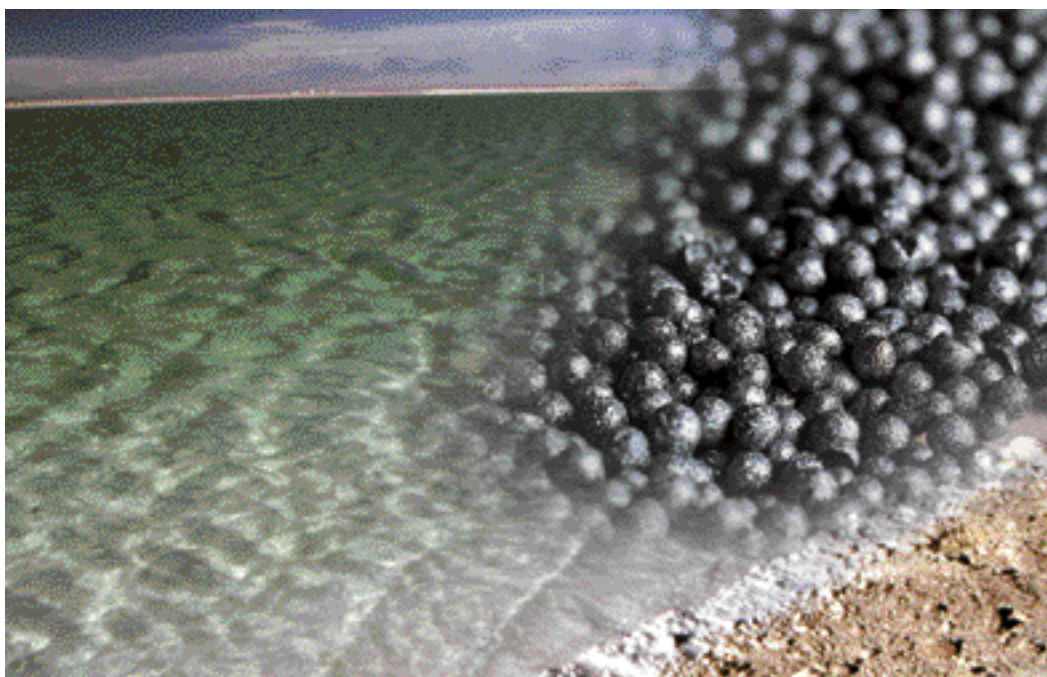
Although there is an increase in the total SG&A compared to the year 2001, there are certain items that were not included in the 2001 SG&A that should be considered when comparing the two figures. These items correspond to the following:

- SQM Italy and SQM Mexico are two commercial affiliates that were consolidated in 2002. The additional SG&A related to these two companies for the year 2002 is approximately US\$ 2.4 million.
- The restructuring of the commercial affiliates carried out during 2002 involved approximately US\$ 1.0 million in employee severance and other one-time payments.

### Non-operating income

Non-operating income for the year 2002 shows a US\$ 29.8 million loss which compares to a US\$ 29.2 million loss for the previous year. The main variations in the non-operating income were the following:

- During the first quarter of 2001 a non-operating profit of US\$4 million was reflected due to the sale of certain non-essential mining rights.
- Net financial expenses<sup>(6)</sup> decreased from US\$(32.0) million in 2001 to US\$(27.5) million in 2002. SQM's consolidation strategy based on a moderate capital expenditure program and focused on increasing the cash flow, has allowed the Company to reduce its net financial debt<sup>(7)</sup> by approximately US\$ 63 million in the last twelve months. The latter, along with lower interest rates, has translated in a significant reduction in financial expenses.
- The income derived from the 14.05% stake in the cement Chilean company Empresas Melón S.A., increased from US\$1.3 million in 2001 to US\$3.0 million in 2002.





## Others

During 2001, SQM reflected a negative extraordinary charge of US\$ (4.9) million (net of taxes). The above related to costs and expenses associated to the "organizational restructuring" project the Company implemented during the first quarter of 2001.

(1) EBITDA is defined by the Company as Operating Result plus Depreciation. This indicator must be considered solely as a reference and does not intend to represent a universal way to value different companies, varying according to the criteria employed by each company.

EBITDA is a non-GAAP financial measure derived from the sum of two audited GAAP figures:

EBITDA	=	Operating income	+	Depreciation
US\$144,162,508	=	US\$82,683,282	+	US\$61,479,226

(2) Trans resources International (TRI) is one of the main producers of potassium nitrate worldwide and has two productive branches: Haifa Chemicals in Israel and Cedar Chemicals in Vicksburg, USA.

(3) Norsk Hydro ASA, a Norwegian company, participates indirectly on Sociedad de Inversiones Pampa Calichera, which is in turn owner

of 37.5% of Series A shares of SQM. During the last general shareholders meeting, Norsk Hydro elected one out of eight SQM's directors.

(4) Gross margin corresponds to consolidated revenues less total costs, including depreciation and excluding sales and administration expenses.

A significant portion of SQM's costs of goods sold are costs related to common productive processes (mining, crushing, leaching, etc...) which are distributed among the different final products. To estimate gross margins by business lines in both periods covered by this report, the Company employed a similar criteria on the allocation of common costs to the different business areas. This gross margin distribution should be used only as a general and approximated reference of the margins by business line.

(5) PCS Chile is a potassium nitrate producer, subsidiary of Potash Corporation of Saskatchewan, Inc. (PCS). PCS is a Canadian company, which owns 37.5% of SQM's series A shares and during the last general shareholders meeting, elected two out of eight SQM's directors.

(6) Net financial expenses correspond to total financial expenses net of financial income during the period.

(7) Net financial debt corresponds to interest bearing debt less cash and cash equivalents at the end of each period.

