

CHEMICAL & MINING CO OF CHILE INC

Form 6-K

September 10, 2004

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 6-K

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

For the six month period ended on June 30, 2004.

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

(Exact name of registrant as specified in its charter)

CHEMICAL AND MINING COMPANY OF CHILE INC.

(Translation of registrant's name into English)

El Trovador 4285, 6th Floor, Santiago, Chile (562) 425-2000

(Address and phone number of principal executive offices)

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

Form 20-F Form 40-F

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

Yes No

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

On August 17, 2004, the Registrant filed with the Superintendencia de Valores y Seguros of Chile (the "SVS") a report that included information as to the Registrant's consolidated financial condition and results of operations for the six-month period ended on June 30, 2004. Attached is a summary of such consolidated financial information included in the summary and in the report filed with the Superintendencia de Valores y Seguros of Chile. This financial information was prepared on the basis of accounting principles generally accepted in Chile and does not include a reconciliation of such information to accounting principles generally accepted in the United States of America.

THIS REPORT IS AN ENGLISH TRANSLATION OF, AND A CHILEAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES PRESENTATION OF, A SIX MONTH PERIOD ENDED JUNE 30, 2004 REPORT FILED WITH THE SUPERINTENDENCIA DE VALORES Y SEGUROS (SVS) IN CHILE, AND UNLESS OTHERWISE INDICATED, FIGURES ARE IN US DOLLARS.

Consolidated Financial Statements

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

As of June 30, 2004 and 2003
and for the years ended June 30, 2004 and 2003
(A translation of the original in Spanish- see note 2 (a))

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Ch\$ □ Chilean pesos

ThCh □ Thousands of Chilean pesos

\$

US\$ □ United States dollars

ThUS\$ □ Thousands of United States dollars

UF □ The UF is an inflation-indexed, Chilean peso-denominated monetary unit. The UF rate is set daily in advance, based on the change in the Consumer Price Index of the previous month.

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Consolidated Statements of Income

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

	Note	As of June 30,	
		2004	2003
		ThUS\$	ThUS\$
ASSETS			
<i>Current assets</i>			
Cash		12,946	14,800
Time deposits		28,126	8,806
Marketable securities	4	31,425	51,489
Accounts receivable, net	5	142,515	119,667
Other accounts receivable, net	5	10,609	8,547
Accounts receivable from related companies	6	35,041	34,931
Inventories, net	7	255,705	227,789
Recoverable taxes		15,595	11,589
Prepaid expenses		4,206	3,578
Other current assets		15,776	11,198
Total current assets		551,944	492,394
<i>Property, plant and equipment, net</i>	8	647,733	683,717
<i>Other Assets</i>			
Investments in related companies	9	83,000	76,755
Goodwill, net	10	12,329	12,962
Negative goodwill, net	10	(373)	(646)
Intangible assets, net		4,588	4,847
Long-term accounts receivable, net	5	7,222	8,094
Long-term accounts receivable from related companies	6	340	380
Other long-term assets	11	53,773	58,105
Total Other Assets		160,879	160,497
Total assets		1,360,556	1,336,608

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Consolidated Statements of Income

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

	Note	As of June 30,	
		2004	2003
		ThUS\$	ThUS\$
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term bank debt	12	102,635	520
Current portion of long-term debt	12	4,577	36,749
Dividends payable		189	253
Accounts payable		51,697	49,346
Other accounts payable		1,571	1,558
Notes and accounts payable to related companies	6	11,301	8,444
Accrued liabilities	13	15,604	12,407
Withholdings		2,399	2,292
Income taxes		2,852	814
Deferred income taxes	14	6,093	2,176
Deferred income		1,279	4,299
Other current liabilities		173	161
Total current liabilities		200,370	119,019
Long-term liabilities			
Long-term bank debt	12	200,000	308,000
Other accounts payable		1,954	2,847
Deferred income taxes	14	31,444	19,999
Staff severance indemnities	15	9,883	9,376
Total long-term liabilities		243,281	340,222
Minority interest	16	27,643	23,178
Shareholders' equity			
Paid-in capital	17	477,386	477,386
Other reserves	17	135,891	127,760
Retained earnings	17	275,985	249,043
Total shareholders' equity		889,262	854,189
Total liabilities and shareholders' equity		1,360,556	1,336,608

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Consolidated Statements of Income

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

	For the years ended	
	June 30,	
	2004	2003
	ThUS\$	ThUS\$
<i>Operating results</i>		
Sales	379,859	324,999
Cost of sales	(298,720)	(260,439)
Gross margin	81,139	64,560
Selling and administrative expenses	(27,326)	(23,966)
Operating income	53,813	40,594
<i>Non-operating results</i>		
Non-operating income	19 7,877	10,475
Non-operating expenses	19 (18,761)	(19,803)
Non-operating loss	(10,884)	(9,328)
Income before income taxes	42,929	31,266
Income tax expense	14 (11,380)	(7,762)
Income before minority interest	31,549	23,504
Minority interest	16 (1,789)	(982)
Net income before negative goodwill	29,760	22,522
Amortization of negative goodwill	10 102	314
<i>Net income for the year</i>	29,862	22,836
	5	

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Consolidated Statements of Income

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

	For the years ended June 30	
	2004	2003
	ThUS\$	ThUS\$
Cash flows from operating activities		
Net income for the year	29,862	22,836
Charges (credits) to income not representing cash flows		
Depreciation expense	8 29,578	30,065
Amortization of intangible assets	119	144
Write-offs and accruals	17,955	10,106
Gain on equity investments in related companies	(4,248)	(3,742)
Loss on equity investments in related companies	12	□
Amortization of goodwill	10 619	529
Amortization of negative goodwill	10 (102)	(314)
(Profit) loss on sales of assets	12	(16)
Other credits to income not representing cash flows	(657)	(963)
Other charges to income not representing cash flows	27,778	15,712
Foreign exchange difference, net	1,969	(3,220)
Net changes in operating assets and liabilities (Increase) decrease:		
Trade accounts receivable	(4,717)	(6,837)
Inventories	(15,278)	11,748
Other assets	(7,979)	5,357
Accounts payable	(3,064)	(7,982)
Interest payable	151	(1,849)
Net income taxes payable	852	(1,481)
Other accounts payable	(2,020)	(802)
VAT and taxes payable	(2,007)	4,105
Minority interest	16 1,789	982
Net cash provided from operating activities	70,624	74,378
Cash flows from financing activities		
Proceeds from short term bank financing	82,998	□
Payment of dividends	(25,275)	(21,288)
Repayment of bank financing	(97,813)	(3,886)
Payment relation chip enter praise	□	(5,274)
Net cash used in financing activities	(40,090)	(30,448)
Cash flows from investing activities		
Sales of property, plant and equipment	606	180
Sales of investments	203	532
Other investing income	22 121	7,293
Additions to property, plant and equipment	(17,056)	(31,187)
Capitalized interest	(748)	(1,371)

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Purchase of permanent investments	(902)	(6,117)
Other disbursements	□	(31)
	<u> </u>	<u> </u>
Net cash used in investing activities	(17,776)	(30,701)
	<u> </u>	<u> </u>
Effect of inflation on cash and cash equivalents	1	(100)
Net change in cash and cash equivalents	12,758	13,229
Beginning balance of cash and cash equivalents	69,273	65,204
	<u> </u>	<u> </u>
Ending balance of cash and cash equivalents	82,032	78,333
	<u> </u>	<u> </u>

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Notes to the Consolidated Financial Statements (A translation of the original in Spanish- see note 2 (a))

Note 1 □ Company Background

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

Note 2 □ Summary of Significant Accounting Policies

a) Basis for the preparation of the consolidated financial statements

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

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

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

In accordance with regulations set forth by the SVS in its Circular No. 1.697 and Technical Bulletins Nos. 64 and 72 of the Chilean Association of Accountants, the consolidated financial statements include the following subsidiaries:

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Notes to the Consolidated Financial Statements
(A translation of the original in Spanish- see note 2 (a))

Note 2 □ Summary of Significant Accounting Policies (continued)**a) Basis for the preparation of the consolidated financial statements (continued)****Direct or indirect ownership**

	2004	2003
	2004	2003
Foreign subsidiaries:	%	%
Nitrate Corp. of Chile Limited (United Kingdom)	100.00	100.00
Soquimich SRL □ Argentina	100.00	100.00
Nitratos Naturais do Chile Ltda. (Brazil)	100.00	100.00
SQM Europe NV (Belgium)	100.00	100.00
SQM North America Corp. (USA)	100.00	100.00
North American Trading Company (USA)	100.00	100.00
SQM Peru S.A.	100.00	100.00
SQM Corporation NV (Dutch Antilles)	100.00	100.00
S.Q.I. Corporation NV (Dutch Antilles)	100.00	100.00
Soquimich European Holding BV (Holland)	100.00	100.00
PTM □ SQM Ibérica S.A. (Spain)	100.00	100.00
SQMC Holding Corporation LLP (USA)	100.00	100.00
SQM Ecuador S.A.	100.00	100.00
Cape Fear Bulk LLC (USA)	51.00	51.00
SQM Colombia Ltda. □	□	100.00
SQM Investment Corporation NV (Holland)	100.00	100.00
SQM Brasil Ltda.	100.00	100.00
Royal Seed Trading Corporation AVV (Aruba)	100.00	100.00
SQM Japan K.K.	100.00	100.00
SQM Oceanía PTY Limited (Australia)	100.00	100.00
SQM France S.A.	100.00	100.00
Fertilizantes Naturales S.A. (Spain)	50.00	50.00
Rs Agro-Chemical Trading AVV (Aruba)	100.00	100.00
SQM Comercial de México S.A. de C.V.	100.00	100.00
SQM Indonesia	80.00	80.00
SQM Virginia LLC (USA)	100.00	100.00
Agricolima S.A. de C.V. (Mexico)	100.00	100.00
SQM Venezuela S.A.	100.00	100.00
SQM Italia SRL (Italy)	95.00	95.00
Comercial Caiman Internacional S.A. (Cayman Islands)	100.00	100.00
Mineag SQM Africa Limited (South Africa)	100.00	100.00
Fertilizantes Olmeca y SQM S.A. de CV (Mexico)	100.00	100.00
Administración y Servicios Santiago S.A. de C.V.	100.00	□
SQM Nitratos México S.A. de C.V.	51.00	□

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Notes to the Consolidated Financial Statements
(A translation of the original in Spanish- see note 2 (a))

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

	Direct or indirect ownership	
	2004	2003
	%	%
Domestic subsidiaries:		
Servicios Integrales de Tránsitos y Transferencias S.A.	100.00	100.00
Soquimich Comercial S.A.	60.64	60.64
Isapre Norte Grande Ltda.	100.00	100.00
Almacenes y Depósitos Ltda.	100.00	100.00
Ajay SQM Chile S.A.	51.00	51.00
SQM Nitratos S.A.	99.99	99.99
Proinsa Ltda.	60.58	60.58
SQM Potasio S.A.	100.00	100.00
SQMC International Limitada	60.64	60.64
SQM Salar S.A.	100.00	100.00
Comercial Hydro S.A.	60.84	60,84

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

As the Company exerts control over the subsidiary Fertilizantes Naturales S.A. it has been included in the consolidation for the period ended June 30, 2004 and 2003.

At June 30, 2004 and 2003, the subsidiary Lithium Specialties LLP was in the development stage and therefore was not included in the consolidation.

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Notes to the Consolidated Financial Statements (A translation of the original in Spanish- see note 2 (a))

Note 2 □ Summary of Significant Accounting Policies (continued)

b) Period

These consolidated financial statements have been prepared as of June 30, 2004 and 2003 and for the years then ended.

c) Reporting currency and monetary correction

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

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

The financial statements of domestic subsidiaries, which maintain their accounting records in Chilean pesos have been restated to reflect the effects of variations in the purchasing power of Chilean pesos during the year. For this purpose, and in accordance with Chilean regulations, non-monetary assets and liabilities, equity and income statement accounts have been restated in terms of year-end constant pesos based on the change in the consumer price index during the year (0.8% and 1.1% in 2004 and 2003, respectively). The resulting net charge or credit to income arises as a result of the gain or loss in purchasing power from the holding of non-U.S. dollar denominated monetary assets and liabilities exposed to the effects of inflation.

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

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Notes to the Consolidated Financial Statements
(A translation of the original in Spanish- see note 2 (a))

Note 2 ☐ Summary of Significant Accounting Policies (continued)

d) Foreign currency

i) Foreign currency transactions

Monetary assets and liabilities denominated in Chilean pesos and other currencies have been translated to U.S. dollars at the observed exchange rates determined by the Central Bank of Chile in effect at each year-end of Ch\$636.30 per US\$1 at June 30, 2004 and Ch\$699.12 per US\$1 at June 30, 2003.

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

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

- a)** For those subsidiaries and affiliates located in Chile which keep their accounting records in price-level adjusted Chilean pesos:
- ☐ Balance sheet accounts are translated to U.S. dollars at the year-end exchange rate without eliminating the effects of price-level restatement.
 - ☐ Income statement accounts are translated to U.S. dollars at the average exchange rate each month. The monetary correction account on the income statement, which is generated by the inclusion of price-level restatement on the non-monetary assets and liabilities and shareholders' equity, is translated to U.S. dollars at the average exchange rate for each month.
 - ☐ Translation gains and losses, as well as the price-level restatement to the balance sheet mentioned above, are included as an adjustment in shareholders' equity, in conformity with Circular No. 1.697 of the SVS.

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.**Notes to the Consolidated Financial Statements
(A translation of the original in Spanish- see note 2 (a))****Note 2 ☐ Summary of Significant Accounting Policies (continued)**

- b)** The financial statements of those foreign subsidiaries that keep their accounting records in currencies other than the U.S. dollar have been translated at historical exchange rates as follows:
- ☐ Monetary assets and liabilities are translated at year-end exchange rates between the US dollar and the local currency.
 - ☐ All non-monetary assets and liabilities and shareholders' equity are translated at historical exchange rates between the US dollar and the local currency.
 - ☐ Income and expense accounts are translated at average exchange rates between the US dollar and the local currency.
 - ☐ Any exchange differences are included in the results of operations for the period.

d) Foreign currency (continued)

Foreign exchange differences for the period ended June 30, 2004 and 2003 generated net earnings (loss) of ThUS\$ (1,969) and ThUS\$ 3,220, respectively, which have been charged to the consolidated statements of income in each respective period.

The monetary assets and liabilities of foreign subsidiaries were translated into US dollars at the exchange rates per US dollar prevailing at June 30, as follows:

	<u>2004</u>	<u>2003</u>
Brazilian Real	3.12	2.88
New Peruvian Sol	3.47	3.47
Argentine Peso	2.96	2.80
Japanese Yen	108.43	119.80
Euro	0.82	0.88
Mexican Peso	11.53	10.42
Indonesian Rupee	9,415.00	8,940.00
Australian Dollar	1.40	1.54
Colombian Peso	☐	2,812.31
Ecuadoran Sucre	1.00	1.00
Pound Sterling	0.58	0.61
Sudafrican Rand	6.85	7.57

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

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Notes to the Consolidated Financial Statements
(A translation of the original in Spanish- see note 2 (a))

Note 2 □ Summary of Significant Accounting Policies (continued)

e) Cash and cash equivalents

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

f) Time Deposits

Time deposits are recorded at cost plus accrued interest.

g) Marketable securities

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

h) Allowance for doubtful accounts

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

i) Inventories and materials

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

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

j) Income taxes and deferred income taxes

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

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Notes to the Consolidated Financial Statements (A translation of the original in Spanish- see note 2 (a))

Note 2 □ Summary of Significant Accounting Policies (continued)

j) Income and deferred taxes (continued)

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

k) Property, plant and equipment

Property, plant, equipment and property rights are recorded at cost, except for certain assets that were restated according to a technical appraisal in 1988. Depreciation expense has been calculated using the straight-line method based upon the estimated useful lives of the assets and is charged directly to expense.

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

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

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

The Company obtains property rights and mining concessions from the Chilean state. Other than minor filing fees, the property rights are usually obtained without initial cost, and once obtained, are retained perpetually by the Company as long as the annual fees are paid. Such fees, which are paid annually in June, are recorded as prepaid assets to be amortized over the following twelve months. Values attributable to these original mining concessions are recorded in property, plant and equipment and are being amortized on a straight-line basis over 50 years.

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Notes to the Consolidated Financial Statements
(A translation of the original in Spanish- see note 2 (a))

Note 2 □ Summary of Significant Accounting Policies (continued)

l) Investments in related companies

Investments in related companies over which the Company has significant influence, are included in other assets and are recorded using the equity method of accounting. Accordingly, the Company's proportional share in the net income or loss of each investee is recognized in the non-operating income and expense classification in the consolidated statements of income on an accrual basis, after eliminating any unrealized profits from transactions with the related companies.

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

m) Goodwill and negative goodwill

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

n) Intangible assets

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

o) Mining development cost

Mining development costs are recorded in other long-term assets and are amortized utilizing the unit of production basis.

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Notes to the Consolidated Financial Statements (A translation of the original in Spanish- see note 2 (a))

Note 2 □ Summary of Significant Accounting Policies (continued)

p) Accrued employee severance

The Company calculates the liability for staff severance indemnities based on the present value of the accrued benefits for the actual years of service worked assuming an average employee tenure of 24 years and a real annual discount rate of 9%.

q) Vacations

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

r) Dividends

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

s) Derivative Contracts

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

t) Reclassifications

Certain reclassifications have been made in the 2003 numbers to conform to the current period presentation.

u) Revenue recognition

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

v) Computer software

In accordance with Circular No. 981 dated December 28, 1990 of the SVS, computer systems acquired by the Company are recorded at cost.

w) Research and development expenses

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

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Notes to the Consolidated Financial Statements
(A translation of the original in Spanish- see note 2 (a))

x) Transactions with buyback agreement

These transactions are recognized under Other Current Assets for the amount paid in the purchase. Beginning on the purchase date the respective interest is recorded in accordance with Circular No. 768 issued by the Chilean Superintendency of Securities and Insurance.

Note 3 □ Changes in Accounting Principles

There were no changes in the accounting principles used by the Company during 2004.

Note 4 □ Marketable Securities

As of June 30 marketable securities are detailed as follows:

	2004	2003
	<u>ThUS\$</u>	<u>ThUS\$</u>
Mutual funds	31,425	51,489
Total	<u>31,425</u>	<u>51,489</u>

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

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Notes to the Consolidated Financial Statements
(A translation of the original in Spanish- see note 2 (a))

Note 5 □ Short-term and long-term Accounts Receivable

a) Short term and long-term accounts receivable and other accounts receivable as of June 30 are detailed as follows:

	Up to 90 days		Between 90 days and 1 year		2004 Subtotal	Total Short-term (net)	
	2004	2003	2004	2003		2004	2003
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Short-term							
Trade accounts receivable	115,517	98,938	12,590	9,971	128,107	128,107	108,909
Allowance for doubtful accounts						(7,187)	(6,200)
Notes receivable	19,238	15,800	5,902	3,450	25,140	25,140	19,250
Allowance for doubtful accounts						(3,545)	(2,292)
Accounts receivable, net						<u>142,515</u>	<u>119,667</u>
Other accounts receivable	8,501	8,399	2,589	928	11,090	11,090	9,327
Allowance for doubtful accounts						(481)	(780)
Other accounts receivable, net						<u>10,609</u>	<u>8,547</u>
Long-term receivables						<u>7,222</u>	<u>8,094</u>

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Notes to the Consolidated Financial Statements
(A translation of the original in Spanish- see note 2 (a))

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

	Chile		Europe, Africa and the Middle East		Asia and Oceania		USA, Mexico and Canada		Latin America and the Caribbean		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Net short-term trade accounts receivable												
Balance	26,381	23,201	27,962	29,308	4,423	2,806	35,488	29,157	26,666	18,237	120,920	102,709
% of total	21.82%	22.59%	23.12%	28.53%	3.66%	2.73%	29.35%	28.39%	22.05%	17.76%	100.00%	100.00%
Net short-term notes receivable												
Balance	16,635	14,622	1,813	537	187	13	477	361	2,483	1,425	21,595	16,958
% of total	77.03%	86.22%	8.40%	3.17%	0.87%	0.08%	2.20%	2.13%	11.50%	8.40%	100.00%	100.00%
Net short-term other accounts receivable												
Balance	3,714	5,274	783	1,089	8	3	5,856	1,838	248	343	10,609	8,547
% of total	35.01%	61.71%	7.38%	12.74%	0.08%	0.04%	55.19%	21.50%	2.34%	4.01%	100.00%	100.00%
Subtotal short-term accounts receivable, net												
Balance	46,730	43,097	30,558	30,934	4,618	2,822	41,821	31,356	29,397	20,005	153,124	128,214
% of total	30.52%	33.61%	19.96%	24.13%	3.02%	2.20%	27.30%	24.46%	19.20%	15.60%	100.00%	100.00%
Long-term accounts receivable, net												
Balance	7,139	6,982	68	68					15	1,044	7,222	8,094
% of total	98.85%	86.26%	0.94%	0.84%					0.21%	12.90%	100.00%	100.00%
Total short and long-term accounts receivable, net												
Balance	53,869	50,079	30,626	31,002	4,618	2,822	41,821	31,356	29,412	21,049	160,346	136,308
% of total	33.60%	36.74%	19.10%	22.74%	2.88%	2.07%	26.08%	23.01%	18.34%	15.44%	100.00%	100.00%

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Notes to the Consolidated Financial Statements
(A translation of the original in Spanish- see note 2 (a))

Note 6 □ Balances and Transactions with Related Parties

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

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

a) Amounts included in balances with related parties as of June 30, 2004 and 2003 are as follows:

	Short-term		Long-term	
	2004	2003	2004	2003
Accounts receivable	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Ajay Europe S.A.R.L.	2,409	4,357	□	□
Nutrisi Holding N.V.	1,584	2,228	□	□
Generale de Nutrition Vegetale S.A.	173	171	□	□
Abu Dhabi Fertilizer Ind. WLL	4,012	4,602	□	□
NU3 N.V.	39	1,137	□	□
Doktor Tarsa □SQM Turkey	3,854	856	□	□
Yara North America	370	□	□	□
Yara Iberian S.A.	1,956	□	□	□
SQM Lithium Specialties Limited	2,550	665	□	□
Empresas Melón S.A.	□	□	340	380
Sales de Magnesio S.A.	66	11	□	□
Ajay North America LLC	138	1,644	□	□
Yara Internacional ASA	□	69	□	□
Yara France	2,560	1,367	□	□
Yara International Asia Trade Pte Ltd	1,080	484	□	□
Yara France S.A.	□	2,097	□	□
Yara Poland SP	903	388	□	□
Yara Benelux B.V	619	585	□	□
Yara Hellas S.A.	795	1,182	□	□
Yara International Australia PTY.	400	396	□	□
Yara UK Ltd.	398	204	□	□
Yara GMBH & CO KG	433	258	□	□
Yara AB	102	51	□	□
Yara Colombia Ltda..	1,408	1,304	□	□
Yara Specialties	□	6	□	□
Yara México S.A. de C.V.	□	1		
Nutrichem Benelux	□	29		
Yara Agri CZECH Republic SRO	11	8		
Yara France BU Africa	72	□		
Rotem Amfert Negev LTD.	□	31		
NU3 B.V.	835	1,164	□	□
Yara Argentina S.A.	334	4,150	□	□
Adubo Trevo S.A.	16	900	□	□
Yara Italia SPA	63	□	□	□
Yara Planta Nutr. Oslo	□	38		
Impronta SRL	7,861	4,548	□	
Total	35,041	34,931	340	380

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Notes to the Consolidated Financial Statements
(A translation of the original in Spanish- see note 2 (a))

Note 6 □ Balances and Transactions with Related Parties (continued)

a) Amounts included in balances with related parties as of June 30, 2004 and 2003, continued:

	Short-term	
	2004	2003
<i>Accounts payable</i>	ThUS\$	ThUS\$
Ajay Europe S.A.R.L.	□	432
Abu Dhabi Fertilizer Ind. WLL	□	94
NU3 N.V.	□	1,544
Rotem Amfert Negev Limited	1,094	1,162
Yara Porsgrunn	□	27
Yara Internacional ASA	103	□
Yara Australia LTD	□	11
Yara North America	□	134
Yara México S.A de C.V.	□	11
Yara Fertilizantes Ltda.	1,412	1,261
Yara France S.A.	369	□
NU3 B.V.	□	57
Adm. y Servicios Santiago S.A. de C.V.	□	81
Yara Benelux B.V.	□	23
Yara France	□	3,556
PCS Yumbes SCM	8,323	51
	<u>11,301</u>	<u>8,444</u>

There were no outstanding long-term accounts payable with related parties as of June 30, 2004 and 2003

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Notes to the Consolidated Financial Statements
(A translation of the original in Spanish- see note 2 (a))

Note 6 □ Balances and Transactions with Related Parties (continued)

b) During 2004 and 2003, principal transactions with related parties were as follows:

Company	Relationship	Type of transaction	Amount of Transaction		Impact on income (charge) credit	
			2004	2003	2004	2003
			ThUS\$	ThUS\$	ThUS\$	ThUS\$
NU3 N.V. (Belgica)	Indirect	Sales of products	3,161	1,022	2,447	628
Doktor Tarsa	Indirect	Sales of products	3,484	952	783	205
Abu Dhabi Fertilizer WLL	Indirect	Sales of products	244	14	1,068	188
Ajay Europe S.A.R.L.	Indirect	Sales of products	2,806	1,236	3,763	1,221
NU3 B.V.	Indirect	Sales of products	2,931	1,387	2,177	814
Ajay North America LLC	Indirect	Sales of products	3,859	1,719	3,656	537
Yara UK Ltd.	Shareholder	Sales of products	696	255	569	152
HydrYara International Asia Trade Pte Ltd..	Shareholder	Sales of products	2,789	656	2,451	485
Yara France S.A.	Shareholder	Sales of products			4,137	876
Yara Benelux B.V.	Shareholder	Sales of products	3,900	967	4,179	703
Yara AB Sweden	Shareholder	Sales of products	548	172		
Yara International Australia Pty Ltd.	Shareholder	Sales of products	701	179	644	170
Yara Iberian S.A.	Shareholder	Sales of products	2,663	615	2,045	407
Yara Colombia Ltda.	Shareholder	Sales of products	1,525	290	1,381	246
Yara Poland SP	Shareholder	Sales of products	1,146	403	697	265
Yara GMBH & Co Kg	Shareholder	Sales of products	900	306	641	167
Yara France	Shareholder	Sales of products	5,444	1,389	1,739	379
Yara Hellas S.A.	Shareholder	Sales of products	803	202	1,119	243
Yara Argentina S.A.	Shareholder	Sales of products	5,607	1,381	4,470	308
Adubo Trevo S.A.	Shareholder	Sales of products	5,303	1,502	3,487	1,179
PCS Yumbes SCM	Shareholder	Sales of products	4,776	2,173	2,867	1,941
		Purchases of products	15,114		8,580	

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Notes to the Consolidated Financial Statements
 (A translation of the original in Spanish- see note 2 (a))

Note 7 □ Inventories

Net inventories are summarized as follows:

	2004	2003
	<u>ThUS\$</u>	<u>ThUS\$</u>
Finished products	149,856	126,147
Work in process	93,633	89,262
Supplies	12,216	12,380
	<u>255,705</u>	<u>227,789</u>
Total	255,705	227,789

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Notes to the Consolidated Financial Statements
(A translation of the original in Spanish- see note 2 (a))

Note 8 □ Property, Plant and Equipment

Property, plant and equipment are summarized as follows:

	2004	2003
	ThUS\$	ThUS\$
Land		
Land	20,003	13,453
Mining Concessions	42,210	49,505
	<hr/>	<hr/>
Total	62,213	62,958
	<hr/>	<hr/>
Buildings and infrastructure		
Buildings	150,420	157,049
Installations	310,050	286,915
Construction-in-progress	28,945	37,570
Other	4,492	919
	<hr/>	<hr/>
Total	493,907	482,453
	<hr/>	<hr/>
Machinery and Equipment		
Machinery	396,601	389,830
Equipment	107,729	102,873
Project-in-progress	11,464	14,603
Other	18,239	14,435
	<hr/>	<hr/>
Total	534,033	521,741
	<hr/>	<hr/>
Other fixed assets		
Tools	7,743	11,583
Furniture and office equipment	14,262	15,933
Project-in-progress	10,001	15,095
Other	7,019	675
	<hr/>	<hr/>
Total	39,025	43,286
	<hr/>	<hr/>

SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Notes to the Consolidated Financial Statements
(A translation of the original in Spanish- see note 2 (a))

Note 8 □ Property, Plant and Equipment (continued)

	2004	2003
	ThUS\$	ThUS\$
Amounts relating to technical revaluation of fixed assets		
Land	8,651	8,651
Buildings and infrastructure	40,627	40,627
Machinery and equipment	12,091	12,109
Other assets	53	53
	<u>61,422</u>	<u>61,440</u>
Total property, plant and equipment	<u>1,190,600</u>	<u>1,171,878</u>
Less: Accumulated depreciation		
Buildings and infrastructure	(198,520)	(173,161)
Machinery and equipment	(283,093)	(257,271)
Other fixed assets	(27,556)	(25,529)
Technical appraisal	(33,698)	(32,200)
	<u>(542,867)</u>	<u>(488,161)</u>
Net property, plant and equipment	<u>647,733</u>	<u>683,717</u>
	2004	2003
	ThUS\$	ThUS\$
Depreciation for the year ended June 30:		
Buildings and infrastructure	(12,989)	(12,468)
Machinery and equipment	(15,138)	(15,929)
Other fixed assets	(806)	(797)
Technical revaluation	(645)	(871)
	<u>(29,578)</u>	<u>(30,065)</u>

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

	2004	2003
	ThUS\$	ThUS\$
Administrative office buildings	2,115	2,081

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Accumulated depreciation	(443)	(401)
	<u> </u>	<u> </u>
Total assets in leasing	1,672	1,680
	<u> </u>	<u> </u>

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SOCIEDAD QUIMICA Y MINERA DE CHILE S.A.

Notes to the Consolidated Financial Statements
(A translation of the original in Spanish- see note 2 (a))

Note 9 □ Investments in and Receivables from Related Parties

a) Information on foreign investments

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

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

b) Transactions executed in 2004

In January 2004, the subsidiary Soquimich European Holding B.V. made a capital contribution of ThUS\$ 475 on its affiliate Misr Specialty Fertilizers.

At the meeting of the shareholders of Empresas Melón S.A. held on February 25, 2004, the shareholders agreed its spin-off in 2 companies, Empresas Melón S.A. and Inmobiliaria San Patricio S.A. As a result, SQM S.A. maintained its ownership of 14.05% in Empresas Melón S.A. and a same ownership percentage was assigned to this entity in the new company.

In April 2004, the subsidiary Soquimich European Holding B.V. increased capital by ThUS\$ 475 in its affiliate Misr Specialty Fertilizers.

c) Transactions executed in 2003

On January 27, 2003, SQM Comercial de México S.A. de C.V. and SQM Nitratos S.A. acquired 8,750 shares of the related company Fertilizantes Olmea y SQM S.A. de C.V. which represented 50% of its share capital. Consequently, Fertilizantes Olmea y SQM S.A. de C.V. became a subsidiary of SQM S.A. This transaction generated goodwill of ThUS\$279.

Subsequently, SQM Nitratos S.A. acquired from SQM Comercial de México S.A. de C.V. 8,749 shares in Fertilizantes Olmea y SQM S.A. de C.V. This transaction did not produce goodwill.

On January 31, 2003, SQM S.A. acquired shares owned by SQM Nitratos S.A. in Sociedad Contractual Minera Antucoya for an amount of ThUS\$ 100. This united all the shares of SCM Antucoya in one shareholder and consequently SCM Antucoya was liquidated and SQM S.A. assumed of all this company's assets and liabilities.

On March 30, 2003, Fertilizantes Olmea y SQM S.A. de C.V. increased its capital by ThUS\$2,000 through the issuance of 165,500 shares, which were subscribed in full by SQM Nitratos S.A. As a result, SQM Nitratos S.A. had an ownership interest of 78.29% and SQM Comercial de Mexico had an ownership interest of 21.71%.

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Notes to the Consolidated Financial Statements
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On March 30, 2003, Soquimich European Holding acquired 50% of the ownership interest of Mineag SQM Africa Ltd. from Ravlin Investment Limited for an amount of ThUS\$990. Consequently, Mineag SQM Africa Ltd. became a subsidiary of SQM S.A. This transaction did not produce goodwill.

On April 28, 2003, SQM Comercial S.A. acquired from Norsk Hydro ASA, 819,999 shares in Norsk Hydro Chile S.A. and SQM Comercial Internacional Ltda., a subsidiary company of SQMC, acquired the one remaining share consequently, SQMC became the sole owner and controlled 100% of Norsk Hydro Chile S.A. This transaction generated goodwill of ThUS\$ 1,429.

On June 30, 2003, SQM Nitratos S.A. acquired the shares owned by SQM S.A. in Sociedad Energía y Servicios S.A. The shares amounted to ThUS\$2,422. This transaction resulted in the consolidation of all the shares of Energía y Servicios S.A. to one shareholder, SQM Nitratos S.A. Consequently under Chilean Corporations Law Energía y Servicios S.A. was dissolved and SQM Nitratos S.A. assumed all its assets and liabilities.

On June 30, 2003, the subsidiaries SQM Virginia LLC and North American Trading Company, made a capital contribution to the subsidiary SQM Lithium Specialties LLP. This capital contribution amounted to ThUS\$ 1,678, in a proportion of 99% and 1% respectively.