CHEMICAL & MINING CO OF CHILE INC
Form 6-K
April 07, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 UNDER THE

SECURITIES EXCHANGE ACT OF 1934

For the month of April, 2017.

Commission File Number 33-65728

CHEMICAL AND MINING COMPANY OF CHILE INC.

(Translation of registrant's name into English)

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

(Address of principal executive office)

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

Form 20-F: x Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): _____

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): _____

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's "home country"), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

SQM

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Sociedad Química y Minera de Chile S.A.

Annual Report 2016

1) Index

2) IDENTIFICATION OF THE ENTITY

2) IDENTIFICATION OF THE ENTITY

2) a) Identification of the Entity: Basic Identification

Company Name: Sociedad Química y Minera de Chile S.A.

Abbreviated Company Name: SQM

Legal Address: El Trovador 4285, Las Condes, Santiago, Chile

Chilean Taxpayer ID: 93.007.000-9

Type of Entity: Open stock corporation

2) b) Identification of the Entity: Legal Constitution

SQM was organized under the laws of the Republic of Chile. The Company was constituted by public deed issued on June 17, 1968 by Mr. Sergio Rodríguez Garcés, Notary Public of Santiago. Its existence was approved by Decree No. 1,164 of June 22, 1968, of the Ministry of Finance, and it was registered on June 29, 1968, in the Business Registry of Santiago, on page 4,537 No. 1,992.

2) c) Identification of the Entity: Contact Information

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3) DESCRIPTION OF BUSINESS ENVIRONMENT

3) DESCRIPTION OF BUSINESS ENVIRONMENT

3) a) Description of Business Environment: Historical Information

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

We were formed in 1968 through a joint venture between Compañía Salitrera Anglo Lautaro S.A. ("Anglo Lautaro") and the Production Development Corporation (*Corporación de Fomento de la Producción* or "Corfo"), a Chilean government entity. Three years after our formation, in 1971, Anglo Lautaro sold all of its shares to Corfo, and we were wholly owned by the Chilean Government until 1983. In 1983, Corfo began a process of privatization by selling our shares to the public and subsequently listing such shares on the Santiago Stock Exchange. By 1988, all of our shares were publicly owned. Our Series B ADSs have traded on the NYSE under the ticker symbol "SQM" since 1993. We accessed international capital markets again for the issuance of additional ADSs in 1995 and 1999. On December 21, 2006, two groups of shareholders, the "Pampa Group" (which includes the company Sociedad de Inversiones Pampa Calichera S.A. and its related companies, Inversiones Global Mining Chile Limitada and Potasios de Chile S.A.) and Kowa Group (which includes the companies Kowa Company Ltd., Inversiones La Esperanza (Chile) Limitada, Kochi S.A and La Esperanza Delaware Corporation) signed a joint agreement and became the controlling group of SQM.

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

From 2000 through 2004, we principally consolidated the investments carried out in the preceding five years. We focused on reducing costs and improving efficiencies throughout the organization. In addition, in 2001, we signed a

commercial distribution agreement with the Norwegian company Yara International ASA, in order to take advantage of cost synergies in the Specialty Plant Nutrition business line.

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

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The capital expenditure program has allowed us to add new products to our product lines and increase the production capacity of our existing products. In 2005, we started production of lithium hydroxide at a plant in the Salar del Carmen, near the city of Antofagasta in the north of Chile. In 2007, we completed the construction of a new prilling and granulating plant. In 2011, we completed expansions of our lithium carbonate capacity, achieving 48,000 metric tons of capacity per year. Since 2010, we have continued to expand our production capacity of potassium products in our operations in the Salar de Atacama. In 2011, we completed the construction of a new potassium nitrate facility in Coya Sur, increasing our overall production capacity of potassium nitrate by 300,000 metric tons per year. In 2013, we completed expansions in the production capacity of our iodine plants in Nueva Victoria. Our capital expenditure program also includes exploration for metallic minerals. Our exploration efforts have led to discoveries that in some cases may result in sales of the discovery and the generation of royalty income in the future. Within this context, in 2013 we sold our royalty rights to the Antucoya mining project to Antofagasta Minerals. In 2013 we also opened a trading office in Thailand.

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

In 2015, we focused on increasing the efficiency of our operations. Within this context, we announced a plan to restructure our iodine and nitrate operations. In an effort to take advantage of our highly efficient production facilities at our Nueva Victoria site, we decided to suspend the mining and nitrate operations and reduce iodine production at our Pedro de Valdivia site. During the year, we increased our iodine production capacity at Nueva Victoria to approximately 9,000 metric tons per year.

In 2016, we entered into a 50/50 joint venture with Lithium Americas to develop the Caucharí-Olaroz lithium project in the Jujuy province of Argentina. The project’s production capacity is targeted at 50,000 tons per year of lithium carbonate equivalent. Under the current project timeline, we expect to commission plant production by 2019. We also made a capital contribution of US$20 million to Elemental Minerals Limited (currently Kore Potash Limited), an Australian based company whose main assets are various potassium deposits in the Republic of Congo. We invested approximately US$20 million in exchange for 18% of the company, and a right of first refusal for approximately 20% of the total potash production of Kore Potash Limited. The State General Reserve Fund of Oman also contributed US$20 million.

3) b) Description of Business Environment: Industrial Sector

i) Products and Services

SQM is an integrated producer and seller of specialty plant nutrients, iodine, lithium, potassium fertilizers, and industrial chemicals. Our products are based on the development of high quality natural resources that make us a cost leader, supported by an international trading network specialized in sales in over 115 countries. SQM's development strategy aims to maintain and enhance our global leadership in all of our business lines.

For further information, see section 3) C) Description of Business Environment: Activities and Businesses.

ii) Competition and Market Share

See section 3) C) Description of Business Environment: Activities and Businesses.

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3) DESCRIPTION OF BUSINESS ENVIRONMENT

iii) Legal Framework

Government Regulations

Regulations in Chile Generally

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

We conduct our mining operations pursuant to judicial exploration concessions and exploitation concessions granted pursuant to applicable Chilean law. Exploitation concessions essentially grant a perpetual right (with the exception of the Salar de Atacama rights, which have been leased to us until 2030) to conduct mining operations in the areas covered by such concessions, provided that annual concession fees are paid. Exploration concessions permit us to explore for mineral resources on the land covered thereby for a specified period of time, and to subsequently request a corresponding exploitation concession.

Under Law No. 16,319 that created the Chilean Nuclear Energy Commission (*Comisión Chilena de Energía Nuclear* or "CCHEN"), we have an obligation to the CCHEN regarding the exploitation and sale of lithium from the Salar de Atacama, which prohibits the use of lithium for nuclear fusion. In addition, CCHEN has imposed annual quotas that limit the total tonnage of lithium authorized to be sold.

We also hold water use rights granted by the respective administrative authorities and which enable us to have a supply of water from rivers or wells near our production facilities sufficient to meet our current operating requirements. See section 3) E) Description of Business Environment: Risk Factors. The Water Code and related regulations are subject to changes, which could have a material adverse impact on our business, financial condition and results of operations.

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

The Chilean government may again decide to levy additional taxes on mining companies or other corporations in Chile, and such taxes could have a material adverse impact on our business, financial condition and results of operations.

There are currently no material legal or administrative proceedings pending against us except as discussed in Note 19.1 to our Consolidated Financial Statements and below under “Safety, Health and Environmental Regulations in Chile,” and we believe we are in compliance in all material respects with all applicable statutory and administrative regulations with respect to our business.

Safety, Health and Environmental Regulations in Chile

Our operations in Chile are subject to both national and local regulations related to safety, health and environmental protection. In Chile, the main regulations on these matters that are applicable to us are the Mine Health and Safety Act of 1989 (*Reglamento de Seguridad Minera* or the “Mine Health and Safety Act”), the Health Code (*Código Sanitario*), the Health and Basic Conditions Act of 1999 (*Reglamento sobre Condiciones Sanitarias y Ambientales Básicas en los Lugares de Trabajo* or the “Health and Basic Conditions Act”), the Subcontracting Law and the Environmental Law of 1994, amended in 2010 (*Ley sobre Bases Generales del Medio Ambiente* or the “Environmental Law”).

3) DESCRIPTION OF BUSINESS ENVIRONMENT

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

The Mine Health and Safety Act protects workers and nearby communities against health and safety hazards, and it provides for enforcement of the law where compliance has not been achieved. Our Internal Mining Standards (*Reglamentos Internos Mineros*) establish our obligation to maintain a workplace where safety and health risks are managed appropriately. We must comply with the general provisions of the Health and Basic Conditions Act, our own internal standards and the provisions of the Mine Health and Safety Act. In the event of non-compliance, the Ministry of Health and particularly the Sernageomin are entitled to use their enforcement powers to ensure compliance with the law.

In November 2011, the Ministry of Mining enacted Law No. 20,551 that Regulates the Closure of Mining Sites and Facilities (*Ley que Regula el Cierre de Faenas e Instalaciones Mineras*). This statute entered in force in November 2012 and required all mining sites to present or update their closure plans as of November 2014. SQM has fulfilled this requirement for all of its mining sites and facilities. The main requirements of the law are related to disclosures to the Sernageomin regarding decommissioning plans for each mining site and its facilities, along with the estimated cost to implement such plans. There is a requirement to provide a form of financial assurance to the Sernageomin to ensure compliance with the decommissioning plans. The mining site closure plans are approved by the Sernageomin, and the corresponding financial assurances are subject to approval by the SVS. En both cases, SQM has respective aprrovals and keeps up to date the respective assurances according to the usefull life of each mining site.

The Environmental Law was subjected to several important modifications that entered into effect in January 2010, including the creation of the Ministry of the Environment, the Environmental Evaluation Service and the Superintendence for the Environment. The Superintendence for the Environment began operations on December 28, 2012. The new and modified Environmental Law defines the Ministry of the Environment (*Ministerio del Medio Ambiente)* as the governmental agency responsible for coordinating and supervising environmental issues. The Environmental Evaluation Service *(El Servicio de Evaluación Ambiental)* is responsible for reviewing environmental assessments of new projects or significant modifications of existing ones, and the decision to grant or reject environmental permits rests with The Environmental Evaluation Comission *(Comisión de Evaluación Ambiental)*. On the other hand, the Superintendence for the Environment is responsible for supervising environmental performance during the construction, operation and closure of the projects that have been evaluated and approved for environmental purposes, and it is also responsible for enforcing compliance with prevention and atmospheric

decontamination plans. The Environmental Law also promotes citizen participation in project evaluation and implementation, providing more opportunities for observations or objections to be made during the environmental evaluation process. Annually, the Superintendence for the Environment audits a sample of approved projects to verify compliance of the environmental permits, and it may pursue fines or sanctions if applicable, which can be challenged in the Environmental Court.

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3) DESCRIPTION OF BUSINESS ENVIRONMENT

On August 10, 1993, the Ministry of Health published in the Official Gazette a resolution establishing that atmospheric particulate levels at our production facilities in María Elena and Pedro de Valdivia exceeded air quality standards, affecting the nearby towns. The high particulate matter levels came principally from dust produced during the processing of caliche ore, particularly the crushing of the ore before leaching. Residents of the town of Pedro de Valdivia were relocated to the town of María Elena, practically removing Pedro de Valdivia from the scope of the determination of the Ministry of Health. In 1998, authorities approved a plan to reduce the atmospheric particulate levels later modified by Decree No. 37/2004 in March 2004, which called for an 80% reduction of the emissions of atmospheric particulate material. This was achieved from 2008 through the implementation of a project that modified the milling and screening systems used in the processing of the caliche ore at the María Elena facilities. This project suspended its operation in March 2010, Later, en November 2015 the mining and milling operations at the Pedro de Valdivia facility were suspended. Air quality in the area has improved significantly, and compliance with Chilean air quality standards has been achieved since 2013.Therefore, the Ministry of Health's 1993 resolution could be reviewed.

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

We continuously monitor the impact of our operations on the environment and on the health of our employees and other persons who may be affected by such operations. We have made modifications to our facilities in an effort to eliminate any adverse impacts. Also, over time, new environmental standards and regulations have been enacted, which have required minor adjustments or modifications of our operations for full compliance. We anticipate that additional laws and regulations will be enacted over time with respect to environmental matters. While we believe we will continue to be in compliance with all applicable environmental regulations of which we are now aware, there can be no assurance that future legislative or regulatory developments will not impose new restrictions on our operations. We are committed to both complying with all applicable environmental regulations and to continuously improving our environmental performance through our Environmental Management System ("EMS"), voluntary evaluations, such as Ecovadis, and international certifications, such as the Responsible Conduct certification from the Chilean Industrial Chemicals Association, which applies to our operations at Nueva Victoria, and the Protect&Sustain certification from the International Fertilizer Association, which applies to our operations at Coya Sur, the Salar de Atacama, Tocopilla, Antofagasta and Santiago.

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

3) DESCRIPTION OF BUSINESS ENVIRONMENT

International Regulations

We employ our best efforts to ensure compliance with the complex regulatory environments in which it operates.

On June 1, 2015, the new Hazard Communication Standard of the U.S. Occupational Safety and Health Administration ("OSHA"), for the classification and updating of labels and safety data sheets went into effect. All of our product labels were modified in accordance with the new standard.

On June 1, 2015, European Union Classification and Labelling Regulation No. 1272/2008 went into effect for chemical product blends, which requires us and our related companies to modify the labels and safety data sheets for all of the specialty blends (NPKs) we produce and/or market and sell in Europe. All labels and safety data sheets were updated, resulting in a total of approximately 50 labels and 620 documents in the required languages, for a portfolio of 209 products.

On October 9, 2015, Official Standard NOM-018-STPS-2015 was published in Mexico, related to the harmonized system for the identification and communication of hazards and risks from hazardous chemicals in the workplace. The standard determines changes in product labels and workplace signage, as well as safety data sheets and employee training, and it enters into effect on October 9, 2018. In 2014, we began to make the necessary adjustments in our documentation as required by the new standard. To date, we still need to adapt workplace signage, train employees, and verify the obligations for third-party services.

In January 2016, a new Korean regulation for the management of chemical products known as K-REACH came into effect. K-REACH contains requirements that are similar to those established by the European regulation, REACH. K-REACH defines obligations for both importers and users of our products with respect to the evaluation of security and the communication of risks to the supply chain. K-REACH also defines substances that should be registered in accordance with the regulation that will be implemented in July 2018. We intend to act through a sole representative in Korea for all products subject to the regulation.

In March 2016, the European Commission sent to the European Parliament a new regulatory proposal for fertilizers, which is expected to be approved by the end of 2017, following which there will be a transition period for its implementation. The new European regulation proposes to reduce the maximum content limit of perchlorates in

inorganic fertilizer with macronutrients, such as the potassium nitrate sold by us, from 0.01% to 0.005%. The fertilizers that we sell contain less than 0.005% of perchlorate. However, we anticipate that in 2017, the Food Chain Security unit of the General Health and Consumer Affairs Council may revise the perchlorate limits in food that are currently in force and effect, following the European Food Safety Authority's ("EFSA") evaluation of the data from the 2016 monitoring program that analyzed perchlorate levels in food and in drinkable water. The new limits of perchlorates in food is expected to be established by the end of 2017.

With respect to the regulation on explosives in Europe, we issued a procedure for all employees of SQM Europe NV (Procedure for the Reporting of Suspicious Transactions and Theft of Products covered by Regulation (EU) No. 98/2013). We completed a new training program for employees in related European companies with respect to such regulation. This regulation considers nitrogen, phosphorus, and potassium ("NPK") mixes produced in Europe as well as the nitrates in the product line and third party products covered by the regulation. The member states that participate in the European Committee that reviews the regulation did not reach a consensus on defining the ranges of concentration for fertilizer products. We will continue to monitor the development of changes to the regulation through our participation in the Potassium Nitrate Association as part of the public–private committee created by the European Committee. In 2017, the reviewing committee expects to prepare a report evaluating the regulation.

3) DESCRIPTION OF BUSINESS ENVIRONMENT

On March 14, 2016, Normative Instruction No. 5 became effective in Brazil, which defines specification requirements, guarantees, tolerances, registration requirements, packaging requirements, and the labeling of fertilizer products, among others. Normative Instruction No. 5 also defines changes to the information presented for the new registration of products and for the renewal of existing registries, when applicable.

In September 2016, we fulfilled the United States Environmental Protection Agency's ("US-EPA") requirement under the Chemical Data Reporting ("CDR") regulation and the Toxic Substances Control Act (US-TSCA) to disclose all chemical substances imported to the United States by SQM North America Corp. during the 2012-2015 period, including the amount in tons per year and its uses. We conducted a survey of all products imported to the United States of America from our headquarters and affiliates during this period and reported the information per chemical substance to the US-EPA. This disclosure will be made again in 2020 for products imported during the 2016-2019 period.

3) c) Description of Business Environment: Activities and Businesses

The Company

We believe that we are the world's largest producer of potassium nitrate and iodine. We also produce specialty plant nutrients, iodine derivatives, lithium and its derivatives, potassium chloride, potassium sulfate and certain industrial chemicals (including industrial nitrates and solar salts). Our products are sold in over 115 countries through our worldwide distribution network, with 92% of our sales in 2016 derived from countries outside Chile.

Our products are mainly derived from mineral deposits found in northern Chile. We mine and process caliche ore and brine deposits. The caliche ore in northern Chile contains the only known nitrate and iodine deposits in the world and is the world's largest commercially exploited source of natural nitrates. The brine deposits of the Salar de Atacama, a salt-encrusted depression in the Atacama Desert in northern Chile, contain high concentrations of lithium and potassium as well as significant concentrations of sulfate and boron.

From our caliche ore deposits, we produce a wide range of nitrate-based products used for specialty plant nutrients and industrial applications, as well as iodine and iodine derivatives. At the Salar de Atacama, we extract brines rich in potassium, lithium, sulfate and boron in order to produce potassium chloride, potassium sulfate, lithium solutions and

bischofite (magnesium chloride). We produce lithium carbonate and lithium hydroxide at our plant near the city of Antofagasta, Chile, from the solutions brought from the Salar de Atacama.

Our products are divided into six categories: specialty plant nutrients; iodine and its derivatives; lithium and its derivatives; potassium chloride and potassium sulfate; industrial chemicals and other commodity fertilizers. Specialty plant nutrients are premium fertilizers that enable farmers to improve yields and the quality of certain crops. Iodine and its derivatives are mainly used in the X-ray contrast media and biocides industries and in the production of polarizing film, which is an important component in LCD screens. Lithium and its derivatives are mainly used in batteries, greases and frits for production of ceramics. Potassium chloride is a commodity fertilizer that is produced and sold by us worldwide. Potassium sulfate is a specialty fertilizer used primarily in crops such as vegetables, fruits and industrial crops. Industrial chemicals have a wide range of applications in certain chemical processes such as the manufacturing of glass, explosives and ceramics, and, more recently, industrial nitrates are being used in concentrated solar power plants as a means for energy storage. In addition, we complement our portfolio of plant nutrients through the buying and selling of other commodity fertilizers for use mainly in Chile.

3) DESCRIPTION OF BUSINESS ENVIRONMENT

For the year ended December 31, 2016, we had revenues of US$1,939.3 million, gross profit of US$611.0 million and profit attributable to controlling interests of US$278.3 million. Our worldwide market capitalization as of December 31, 2016 was approximately US$7.9 billion.

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

The needs of more sophisticated customers are causing the industry to provide solutions rather than individual products. The advantages of our products, plus customized specialty blends that meet specific needs along with the agronomic service provided, allow us to create plant nutrition solutions that add value to crops through higher yields and better quality production. Because our products are derived from natural nitrate compounds or natural potassium brines, they have certain advantages over synthetically produced fertilizers, including the presence of certain beneficial trace elements, which makes them more attractive to customers who prefer products of natural origin. As a result, specialty plant nutrients are sold at a premium price compared to commodity fertilizers.

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

Lithium and its Derivatives: We are a leading producer of lithium carbonate, which is used in a variety of applications, including electrochemical materials for batteries, frits for the ceramic and enamel industries, heat-resistant glass (ceramic glass), air conditioning chemicals, continuous casting powder for steel extrusion, primary aluminum smelting process, pharmaceuticals and lithium derivatives. We are also a leading supplier of lithium

hydroxide, which is primarily used as an input for the lubricating greases industry and for certain cathodes for batteries. We also sell lithium chloride solutions, which are primarily used as an input for the production of lithium derivatives. We market lithium using the following brands: QLithiumCarbonate™, QLithiumHydroxide™ and QLubelith™.

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

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

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

The following table shows the percentage breakdown of our revenues for 2016, 2015 and 2014 according to our product lines:

	2016		2015		2014	
Specialty Plant Nutrition	32	%	38	%	35	%
Iodine and Derivatives	12	%	15	%	17	%
Lithium and Derivatives	27	%	13	%	10	%
Potassium	21	%	25	%	29	%
Industrial Chemicals	5	%	6	%	5	%
Other	3	%	4	%	4	%
Total	100	%	100	%	100	%

Business Strategy

Our business strategy is to be a mining operator that selectively integrates the production and sale of products, while efficiently supplying products to industries essential for human development (e.g. food, health, technology). This strategy was built on the following six principles:

1. strengthen internal processes to ensure access to key resources required for the sustainability of the business;
2.

extend M1 (lean operations) to the entire organization to strengthen our cost position, increase quality and ensure safety;

3. invest in the development of a specialty fertilizer market, including product differentiation, sales channel management and price optimization;

4. recover the iodine market share, seek consolidation and vertical integration opportunities, and invest in the development of industrial nitrate applications;

5. search and invest in lithium and potassium assets outside of Chile to leverage our operational capabilities and take advantage of the current lithium market appeal and ensure access to raw materials for our potassium nitrate production; and

6. seek diversification opportunities in gold, copper and zinc projects in the region to leverage our mining operating capabilities and provide business continuity to our exploration program.

These principles are based on the following four concepts:

1. build an organization with strategic clarity, inspirational leaders, responsible personnel and strong values;

2. develop a strategic planning process that responds to the needs of our customers and market trends, while ensuring coordination between all segments of the business, including sales and operations;

3. develop a robust risk control and mitigation process to actively manage our risk; and

3) DESCRIPTION OF BUSINESS ENVIRONMENT

4. improve our stakeholder management to establish links with the community and communicate to Chile and worldwide our contribution to industries essential for human development.

We have identified market demand in each of our major product lines, both within our existing customer base and in new markets, for existing products and for additional products that can be produced from our natural resources. In order to take advantage of these opportunities, we have developed specific strategies for each of our product lines.

Specialty Plant Nutrition

Our strategy in our specialty plant nutrition business is to: (i) continue expanding our sales of natural nitrates by continuing to leverage the advantages of our specialty products over commodity-type fertilizers; (ii) selectively expand by increasing our sales of higher margin specialty plant nutrients based on potassium and natural nitrates, particularly soluble potassium nitrate and NPK blends; (iii) pursue investment opportunities in complementary businesses to enhance our product portfolio, increase production, reduce costs, and add value to and improve the marketing of our products; (iv) develop new specialty nutrient blends produced in our mixing plants that are strategically located in or near our principal markets in order to meet specific customer needs; (v) focus primarily on the markets for plant nutrients in soluble and foliar applications in order to establish a leadership position; (vi) further develop our global distribution and marketing system directly and through strategic alliances with other producers and global or local distributors; (vii) reduce our production costs through improved processes and higher labor productivity so as to compete more effectively and (viii) supply a product with consistent quality according to the requirements of our customers.

Iodine and its Derivatives

Our strategy in our iodine business is to: (i) increase and maintain our market share in the iodine market above 30% in order to optimize the use of our available production capacity; (ii) encourage demand growth and promote new iodine uses; (iii) participate in iodine recycling projects through the Ajay-SQM Group (“ASG”); (iv) reduce our production costs through improved processes and higher productivity in order to compete more effectively and (v) supply a product with consistent quality according to the requirements of our customers.

Lithium and its Derivatives

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

quality according to the requirements of our customers.

Potassium

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

Industrial Chemicals

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

3) DESCRIPTION OF BUSINESS ENVIRONMENT

New Business Ventures

We always evaluate opportunities to expand in our current core businesses or within new businesses in which we believe we may have sustainable competitive advantages, both within and outside Chile, and we expect to continue to do so in the future.

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

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

We have an in-house geological exploration team that explores the area directly, drilling targets and assessing new prospects. In 2016, the team identified 15 new targets and confimed the mineralization in some of them. The number of perforated meters reached 32,000 and it was made using 3 machines of which two were internal and the other external. We also have a metal business development team that works to engage partners interested in investing in metal exploration within our mining properties. As of December 31, 2016, we had option agreements in place with seven companies, including small junior mining companies, private equity firms and large mining companies.

Main Business Lines

Specialty Plant Nutrition

We believe we are the world's largest producer of potassium nitrate. We estimate that our sales accounted for approximately 44% of global potassium nitrate sales for all applications by volume in 2016, an increase from 43% compared to 2015. During 2016, the potassium nitrate market increased by around 3%. These estimates do not include potassium nitrate produced and sold locally in China, only net imports/exports.

In addition to potassium nitrate, we also produce the following specialty plant nutrients: sodium nitrate, sodium potassium nitrate and specialty blends (containing various combinations of nitrogen, phosphate and potassium and generally known as "NPK blends").

These specialty plant nutrients have specific characteristics that increase productivity and enhance quality when used on certain crops and soils. Our specialty plant nutrients have significant advantages for certain applications over commodity fertilizers based on nitrogen and potassium, such as urea and potassium chloride.

3) DESCRIPTION OF BUSINESS ENVIRONMENT

In particular, our specialty plant nutrients:

- are fully water soluble, allowing their use in hydroponics, fertigation, foliar applications and other advanced agricultural techniques;
- improve the water use efficiency of crops and help conserve water;
- are chloride-free, which prevents chloride toxicity in certain crops associated with high levels of chlorine in plant nutrients;
- provide nitrogen in nitric form, thereby allowing crops to absorb nutrients faster than they absorb urea or ammonium-based fertilizers;
- do not release hydrogen after application, thereby avoiding increased soil acidity;
- possess trace elements, which promote disease resistance in plants and
- are more attractive to customers who prefer products of natural origin.

In 2016, our specialty plant nutrients revenues decreased to US$623.9 million, representing 32% of our total revenues for that year and a 4.4% decrease from US$652.3 million in specialty plant nutrients revenues in 2015. This decrease was the result of lower prices compared to 2015. Prices decreased approximately 5% in 2016.

Specialty Plant Nutrition: Market

The target market for our specialty plant nutrients includes producers of high-value crops such as vegetables, fruits, industrial crops, flowers, cotton and others. Furthermore, we sell specialty plant nutrients to producers of chloride-sensitive crops. Since 1990, the international market for specialty plant nutrients has grown at a faster rate than the international market for commodity-type fertilizers. This is mostly due to: (i) the application of new agricultural technologies such as fertigation and hydroponics, and the increasing use of greenhouses; (ii) the increase in the cost of land and the scarcity of water, which has forced farmers to improve their yields and reduce water use; and (iii) the increase in demand for higher quality crops, such as fruits and vegetables.

Over the last ten years, the compound annual growth rate for vegetable production per capita was 3% while the compound annual growth rate for the world population was closer to 1%.

Worldwide scarcity of water and arable land drives the development of new agricultural techniques to maximize the use of these resources. Irrigation has grown at an average annual rate of 1% during the last 20 years (a pace similar to

population growth). However, microirrigation has grown at 10% per year over the same period. Microirrigation systems, which include drip irrigation and micro-sprinklers, are the most efficient forms of technical irrigation. These applications require fully water-soluble plant nutrients. Our nitrate-based specialty plant nutrients provide nitrogen in nitric form, which helps crops absorb these nutrients faster than they absorb urea- or ammonium-based fertilizers, facilitating a more efficient application of nutrients to the plant and thereby increasing the crop's yield and improving its quality.

Asia is the region with the lowest microirrigation to total irrigated hectares ratio in the world, reaching around 3%. This represents a high potential for this technology, which is reflected in the high growth rates in recent years.

The market for potassium nitrate in China is an important market for this product, although its demand is largely fulfilled by domestic producers. Demand totals approximately 400,000 to 420,000 metric tons, of which approximately 150,000 is related to the tobacco industry and 120,000 is related to the horticulture business. Of the total, between 20,000 and 30,000 metric tons are imports.

3) DESCRIPTION OF BUSINESS ENVIRONMENT

Specialty Plant Nutrition: Our Products

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

The following table shows our sales volumes of and revenues from specialty plant nutrients for 2016, 2015 and 2014:

	2016	2015	2014
Sales volumes *(Th. MT)*			
Sodium nitrate	24.4	26.0	15.8
Potassium nitrate and sodium potassium nitrate	475.8	493.6	531.6
Specialty blends[(1)]	213.5	203.9	228.0
Other specialty plant nutrients[(2)]	127.2	108.4	102.5
Revenues ***(in US$ millions)***	623.9	652.3	708.0

(1) Includes Yara's products sold pursuant to our commercial agreement.
(2) Includes trading of other specialty fertilizers.

Depending on the systems used to apply specialty nutrients, fertilizers can be classified as specialty field fertilizers or water-soluble fertilizers (also known as "SFF" or Specialty Field Fertilizer) and solubles (also known as "WSF" or Water Soluble Fertilizer).

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

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

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

Foliar feeding with potassium nitrate can have beneficial effects:

- when soil chemistry limits nutrient solubility and availability (pH, organic matter, type and percentage of clay);
- when nutrient absorption through the roots is limited as a result of conditions that hamper root growth (temperature, moisture, oxygen and loss of soil structure);
- when the plant's local internal demand may surpass real internal nutrient redistribution capacity, leaving the demand unsatisfied;
- when nutrient mobility is limited, when plants flower before the leaf growth phase, imposing limiting factors on xylem nutrient transport and

3) DESCRIPTION OF BUSINESS ENVIRONMENT

·to promote rapid recovery from leaf stress caused by climatic conditions, soil conditions and irrigation management.

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

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

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

Specialty Plant Nutrition: Marketing and Customers

In 2016, we sold our specialty plant nutrients in approximately 98 countries. One single customer represented more than 10% of our specialty plant nutrient revenues during 2016, representing approximately 27% of our total specialty plant nutrition revenues, and our ten largest customers accounted in the aggregate for approximately 50% of revenues during that period. No supplier accounted for more than 10% of the costs of sales for this business line.

The table below shows the geographical breakdown of our revenues:

Revenues Breakdown	2016	2015	2014
North America	33 %	33 %	30 %
Europe	18 %	22 %	21 %
Central and South America	11 %	28 %	31 %
Asia and Others	37 %	16 %	18 %

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

We maintain stocks of our specialty plant nutrients in the main markets of the Americas, Asia, Europe, the Middle East and Africa in order to facilitate prompt deliveries to customers. In addition, we sell specialty plant nutrients directly to some of our large customers. Sales are made pursuant to spot purchase orders and short-term contracts.

In connection with our marketing efforts, we provide technical and agronomical assistance and support to some of our customers. By working closely with our customers, we are able to identify new, higher-value-added products and markets. Our specialty plant nutrients are used on a wide variety of crops, particularly value-added crops, where the use of our products enables our customers to increase yields and command a premium price.

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

3) DESCRIPTION OF BUSINESS ENVIRONMENT

Specialty Plant Nutrition: Joint Ventures and Agreements

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

In May 2008, we signed a joint venture agreement with Migao Corporation ("Migao") for the production and distribution of specialty plant nutrients in China. Through the joint venture, we constructed a potassium nitrate plant with a production capacity of 40,000 metric tons per year. The plant began operating in January 2011, and has allowed us to increase our presence in China, which is one of the most important and fastest growing markets for the fertilizer industry.

In May 2009, our subsidiary Soquimich European Holdings entered into an agreement with Coromandel Fertilizers Ltd. to create a joint venture for the production and distribution of water soluble fertilizers in India. The agreement established a 50⁄50 contribution to the joint venture. As part of the agreement, a new 15,000 metric ton facility was constructed in the city of Kakinada to produce water soluble NPK grade fertilizers. This new facility began operating in January 2012.

In December 2009, we signed an agreement with the French Roullier Group to form the joint venture SQM Vitas. This agreement joins two of the largest companies in the businesses of specialty plant nutrition, specialty animal nutrition and professional hygiene. Peru, Brazil and South Africa are the main focus markets of this joint venture, and Dubai is the main productive unit. As part of the agreement, our phosphate plant located in Dubai became part of this joint venture.

Between 2010 and 2012, we continued to expand our production capacity of potassium products in our operations in the Salar de Atacama. In 2011, we completed the construction of a new potassium nitrate facility in Coya Sur, increasing our overall production capacity of potassium nitrate by 300,000 metric tons.

In 2012, SQM Vitas started the construction of new plants in Brazil (Candeias), Peru and South Africa (Durban) for the production of water soluble fertilizers containing different relative amounts of nitrogen, phosphorus and

potassium, and at times, smaller amounts of other chemicals. The Candeias Industrial Complex plant in Brazil began operating in March 2012 and has a production capacity of 25,000 metric tons per year.

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

During 2013, the marketing activities of our joint venture wih Migao integrated in SQM (Beijing). This change aims to enhance the efficiency of distribution channels for fertilizer products by consolidating marketing into a unified brand and management team, thus reducing costs. In addition, our strategy in this segment is to increase production of water soluble fertilizers and extend our technologies and their applications in order to increase popularity and expand the use of these products.

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

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

3) DESCRIPTION OF BUSINESS ENVIRONMENT

In 2016, we began operating soluble specialty plant nutrient production facilities through our joint ventures in Peru and Holland. We also began operating a third facility in Mexico.

Specialty Plant Nutrition: Fertilizer Sales in Chile

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

SQMC is currently one of the main players in the Chilean market, offering a wide range of products developed specifically for crops grown in the country. As specialty plant nutrients have differentiating qualities with respect to traditional fertilizers, they play a key role in this market.

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

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

Soquimich Comercial S.A.'s fertilizer sales represented approximately 24% of total fertilizer sales in Chile during 2016. No customer accounted for more than 10% of Soquimich Comercial S.A.'s revenues in 2016. Soquimich Comercial S.A.'s consolidated revenues were approximately US$150 million and US$177 million in 2016 and 2015, respectively.

Specialty Plant Nutrition: Competition

We believe we are the world's largest producer of sodium nitrate and potassium nitrate for agricultural use. Our sodium nitrate products compete indirectly with specialty and commodity-type substitutes, which may be used by some customers instead of sodium nitrate depending on the type of soil and crop to which the product will be applied.

Such substitute products include calcium nitrate, ammonium nitrate and calcium ammonium nitrate.

In the potassium nitrate market our largest competitor is Haifa Chemicals Ltd. (“Haifa”), in Israel, which is a subsidiary of Trans Resources International Inc. We estimate that sales of potassium nitrate by Haifa accounted for approximately 31% of total world sales during 2016 (excluding sales by Chinese producers to the domestic Chinese market), compared to our share of the market which accounted for approximately 44% of global potassium nitrate sales by volume for the period.

ACF, another Chilean producer, mainly oriented to iodine production, has produced potassium nitrate from caliche ore and potassium chloride since 2005. Kemapco, a Jordanian producer owned by Arab Potash, produces potassium nitrate in a plant located close to the Port of Aqaba, Jordan. In addition, there are several potassium nitrate producers in China, the largest of which are Yuantong and Migao. Most of the Chinese production is consumed by the Chinese domestic market.

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

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

3) DESCRIPTION OF BUSINESS ENVIRONMENT

Iodine and its Derivatives

We believe we are the world's largest producer of iodine. In 2016, our revenues from iodine and iodine derivatives amounted to US$231.1 million, representing 12% of our total revenues in that year. We estimate that our sales accounted for approximately 29% of world iodine sales by volume in 2016.

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Iodine: Market

Iodine and iodine derivatives are used in a wide range of medical, agricultural and industrial applications as well as in human and animal nutrition products. Iodine and iodine derivatives are used as raw materials or catalysts in the formulation of products such as X-ray contrast media, biocides, antiseptics and disinfectants, pharmaceutical intermediates, polarizing films for LCD and LED screens, chemicals, organic compounds and pigments. Iodine is also added in the form of potassium iodate or potassium iodide to edible salt to prevent iodine deficiency disorders.

X-ray contrast media is the leading application of iodine, accounting for 23% of demand. Iodine's high atomic number and density make it ideally suited for this application, as its presence in the body can help to increase contrast between tissues, organs, and blood vessels with similar X-ray densities. Other applications include pharmaceuticals, which account for 13% of demand; LCD and LED screens, 12%; iodophors and povidone-iodine, 10%; animal nutrition, 8%; fluoride derivatives, 7%; biocides, 5%; nylon, 4%; human nutrition, 3% and other applications, 16%.

During 2016, iodine demand grew slightly compared to 2015, partly as a result of very minimal growth in the iodine market for uses related to LEC and LCD and the reuse of iodine in the iodine market related to plastics. We estimate that the global market size in 2016 was approximately 33,500 metric tons, with around 57% of supply coming from Chilean producers, including us.

Iodine: Our Products

We produce iodine in our Nueva Victoria plant, near Iquique, and our Pedro de Valdivia plant, close to María Elena. We have a total effective production capacity of approximately 10,000 metric tons per year of iodine, including the

Iris plant, which is located next to the Nueva Victoria plant.

Through ASG, we produce organic and inorganic iodine derivatives. ASG was established in the mid-1990s and has production plants in the United States, Chile and France. ASG is the world's leading inorganic and organic iodine derivatives producer.

Consistent with our business strategy, we are constantly working on the development of new applications for our iodine-based products, pursuing a continuing expansion of our businesses and maintaining our market leadership.

We manufacture our iodine and iodine derivatives in accordance with international quality standards and have qualified our iodine facilities and production processes under the ISO-9001:2008 program, providing third party certification of the quality management system and international quality control standards that we have implemented.

The following table shows our total sales and revenues from iodine and iodine derivatives for 2016, 2015 and 2013:

	2016	2015	2014
Sales volumes *(Th. MT)*			
Iodine and derivatives	10.2	9.3	8.8
Revenues *(in US$ millions)*	231.1	262.6	335.4

3) DESCRIPTION OF BUSINESS ENVIRONMENT

Our revenues decreased to US$231.1 million in 2016 from US$262.6 million in 2015. This decrease was primarily attributable to the decrease in iodine prices during 2016. Average iodine prices were more than 19% lower in 2016 when compared to 2015. Our sales volumes increased 9% in 2016, outpacing global iodine demand growth.

Iodine: Marketing and Customers

In 2016, we sold our iodine products to approximately 300 customers in over 55 countries, and most of our sales were exports. Two customers accounted for more than 10% of our iodine revenues in 2016. These two customers accounted for approximately 40% of revenues, and our ten largest customers accounted in the aggregate for approximately 77% of revenues. No supplier accounted for more than 10% of the cost of sales of this business line.

The following table shows the geographical breakdown of our sales for 2016, 2015 and 2014:

Sales Breakdown	2016	2015	2014
North America	25 %	29 %	31 %
Europe	36 %	34 %	35 %
Central and South America	0 %	4 %	4 %
Asia and Others	38 %	33 %	30 %

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

Iodine: Competition

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

Iodine is produced in Chile using a unique mineral known as caliche ore, whereas in Japan, the United States, Russia, Turkmenistan, Azerbaijan, and Indonesia, producers extract iodine from underground brines that are mainly obtained together with the extraction of natural gas and petroleum. In China, iodine is extracted from seaweed.

Six Chilean companies accounted for approximately 57% of total global sales of iodine in 2016, including SQM, with approximately 29%, and five other producers, accounting for the remaining 28%. The other Chilean producers are: Atacama Chemical S.A. (Cosayach), controlled by the Chilean holding Inverraz S.A.; ACF Minera S.A. owned by the Chilean family Urruticoechea; Algorta Norte S.A., a joint venture between ACF Minera S.A. and Toyota Tsusho; and RB Energy (a Canadian company previously known as Sirocco Mining Inc. or as Atacama Minerals).

We estimate that eight Japanese iodine producers accounted for approximately 30% of global iodine sales in 2016, including recycled iodine.

We estimate that iodine producers in the United States (one of which is owned by Toyota Tsusho and another is owned by Ise Chemicals Ltd., both of which are Japanese companies) accounted for nearly 5% of world iodine sales in 2016.

3) DESCRIPTION OF BUSINESS ENVIRONMENT

Iodine recycling is a growing trend worldwide. Several producers have recycling facilities where they recover iodine and iodine derivatives from iodine waste streams. Iodine recycling, mainly related to LCD and LED consumption, has increased over the past few years and currently represents approximately 18% of world iodine sales. It is estimated that approximately 75% of total world iodine recycling was done by Japanese iodine producers.

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

The prices of iodine and iodine derivative products are determined by market conditions. World iodine prices vary depending upon, among other things, the relationship between supply and demand at any given time. Iodine supply varies primarily as a result of the production levels of the iodine producers (including us) and their respective business strategies. Our annual average iodine sales prices decreased to approximately US$23 per kilogram in 2016, continuing the downward trend observed in 2015.

Demand for iodine varies depending upon overall levels of economic activity and the level of demand in the medical, pharmaceutical, industrial and other sectors that are the main users of iodine and iodine-derivative products. Certain substitutes for iodine are available for certain applications, such as antiseptics and disinfectants, which could represent a cost-effective alternative to iodine depending on prevailing prices.

The main factors of competition in the sale of iodine and iodine derivative products are reliability, price, quality, customer service and the price and availability of substitutes. We believe we have competitive advantages compared to other producers due to the size and quality of our mining reserves and the available production capacity. We believe our iodine is competitive with that produced by other manufacturers in certain advanced industrial processes. We also believe we benefit competitively from the long-term relationships we have established with our largest customers.

Lithium and its Derivatives

We believe we are one of the world’s largest producers of lithium carbonate and lithium hydroxide. In 2016, our revenues from lithium sales amounted to US$514.6 million, representing 27% of our total revenues. We estimate that our sales volumes accounted for approximately 27% of the global lithium chemicals sales volumes.

Lithium: Market

Lithium is mainly sold as lithium carbonate. The next most traded compound is lithium hydroxide. Both of these compounds are used to produce the cathodes for rechargeable batteries, taking advantage of lithium's extreme electrochemical potential and low density. Batteries are the leading application for lithium, accounting for approximately 53% of total demand, including batteries for electric vehicles, which accounted for approximately 20% of total lithium demand. Lithium carbonate is also used in applications such as ceramic and enamel frits (approximately 4% of demand), heat resistant glass (ceramic glass) (approximately 4% of demand), air conditioning chemicals (approximately 3% of demand), continuous casting powder for steel extrusion (approximately 2% of demand), primary aluminum smelting process (approximately 1% of demand) and others, including the synthesis of pharmaceuticals and lithium derivatives.

Lithium hydroxide is also used as a raw material in the lubricating greases industry (approximately 9% of total lithium chemical demand), as well as in the dyes and the battery industries.

Lithium chloride solutions are primarily used as an input for the production of lithium derivatives.

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

· it is the lightest solid element at room temperature;

3) DESCRIPTION OF BUSINESS ENVIRONMENT

- it has a low coefficient of thermal expansion;
- it has high electrochemical potential and low density and
- it is the solid with the highest specific heat capacity.

During 2016, lithium chemicals demand increased by approximately 14%, reaching approximately 182,000 metric tons, with close to 44% supplied by Chilean producers. We expect applications related to energy storage to continue driving demand in the coming years.

Lithium: Our Products

We produce lithium carbonate at our Salar del Carmen facilities, near Antofagasta, Chile, from solutions with high concentrations of lithium, in the form of lithium chloride, as a byproduct of the potassium chloride production at the Salar de Atacama. The annual production capacity of our lithium carbonate plant is 48,000 metric tons per year. We also sell the lithium chloride solutions that we produce at the Salar de Atacama. We believe that the technologies we use, together with the high concentrations of lithium and unique characteristics of the Salar de Atacama, such as high evaporation rate and concentration of other minerals, allow us to be one of the lowest cost producers worldwide.

We also produce lithium hydroxide at our facilities at the Salar del Carmen, next to the lithium carbonate operation. The lithium hydroxide facility has a production capacity of 6,000 metric tons per year and is one of the largest plants in the world. During 2017, we plan to increase this capacity to 13,500 through increased efficiencies and the construction of a 7,000 metric ton plant.

The following table shows our total sales and revenues from lithium carbonate and its derivatives for 2016, 2015 and 2014:

	2016	2015	2014
Sales volumes *(Th. MT)*			
Lithium and derivatives	49.7	38.7	39.5
Revenues *(in US$ millions)*	514.6	223.0	206.8

Our revenues in 2016 were US$514.6 million, an 131.0% increase from US$223.0 million in 2015, due to higher prices and higher sales volumes. The average price for 2016 was approximately 80% higher than the average price in 2015, as global demand growth outpaced supply growth.

Lithium: Marketing and Customers

In 2016, we sold our lithium products to over 235 customers in approximately 44 countries, and most of our sales were to customers outside of Chile. One single customer accounted for more than 10% of our lithium revenues in 2016, accounting for approximately 12% of our lithium revenues. Our ten largest customers accounted in aggregate for approximately 62% of revenues. Only one supplier accounted for over 10% of the cost of sales of this business line, accounting for approximately 13% of the cost of sales.

The following table shows the geographical breakdown of our sales for 2016, 2015 and 2014:

Sales Breakdown	2016		2015		2014	
North America	8	%	11	%	11	%
Europe	19	%	21	%	22	%
Central and South America	1	%	1	%	1	%
Asia and Others	73	%	67	%	66	%

3) DESCRIPTION OF BUSINESS ENVIRONMENT

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

Lithium: Competition

Our main competitors in the lithium carbonate and lithium hydroxide businesses are Albemarle, which, according to our estimates, has a market share of approximately 17%, and FMC Corporation ("FMC"), which has an estimated market share of approximately 10%. In addition, there are at least ten lithium producers in China that, together, supplied approximately 37% of the world market in 2016. These producers can be divided according to the type of raw material they use: brines (6%) or hard rock (31%). A significant portion of the hard rock that is processed in China is imported from Australia. The largest producer in China is Sichuan Tianqi Lithium Industries ("Tianqi"). Albemarle produces lithium carbonate at its operations in Chile and in Nevada, United States. Its production of downstream lithium products is mostly performed in the United States, Germany and Taiwan. Albemarle and Tianqi are 49%/51% partners in Talison Lithium Pty Ltd., an Australian company that produces lithium mineral concentrate in Western Australia. FMC has production facilities in Argentina through Minera del Altiplano S.A., where it produces lithium chloride and lithium carbonate. Production of its downstream lithium products is mostly performed in the United States and the United Kingdom. In 2015, Orocobre Ltd. began producing lithium carbonate. It is estimated that it had a market share of approximately 8% in 2016.

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

Potassium

We produce potassium chloride and potassium sulfate by extracting brines from the Salar de Atacama that are rich in potassium chloride and other salts.

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

In 2016, our potassium chloride and potassium sulfate revenues amounted to US$403.3 million, representing 21% of our total revenues and a 6.3% decrease compared to 2015.

Potassium is one of the three macronutrients that a plant needs to develop. Although potassium does not form part of a plant's structure, it is essential to the development of its basic functions. Potassium chloride is the most commonly used potassium-based fertilizer. It is used to fertilize crops that can tolerate relatively high levels of chloride, and to fertilize crops that are grown under conditions with sufficient rainfall or irrigation practices that prevent chloride from accumulating to excess levels in the rooting systems of the plant.

Some benefits that may be obtained through the use of potassium are:

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

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

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

Potassium: Market

During the last decade, growth in demand for potassium chloride, and for fertilizers in general, has been driven by several key factors, such as a growing world population, higher demand for protein-based diets and less arable land. All of these factors contribute to fertilizer demand growth as a result of efforts to maximize crop yields and use resources more efficiently. For the last ten years, the compound annual growth for the global potassium chloride market was approximately 1% to 2%. We estimate that demand totaled approximately 58 million metric tons in 2016, similar to demand seen in 2015.

According to studies prepared by the International Fertilizer Industry Association, cereals account for approximately 37% of world potassium consumption, including corn (15%), rice (12%) and wheat (6%). Oilseeds, predominantly soybeans and palm oil, represent approximately 20% of total potassium demand. Fruits and vegetables account for around 17% of world potassium demand, and sugar crops account for close to 8%.

Potassium: Our Products

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

The following table shows our sales volumes of and revenues from potassium chloride and potassium sulfate for 2016, 2015 and 2014:

	2016	2015	2014
Sales volumes *(Th. MT)*			
Potassium chloride and potassium sulfate	1,534.7	1,241.8	1,556.2
Revenues *(in US$ millions)*	403.3	430.2	584.3

Potassium: Marketing and Customers

In 2016, we sold potassium chloride and potassium sulfate to approximately 500 customers in over 80 countries. There were three single customers that each accounted for more than 10% of our revenues of potassium chloride and potassium sulfate in 2016, totaling approximately 35% of the revenues of potassium chloride and potassium sulfate during this period. We estimate that our ten largest customers accounted in the aggregate for approximately 55% of such revenues. One supplier accounted for more than 10% of the cost of sales of this business line, accounting for approximately 16% of the cost of sales for the business line.

The following table shows the geographical breakdown of our sales for 2016, 2015 and 2014:

Sales Breakdown	2016	2015	2014
North America	20 %	22 %	23 %
Europe	20 %	12 %	13 %
Central and South America	38 %	42 %	45 %
Asia and Others	22 %	24 %	19 %

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Potassium: Competition

We estimate that we accounted for less than 3% of global sales of potassium chloride in 2016. Our main competitors are Uralkali, Belaruskali, PCS and Mosaic. We estimate that in 2016, Uralkali accounted for approximately 19% of global sales, Belaruskali accounted for approximately 16% of global sales, PCS accounted for approximately 15% of global sales, Mosaic approximately 13% of global sales.

In the potassium sulfate market, we have several competitors, of which the most important are K+S KALI GmbH (Germany), Tessenderlo Chemie (Belgium) and Great Salt Lake Minerals Corp. (United States). We estimate that these three producers account for approximately 30% of the worldwide production of potassium sulfate. SQM accounts for less than 2% of global production.

Industrial Chemicals

In addition to producing sodium and potassium nitrate for agricultural applications, we produce different grades of these products for industrial applications. The different grades differ mainly in their chemical purity. We enjoy certain operational flexibility when producing industrial nitrates, because they are produced from the same process as their equivalent agricultural grades, needing only an additional step of purification. We may, with certain constraints, shift production from one grade to the other depending on market conditions. This flexibility allows us to maximize yields and to reduce commercial risk.

In addition to producing industrial nitrates, we produce, market and sell industrial-grade potassium chloride.

In 2016, our revenues from industrial chemicals were US$104.1 million, representing approximately 5% of our total revenues for that year.

Industrial Chemicals: Market

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

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

Experts believe that CSP plays a critical role in electricity grid stabilization and manageability due to its inherent large scale storage capability. Nevertheless, such large installations are capital intensive and are strongly influenced by the generation mix in each country. Therefore, fluctuations in solar salts demand are unavoidable in terms of quantity and timing. During 2017 and thereafter, we expect to see further developments in new markets such as the Middle East, Chile and China, as well as recently developed markets such as Morocco and South Africa that continue to make progress on their programs.

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

Industrial Chemicals: Our Products

The following table shows our sales volumes of industrial chemicals and total revenues for 2016, 2015 and 2014:

	2016	2015	2014
Sales volumes *(Th. MT)*			
Industrial chemicals	128.9	126.1	125.5
Revenues *(in US$ millions)*	104.1	97.1	101.9

Revenues for industrial chemicals increased from US$97.6 million in 2015 to US$104.1 million in 2016, as a result of higher sales volumes in this business line.

Industrial Chemicals: Marketing and Customers

We sold our industrial nitrate products in approximately 54 countries in 2016 to approximately 317 customers. Two customers accounted for more than 10% of our revenues of industrial chemicals in 2016, accounting for approximately 46%, and our ten largest customers accounted in the aggregate for approximately 62% of such revenues. No supplier accounted for more than 10% of the cost of sales of this business line.

The following table shows the geographical breakdown of our sales for 2016, 2015 and 2014:

Sales Breakdown	2016	2015	2014
North America	24 %	31 %	32 %
Europe	14 %	15 %	37 %
Central and South America	9 %	11 %	14 %

Asia and Others	54 %	43 %	17 %

We sell our industrial chemical products mainly through our own worldwide network of representative offices and through our sales and distribution affiliates. We maintain inventories of our different grades of sodium nitrate and potassium nitrate products at our facilities in Europe, North America, South Africa, Asia and South America to achieve prompt deliveries to customers. Our Research and Development department, together with our foreign affiliates, provides technical support to our customers and continuously works with them to develop new products or applications for our products.

Industrial Chemicals: Competition

We believe we are one of the leading producers of sodium nitrate, potassium nitrate and potassium chloride for industrial uses. In the case of industrial sodium nitrate, we estimate that our sales represented close to 33% of world demand in 2016 (excluding internal demand for China and India, for which we believe reliable estimates are not available). Our competitors are mainly based in Europe and Asia, producing sodium nitrate as a by-product of other production processes. In refined grade sodium nitrate, BASF AG, a German corporation and several producers in China and Eastern Europe are highly competitive in the European and Asian markets. Our industrial sodium nitrate products also compete indirectly with substitute chemicals, including sodium carbonate, sodium sulfate, calcium nitrate and ammonium nitrate, which may be used in certain applications instead of sodium nitrate and are available from a large number of producers worldwide.

Our main competitor in the industrial potassium nitrate business is Haifa Chemicals, which we estimate had a market share of 25%. We estimate that our market share was approximately 24% for 2016.

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

Producers compete in the market for industrial sodium and potassium nitrate based on reliability, product quality, price and customer service. We believe that we are a low cost producer of both products and are able to produce high quality products.

In the industrial potassium chloride market, we are a relatively small producer, mainly supplying regional needs.

Other Products

A large part of our other revenue is related to fertilizer trading, usually commodities. These fertilizers are traded in large volumes worldwide. We have developed a trade, supply and inventory management business that allows us to respond quickly and effectively to the changing fertilizer market in which we operate and profit on these trades.

Trend Information

Our revenues increased 12.2% to US$1,939.3 million in 2016 from US$1,728.3 million in 2015. Gross profit increased 12.6% to US$611.0 million in 2016, which represented 31.5% of revenues, from US$542.7 million in 2015, which represented 31.4% of revenues. Profit attributable to controlling interests increased 30.5% to US$278.3 million in 2016 from US$213.2 million in 2015.

Our sales volumes in the specialty plant nutrition business line increased 1.1% in 2016 compared to 2015, while average prices decreased by 5.4%. As a result, our revenues in this business line decreased by 4.4%. We sell various products within this business line, and most of our specialty fertilizers are sold as either field fertilizers or water soluble fertilizers. Our recent strategy in this business line has been to focus primarily on the water soluble fertilizer market, which in general yields higher margins and has more growth potential. Average prices in this business line were slightly lower in 2016, and we expect average prices to be lower in 2017.

Our sales volumes in the iodine business line increased 9.0% in 2016. However, the continued downward pressure on prices throughout the year led to a decrease of nearly 12% in our revenues for this business line. Average prices decreased more than 19% in 2016, but we have observed prices stabilize in recent months and are cautiously optimistic that prices will not deteriorate further in 2017. However, as the lowest cost producer in Chile, we believe that we are well positioned to face the challenging pricing environment. We expect that our sales volumes will increase as we work to regain some of our market share. According to our estimates, the worldwide iodine market grew approximately 3% during 2016. We believe that market demand reached approximately 33,500 metric tons, of which SQM had a market share of approximately 29%. We expect worldwide demand to grow around 2% in 2017.

Our sales volumes in the lithium business line increased by 28.3% in 2016 compared to 2015. The average price of lithium carbonate increased 76.1% in 2016, and the average price of lithium hydroxide increased 67.0%. This upward trend in pricing exceeded our expectations and together with higher sales volumes, impacted our 2016 revenues. According to our estimates, worldwide demand for lithium grew approximately 14% in 2016, driven primarily by growth in the rechargeable battery market. We estimate that our market share for 2016 was approximately 27%. However, we expect reduced growth in worldwide demand in 2017, around 10%, as we expect that other lithium producers will add new supplies during the second half of 2017. We expect our sales volumes for lithium, in 2017, to be similar to those observed in 2016. However, we expect our product mix to shift, leading to higher lithium hydroxide sales volumes in 2017.

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Our sales volumes in the potassium business line increased by 23.6% in 2016 compared to 2015, but average prices were 24.2% lower. These increased sales volumes in 2016 when compared to 2015, allowed us to get back to the sales volumes we saw in 2014. We believe that we could see a decrease in potassium chloride production during 2017, and potassium chloride sales volumes could decrease in the future. The lower prices reflected the weaker global demand for potassium chloride in 2016. We expect average prices for this business line to be lower in 2017 than in 2016, although we anticipate that 2017 global potash market may increase an additional 2 million tons.

Our sales volumes in the industrial chemicals product line increased by 2.3% in 2016 compared to 2015. Although sales of industrial nitrates for traditional applications decreased, sales volumes of solar salts increased. We remain confident in the long-term prospects in the solar thermal energy storage market, and we expect annual sales volumes for 2017, 2018 and 2019 to be higher than sales volumes for 2016.

Production Process

Our integrated production process can be classified according to our natural resources:

- Caliche ore deposits, which contain nitrates, iodine and potassium; and
- Brines from the Salar de Atacama, which contain potassium, lithium, sulfate, boron and magnesium.

Caliche Ore Deposits

Caliche ore deposits are located in northern Chile. During 2016, the mining operation of SQM concentrated in I Region, working in the mining sector named NV Oeste y starting the activation of a new mining sector, located 15 km north-west of the industrial plant of Nueva Victoria, named Tente en el Aire. The concentrated mining operation allows to capture operational synergies, improving the productivity and reducing the cost of mining. Mining operations at the Pampa Blanca site, the El Toco mine (which is part of the María Elena site) and Pedro de Valdivia were suspended in March 2010, November 2013 and November 2015 respectively, in an effort to optimize our production facilities with lower production costs.

Caliche ore is found under a layer of barren overburden in seams with variable thickness from 20 centimeters to five meters, and with the overburden varying in thickness between 50 centimeters and 1.5 meters.

Before proper mining begins, the exploration stage is carried out, including complete geological reconnaissance, sampling and drilling caliche ore to determine the quality and characteristics of each deposit. Drill-hole samples are properly identified and tested at our chemical laboratories. With the exploration information on a closed grid pattern of drill holes, the ore evaluation stage provides information for mine planning purposes. Mine planning is done on a long-term basis (ten years), medium-term basis (three years) and short-term basis (one year). Once all of this information has been compiled, detailed planning for the exploitation of the mine takes place.

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

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The run of mine ore (ROM – Run of Mine) is loaded in heaps and leached with water to produce concentrated solutions containing nitrate, iodine and potassium. These solutions are then sent to plants where iodine is extracted through both solvent-extraction and blow out processes. The remaining solutions are subsequently sent to solar evaporation ponds where the solutions are evaporated and rich nitrate salts are produced. These concentrated nitrate salts are then sent to Coya Sur where they are used to produce potassium nitrate.

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

Caliche Ore-Derived Products

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

Sodium Nitrate

During 2016, sodium nitrate for both agricultural and industrial applications was produced from the inventory generated at the Pedro de Valdivia facility and subsequently processed at the Coya Sur plants. At the Pedro de Valdivia facility, it was produced until November 2015, generating inventory of more than 700.000 tons. As of December 2016, we had approximately 450,000 tons of sodium nitrate in inventory, which will allow us to produce finished nitrates for approximately three years. For subsequent production, we are in the process of adapting the crystallization plant at Pedro de Valdivia to be able to produce sodium nitrate using nitrate salts from our Nueva Victoria facility.

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

Potassium Nitrate

Potassium nitrate is produced at our Coya Sur facility using a production process developed by us. The brines generated by the leaching processes at Pedro de Valdivia and María Elena are pumped to Coya Sur's solar evaporation ponds for a nitrate concentration process. After the nitrate concentration process, the brine is pumped to a conversion plant where potassium salts from the Salar de Atacama and nitrate and potassium salts produced at Nueva Victoria or Coya Sur, are added. A chemical reaction begins, producing brine with dissolved potassium nitrate. This brine is pumped to a crystallization plant, which crystallizes the potassium nitrate by cooling it and separating it from the liquid by centrifuge.

Our current potassium nitrate production capacity at Coya Sur is approximately 1,100,000 metric tons per year. Since the end of 2013, we have been working with external advisors to implement "lean" manufacturing in our potassium nitrate plants. We achieved complete implementation of "lean" manufacturing during 2015. The improvements we have achieved have enabled us to reduce costs, improve energy consumption, increase the production of potassium nitrate and decrease our accident rates. This method is based on increasing the involvement of our workers in decision-making, and strengthening the leadership of our production supervisors. The goal is to identify opportunities to improve the production process and reduce waste, on an ongoing basis.

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

During 2016, the potassium nitrate refining plants entered into operation, allowing the production of a higher quality product with lower impurity content as required by the new market conditions. These new facilities enable integrated production at the plants of Coya Sur, allowing the Company to reuse rinsing solutions, and thereby reducing the total cost of production.

Sodium Potassium Nitrate

Sodium potassium nitrate is a mixture of approximately two parts sodium nitrate per one part potassium nitrate. We produce sodium potassium nitrate at our Coya Sur prilling facilities using standard, non-patented production methods we have developed. Crystallized sodium nitrate is mixed with the crystallized potassium nitrate to make sodium potassium nitrate, which is then prilled. The prilled sodium potassium nitrate is transported to Tocopilla for bulk shipment to customers.

The production process for sodium potassium nitrate is basically the same as that for sodium nitrate and potassium nitrate. With certain production restraints and following market conditions, we may supply sodium nitrate, potassium nitrate or sodium potassium nitrate, either in prilled or crystallized form.

Iodine and Iodine Derivatives

During 2015, we produced iodine at our facilities at Nueva Victoria (including the Iris facility) Pedro de Valdivia and María Elena. Iodine is extracted from solutions produced by leaching caliche ore.

As in the case of nitrates, the process of extracting iodine from the caliche ore is well established, but variations in the iodine and other chemical contents of the treated ore and other operating parameters require a high level of know-how to manage the process effectively and efficiently.

The solutions resulting from the leaching of caliche carry iodine in iodate form. Part of the iodate solution is reduced to iodide using sulfur dioxide, which is produced by burning sulfur. The resulting iodide is combined with the rest of the untreated iodate solution to release elemental iodine in low concentrations. The iodine is then extracted from the aqueous solutions and concentrated as iodide form using a solvent extraction and stripping plant in the Pedro de Valdivia and Nueva Victoria facilities and using a blow out plant in Iris. The concentrated iodide is oxidized to solid iodine, which is then refined through a smelting process and prilled. We have obtained patents in the United States and Chile (Chilean patent number 47,080) for our iodine prilling process.

Prilled iodine is tested for quality control purposes, using international standard procedures that we have implemented. It is then packed in 20 to 50 kilogram drums or 350 to 700 kilogram maxibags and transported by truck to Antofagasta, Mejillones, or Iquique for export. Our iodine and iodine derivatives production facilities have qualified under the ISO-9001:2008 program, providing third-party certification—by TÜV-Rheiland—of the quality management system. The last recertification process was approved in February 2011. Iodine from the Iris plant was certified under ISO-9001:2008 in April 2012.

Our total iodine production in 2016 was 8,542 metric tons: 7,744 metric tons from Nueva Victoria and Iris; 610 metric tons from Pedro de Valdivia; and 188 metric tons from María Elena. Nueva Victoria is also equipped to toll iodine from iodide delivered from our other facilities. We have the flexibility to adjust our production according to market conditions. Following the production facility restructuring at Pedro de Valdivia and Nueva Victoria we announced in 2015, our total current effective production capacity at our iodine production plants is approximately 10,000 metric tons per year.

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We use a portion of the iodine we produce to manufacture inorganic iodine derivatives, which are intermediate products used for manufacturing agricultural and nutritional applications, at facilities located near Santiago, Chile. We also produce inorganic and organic iodine derivative products together with Ajay, which purchases iodine from us. In the past, we have primarily sold our iodine derivative products in South America, Africa and Asia, while Ajay and its affiliates have primarily sold their iodine derivative products in North America and Europe.

In September 2010, CONAMA, currently known as the Environmental Evaluation Service, approved the environmental study of our Pampa Hermosa project in the Tarapacá Region of Chile. This approval allows us to increase the production capacity of our Nueva Victoria operations to 11,000 metric tons of iodine per year and to produce up to 1.2 million metric tons of nitrates, mine up to 37 million metric tons of caliche per year and use new water rights of up to 570.8 liters per second. In recent years, we have made investments in order to increase the water capacity in the Nueva Victoria operations from two water sources approved by the environmental study of Pampa Hermosa, expand the capacity of solar evaporation ponds, and implement new areas of mining and collection of solutions. Our current production capacity at Nueva Victoria is approximately 9,000 metric tons per year of iodine (including the Iris operations) and 700,000 metric tons per year of nitrates. Additional expansions may be done from time to time in the future, depending on market conditions.

Salar de Atacama Brine Deposits

The Salar de Atacama, located approximately 250 kilometers east of Antofagasta, is a salt-encrusted depression in the Atacama Desert, within which lies an underground deposit of brines contained in porous sodium chloride rock fed by an underground inflow from the Andes mountains. The brines are estimated to cover a surface of approximately 2,800 square kilometers and contain commercially exploitable deposits of potassium, lithium, sulfates and boron. Concentrations vary at different locations throughout the Salar de Atacama. Our production rights to the Salar de Atacama are pursuant to a lease agreement between CORFO and our subsidiary SQM Salar S.A. (the “Lease Agreement”), which expires in 2030. The Lease Agreement permits the CCHEN to establish a total accumulated extraction limit of 180,100 tons of lithium (958,672 tons of lithium carbonate equivalent) in the aggregate for all periods.

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

Products Derived from the Salar de Atacama Brines

The products derived from the Salar de Atacama brines are: potassium chloride, potassium sulfate, lithium carbonate, lithium hydroxide, lithium chloride, boric acid and bischofite (magnesium chloride).

Potassium Chloride

We use potassium chloride in the production of potassium nitrate. Production of our own supplies of potassium chloride provides us with substantial raw material cost savings. We also sell potassium chloride to third parties, primarily as a commodity fertilizer.

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In order to produce potassium chloride, brines from the Salar de Atacama are pumped to solar evaporation ponds. Evaporation of the brines results in a complex crystallized mixture of salts of potassium, sodium and magnesium. Waste sodium chloride salts are removed by precipitation. After further evaporation, the sodium and potassium salts are harvested and sent for treatment at one of the potassium chloride plants where potassium chloride is separated by a grinding, flotation, and filtering process. Potassium salts also containing magnesium are harvested and sent for treatment at one of the cold leach plants where magnesium is removed. Potassium chloride is transported approximately 300 kilometers to our Coya Sur facilities via a dedicated truck transport system, where it is used in the production of potassium nitrate. We sell potassium chloride produced at the Salar de Atacama in excess of our needs to third parties. All of our potassium-related plants in the Salar de Atacama currently have a nominal production capacity in excess of up to 2.6 million metric tons per year. Actual production capacity depends on volume, metallurgical recovery rates and quality of the mining resources pumped from the Salar de Atacama.

The by-products of the potassium chloride production process are (i) brines remaining after removal of the potassium chloride, which are used to produce lithium carbonate as described below, with the excess amount being reinjected into the Salar de Atacama; (ii) sodium chloride, which is similar to the surface material of the Salar de Atacama and is deposited at sites near the production facility and (iii) other salts containing magnesium chloride.

Lithium Carbonate and Lithium Chloride

After the production of potassium chloride, a portion of the brines remaining is sent to additional solar concentration ponds adjacent to the potassium chloride production facility. Following further evaporation, the remaining concentrated solution of lithium chloride is transported by truck to a production facility located near Antofagasta, approximately 230 kilometers from the Salar de Atacama. At the production facility, the solution is purified and treated with sodium carbonate to produce lithium carbonate, which is dried and then, if necessary, compacted and finally packaged for shipment. A portion of this purified lithium chloride solution is packaged and shipped to customers. The production capacity of our lithium carbonate facility is approximately 48,000 metric tons per year. Future production will depend on the actual volumes and quality of the lithium solutions sent by the Salar de Atacama operations, as well as prevailing market conditions. Our future production is also subject to the extraction limit of 180,100 tons of lithium (958,672 tons of lithium carbonate equivalent) in the aggregate for all periods of the Lease Agreement mentioned above.

Our lithium carbonate production quality assurance program has been certified by TÜV-Rheiland under ISO 9001:2000 since 2005 and under ISO 9001:2008 since October 2009.

Lithium Hydroxide

Lithium carbonate is sold to customers, and we also use it as a raw material for our lithium hydroxide facility, which started operations at the end of 2005. This facility has a production capacity of 6,000 metric tons per year and is located in the Salar del Carmen, adjacent to our lithium carbonate operations. In the production process, lithium carbonate is reacted with a lime solution to produce lithium hydroxide brine and calcium carbonate salt, which is filtered and piled in reservoirs. The brine is evaporated in a multiple effect evaporator and crystallized to produce the lithium hydroxide, which is finally filtered, dried and packaged for shipment to customers.

The lithium hydroxide production quality assurance program has been certified by TÜV-Rheiland under ISO 9001:2000 since 2007 and under ISO 9001:2008 since October 2009.

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Potassium Sulfate and Boric Acid

Approximately 12 kilometers northeast of the potassium chloride facilities at the Salar de Atacama, we use the brines from the Salar de Atacama to produce potassium sulfate, potassium chloride (as a by-product of the potassium sulfate process) and, depending on market conditions, boric acid. The plant is located in an area of the Salar de Atacama where high sulfate and potassium concentrations are found in the brines. Brines are pumped to pre-concentration solar evaporation ponds where waste sodium chloride salts are removed by precipitation. After further evaporation, the sulfate and potassium salts are harvested and sent for treatment at the potassium sulfate plant. Potassium sulfate is produced using flotation, concentration and reaction processes, after which it is crystallized, filtered, dried, classicated and packaged for shipment.

Production capacity for the potassium sulfate plant is approximately 340,000 metric tons per year, of which approximately 95,000 metric tons correspond to potassium chloride production as by product of the potassium sulfate process. This capacity is part of the total nominal plant capacity of 2.6 million metric tons per year. In our dual plant complex we may switch, to some extent, between potassium chloride and potassium sulfate production. Part of the pond system in this area is also used to process potassium chloride brines extracted from the low sulfate concentration areas found in the salar.

The principal by-products of the production of potassium sulfate are: (i) non-commercial sodium chloride, which is deposited at sites near the production facility and (ii) remaining solutions, which are re-injected into the Salar de Atacama or returned to the evaporation ponds. The principal by-products of the boric acid production process are remaining solutions that are treated with sodium carbonate to neutralize acidity and then are reinjected into the Salar de Atacama.

Raw Materials

The main raw material that we require in the production of nitrate and iodine is caliche ore, which is obtained from our surface mines. The main raw material in the production of potassium chloride, lithium carbonate and potassium sulfate is the brine extracted from our operations at the Salar de Atacama.

Other important raw materials are sodium carbonate (used for lithium carbonate production and for the neutralization of iodine solutions), sulfuric acid, kerosene, anti-caking and anti-dust agents, ammonium nitrate (used for the preparation of explosives in the mining operations), woven bags for packaging our final products, electricity acquired from electric utilities companies, and liquefied natural gas and fuel oil for heat generation. Our raw material costs (excluding caliche ore and salar brines and including energy) represented approximately 13% of our cost of sales in 2016.

We have been connected to the northern power grid in Chile, which currently supplies electricity to most cities and industrial facilities in northern Chile, since April 2000. We have several electricity supply agreements signed with major producers in Chile, which are within the contract terms. Our electricity needs are primarily covered by the Electrical Energy Supply Agreement that we entered into with AES Gener S.A. (formerly known as Gener S.A.) on December 31, 2012. Pursuant to the terms of the Electrical Energy Supply Agreement, we are required to purchase an amount of electricity that exceeds the amount that we estimate we will need for our operations. The excess amount is sold at marginal cost, which could result in a material loss for us.

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

We obtain ammonium nitrate, sulfuric acid, kerosene and soda ash from several large suppliers, mainly in Chile and the United States, under long-term contracts or general agreements, some of which contain provisions for annual revisions of prices, quantities and deliveries. Diesel fuel is obtained under contracts that provide fuel at international market prices.

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

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Water Supply

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

Research and Development, Patents and Licenses, Etc.

One of the main objectives of our research and development team is to develop new processes and products in order to maximize the returns obtained from the resources that we exploit. Our research is performed by three different units, whose research topics cover all of the processes involved in the production of our products, including chemical process design, phase chemistry, chemical analysis methodologies and physical properties of finished products.

Our research and development policy emphasizes the following: (i) optimizing current processes in order to decrease costs and improve product quality through the implementation of new technology, (ii) developing higher-margin products from current products through vertical integration or different product specifications and (iii) adding value to inventories.

Our research and development activities have been instrumental in improving our production processes and developing new value-added products. As a result of research and development activities, new methods of extraction, crystallization and finishing products have been developed. Technological advances in recent years have enabled us to improve process efficiency for the nitrate, potassium and lithium operations, improve the physical quality of our prilled products and reduce dust emissions and caking by applying specially designed additives to our products handled in bulk. Our research and development efforts have also resulted in new, value-added markets for our products. One example is the use of sodium nitrate and potassium nitrate as thermal storage in solar power plants.

We have patented several production processes for nitrate, iodine and lithium products. These patents have been filed mainly in the United States, Chile and in other countries when necessary. The patents used in our production processes include Chilean patent No. 47,080 for iodine (production of spherical granules of chemicals that sublime), Japanese patent No. 4,889,848 for nitrates (granular fertilizers) and patents Nos. 41,838 from Chile, 5393-B and 5391-B from Bolivia, AR001918B1 and AR001916B1 from Argentina and 5,676,916 and 5,939,038 from the U.S. for lithium (removal of boron from brines).

For the years ended December 31, 2015, 2014 and 2013, we invested US$4.4 million, US$7.4 million and US$9.2 million, respectively, in research and development activities.

Licenses, Franchises, and Royalties

We do not have contracts that give rise to an obligation for the Company to make payments for licenses, franchises or royalties in any of our business lines, other than payments provided for in the Royalty Law.

We have subscribed purchase option contracts for mining concessions such that, in the event that third parties exercise the respective option, we have the right to receive royalty payments as a result of the exploitation of such concessions.

See section 3)D) Description of Business Environment: Property and Facilities for information about our concessions.

3) DESCRIPTION OF BUSINESS ENVIRONMENT

3) d) Description of Business Environment: Property and Facilities

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

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

3) DESCRIPTION OF BUSINESS ENVIRONMENT

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Mining Concessions

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

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

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

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

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

As of December 31, 2016, the surface area covered by Mining Exploitation Concessions that have been granted in relation to the caliche resources of SQM S.A.'s mining sites corresponds to approximately 569,323 hectares. In addition, as of December 31, 2016, the surface area covered by Mining Exploration Concessions in relation to the caliche resources of SQM S.A.'s mining sites corresponds to approximately 6,800 hectares. We have not requested additional mining rights.

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

As of December 31, 2016, our subsidiary SQM Salar held exclusive rights to exploit the mineral resources in an area covering approximately 140,000 hectares of land in the Salar de Atacama in northern Chile, of which SQM Salar is only entitled to exploit the mineral resources of 81,920 hectares. These rights are owned by Corfo and leased to SQM Salar pursuant to the Lease Agreement. Corfo cannot unilaterally modify the Lease Agreement, and the rights to exploit the resources cannot be transferred. The Lease Agreement establishes that SQM Salar is responsible for making quarterly lease payments to Corfo according to specified percentages of the value of production of minerals extracted from the Salar de Atacama brines, maintaining Corfo's rights over the mining exploitation concessions and making annual payments to the Chilean government for such concession rights. The Lease Agreement expires on December 31, 2030.

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

SQM Salar holds an additional 254,940 hectares of constituted Mining Exploitation Concessions in areas near the Salar de Atacama, which correspond to mining reserves that have not been exploited. SQM Salar also holds Mining Exploitation Concessions that are in the process of being granted covering 72,178 hectares in areas near the Salar de Atacama.

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In addition, as of December 31, 2016, SQM Salar held constituted Mining Exploration Concessions covering approximately 68,400 hectares and had applied for additional Mining Exploration Concessions of approximately 2,600 hectares. Exploration rights are valid for a period of two years, after which we can (i) request a Mining Exploitation Concession for the land, (ii) request an extension of the Mining Exploration Concession for an additional two years (the extension only applies to a reduced surface area equal to 50% of the initial area) or (iii) allow the concession to expire.

According to the terms of the Lease Agreement, with respect to lithium production, the CCHEN has established a total accumulated extraction limit set at 180,100 tons of lithium (958,672 tons of lithium carbonate equivalent) in the aggregate for all periods while the Lease Agreement is in force. More than halfway through the term of the Lease Agreement, we have extracted approximately 59% of the total accumulated extraction limit of lithium.

In May 2014, Corfo initiated arbitration proceedings against SQM Salar. For more information, see section 3) E) Description of Business Environment: Risk Factors.

Concessions Generally

As of December 31, 2016, approximately 96% of SQM's mining interests were held pursuant to Mining Exploitation Concessions and 4% pursuant to Mining Exploration Concessions. Of the Mining Exploitation Concessions, approximately 93% already have been granted pursuant to applicable Chilean law, and approximately 7% are in the process of being granted. Of the Mining Exploration Concessions, approximately 96% already have been granted pursuant to applicable Chilean law, and approximately 4% are in the process of being granted.

In 2016, we made payments of approximately US$7.2 million to the Chilean government for Mining Exploration and Exploitation Concessions, including the concessions we lease from Corfo. These payments do not include the payments we made directly to Corfo pursuant to the Lease Agreement, according to the percentages of the sales price of products produced using brines from the Salar de Atacama.

The following table shows the constituted Mining Exploitation and Exploration Concessions held by SQM S.A., including the mining properties we lease from Corfo, as of December 31, 2016:

	Exploitation Concessions Total		**Exploration Concessions Total**		Total **Total**	
Region of Chile	**Number**	Hectares	**Number**	Hectares	**Number**	Hectares
Region I	2,820	538,454	58	24,600	2,878	560,054
Region II	9,011	2,372,895	302	96,200	9,313	2,469,095
Region III and others	406	97,768	31	10,300	437	108,068
Total	12,237	3,009,117	391	131,100	12,628	3,140,217

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

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

3) DESCRIPTION OF BUSINESS ENVIRONMENT

Caliche: Facilities and Reserves

Caliche: Facilities

During 2016, caliche ore mining operations were focused in the first region of Chile, and our Nueva Victoria mine was exploited. In November 2015, the mining and nitrate operations at Pedro de Valdivia were suspended, and iodine production was reduced at the Pedro de Valdivia site, in order to take advantage of the highly efficient production facilities at Nueva Victoria. Operations at the Pampa Blanca site were suspended in 2010, and operations at the María Elena site were suspended in October 2013.

María Elena

The María Elena mine and facilities, named El Toco, are located 220 kilometers northeast of Antofagasta and are accessible by highway. Until February 2010, caliche was used at this facility to produce nitrates and iodine through vat leaching. Subsequently, these facilities were equipped to produce nitrates and iodine through the use of heap leaching and solar evaporation ponds. Heap leaching operations at this site were suspended in October 2013. During 2014 and 2015, we have continued to produce solutions rich in iodine and nitrates by leaching the mine tailings. These solutions are treated at the iodide plant at María Elena, and subsequently the prilled iodine is produced at Pedro de Valdivia. The main production facilities at this site include the operations center located at El Toco and the iodide plant located at María Elena. The area mined until operations were suspended is located approximately 14 kilometers north of the María Elena production facilities. Electricity and fuel oil are the primary sources of power for this operation.

Nueva Victoria

The Nueva Victoria mine and facilities are located 180 kilometers north of María Elena and are accessible by highway. Since 2007, the Nueva Victoria mine includes the mining properties Soronal, Mapocho and Iris. At this site, we use caliche to produce nitrates and rich in nitrate salts, through heap leaching and the use of solar evaporation ponds. The main production facilities at this site include the operation centers for the heap leaching process, the iodide and iodine plants at Nueva Victoria and Iris and the evaporation ponds at the Sur Viejo sector of the site. The areas currently being mined are located approximately 4 kilometers northeast of Nueva Victoria. Solar energy and electricity are the primary sources of power for this operation.

Pampa Blanca

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

Pedro de Valdivia

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

3) DESCRIPTION OF BUSINESS ENVIRONMENT

Caliche: Reserves

Our in-house staff of geologists and mining engineers prepares our estimates of caliche ore reserves. The Proven and Probable Reserve figures presented below are estimates, and may be subject to modifications due to natural factors that affect the distribution of mineral grades, which would, in turn, modify the recovery of nitrate and iodine. Therefore, no assurance can be given that the indicated levels of recovery of nitrates and iodine will be realized.

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

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

A Measured Resource is the part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. The estimate is based on detailed exploration, sampling and testing information gathered through appropriate sampling techniques from locations such as outcrops, trenches, and exploratory drill holes.

An Indicated Mineral Resource is the part of a Mineral Resource for which tonnage, densities, shape, physical characteristics grade and mineral content can be estimated with a reasonable level of confidence. The estimate is based on detailed exploration, sampling and testing information gathered through appropriate sampling techniques from locations such as outcrops, trenches and exploratory drill holes.

According to our experience in caliche ore, the grid pattern drill-holes with spacing equal to or less than 100 meters produce data on the caliche resources that is sufficiently defined to consider them Measured Resources and then, adjusting for technical, economic and legal aspects, as Proven Reserves. These reserves are obtained using the Kriging Method and the application of operating parameters to obtain economically profitable reserves.

Similarly, the information obtained from detailed geologic work and samples taken from grid pattern drill-holes with spacing equal to or less than 200 meters can be used to determine Indicated Resources. By adjusting such Indicated Resources to account for technical, economic and legal factors, it is possible to calculate Probable Reserves. Probable Reserves are calculated by using a polygon-based methodology and have an uncertainty or margin of error greater than that of Proven Reserves. However, the degree of certainty of Probable Reserves is high enough to assume continuity between points of observation.

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

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

The estimates of Proven Reserves of caliche ore at each of our mines as of December 31, 2016 are set forth below. The Company holds 100% of the concession rights for each of these mines.

Mine	**Proven Reserves (1)** (millions of metric tons)	**Nitrate Average Grade** (percentage by weight)		**Iodine Average Grade** (parts per million)	Cutoff Grade Average for Mine (2)
Pedro de Valdivia (3)	109.0	7.1	%	377	Nitrate 6.0 %
María Elena (4)	83.3	7.2	%	436	Iodine 300 ppm
Pampa Blanca	54.7	5.7	%	538	Iodine 300 ppm
Nueva Victoria (5)	377.7	6.4	%	430	Iodine 300 ppm

In addition, the estimates of our Probable Reserves of caliche ore at each of our principal mines as of December 31, 2016, are as follows:

Mine	**Probable Reserves (6)** (millions of metric tons)	**Nitrate Average Grade** (percentage by weight)		**Iodine Average Grade** (parts per million)	Cutoff Grade (3)
Pedro de Valdivia (3)	334.7	7.3	%	421	Nitrate 6.0 %

María Elena (4)	148.8	7.2	%	381	Iodine 300 ppm
Pampa Blanca	464.6	5.7	%	540	Iodine 300 ppm
Nueva Victoria (5)	1,020.7	5.3	%	421	Iodine 300 ppm

Notes on Reserves:

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

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

(3) The 39% decrease in the Proven Reserves at Pedro de Valdivia is the result of the change of category from Proven Reserves to Probable Reserves under the new market conditions.

(4) The 15% decrease in Proven Reserves at Maria Elena is the result of recategorization from Proven Reserves to Probable Reserves under the new market conditions.

(5) The 16% increase in the Proven Reserves at Nueva Victoria is the result of recategorization from Proven Reserves to Probable Reserves.

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

The complete technical supporting documentation for the information set forth in the table above is contained in the report “Methodology, Procedure, and Classification of SQM’s Nitrate and Iodine Resources and Reserves for the Year 2016,” which was prepared by the geologist Vladimir Tejerina and other engineering professionals employed by SQM and validated by Competent Persons Mr. Sergio Alarcón and Mr. Orlando Rojas.

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

Mr. Orlando Rojas is a civil mining engineer and independent consultant. He is Partner and Chief Executive Officer of the company EMI-Ingenieros y Consultores S.A., whose offices are located at Renato Sánchez No. 3357, Las Condes, Santiago, Chile. He is a member of the Institute of Mining Engineers and is registered under No. 118 in the Public Registry of Competent Persons in Mining Resources and Reserves in accordance with the Competent Person Law and related regulations. He has worked as a mining engineer for 39 years since graduating from university, including more than 33 years working on estimates for reserves and resources.

Copies of the certificates of qualified competency issued by the Chilean Mining Commission are presented below:

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The proven and probable reserves shown above are the result of the evaluation of approximately 21.34% of the total caliche-related mining property of our Company. However, we have explored more intensely the areas in which we believe there is a higher potential of finding high-grade caliche ore minerals. The remaining 78.66% of this area has not been explored or has had limited reconnaissance, which is not sufficient to determine the sources of potential and hypothetical resources. In 2016, we did not carry out basic reconnaissance of new mining properties. With respect to detailed explorations, in 2016, we carried out recategorizations of indicated resources in the NVWS ("Nueva Victoria West South"), and Franja West sectors, totaling 1,575.64 hectares, which is still in process. Our 2017 exploration program includes the exploration of Tente en el Air section, which totals 687 hectares. The reserves shown in these tables are calculated based on properties that are not involved in any legal disputes between SQM and other parties.

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

	2016		2015		2014	
	Gross Margin	Price	Gross Margin	Price	Gross Margin	Price
Iodine and Derivatives	17%	US$23/kg	30%	US$28/kg	42%	US$38/kg
Specialty Plant Nutrition	23%	US$742/ton	29%	US$784/ton	21%	US$806/ton
Industrial Chemicals	35%	US$808/ton	27%	US$770/ton	40%	US$812/ton

We maintain an ongoing program of exploration and resource evaluation on the land surrounding the mines at Nueva Victoria, Pedro de Valdivia, María Elena, Pampa Blanca and other sites for which we have the appropriate concessions.

Brines from the Salar de Atacama: Facilities and Reserves

Salar de Atacama: Facilities

Salar de Atacama

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

Salar de Atacama: Reserves

Our in-house staff of hydro-geologists and and geologists prepares our estimates of the reserve base of potassium, sulfate, lithium and boron dissolved in brines at the Salar de Atacama. We have exploitation concessions covering an area of 81,920 hectares, in which we have carried out geological exploitation, brine sampling and geostatistical analysis. We estimate that our proven and probable reserves as of December 31, 2016, based on economic restrictions, geological exploitation, brine sampling and geostatistical analysis up to a depth of 100 meters of our total exploitation concessions, and additionally, up to a depth of 300 meters over approximately 47% of the same total area, are as follows:

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	Proven Reserves (1) (millions of metric tons)	Probable Reserves (1) (millions of metric tons)	Total Reserves (millions of metric tons)
Potassium (K+) (2)	54.62	39.00	90.62
Sulfate (SO4-2) (3)	47.82	37.06	84.88
Lithium (Li+) (4)	4.89	3.17	8.06
Boron (B3+) (5)	1.76	1.26	3.02

Notes on reserves:

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

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

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

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

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

The information set forth in the table above was validated in February 2017 by Messrs. Álvaro Henríquez and Orlando Rojas using information that was prepared by SQM's hydrogeologists, geologists and engineers and external advisors.

Mr. Henríquez is a geologist with more than 13 years of experience in the field of hydrogeology. He is currently employed by SQM as Superintendent of Hydrogeology, in the Salar Hydrogeology department. He is a Competent Person and is registered under No. 226 in the Public Registry of Competent Persons in Mining Resources and Reserves, in accordance with the Competent Person Law. As a hydrogeologist he has evaluated multiple brine-based projects and has experience evaluating resources and reserves.

Mr. Orlando Rojas is a civil mining engineer and independent consultant. He is Partner and Chief Executive Officer of the company EMI-Ingenieros y Consultores S.A., whose offices are located at Renato Sánchez No. 3357, Las Condes, Santiago, Chile. He is a member of the Institute of Mining Engineers and is registered under No. 118 in the Public Registry of Competent Persons in Mining Resources and Reserves in accordance with the Competent Person Law and related regulations. He has worked as a mining engineer for 38 years since graduating from university, including more than 32 years working on estimates for reserves and resources.

A copy of the certificate of qualified competency issued by the Chilean Mining Commission for Mr. Rojas is provided in the previous section. A copy of the certificate of qualified competency issued by the Chilean Mining Commission for Mr. Henríquez is provided below:

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A cutoff grade of 1% K is used in the calculation, considering a low margin scenario using only MOP-S as and using diluted brine with higher levels of contaminants as the raw material and with recovery yields of approximately 47%, which is on the lower end of the range. In this scenario, considering current market conditions and market conditions from recent years, the production cost of MOP production is still competitive.

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

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

- *Porosity*: obtained from measurements of drainable porosity in core rocks, test pumping data, geophysical records and changes in the level of the brine. The volume of brine is estimated on the basis of the interpolation of the drainable porosity data.
- *Grades:* The brine chemistry is subjected to an exploratory data analysis and a variographic analysis, in order to determine the chemical populations in the Salar. Subsequently, the grades are interpolated using the Kriging method.

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

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

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

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

Complementing the reserves information, SQM has an environmental impact assessment (RCA 226/06) which defines a maximum brine extraction per year until the end of the Lease Agreement (in the year 2030). Considering the maximum brine production rates, and including reinjection factors, we have performed several hydrogeological numeric simulations to estimate changes in the volume and quality of the brine during the life of the project. This procedure allows us to estimate an amount of 30.93 metric tons of potassium out of our environmentally approved reserves, which is considered to be a fraction of the proven and probable reserves previously defined.

3) DESCRIPTION OF BUSINESS ENVIRONMENT

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

	2016		2015		2014	
	Gross Margin	Price	Gross Margin	Price	Gross Margin	Price
Potassium Chloride and Potassium Sulfate	11%	US$263/ton	29%	US$346/ton	28%	US$375/ton
Lithium and Derivatives	66%	US$10,362/ton	51%	US$5,762/ton	42%	US$5,235/ton

Other Production Facilities

Coya Sur

The Coya Sur site is located approximately 15 kilometers south of María Elena, and production activities undertaken there are associated with the production of potassium nitrate and finished products. The main production plants at this site include four potassium nitrate plants with a total capacity of 1,100,000 metric tons per year. There are also five production lines for crystallized nitrates, with a total capacity of 1,200,000 metric tons per year, and a prilling plant with a capacity of 320,000 metric tons per year. The potassium nitrate produced at Coya Sur is an intermediate product that is used as a raw material for the production of finished products (crystallized nitrates and prilled nitrates). Therefore, the production capacities listed above are not independent of one another and cannot be added together to obtain an overall total capacity. Natural gas is the main source of energy for our Coya Sur operation.

Salar del Carmen

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

3) DESCRIPTION OF BUSINESS ENVIRONMENT

The following table provides a summary of our production facilities:

Facility	Type of Facility	**Approximate Size** (hectares) (1)	**Nominal Production Capacity** (thousands of metric tons/year)	**Weighted Average Age** (years) (2)	**Gross Book Value** (millions of US$) (2)
Coya Sur (3) (4)	Nitrates production	1,518	Potassium nitrate: 1,000 Crystallized nitrates: 1,200 Prilled nitrates: 320	9.0	533.0
María Elena (5) (6)	Nitrates and iodine production	35,830	Nitrates: n/a Iodine: 1.6 Prilled nitrates: 300	13.5	432.8
Nueva Victoria (5) (7)	Concentrated nitrate salts and iodine production	47,492	Iodine: 9.0	7.8	455.2
Pampa Blanca (5) (7) (8)	Concentrated nitrate salts and iodide production	10,441	Nitrates: n/a Iodine: n/a	7.8	7.2
Pedro de Valdivia (3) (7) (9)	Nitrates and iodine production	253,880	Nitrates: n/a Iodine: 3.2	12.4	217.8
Salar de Atacama (3) (10)	Potassium chloride, potassium sulfate, lithium chloride, and boric acid production	35,911	Potassium chloride: 2,680 Potassium sulfate: 245 Boric acid: 15	12.1	1,525.6
Salar del Carmen, Antofagasta (3)	Lithium carbonate and lithium hydroxide production	126	Lithium carbonate: 48 Lithium hydroxide: 6	8.5	178.4
Tocopilla (11)	Port facilities	22	-	12.6	164.5

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

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

(3) Includes production facilities and solar evaporation ponds.

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

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

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

(7) The nominal production capacity for iodine considers the capacity of our plants. The effective capacity is 10,000 metric tons per year.

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

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

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

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

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

3) DESCRIPTION OF BUSINESS ENVIRONMENT

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

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

Extraction Yields

The following table shows certain operating data relating to each of our mines for 2016, 2015 and 2014:

(in thousands, unless otherwise stated)	2016	2015	2014
Pedro de Valdivia[(1)]			
Metric tons of ore mined	-	9,754	11,401
Average grade nitrate (% by weight)	-	7.8	8.1
Iodine (parts per million (ppm))	-	424	418
Metric tons of crystallized nitrate produced	-	346	453
Metric tons of iodine produced	0.6	2.8	3.2
Maria Elena[(2)]			
Metric tons of ore mined	-	-	-
Average grade nitrate (% by weight)	-	-	-
Iodine (ppm)	-	-	-
Metric tons of crystallized nitrate produced	-	-	-
Metric tons of iodine produced	0.2	0.1	0.4
Coya Sur[(3)]			
Metric tons of crystallized nitrate produced	573	611	519
Pampa Blanca[(2)]			
Metric tons of ore mined	-	-	–
Iodine (ppm)	-	-	–
Metric tons of iodine produced	-	-	–
Nueva Victoria[(4)]			
Metric tons of ore mined	29,902	23,969	19,792

Iodine (ppm)	454	458	467
Metric tons of iodine produced	7.7	7.5	6.0
Salar de Atacama [(5)]			
Metric tons of lithium carbonate produced	44	33	30
Metric tons of potassium chloride and potassium sulfate and potassium salts produced	2,045	1,988	1,993

3) DESCRIPTION OF BUSINESS ENVIRONMENT

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

(2) Operations at the El Toco and Pampa Blanca mines were suspended in November 2013 and March 2010, respectively. During 2014 and 2015, María Elena obtained production from caliche ore exploited in prior years.

(3) Includes production at Coya Sur from treatment of nitrates solutions from María Elena and Pedro de Valdivia, nitrate salts from pile treatment at Nueva Victoria, and net production from NPT, or technical grade potassium nitrate, plants.

(4) Operations at the Iris iodine plant were suspended in October 2013 and restarted in August 2014.

(5) Lithium carbonate is extracted at the Salar de Atacama and processed at our facilities at the Salar del Carmen. Potassium salts include synthetic sylvinite produced in the plant and other harvested potassium salts (natural sylvinite, carnalites and harvests from plant ponds) that are sent to Coya Sur for the production of crystallized nitrates.

Transportation and Storage Facilities

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

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

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

our Salar de Atacama facilities and later transported by trucks to the Port of Tocopilla terminal.

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

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

3) DESCRIPTION OF BUSINESS ENVIRONMENT

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

The storage facilities consist of a system of 6 silos, with a total storage capacity of 55,000 metric tons, and a mixed storage area of open storehouses with a total storage capacity of approximately 250,000 metric tons. In addition, to fulfill future storage needs, we will continue to make investments in accordance with the investment plan outlined by management. The products are also put into bags at the Port of Tocopilla terminal facilities where the bagging capacity is established by two bag packaging machines, one for sacks and polypropylene FIBC big bags and one for FFS polyethylene. The products that are packaged in Tocopilla may be subsequently shipped at the same port or may also be consolidated into trucks or containers for its subsequent dispatch to clients by land or sea through containers from other ports, principally located in Antofagasta, Mejillones and Iquique.

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

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

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

Water Rights

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

3) DESCRIPTION OF BUSINESS ENVIRONMENT

Computer System

In addition to the above-listed facilities, we operate a computer and information system linking our principal subsidiaries to our operating facilities throughout Chile via a local area network. The computer and information system is used mainly for accounting, monitoring of supplies and inventories, billing, quality control and research activities. The system's mainframe computer equipment is located at our offices in Santiago.

3) E) DESCRIPTION OF BUSINESS ENVIRONMENT: RISK FACTORS

Risk Factors

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

Risks Relating to our Business

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

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

the Chilean Public Prosecutor are also conducting similar investigations related to the payment of invoices by other Chilean companies that may not have been properly supported or that may not have been necessary to generate corporate income.

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

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

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

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

3) DESCRIPTION OF BUSINESS ENVIRONMENT

On March 17, 2015, three members of the Board of Directors resigned, all of whom had been nominated by Potash Corporation of Saskatchewan Inc. (“PCS”), one of SQM’s two principal shareholder groups. PCS issued a press release stating that the directors resigned because of their concern that they could not ensure that the Company was conducting an appropriate investigation and collaborating effectively with the Public Prosecutor.

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

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

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

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

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

3) DESCRIPTION OF BUSINESS ENVIRONMENT

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

On July 31, 2015, the deputy of the Tarapacá region of Chile, Hugo Gutiérrez G., filed a lawsuit against the Company, broadly alleging violations of the anti-corruption and money laundering provisions of Law No. 20,393 on Criminal Liability of Legal Entities. Potential sanctions under this law could include (i) fines, (ii) loss of certain governmental benefits during a given period, (iii) a temporary or permanent bar against the Company executing contracts with governmental entities, and (iv) dissolution of the Company. This claim is under review by the Public Prosecutor.

On September 29, 2015, the Company was notified of a labor lawsuit by its former CEO, Patricio Contesse, claiming payment from the Company related to the termination of his employment contract. The total amount claimed in the lawsuit is approximately Ch$4.0 billion (approximately US$5.7 million), including severance payments for years of service and other legal or contractual payments. The Company has not paid any indemnities to the former CEO, and the lawsuit is pending in the Chilean courts. The Company estimates that no provision is needed at this stage. On March 27, 2017, the Company reached an agreement with Mr. Contesse to terminate the labor lawsuit Mr. Contesse filed against the Company.

On October 14, 2015, two class action complaints then pending against the Company, our former CEO and current CEO and CFO, alleging violations of the U.S. securities laws in connection with the subject matter of the investigations described above, were consolidated into a single action in the United States District Court for the Southern District of New York. On November, 13, 2015, our former CEO and current CEO and CFO were voluntarily dismissed from the case without prejudice. On January 15, 2016, the lead plaintiff filed a consolidated class action complaint exclusively against the Company.

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

Following the presentation by the ad-hoc Committee of its findings to the Board of Directors, the Company voluntarily shared the findings of the ad-hoc Committee investigation with authorities in Chile and the U.S. (the SEC and the U.S. Department of Justice ("DOJ")), and it has cooperated with requests for additional documents and information from these authorities regarding the internal investigation discussed above.

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

3) DESCRIPTION OF BUSINESS ENVIRONMENT

In Chile, the authorities' review of the Company's payments and related conduct is ongoing. We are unable to predict the duration, scope, or results of this review, or how it may affect our business, financial condition, cash flows, results of operations and the prices of our securities. There can be no assurance that the authorities will agree with the conclusions of the ad-hoc Committee or that the authorities will not conclude that a violation of applicable law has occurred. There can be no assurance that authorities in Chile or the U.S. will not undertake a broader investigation or seek to commence additional litigation against the Company.

Responding to our regulators' inquiries and any future civil, criminal or regulatory inquiries or proceedings diverts our management's attention from day-to-day operations. Additionally, expenses that may arise from responding to such inquiries or proceedings, our review of responsive materials, any related litigation or other associated activities may continue to be significant. Current and former employees, officers and directors may seek indemnification, advancement or reimbursement of expenses from us, including attorneys' fees, with respect to the current inquiry or future proceedings related to this matter. If, as a result of further investigations, it is determined that our financial statements were materially incorrect, we could be required to restate financial information for prior reporting periods. Chilean authorities, the SEC and the DOJ could impose a range of sanctions, including, but not limited to fines and civil, criminal penalties or, in the case of Chilean authorities, the sanctions discussed above under Law No. 20,393. The occurrence of any of the foregoing could materially and adversely affect our business, financial condition, cash flows, results of operations and the prices of our securities.

An arbitration proceeding under the Lease Agreement for the Salar de Atacama, if determined adversely to us, would materially adversely affect our business and operations

Our subsidiary SQM Salar holds exclusive and temporary exploitation rights to mineral resources in 81,920 hectares in the Salar de Atacama pursuant to a 1993 lease agreement over mining exploitation concessions between SQM Salar and Corporación de Fomento de la Producción ("Corfo"), a Chilean government entity (the "Lease Agreement"). The mining exploitation concessions related to such rights are owned by Corfo and leased to SQM Salar in exchange for quarterly lease payments to Corfo based on specified percentages associated to the value of the products resulting from the minerals extracted from such concessions. For the year ended December 31, 2016, revenue related to products originating from the Salar de Atacama represented 47% of our consolidated revenues, which corresponded to revenues from our potassium product line and our lithium and derivatives product line for the period. All of our products originating from the Salar de Atacama are derived from our extraction operations under the Lease Agreement.

In May 2014, Corfo initiated an arbitration proceeding against SQM Salar alleging (i) SQM Salar had incorrectly applied the formulas to determine lease payments resulting in an underpayment to Corfo of at least US$8.9 million for

2009 through 2013 and (ii) SQM Salar had not complied with its obligation to protect the mining rights of Corfo by failing to construct or replace markers to delineate property lines. Based on the alleged breaches of the Lease Agreement, Corfo sought (i) at least US$8.9 million plus any other amount that may be due in respect of periods after 2013, (ii) early termination of the Lease Agreement, (iii) lease payments that would have been paid through 2030 as compensation for the early termination of the Lease Agreement and (iv) punitive damages (*daño moral*) equal to 30% of the contractual damages awarded. SQM Salar contested the claim, asserting that both parties have applied mutually agreed formulas for the calculation and payment of lease payments for more than 20 years without conflict, in accordance with the terms of the Lease Agreement and their mutual understanding of the agreements by the parties during the term of the Lease Agreement. SQM Salar also asserted that the alleged breaches would be technical breaches and that Corfo may terminate the Lease Agreement solely for a material breach. SQM Salar in consultation with external counsel believes that it is likely it will prevail in the arbitration proceeding. However, an adverse ruling awarding damages sought by Corfo or permitting early termination of the Lease Agreement would have a material adverse effect on our business, financial condition, cash flows, results of operations and share price. We cannot assure you that Corfo will not use this arbitration proceeding to seek to renegotiate the terms of the Lease Agreement in a manner that is not favorable to SQM Salar. In addition, we cannot assure you that Corfo will not take other actions in the future in relation to the Lease Agreement that are contrary to our interests.

3) DESCRIPTION OF BUSINESS ENVIRONMENT

In August 2016, Corfo requested a second arbitration proceeding, demanding (i) the early termination of the Project Contract signed between Corfo, SQM Potasio S.A., SQM Salar, and the Company, (ii) the dissolution of SQM Salar and (iii) the early termination of the Lease Agreement for alleged breaches of the Project Contract. In addition, Corfo demanded SQM Salar return (i) the assets Corfo contributed to it under a condition subsequent, (ii) the OMA mining properties and the aquifers included in the Lease Agreement, (iii) the water rights granted to SQM Salar and (iv) the legal mining easements identified in the lawsuit. Finally, Corfo requested that the defendants pay damages as a result of the breaches alleged in the lawsuit. The Company believes there is insufficient evidence to demonstrate that the Project Contract has been breached. However, there can be no assurance that the Company will prevail against Corfo or that other legal actions will not be taken by Corfo against the Company's interests.

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

On September 10, 2013, the SVS issued a press release disclosing it had instituted certain administrative proceedings (the "Cascading Companies Proceedings") against (i) Julio Ponce Lerou (who was the Chairman of the Board and a director of the Company until April 24, 2015), (ii) Patricio Contesse Fica, who was a director of the Company until April 24, 2015 and is the son of Patricio Contesse González (who was the Company's CEO until March 16, 2015), and (iii) other named defendants. The Company has been informed that Mr. Ponce and persons related to him beneficially owned 29.97% of SQM's total shares as of December 31, 2015. See Section 4)A)i) "Ownership Control Situation". The SVS alleged breaches of Chilean corporate and securities laws in connection with acts performed by entities with direct or indirect share ownership interests in SQM (the "Cascading Companies"). The allegations made in connection with the Cascading Companies Proceedings do not relate to the Company's operations, nor do they relate to any acts or omissions of the Company or any of its directors, officers or employees in their capacities as such.

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

On January 31, 2014, the SVS added a number of Chilean financial institutions and asset managers, and certain of their controlling persons, executives or other principals, as named defendants to the Cascading Companies

Proceedings. On September 2, 2014, the SVS issued a decision imposing an aggregate fine against all of the defendants of UF 4,0110,000 (approximately US$144.7 million as of December 31, 2015), including a fine against Mr. Ponce of UF 1,700,000 (approximately US$61.4 million as of December 31, 2015) and a fine against Mr. Contesse Fica of UF 60,000 (approximately US$2.2 million as of December 31, 2015). The defendants are currently challenging the SVS administrative decision before a Chilean Civil Court.

3) DESCRIPTION OF BUSINESS ENVIRONMENT

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

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

Our annual report for the year ended December 31, 2014 on Form 20-F filed with the SEC identified a material weakness in our internal controls over payments directed by the office of the former Chief Executive Officer as of December 31, 2014

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

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

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

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

Since 2008, world prices of potassium-based fertilizers (including some of our specialty plant nutrients and potassium chloride) have fluctuated as a result of the broader global economic and financial conditions. Although prices of potassium-based fertilizers stabilized in 2009 after the conclusion of important contract negotiations between major producers and buyers, during the second half of 2013, potassium prices declined as a result of an unexpected announcement made by the Russian company OAO Uralkali (“Uralkali”) that it was terminating its participation in Belarus Potash Corporation (“BPC”). As a result of the termination of Uralkali’s participation in BPC, there was increased price competition in the market. In addition, in 2016, we observed lower pricing of contracts between Chinese purchasers and major potash producers, which increased volatility in the price of fertilizers. The average price for our potassium chloride and potassium sulfate business line was approximately 24% lower in 2016 compared to 2015. Our sales volumes for this business line were approximately 24% higher in 2016 compared to 2015. We cannot assure you that potassium-based fertilizer prices and sales volumes will not decline in the future.

3) DESCRIPTION OF BUSINESS ENVIRONMENT

Iodine prices followed an upward trend beginning at the end of 2008 and continuing through 2012, reaching an average price of approximately US$53 per kilogram in 2012, over 40% higher than average prices in 2011. During the following years, supply growth outpaced demand growth, causing a decline in iodine prices. We obtained an average price for iodine of approximately US$23 per kilogram in 2016, approximately 19% less than average prices obtained in 2015. We cannot assure you that iodine prices or sales volumes will not continue to decline in the future.

As a result of events in global markets during 2009, demand for lithium carbonate declined, causing a decrease in lithium prices and sales volumes. In September 2009, we announced a 20% reduction in lithium carbonate and lithium hydroxide prices as a means of stimulating demand. As a result, in 2010 we observed demand recovery in the lithium carbonate market, and this upward trend has continued over the last few years, driven mostly by an increase in demand related to battery use. In 2016, demand growth was accompanied by an increase in supply that was lower than expected, and as a result, average prices for this business line increased approximately 80% compared to 2015. We cannot assure you that lithium prices and sales volumes will not decline in the future.

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

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

We sell our products in more than 115 countries around the world. In 2016, approximately 46% of our sales were made in emerging market countries: 12% in Latin America (excluding Chile); 9% in Africa and the Middle East (excluding Israel); 8% in Chile and 16% in Asia and Oceania (excluding Australia, Japan, New Zealand, South Korea and Singapore).We expect to expand our sales in these and other emerging markets in the future. In addition, we may carry out acquisitions or joint ventures in jurisdictions in which we currently do not operate, relating to any of our businesses or to new businesses in which we believe we may have sustainable competitive advantages. The results of our operations and our prospects in other countries in which we establish operations will depend, in part, on the general level of political stability and economic activity and policies in those countries. Future developments in the political systems or economies of these countries or the implementation of future governmental policies in those countries, including the imposition of withholding and other taxes, restrictions on the payment of dividends or repatriation of capital, the imposition of import duties or other restrictions, the imposition of new environmental regulations or price controls or changes in relevant laws or regulations, could have a material adverse effect on our

business, financial condition and results of operations in those countries.

Our inventory levels may increase for economic or operational reasons

In general, economic conditions or operational factors can affect our inventory levels. At the end of 2016, our inventory levels were relatively high compared to prior years, but lower than 2015. Higher inventories carry a financial risk due to increased need for cash to fund working capital and could imply increased risk of loss of product. We cannot assure you that inventory levels will not continue to remain high or increase further in the future. These factors could have a material adverse effect on our business, financial condition and results of operations.

3) DESCRIPTION OF BUSINESS ENVIRONMENT

Our level of and exposure to unrecoverable accounts receivable may significantly increase

Potentially negative effects of global economic conditions on the financial condition of our customers may include the extension of the payment terms of our accounts receivable and may increase our exposure to bad debt. While we have implemented certain safeguards, such as using credit insurance, letters of credit and prepayment for a portion of sales, to minimize this risk, the increase in our accounts receivable coupled with the financial condition of customers may result in losses that could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

receive the necessary permits required for them in time. Any or all of these factors may have a material adverse effect on our business, financial condition and results of operations.

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

We rely on certain raw materials and various energy sources (diesel, electricity, liquefied natural gas, fuel oil and others) to manufacture our products. Purchases of energy and raw materials we do not produce constitute an important part of our cost of sales, approximately 13% in 2016. In addition, we may not be able to obtain energy at any price if supplies are curtailed or otherwise become unavailable. To the extent we are unable to pass on increases in the prices of energy and raw materials to our customers or we are unable to obtain energy, our business, financial condition and results of operations could be materially adversely affected.

3) DESCRIPTION OF BUSINESS ENVIRONMENT

Our reserves estimates could be subject to significant changes

Our caliche ore mining reserves estimates are prepared by our own geologists and were most recently validated in January 2017 by Mr. Sergio Alarcón and Mr. Orlando Rojas. Mr. Alarcón is a geologist with over 30 years of experience in the field. He is currently employed by SQM as Geology Supervisor. Mr. Alarcón is a Competent Person (Persona Competente), as that term is defined under Chilean Law No. 20,235, known as the Law that Regulates the Position of Competent Person and Creates the Qualifying Committee for Competencies in Mining Resources and Reserves (Ley que Regula la Figura de las Personas Competentes y Crea la Comisión Calificadora de Competencias de Recursos y Reservas Mineras or "Competent Person Law"), and he is registered under No. 163 in the Public Registry of Competent Persons in Mining Resources and Reserves in accordance with such law and related regulations. Mr. Orlando Rojas is a civil mining engineer and independent consultant. He is Partner and Chief Executive Officer of the company EMI-Ingenieros y Consultores S.A., whose offices are located at Renato Sánchez No. 3357, Las Condes, Santiago, Chile. He is a member of the Institute of Mining Engineers and is registered under No. 118 in the Public Registry of Competent Persons in Mining Resources and Reserves in accordance with the Competent Person Law and related regulations. He has worked as a mining engineer for 39 years since graduating from university, including more than 33 years working on estimates for reserves and resources.

Our Salar de Atacama brine mining reserve estimates are prepared by our own hydrogeologists and geologists and were most recently validated in March 2017 by Mr. Álvaro Henríquez and Mr. Orlando Rojas. Mr. Henríquez is a geologist with more than ten years of experience in the field of hydrogeology. He is currently employed by SQM as Superintendent of Geology, in the Salar Hydrogeology department. He is a Competent Person and is registered under No. 226 in the Public Registry of Competent Persons in Mining Resources and Reserves, in accordance with the Competent Person Law and related regulations. As a hydrogeologist, he has evaluated multiple brine-based projects and has experience evaluating resources and reserves.

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

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

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

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

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

3) DESCRIPTION OF BUSINESS ENVIRONMENT

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

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

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

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

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

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

Over 95% of our employees are employed in Chile, of which approximately 65% were represented by 22 labor unions as of December 31, 2016. During 2016, we renegotiated collective labor contracts with individual unions one year before the expiration of such contracts. During 2017, we expect to renegotiate collective labor contracts with three unions. Our collective labor contracts with 16 unions, representing 80% of the unionized workers, will expire in 2019. Our collective labor contracts with five unions, representing 20% of the unionized workers will expire in 2020. We are exposed to labor strikes and illegal work stoppages that could impact our production levels. If a strike or illegal

work stoppage occurs and continues for a sustained period of time, we could be faced with increased costs and even disruption in our product flow that could have a material adverse effect on our business, financial condition and results of operations.

Chilean Law No. 20,123, known as the Subcontracting Law, provides that when a serious workplace accident occurs, the company in charge of the workplace must halt work at the site where the accident took place until authorities from either the National Geology and Mining Service (Servicio Nacional de Geología y Minería or "Sernageomin"), the Labor Board (Dirección del Trabajo or "Labor Board"), or the National Health Service (Servicio Nacional de Salud), inspect the site and prescribe the measures such company must take to minimize the risk of similar accidents taking place in the future. Work may not be resumed until the respective company has taken the prescribed measures, and the period of time before work may be resumed may last for a number of hours, days, or longer. The effects of this law could have a material adverse effect on our business, financial condition and results of operations.

On September 8, 2016, Chilean Law No. 20,940 was published and modified the Labor Code by introducing, among other things, changes to the formation of trade unions, the election of inter-company union delegates, the presence of women on union boards, anti-union practices and related sanctions, and collective negotiations. Due to these changes to the labor regulations, we may face an increase in our expenses that may have a significant adverse effect on our business, financial condition, and results of operations.

3) DESCRIPTION OF BUSINESS ENVIRONMENT

Lawsuits and arbitrations could adversely impact us

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

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

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

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

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

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

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

On June 6, 2016, the Superintendence of the Environment filed charges against SQM S.A. regarding the operations at Nueva Victoria for possible non-compliance with RCA No. 890/2010. The charges related to certain variables of a monitoring plan and to the implementation of a mitigation measure considered in the respective environmental impact study.

3) DESCRIPTION OF BUSINESS ENVIRONMENT

On November 28, 2016, the Superintendence of the Environment filed charges against SQM Salar S.A. regarding possible non-compliance with RCA No. 226/2006 as a result of the company's operations at Salar de Atacama. The charges referred to certain aspects of the monitoring and contingency plans, and the condition of a group of trees in the Camar sector considered as a part of the environmental monitoring.

For both cases, we have presented compliance programs that detail the actions and commitments we will take to resolve the issues raised by the environmental authority. The Superintendence of the Environment is reviewing both compliance programs and will release an opinion on them.

The success of our current investments at the Salar de Atacama and Nueva Victoria is dependent on the behavior of the ecosystem variables being monitored over time. If the behavior of these variables in future years does not meet environmental requirements, our operation may be subject to important restrictions by the authorities on the maximum allowable amounts of brine and water extraction.

Our future development depends on our ability to sustain future production levels, which requires additional investments and the submission of the corresponding environmental impact studies or statements. If we fail to obtain approval or required environmental licenses, our ability to maintain production at specified levels will be seriously impaired, thus having a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

Risks Relating to Financial Markets

Currency fluctuations may have a negative effect on our financial performance

We transact a significant portion of our business in U.S. dollars, and the U.S. dollar is the currency of the primary economic environment in which we operate. In addition, the U.S. dollar is our functional currency for financial statement reporting purposes. A significant portion of our costs, however, is related to the Chilean peso. Therefore, an increase or decrease in the exchange rate between the Chilean peso and the U.S. dollar would affect our costs of production. The Chilean peso has been subject to large devaluations and revaluations in the past and may be subject to significant fluctuations in the future. As of December 31, 2016, the Chilean peso exchange rate was Ch$669.47 per U.S. dollar, while as of December 31, 2015, the Chilean peso exchange rate was Ch$710.16 per U.S. dollar. The Chilean peso therefore appreciated against the U.S. dollar by 6.0% in 2016.

3) DESCRIPTION OF BUSINESS ENVIRONMENT

As an international company operating in several other countries, we also transact business and have assets and liabilities in other non-U.S. dollar currencies, such as, among others, the euro, the South African rand, the Mexican peso, the Chinese yuan, the Thai baht and the Brazilian real. As a result, fluctuations in the exchange rates of such foreign currencies to the U.S. dollar may have a material adverse effect on our business, financial condition and results of operations.

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

We have outstanding short and long-term debt that bears interest based on the London Interbank Offered Rate ("LIBOR"), plus a spread. Since we are currently hedging only a portion of these liabilities into fixed rates, we are exposed to interest rate risk relating to LIBOR fluctuations. As of December 31, 2016, approximately 2% our financial debt had LIBOR-based pricing that was not hedged into fixed rates. A relative increase in the rate could materially impact our business, financial condition and results of operations.

Risks Relating to Chile

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

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

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

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

Changes in mining or port concessions could affect our operating costs

We conduct our mining operations, including brine extraction, under exploitation and exploration concessions granted in accordance with provisions of the Chilean constitution and related laws and statutes. Our exploitation concessions essentially grant a perpetual right (with the exception of the Salar de Atacama rights, which have been leased to us until 2030) to conduct mining operations in the areas covered by the concessions, provided that we pay annual concession fees. Our exploration concessions permit us to explore for mineral resources on the land covered thereby for a specified period of time and to subsequently request a corresponding exploitation concession. Our subsidiary SQM Salar, as leaseholder, holds exclusive and temporary rights over the mineral resources in an area covering approximately 140,000 hectares of land in the Salar de Atacama in northern Chile, of which SQM Salar is entitled to exploit the mineral resources of 81,920 hectares. These rights are owned by Corfo and leased to SQM Salar pursuant to the Lease Agreement between Corfo and SQM Salar. Corfo may not unilaterally modify the Lease Agreement, and the rights to exploit the mineral substances cannot be transferred. The Lease Agreement establishes that SQM Salar is responsible for making quarterly lease payments to Corfo, maintaining Corfo's rights over the mining exploitation concessions, and making annual payments to the Chilean government for such concession rights. The Lease Agreement expires on December 31, 2030. Furthermore, under the regulations of the Chilean Nuclear and Energy Commission (*Comisión Chilena de Energía Nuclear* or "CCHEN"), we are limited to 180,100 tons of total lithium (958,672 tons of lithium carbonate equivalent) extraction in the aggregate for all periods. We are over halfway through the term of the Lease Agreement and have extracted approximately 59% of the total accumulated extraction limit of lithium. There can be no assurance that we will not reach the lithium extraction limit prior to the term of the lease agreement (31 of December 2030).

3) DESCRIPTION OF BUSINESS ENVIRONMENT

In August 2016, Corfo requested a second arbitration proceeding, demanding (i) the early termination of the Project Contract signed between Corfo, SQM Potasio S.A., SQM Salar, and the Company, (ii) the dissolution of SQM Salar and (iii) the early termination of the Lease Agreement for alleged breaches of the Project Contract. In addition, Corfo demanded SQM Salar return (i) the assets Corfo contributed to it under a condition subsequent, (ii) the OMA mining properties and the aquifers included in the Lease Agreement, (iii) the water rights granted to SQM Salar and (iv) the legal mining easements identified in the lawsuit. Finally, Corfo requested that the defendants pay damages as a result of the breaches alleged in the lawsuit. The Company believes there is insufficient evidence to demonstrate that the Project Contract has been breached. However, there can be no assurance that the Company will prevail against Corfo or that other legal actions will not be taken by Corfo against the Company's interests.

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

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

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

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

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

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

Following the earthquake and tsunami in February in 2010, the Chilean government raised the corporate income tax rate in order to pay for reconstruction. Such legislation increased the general corporate tax rate from its historic rate of 17.0% to 20.0% for the income accrued in 2011, which was declared and paid in 2012. In 2012, Law No. 20,630 introduced new amendments to existing tax legislation. There can be no assurance that this legislation will not be modified in the future.

On September 29, 2014, Law No. 20,780 was published (the “Tax Reform”), introducing significant changes to the Chilean taxation system and strengthening the powers of the SII to control and prevent tax avoidance. Subsequently, on February 8, 2016, Law No. 20,899 that simplifies the income tax system and modifies other legal tax provisions was published. As a result of these reforms, open stock corporations like SQM are subject to the partially integrated shareholder tax regime (sistema parcialmente integrado). The corporate tax rate applicable to us increased to 24% in 2016. It will increase to 25.5% in 2017 and increase to a maximum rate of 27% in 2018.

3) DESCRIPTION OF BUSINESS ENVIRONMENT

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

As a result, foreign shareholders residents in a non-treaty jurisdiction will be subject to a higher effective tax rate than residents of treaty jurisdictions.

The Tax Reform tax increase prompted a US$52.3 million increase in our deferred tax liabilities as of December 31, 2014. In accordance with the instructions issued by the SVS the effects generated by the change in the income tax rate were accounted for as reduction of net equity in our financial statements as of December 31, 2014.

Given the difference in accounting treatments between IFRS and the instructions of the SVS, we will continue to analyze the effects of the Tax Reform on our financial statements and reporting obligations, and we cannot be sure of how our future financial statements will reflect these changes.

In addition, the Tax Reform may have other material adverse effects on our business, financial condition and results of operations. Likewise, we cannot assure you that the manner in which the Royalty Law or the corporate tax rate are interpreted and applied will not change in the future. The Chilean government may decide to levy additional taxes on mining companies or other corporations in Chile. Such changes could have a material adverse effect on our business, financial condition and results of operations.

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

Chile, a member of the International Labor Organization ("ILO"), has ratified the ILO's Convention 169 (the "Indigenous Rights Convention") concerning indigenous and tribal people. The Indigenous Rights Convention established several rights for indigenous people and communities. Among other rights, the Indigenous Rights Convention states that (i) indigenous groups should be notified and consulted prior to the development of any project on land deemed indigenous, although veto rights are not mentioned and (ii) indigenous groups have, to the extent possible, a stake in

benefits resulting from the exploitation of natural resources in indigenous land. The extent of these benefits has not been defined by the Chilean government. The Chilean government has addressed item (i) above through Supreme Decree No. 66 issued by the Social Development Ministry. This decree requires government entities to consult indigenous groups that may be directly affected by the adoption of legislative or administrative measures, and it also defines criteria for the projects or activities that must be reviewed through the environmental evaluation system that also require such consultation. To the extent that the new rights outlined in the Indigenous Rights Convention become laws or regulations in Chile, they could affect the development of our investment projects in lands that have been defined as indigenous, which could have a material adverse effect on our business, financial condition and results of operations.

Chile is located in a seismically active region

Chile is prone to earthquakes because it is located along major fault lines. The most recent major earthquake in Chile occurred offshore in 2015 and had a magnitude of 8.3 on the Richter scale. There were also earthquakes in 2014 and 2010 that caused substantial damage to some areas of the country. Chile has also experienced volcanic activity. A major earthquake or a volcanic eruption could have significant negative consequences for our operations and for the general infrastructure, such as roads, rail, and access to goods, in Chile. Although we maintain industry standard insurance policies that include earthquake coverage, we cannot assure you that a future seismic or volcanic event will not have a material adverse effect on our business, financial condition and results of operations.

3) DESCRIPTION OF BUSINESS ENVIRONMENT

Risks Relating to our Shares and to our ADSs

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

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

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

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

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

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

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

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

ADS holders may be unable to enforce rights under U.S. Securities Laws

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

3) DESCRIPTION OF BUSINESS ENVIRONMENT

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

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

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

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

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

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

We believe that we were not classified as a Passive Foreign Investment Company ("PFIC") for 2016. Characterization as a PFIC could result in adverse U.S. tax consequences to you if you are a U.S. investor in our shares or ADSs. For example, if we (or any of our subsidiaries) are a PFIC, our U.S. investors may become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to burdensome reporting requirements. The determination of whether or not we (or any of our subsidiaries or portfolio companies) are a PFIC is made on an annual basis and will depend on the composition of our (or their) income and assets from time to time.

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

Currently cash dividends paid by us to foreign shareholders are subject to a 35% Chilean withholding tax. When the Company pays a corporate income tax on the income from which the dividend is paid, known as a "First Category tax", a credit effectively reduces the rate of Withholding Tax. Changes in Chilean tax regulations could have adverse consequences for U.S. investors.

3) DESCRIPTION OF BUSINESS ENVIRONMENT

3) F) DESCRIPTION OF BUSINESS ENVIRONMENT: CAPITAL EXPENDITURE PROGRAM

We regularly review different opportunities to improve our production methods, reduce costs, increase production capacity of existing products and develop new products and markets. Additionally, significant capital expenditures are required every year in order to sustain our production capacity. We are focused on developing new products in response to identified customer demand, as well as new products that can be derived as part of our existing production or other products that could fit our long-term development strategy. Our capital expenditures during the past five years were mainly related to the organic growth and sustainability of our business, including the construction of new facilities and the renovation of plants and equipment. However, the investments in the growth projects associated with lithium, potassium nitrate and iodine started in 2016. These investments were carried out with internal financing through our capital expenditure program for investments in Chile.

Our capital expenditures for the years ended December 31, 2016, 2015 and 2014 were as follows:

(in millions of U.S. dollars)	2016	2015	2014
Capital Expenditures	131.3	111.3	112.1

During 2016, we had total capital expenditure of US$131,3 millones, primarily related to:

- Completion of the project related to the expansion of ponds at Nueva Victoria to increase the production of iodine and nitrates;
- Capacity expansion projects related to our potassium nitrate production;
- Capacity expansion project related to our lithium hydroxide production;
- Improvements in the open storage areas at the Port of Tocopilla;
- General maintenance of all production units in order to ensure the fulfillment of production targets and the safety of all of our employees.

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

- expansion of ponds at Nueva Victoria in order to increase the production of iodine and nitrates;
- refining system at potassium nitrate plants;

- exploration and construction of new wells to sustain production at the Salar de Atacama and maintenance of production facilities in order to ensure production goals are met, as well as improvements in the open storage areas at the port of Tocopilla.

During 2014, we had total capital expenditures of US$112.1 million, primarily related to:

- development of new extraction sectors and production increases for both nitrates and iodine at Nueva Victoria;
- investments aimed at maintaining and improving the quality of finished nitrate products;
- exploration and construction of wells to sustain long-term production at the Salar de Atacama;
- consolidation of our corporate enterprise resource planning into SAP and
- maintenance across all production units in order to ensure fulfillment of production targets.

The Board of Directors has approved a capital expenditures plan for 2017 of approximately US$170 million primarily focused on the maintenance of our production facilities in order to strengthen our ability to meet our production goals and to increase lithium and nitrates production capacity. For that, we will begin the engineering and preliminary supply purchases related to the potassium nitrate plant, and we will complete the construction of a new lithium hydroxide plant. We do not expect that our 2017 capital investment program will require external financing. However, we always have the option to access capital markets in order to optimize our financial position.

3) DESCRIPTION OF BUSINESS ENVIRONMENT

In 2017, we will invest approximately US$100 million in the development of the Caucharí-Olaroz lithium project in Argentina. We have advanced in the engineering and the design of the project, including the hydrological model, and we expect to begin construction, as planned, during the first half of 2017.

4) OWNERSHIP AND SHARES

4) OWNERSHIP AND SHARES

4) A) OWNERSHIP AND SHARES: OWNERSHIP

i) OWNERSHIP CONTROL SITUATION

At December 31, 2016, SQM has a "controlling group" as such term is defined in Title XV of Chilean Law No. 18,045. SQM has been informed that, as of December 31, 2016, Mr. Julio Ponce Lerou (ID No. 4.250.719-9) and related persons control 100% of Inversiones SQYA Ltda. ("SQYA") and 100% of Inversiones SQ Ltda. These two companies control indirectly 29.97% of all shares of SQM (consisting of 71,871,838 Series A shares and 7,007,688 Series B shares), as follows: (i) Inversiones SQ Ltda. controls 0.0258% of Norte Grande S.A. ("Norte Grande") and SQYA controls 67.59% of Norte Grande, which controls 76.82% of Sociedad de Inversiones Oro Blanco S.A., which controls 88.64% of Sociedad de Inversiones Pampa Calichera S.A. ("Pampa Calichera"), which controls 19.72% of SQM, as of December 31, 2016; (ii) Pampa Calichera controls 99.99% of Inversiones Global Mining Chile Limitada, which controls 3.34% of SQM and (iii) Norte Grande controls 76.34% of Nitratos de Chile S.A., which controls 98.89% of Potasios de Chile S.A., which controls 10.07% of Pampa Calichera and 6.91% of SQM. Thus, Pampa Calichera and its related companies, Inversiones Global Mining Chile Limitada and Potasios de Chile S.A. (together, "Pampa Group"), control 29.97% of SQM. For the breakdown by series of share of the Pampa Group's ownership of shares in SQM, see Section 4)A)iii) Identification of 12 Largest Shareholders.

As of December 31, 2016, Kowa Company Ltd., Inversiones La Esperanza (Chile) Limitada, Kochi S.A., and La Esperanza Delaware Corporation (together, "Kowa Group") are owners of 2.11% of all shares in SQM. On December 21, 2006, Pampa Group and Kowa Group entered into a Joint Operation Agreement which currently allows them to have the status of "controlling group" of the Company. The aforementioned Joint Operation Agreement refers to the essential fact that was filed by Sociedad de Inversiones Pampa Calichera S.A. on December 21, 2006.

4) OWNERSHIP AND SHARES

Ownership Control Situation

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4) OWNERSHIP AND SHARES

ii) IDENTIFICATION OF NON-CONTROLLING MAJORITY SHAREHOLDERS

As of December 31, 2016, Potash Corporation of Saskatchewan Inc. ("PCS") owns 100% of Inversiones El Boldo Limitada, 100% of Inversiones RAC Chile Ltda. and 100% of Inversiones PCS Chile Limitada, and, accordingly, is the beneficial owner of 84,222,887 of SQM's shares, or 32.00% of SQM's total shares.

iii) IDENTIFICATION OF 12 LARGEST SHAREHOLDERS

As of December 31, 2016, the 12 largest shareholders including both Series A and Series B shares were:

Series A + Series B	Taxpayer ID	Number of Shares	% Ownership	
THE BANK OF NEW YORK MELLON ADRS[1]	59.030.820-K	59.373.011	22.56	%
SOCIEDAD DE INVERSIONES PAMPA CALICHERA SA[2]	96.511.530-7	51,901,840	19.72	%
INVERSIONES EL BOLDO LIMITADA	77.633.940-7	45,693,872	17.36	%
INVERSIONES RAC CHILE LIMITADA	79.744.950-4	21,403,015	8.13	%
POTASIOS DE CHILE SA[2]	76.165.311-3	18,179,147	6.91	%
INVERSIONES PCS CHILE LIMITADA	77.297.720-4	17,126,000	6.51	%
BANCO DE CHILE POR CUENTA DE TERCEROS NO RESIDENTES	97.004.000-5	8,962,355	3.41	%
INVERSIONES GLOBAL MINING CHILE LIMITADA[2]	96.863.960-9	8,798,539	3.34	%
BANCO ITAU CORPBANCA POR CUENTA DE INVERSIONISTAS EXTRANJEROS	97.023.000-9	6,523,167	2.48	%
INVERSIONES LA ESPERANZA CHILE LIMITADA[2]	79.798.650-K	3,758,098	1.43	%
BANCO SANTANDER POR CUENTA DE INVERSIONISTAS EXTRANJEROS	97.036.000-K	3,676,006	1.40	%
MBI CORREDORES DE BOLSA	96.921.130-0	2,070,193	0.79	%
Subtotal 12 Largest Shareholders, Series A and B		247,465,243	94.02	%
Total Shares, Series A and B		263,196,524	100	%

(1) The Bank of New York Mellon is the depositary bank for the Company's ADSs traded on the New York Stock Exchange. Information about ADS holders is provided at the end of this section.

(2) Indicates shareholder belongs to Controlling Group.

4) OWNERSHIP AND SHARES

As of December 31, 2016, the 12 largest shareholders of Series A shares were:

Series A	Taxpayer ID	Number of Shares	% Ownership	
SOCIEDAD DE INVERSIONES PAMPA CALICHERA SA(1)	96.511.530-7	44,894,152	31.43	%
INVERSIONES EL BOLDO LIMITADA	77.633.940-7	29,330,326	20.54	%
INVERSIONES RAC CHILE LIMITADA	79.744.950-4	19,200,242	13.44	%
POTASIOS DE CHILE SA(1)	76.165.311-3	18,179,147	12.73	%
INVERSIONES PCS CHILE LIMITADA	77.297.720-4	15,526,000	10.87	%
INVERSIONES GLOBAL MINING CHILE LIMITADA(1)	96.863.960-9	8,798,539	6.16	%
INVERSIONES LA ESPERANZA CHILE LIMITADA(1)	79.798.650-K	3,711,598	2.60	%
KOWA CO LTD(1)	59.046.730-8	781,429	0.55	%
KOCHI S.A. (1)	96.518.570-4	737,057	0.52	%
LA ESPERANZA DELAWARE CORPORATION(1)	59.023.690-K	227,550	0.16	%
BANCHILE CORREDORES DE BOLSA S.A.	96.571.220-8	163,576	0.11	%
INVERSIONES RENTAMAX LIMITADA	76.056.187-8	154,000	0.11	%
Subtotal 12 Largest Shareholders, Series A		141,703,616	99.22	%
Total Shares, Series A		142,819,552	100	%

(1) Indicates shareholder belongs to Controlling Group.

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4) OWNERSHIP AND SHARES

As of December 31, 2016, the 12 largest shareholders of Series B shares were:

Series B	Taxpayer ID	Number of Shares	% Ownership	
THE BANK OF NEW YORK MELLON ADRS[1]	59.030.820-K	59,373,011	49.32	%
INVERSIONES EL BOLDO LIMITADA	77.633.940-7	16,363,546	13.59	%
BANCO DE CHILE POR CUENTA DE TERCEROS NO RESIDENTES	97.004.000-5	8,962,355	7.45	%
SOCIEDAD DE INVERSIONES PAMPA CALICHERA SA[2]	96.511.530-7	7,007,688	5,82	%
BANCO ITAU POR CUENTA DE INVERSIONISTAS EXTRANJEROS	76.645.030-K	6,502,217	5.40	%
BANCO SANTANDER POR CUENTA DE INV EXTRANJEROS	97.036.000-K	3,676,006	3.05	%
INVERSIONES RAC CHILE LIMITADA	79.744.950-4	2,202,773	1.83	%
MBI CORREDORES DE BOLSA SA	96.921.130-0	2,070,193	1.72	%
INVERSIONES PCS CHILE LIMITADA	77.297.720-4	1,600,000	1.33	%
BANCHILE CORREDORES DE BOLSA S A	96.571.220-8	1,513,836	1.26	%
BOLSA DE COMERCIO DE SANTIAGO BOLSA DE VALORES	90.249.000-0	1,242,803	1.03	%
BOLSA DE COMERCIO DE SANTIAGO BOLSA DE VALORES	96.899.230-9	1,035,334	0.86	%
Subtotal 12 Largest Shareholders, Series B		112,116,228	92.67	%
Total Shares, Series B		120,376,972	100	%

(1) The Bank of New York Mellon is the depositary bank for the Company's ADSs traded on the New York Stock Exchange. Information about ADS holders is provided at the end of this section.

(2) Indicates shareholder belongs to Controlling Group.

4) OWNERSHIP AND SHARES

The Bank of New York Mellon is the depositary bank for the Company's ADSs traded on the New York Stock Exchange. According to public 13F filings with the U.S. Securities and Exchange Commission, the 12 largest ADS holders as of December 31, 2016 were:

ADSs (Series B)	Taxpayer ID	Number of ADSs	% Ownership Series B	% Ownership Total Shares
SAILINGSTONE CAPITAL PARTNERS, LLC	N/A	23,881,209	19.84 %	9.07 %
VICTORY CAPITAL MANAGEMENT INC	N/A	6,693,749	5.56 %	2.54 %
ABERDEEN ASSET MANAGERS, LTD (U.K.)	N/A	3,999,353	3.32 %	1.52 %
FMR LLC	N/A	2,859,078	2.38 %	1.09 %
SARASIN & PARTNERS, LLP	N/A	2,292,250	1.90 %	0.87 %
AXIOM INTERNATIONAL INVESTORS LL	N/A	1,532,660	1.27 %	0.58 %
THE VANGUARD GROUP, INC.	N/A	1,154,997	0.96 %	0.44 %
MACQUARIE GROUP	N/A	1,103,895	0.92 %	0.42 %
BARON CAPITAL INC	N/A	1,035,000	0.86 %	0.39 %
TIAA-CREF	N/A	951,453	0.79 %	0.36 %
BLACKROCK	N/A	804,387	0.67 %	0.31 %
RENAISSANCE TECHNOLOGIES LLC	N/A	743,500	0.62 %	0.28 %
Subtotal 12 Largest ADS Holders		47,015,923	39.06 %	17.86 %
Total ADSs as of December 31, 2016		59,373,011	49.32 %	22.56 %

iv) TOTAL NUMBER OF SHAREHOLDERS

	Shareholders Registry	ADS Holders Registry	Total Holders
Total Number of Shareholders, Series A and B	1,187	56	1,243
Total Number of Shareholders, Series A	386	-	398
Total Number of Shareholders, Series B	1,101	56	1,157

4) OWNERSHIP AND SHARES

v) SIGNIFICANT CHANGES IN SHARE OWNERSHIP

There have not been any major changes in SQM's share ownership during the year 2016.

4) B) OWNERSHIP STRUCTURE AND SHARES: SHARES AND THEIR CHARACTERISTICS AND RIGHTS

i) DESCRIPTION OF SERIES OF SHARES

Dividends are annually distributed to the Series A and Series B shareholders of record on the fifth business day prior to the date for payment of the dividends. The By-laws do not specify a time limit after which dividend entitlement elapses but Chilean regulations establish that after 5 years, unclaimed dividends are to be donated to the Chilean Fire Department.

Article 5 of the Company's By-laws establishes that Series B shares may in no case exceed fifty percent of the issued, outstanding and paid shares of SQM. Series B shares have a restricted right to vote as they can only elect one Director of the Company, regardless of their capital stock's share. Series B shares have the right to call for an Ordinary or Extraordinary Shareholders' Meeting when the shareholders of at least 5% of the Series B shares request so and to call for an Extraordinary Board of Directors Meeting without the Chairman's authorization when it is requested by the Director elected by the shareholders of the Series B shares. Series A shares have the option to exclude the Director elected by Series B shareholders from the voting process in which the Chairman of the Board is to be elected, if there is a tie in the first voting process. Articles 31 and 31 bis of the Company's By-laws establish that in General Shareholders' Meetings each shareholder will have a right to one vote for each share he owns or represents and (a) that no shareholder will have the right to vote for himself or on behalf of other shareholders of the same Series A or Series B shares representing more than 37.5% of the total outstanding shares with right to vote of each Series and (b) that no shareholder will have the right to vote for himself or on behalf of other shareholders representing more than 32% of the total outstanding shares with a right to vote. In calculating a single shareholder's ownership of Series A or B shares, the shareholder's stock and those pertaining to third parties related to them are to be added.

Article 5 bis of the Company's By-laws establishes that no person may directly or by means of related third persons concentrate more than 32% of the Company's total shares with right to vote.

Each Series A share and Series B share is entitled to share equally in the Company's profits, i.e., they have the same rights on any dividends declared on the outstanding shares of SQM.

The Company By-laws do not contain any provision relating to (a) redemption provisions (b) sinking funds or (c) liability to capital calls by the Company.

As established in article 103 of Law No. 18,046, a company subject to the supervision of the SVS may be liquidated in the following cases:

(a) Expiration of the duration term, if any, as established in its By-laws;
(b) All the shares end up in the possession of one individual for more than ten continuous days;
(c) By agreement of an Extraordinary Shareholders Meeting;
(d) By abolition, pursuant to applicable laws, of the decree that authorized its existence;
(e) Any other reason contemplated in its By-laws.

4) OWNERSHIP AND SHARES

Article 40 of the Company's By-laws states that in the event of liquidation, the Shareholders' Meeting will appoint a three-member receiver committee that will have the authority to carry out the liquidation process. Any surplus will be distributed equally among the shareholders.

The only way to change the rights of the holders of the SQM shares is by modifying its By-laws, which can only be carried out by an Extraordinary Shareholders' Meeting, as established in article

28 of the Company By-laws.

Total number of shares:

- Series A: 142,819,552
- Series B: 120,376,972

ii) DIVIDEND POLICY

SQM's dividend policy for 2016, which was announced at the General Ordinary Shareholders' Meeting on April 26, 2016, states that the Company will pay and distribute to its shareholders 50% of the distributable net income obtained during the 2016 business year.

On Novembre 23, 2016, the Company´s Board of Directors agreed to pay an interim dividend of US$225 million or equivalent of US$0.85487 per share charged against the results of 2016. Mentioned amount was paid on December 20, 2016.

On November 23, 2016, the Compnay´s Board of Directors agreed to change the Dividend Policy for the 2016 Business year, which was informed at the annual general shareholders' meeting held on April 26, 2016. The changes are as follows: (i) given that this approved dividend will be paid during the fourth quarter of 2016, no further provisional dividend will be charged against the 2016 net income, (ii) The remaining amount of the net income for the 2016 business year, if any, will be withheld and used for the financing of the Company's operations or one or more of the Company's investment projects and without prejudice to fund all or part of any possible future expenditures, or in its distribution of a final dividend, as determined at the Company's annual general shareholders' meeting, (iii) The Dividend Policy described above corresponds to the intention or expectation of the Board of Directors in relation to

such matter. Consequently, compliance with said Dividend Policy is necessarily conditioned to the net income ultimately obtained, to the results that indicate the periodic projections of the Company or to the existence of certain conditions that may affect them.

4) OWNERSHIP AND SHARES

iii) (1) STATISTICAL INFORMATION: DIVIDENDS

All series A and series B shares carry equal rights to share in any dividend declared on SQM's shareholder capital in circulation. During the past three years, the Company has paid out the following dividends:

Payout Year	US$ Total (in millions)	US$/Share
2014	34.6	0.13129
2014 (Eventual)	230.0	0.87387
2014 (Interim)	109.2	0.41493
2015	39.0	0.14811
2015 (Interim)	84.0	0.31915
2016	22.6	0.08581
2016 (Eventual)	150.0	0.56992
2016 (Interim)	225.0	0.85487

iii) (2) STATISTICAL INFORMATION: SHARE TRANSACTIONS

SQM's Series A and Series B shares are traded on the Santiago Stock Exchange, the Santiago Electronic Stock Exchange and the Valparaíso Stock Exchange. The Company's Series B shares are traded as ADSs on the New York Stock Exchange. As of March 31, 2016, June 30, 2016, September 30, 2016 and December 31, 2016, the Series B shares had a stock market presence (*presencia bursátil*) in the Santiago Stock Exchange of 100%, and the Series A shares did not have a stock market presence.

Information on SQM's shares on Chilean stock exchanges:

	Average Price (Ch$/Share)		Number of Shares Traded		**Amount Traded** (Millions of Ch$)	
	SQM-A	SQM-B	SQM-A	SQM-B	SQM-A	SQM-B
2016	17,382	15,747	131,845	54,770,733	2,225	886,673
I Quarter	16,825	12,326	109,671	11,480,411	1,801	143,011
II Quarter	17,380	14,964	8,713	13,829,063	151	210,159

III Quarter	18,433	16,919	866	14,027,215	16	240,819
IV Quarter	19,429	18,873	12,595	15,434,044	256	292,684

Source: Bloomberg, Composite Exchange

Information on SQM's shares on the New York Stock Exchange:

	Average Price (US$/ADS)	Number of Shares Traded	**Amount Traded** (Millions of US$)
	SQM-B	SQM-B	SQM-B
2016	23.32	154,355,822	3,746
I Quarter	17.67	29,991,918	541
II Quarter	22.07	46,222,691	1,026
III Quarter	25.46	35,158,693	901
IV Quarter	28.54	42,982,520	1,278

Source: Bloomberg, Composite Exchange

5) SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

5) SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

5) A) SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT: DIVERSITY WITHIN THE BOARD OF DIRECTORS AS OF DECEMBER 31, 2016

i) NUMBER OF PERSONS BY GENDER

Number of female directors 1
Number of male directors: 7

ii) NUMBER OF PERSONS BY NATIONALITY

Number of Chilean directors: 4
Number of foreign directors: 4

iii) NUMBER OF PERSONS BY AGE

Number of directors whose age is:

Under 30 years: 0
30 to 40 years: 0
41 to 50 years: 3
51 to 60 years: 3
61 to 70 years: 2
Over 70 years: 0

iv) NUMBER OF PERSONS BY YEARS OF SERVICE

Number of directors who, as of December 31, 2016, have held the position of director of SQM for:

Less than 3 years:	8
Between 3 and 6 years:	0
More than 6 and less than 9 years:	0
Between 9 and 12 years:	0
More than 12 years:	0

5) B) SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT: DIVERSITY WITHIN EXECUTIVE MANAGEMENT AS OF DECEMBER 31, 2016

i) NUMBER OF PERSONS BY GENDER

Number of female executive officers:	1
Number of male executive officers:	12

ii) NUMBER OF PERSONS BY NATIONALITY

Number of Chilean executive officers:	12
Number of foreign executive officers:	1

5) SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

iii) NUMBER OF PERSONS BY AGE

Number of executive officers whose age is:

Under 30 years: 0
30 to 40 years: 4
41 to 50 years: 5
51 to 60 years: 3
61 to 70 years: 1
Over 70 years: 0

iv) NUMBER OF PERSONS BY YEARS OF SERVICE

Number of executive officers who, as of December 31, 2016, have worked at SQM for:

Less than 3 years:	2
Between 3 and 6 years:	2
More than 6 and less than 9 years:	1
Between 9 and 12 years:	1
More than 12 years:	7

5) C) SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT: DIVERSITY WITHIN THE ORGANIZATION

i) NUMBER OF PERSONS BY GENDER

Total number of female employees: 696
Total number of male employees: 4,055

ii) NUMBER OF PERSONS BY NATIONALITY

Total number of Chilean employees: 4,479
Total number of foreign employees: 272

iii) NUMBER OF PERSONS BY AGE

Total number of employees whose age is:

Under 30 years: 826
30 to 40 years: 1,788
41 to 50 years: 1,293
51 to 60 years: 693
61 to 70 years: 147
Over 70 years: 4

iv) NUMBER OF PERSONS BY YEARS OF SERVICE

Total number of employees who, as of December 31, 2016, have worked at SQM for:

Less than 3 years:	1,931
Between 3 and 6 years:	1,443
More than 6 and less than 9 years:	275
Between 9 and 12 years:	431
More than 12 years:	671

5) SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

5) D) SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT: SALARY GAP BY GENDER

Proportion of the average gross base salary represented by female employees compared to male employees, disclosed according to the type of position:

Position Type	**Hay Methodology Group Level** [1]	**Female Employees (%)**
Administrative	12	108
Manager (Support Area)	17 [2]	N/A
	18	74
	19	107
	20	90
Manager (Sales Area)	20 [2]	N/A
Chief Executive Officer	26 [2]	N/A
Manager (Operations Area)	19 [2]	N/A
	20 [2]	N/A
	21 [2]	N/A
Department Head	13	89
	14	111
	15	101
	16	97
Shift Head and Heads of Other Areas	17[2]	N/A
	14[2]	N/A
	15	133
	16	100
	17 [2]	N/A
Operator	11	103
	12	97
	13	103
Professional	12	103

	13	95
	14	98
	15	96
Senior Professional	14	89
	15	106
	16	146

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5) SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

Position Type	**Hay Methodology Group Level** [1]	**Female Employees (%)**
Superintendent/Deputy Manager	15 [2]	N/A
	16	137
	17	83
	18	92
	19 [2]	N/A
Operations Supervisor	12 [2]	N/A
Technician	12	83
	13	105
Salesperson	13	95
Vice President	21	113
	22 [2]	N/A
	23 [2]	N/A

(1) The Hay Methodology is a system that is used at companies around the world in order to evaluate positions in such a way that they can be compared among companies of different sizes and industries. Group levels are determined on the basis of multiple variables, including company size and the level of responsibility assigned to the position (defined primarily as a function of knowledge, autonomy and responsibility for results).

(2) All employees at this position/group level are men.

6) MANAGEMENT AND PERSONNEL

6) MANAGEMENT AND PERSONNEL

6) A) MANAGEMENT AND PERSONNEL: ORGANIZATIONAL CHART

Organizational Chart

(1) On January 26, 2016, Macarena Briseño was named Comptroller and Corporate Reporting Manager. On the same date, Raúl Puerto was named Internal Audit Manager.
(2) On September 1, 2016, Gonzalo Aguirre was appointed to his current position, replacing Matias Astaburuaga.
(3) On May 18, 2016, Pablo Altimiras, Jose Miguel Berguño, Frank Biot, Pauline De Vidts, Gerardo Illanes, Daniel Jimenez y Ricardo Ramos were appointed to their actual positions.

6) B) MANAGEMENT AND PERSONNEL: INFORMATION ABOUT THE BOARD OF DIRECTORS

i) GENERAL INFORMATION ABOUT THE BOARD OF DIRECTORS

SQM's Board of Directors comprises 8 members, none of which are alternate directors. The entire Board of Directors is regularly elected every three years at our ordinary shareholders' meeting. The Board of Directors may appoint replacements to fill any vacancies that occur during periods between elections. If a vacancy occurs, the entire Board must be elected or re-elected at the next regularly scheduled meeting of shareholders. The last election of the Board of Directors took place at the ordinary shareholders' meeting held on April 26, 2016. On March 22, 2017, Julio Rebolledo D. informed the Board of Directors that he had decided to resign from his position as director of SQM effective April 27, 2017. As a result of his resignation, the entire Board of Directors will be elected at the next Annual Ordinary Shareholders' Meeting on April 28, 2017.

6) MANAGEMENT AND PERSONNEL

ii) IDENTIFICATION OF THE BOARD MEMBERS

Directors as of December 31, 2016:

Name	Title	Profession	Chilean Taxpayer ID	Date of Original Election	Date of Last Reelection
Eugenio Ponce Lerou	Chairman	Chemical and Mechanical Engineer	5.370.715-7	Apr. 2016	N/A
Edward J. Waitzer	Vice Chairman	Lawyer	21.376.788-7	Apr. 2015	Apr. 2016
Joanne L. Boyes	Director	Chartered Professional Accountant	48.188.014-9	Apr. 2015	Apr. 2016
Gonzalo Guerrero Yamamoto	Director	Lawyer	10.581.580-8	Apr. 2016	N/A
Robert A. Kirkpatrick	Director	Lawyer	48.187.982-5	Apr. 2015	Apr. 2016
Hans Dieter Linneberg Arancibia	Director	Economist	8.321.556-9	Apr. 2015	Apr. 2016
Arnfinn F. Prugger	Director	Geoscientist	48.187.981-7	Apr. 2015	Apr. 2016
Julio Rebolledo Díaz	Director	Academic and Consultant	12.587.799-0	Abr. 2016	N/A

Directors not on the Board as of December 31, 2016 but who were on the Board within the last two years:

Name	Title	Profession	Chilean Taxpayer ID	Date of Original Election	Date of Last Reelection	Date Left Board
Wayne R. Brownlee	Vice Chairman	Economist	48.122.174-9	Dec. 2001	Apr. 2013	Mar.2015
Hernán Büchi Buc	Director	Civil Engineer	5.718.666-6	Abr. 1993	Abr. 2015	Abr. 2016
Patricio Contesse Fica	Director	Lawyer	15.315.085-0	Apr. 2013	N/A	Apr. 2015
José María Eyzaguirre Baeza	Director	Lawyer	7.011.679-0	Dec. 2001	Apr. 2013	Mar.2015
Juan Antonio Guzmán Molinari	President	Industrial Chemical Engineer	5.123.918-0	Apr. 2013	N/A	Apr. 2016
Alejandro Montero Purviance	Director	Bachelor of Business Administration	6.939.458-2	Apr. 2013	N/A	Mar.2015

Julio Ponce Lerou	Chairman	Forestry Engineer	4.250.719-9	Sept. 1987	Apr. 2013	Apr. 2015
Wolf Von Appen Behrmann	Director	Entrepreneur	2.884.455-7	May. 2005	Apr. 2015	Apr. 2016

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6) MANAGEMENT AND PERSONNEL

iii) REMUNERATIONS OF THE DIRECTORS

Summary of remunerations paid to members of the Board of Directors between January and December 2016 (in Ch$):

	SQM S.A.								SQMC S.A.	
	Board of Directors		Directors' Committee		Corporate Governance Committee	Safety, Health and Environment Committee	Ad-Hoc Committee		Board of Directors	
Directors	Fixed	Variable	Fixed	Variable	Fixed	Fixed	Fixed	**Total**	Fixed	**Total**
Luis Eugenio Ponce Lerou	62,862,957	-	-	-	-					