



Santiago, September 7, 2005

Chile – Mining

SQM

HOLD

Fertilizing, Growing, Harvesting; Downgrading to Hold

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(09/06/05)

CURRENT PRICE: US\$124.99/Ch\$6,650

TARGET PRICE: US\$121.50/Ch\$7,100

What's Changed

Rating:	From Strong Buy to Hold
Price Target:	Introducing 06YE US\$121.50
Estimates (US\$):	'05 From 244.5 Mn to 255.6 Mn
EBITDA	'06 From 275.3 Mn to 306.2 Mn
	'07 From 296.5 Mn to 331.8 Mn

Company Statistics

Bloomberg	SQM
52-Week Range (US\$)	128.48-43.51
2005E P/E Rel to IPSA (x)	1.21
2005E P/E Rel to Mining (x)	3.06
IPSA (US\$)	3.87
3-Yr CAGR (04-07E)	29.1%
Market Capitalization (US\$ Mn)	3,289.7
Float (%)	51.2
3-Mth Avg Daily Vol (US\$000)	2,258.8
Shares Outst (ADR 10:1)	263.20
Net Debt/Equity (x)	0.31
Book Value per ADR (US\$)	39.81

Estimates and Valuation Ratios

	2004	2005E	2006E	2007E
Net Earn (Ch\$)	41,797	65,401	82,165	87,800
Current EPS	158.8	248.5	312.2	333.6
Net Earn (US\$)	74.2	116.2	146.6	159.8
Current EPADR	2.82	4.42	5.57	6.07
P/E (x)	22.1	28.3	22.4	20.6
P/Sales (x)	2.1	3.5	3.2	3.0
P/CE (x)	12.0	17.8	14.5	13.4
FV/EBITDA (x)	10.0	14.2	11.8	10.9
FV/Sales (x)	2.4	4.0	3.6	3.3
FCF Yield (%)	2.3%	-4.8%	2.9%	3.2%
Div per ADR (US\$)	0.98	3.43	2.87	3.62
Div Yield (%)	1.6%	2.7%	2.3%	2.9%

Sources: Bloomberg, Company Reports, and Santander Investment estimates.

Investment Thesis: We are downgrading SQM from Strong Buy to Hold and introducing a 2006 year-end target price of Ch\$7,100 per share (or US\$121.50 per ADR). We will no longer refer to our 2005 target price of US\$100.00 per share (Ch\$5,700 per share). Even though we still believe that the company will continue to benefit from the expected price increases in its core business (specialty plant nutrients, iodine, and lithium), we point out that the SQM-B stock price has appreciated 74.8% since February and, in our view, the positive outlook for the company is mostly priced in at current levels. SQM-B is currently trading at 11.8 times estimated 2006 FV/EBITDA, above the 10.3 times average of the Chilean market, and trading at a significant premium compared with the 8.5 times historical multiple. While the company's earnings growth potential could justify some premium in the valuations, we also believe that at the current level, the upside potential for SQM's stock is limited.

We are increasing our 2005, 2006, and 2007 EBITDA estimates, incorporating better-than-expected 2Q05 results. For 2005 and 2006, we are increasing our EBITDA estimates from US\$244.5 million to US\$255.6 million and from US\$275.3 million to US\$306.2 million, respectively. We are making these adjustments to reflect an increase in our revenue estimates for the lithium and iodine business, because of higher-than-expected reported average prices. This is partly offset by a decrease in our forecast for the specialty plant nutrition business, due to lower-than-expected volume sales in 2Q05.

Valuation and Risks to Investment Thesis:

- Based on our new estimates, and using a DCF analysis, we are establishing a year-end 2006 target price of Ch\$7,100 per share, or US\$121.50 per ADR, which implies a total expected return of 9.8%, 1.2% below the expected return for the Chilean market in peso terms over the same period. Thus, we are downgrading SQM from Strong Buy to Hold. The main risks to our investment thesis include a different-than-expected pricing scenario for SQM's products, the positive earnings visibility of SQM in the near term, negative effects of a higher-than-expected appreciation of the Chilean peso and potential increases in the cost side because of higher energy costs.

SQM is the world's largest integrated producer of specialty plant nutrients, iodine and lithium carbonate. It is also a producer of industrial chemicals. Its sales are exported to more than 100 countries, supported by an international specialized distribution network.

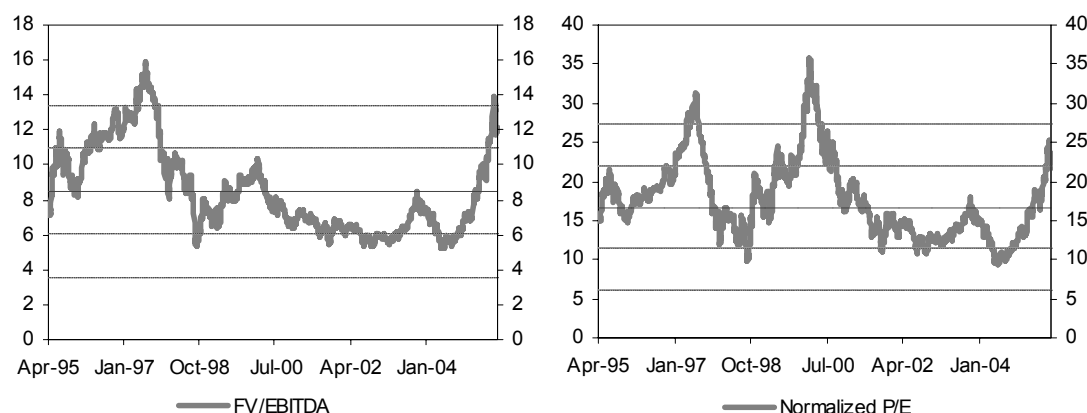
VALUATION

GOOD PROSPECTS ALREADY PRICED IN

SQM stock price has increased 92.8% year to date.

We maintain our view that SQM will continue benefiting from the positive price scenario in its main business; however, since February, the stock price has rallied significantly, which, in our view, indicates that SQM's positive prospects for its main products are currently priced in its stock price (see our February 10 report, *The Desert is Blooming Again*). After the 92.8% YTD increase in SQM-B's stock price (100.9% increase in the ADR price), we believe that the positive scenario for SQM's main products is already reflected in SQM's current valuations. According to our estimates, SQM is currently trading at 2006E FV/EBITDA multiple of 11.8 times, which is slightly above the 10.3 times average for the Chilean market. Using a 12-month prospective FV/EBITDA analysis, SQM is trading at 12.0 times, a 41.8% premium compared with the 8.5 times historical average (since 1995). In terms of 12-month prospective normalized P/E, SQM is currently trading at 21.5 times, a 28.9% premium to the 16.7 times historical average (since 1995). Even though we believe that some premium in the valuations of SQM could be justified, given the expected EBITDA growth of 36.8% and 19.8% for 2005 and 2006, we believe that, at current valuations, the upside potential for SQM's stock price is rather limited.

Figure 1. SQM – Historical Prospective FV/EBITDA and Normalized P/E, 1995-2005E



Sources: Reuters, Bolsa Electrónica de Comercio, Bloomberg, and Santander Investment.

DCF VALUATION

Introducing a 2006 year-end target price of Ch\$7,100 per share.

We are setting a 2006 year-end target price for SQM of Ch\$7,100 per share, which is equivalent to US\$121.50 per ADR (we will no longer be referencing our year end 2005 target price of US\$100 per ADR). Our new target price implies upside potential of 6.8% in Chilean peso terms, which together with the expected 2.8% dividend yield, implies a 9.8% total return. Considering that we expect the Chilean market to post a 10.9% return in Chilean peso terms, we are downgrading SQM from Strong Buy to Hold.

Our new target price of Ch\$7,100 per share is based on a DCF valuation approach. We



forecast and discounted SQM's free cash flow from 2006 (year zero) until 2016, using a weighted average cost of capital (WACC) of 8.5%. Our perpetuity value assumes a 2.0% terminal growth rate. To calculate SQM's WACC, we used a cost of equity of 10.0% and a cost of debt of 6.0%, with a long-term capitalization structure of 70%. The cost of equity was calculated assuming a risk-free rate of 4.72%, based on a yield to maturity of 4.04% of the 10-year U.S. bond and a spread of 67.80 basis points for the Chilean sovereign bond. It also assumes a beta for SQM of 0.96.

Figure 2. SQM – Discounted Cash Flow Valuation, 2006E-2016E (U.S. Dollars in Millions)

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Operating Income	247	275	290	300	308	315	322	328	334	342
Mining Royalties	-5	-5	-6	-6	-6	-6	-6	-6	-6	-6
Post-Royalty Op. Income	242	269	284	294	302	309	315	322	328	335
Taxes on Operating Income	-41	-46	-48	-50	-51	-53	-54	-55	-56	-57
Depreciation	85	88	91	93	94	95	96	97	97	98
Capex	-130	-74	-77	-80	-81	-89	-90	-93	-96	-98
+/- Working Capital	-16	-20	-11	-8	-6	-3	-1	-1	0	-1
Free Cash Flow	140	218	239	249	256	259	266	269	274	278
Discounted FCF 2005	129	185	187	180	171	159	151	140	131	123
Residual Value	1,936									
NPV of Cash Flows, 2005E	3,491									
Minus: (Net Debt + Min Int.)	359									
Plus: Equity Income	62									
Target Market Cap	3,194									
Current Market Cap	3,145									
ADR Target Price (US\$)	121.50									
Share Target Price (Ch\$)	7,100									
Current Share Price (Ch\$)	6,650									
Potential Upside	6.8%									
Dividend Yield 2005E	2.8%									
Expected Return	9.8%									

Sources: Company reports and Santander Investment estimates.

Figure 3. Latam Mining Sector, Comparative Valuations as of September 6, 2005, 2004-2006E

Company	Inv Code	Price	Target	Mkt Cap (US\$ Mn)	P/BV	P/E			EV/EBITDA		
		Sep-6	Price			04E	05E	06E	04E	05E	06E
Caemi	Buy	1.24	1.15	4,858	4.41	16.2	8.5	7.4	8.8	5.3	4.4
Vale do Rio Doce	Buy	31.83	33.50	37,104	3.59	11.0	6.9	6.7	9.7	6.0	5.3
Brazil				41,961	3.67	11.4	7.1	6.8	9.6	5.9	5.2
SQM	Hold	124.99	121.50	3,290	3.14	22.1	28.3	22.4	10.0	14.2	11.8
Chile				3,290	3.14	22.1	28.3	22.4	10.0	14.2	11.8
Buenaventura	Buy	26.57	27.00	3,381	4.32	14.0	16.4	15.7	6.5	7.2	6.8
Southern Peru Copper	Sell	49.61	39.00	7,305	22.39	6.3	6.2	8.3	3.5	4.0	5.0
Peru				10,686	16.67	8.3	7.7	9.8	4.4	4.5	5.3
Latam Mining				55,936	3.39	11.0	7.5	7.5	8.2	5.8	5.3

Companies in bold indicate 2006 target prices. P/BV refers to 2005. All data in U.S. dollars. Sources: Company reports and Santander Investment estimates.

EARNINGS OUTLOOK

We are increasing our revenues estimates in the lithium and iodine business, while reducing our estimates in the specialty plant nutrition business.

Following the report of 2Q05 results, we are slightly increasing our EBITDA estimates for 2005 and beyond on the back of an increase in our estimates for the lithium and iodine business, partly offset by an expected decrease in the specialty plant nutrition business. We are raising our 2005 EBITDA estimate from US\$244.5 million to US\$255.6 million and our 2006 EBITDA estimate from US\$275.3 million to US\$306.2 million on the back of our increase in our revenue forecast for the lithium business. We point out that 1H05 results for that business unit came in significantly above our estimates, mainly because of higher-than-expected average lithium prices. On the other hand, we are decreasing our estimates for the specialty plant nutrition business, mainly due to a reduction in our expectations of volume sales of potassium nitrate because volume sales for the first half of 2005 were below our expectations. On the margin side, we are looking for a higher consolidated operating margin as we expect that lithium will have an increased weight in SQM's sales, that there will be a better composition of the specialty plant nutrition sales mix, and that costs associated with the Argentinean natural gas situation will be lower than previously expected.

Figure 4. SQM – Estimate Revisions, 2005E-2007E (U.S. Dollars in Millions^a)

	2005E			2006E			2007E		
	Previous	Current	Change	Previous	Current	Change	Previous	Current	Change
Revenue	920.2	940.8	2.2%	1004.6	1,032.2	2.7%	1060.7	1,112.2	4.9%
EBITDA	244.5	255.6	4.5%	275.3	306.2	11.2%	296.5	331.8	11.9%
Op. Profit	170.2	187.1	9.9%	194.9	225.4	15.6%	211.6	246.9	16.7%
Op. Margin	18.5%	19.9%	NM	19.4%	21.8%	NM	19.9%	22.2%	NM
Net Income	112.1	116.2	3.7%	128.4	146.6	14.2%	141.5	159.8	12.9%
EPADR	4.26	4.42	3.7%	4.88	5.57	14.2%	5.38	6.07	12.9%

^aExcept per share data. NM not meaningful. Sources: Company reports and Santander Investment estimates.

PRODUCT OUTLOOK: PRICES TO CONTINUE TO GROW

Outlook for product prices for specialty plant nutrition, lithium, and iodine looks positive.

We expect the positive price scenario for SQM's main products to continue in 2005 and 2006. Since 2003, prices of SQM's main products (specialty plant nutrients, lithium, and iodine) have increased significantly, as demand is growing at a higher pace than supply, and the adjustment of this market imbalance has been through prices. On the other hand, because of the improvement in SQM's sales mix, mainly in the specialty plant nutrients business and in lithium, we believe that prices of those products should rise to higher than historical levels. Finally, particularly in the lithium business, we believe that the higher costs of potential competitors' products support additional upside in the product prices.

Figure 5. SQM – Average Prices, 2004-2007E (U.S. Dollars per Ton)

Average Prices	2004	2005E	2006E	2007E
Specialty Plant Nutrients				
Potassium Nitrate and Blended Fertilizers *	330.1	404.1	410.0	405.5
Potassium Sulfate	273.3	325.0	331.5	331.5
Industrial Chemicals				
Industrial Nitrates	343.2	372.7	375.5	373.5
Sodium Sulfate	147.2	137.9	151.7	151.7
Boric Acid	514.3	584.4	601.9	601.9
Iodine and Derivatives	14,350.6	18,537.7	21,194.0	22,760.8
Lithium and Derivatives	1,920.2	2,720.4	3,250.0	3,391.7
Potassium Chloride	175.5	241.5	248.7	256.2

Sources: Company reports and Santander Investment estimates.



SPECIALTY PLANT NUTRITION

Estimates lowered for specialty plant nutrition business due to expected lower volume sales, partly offset by higher average prices.

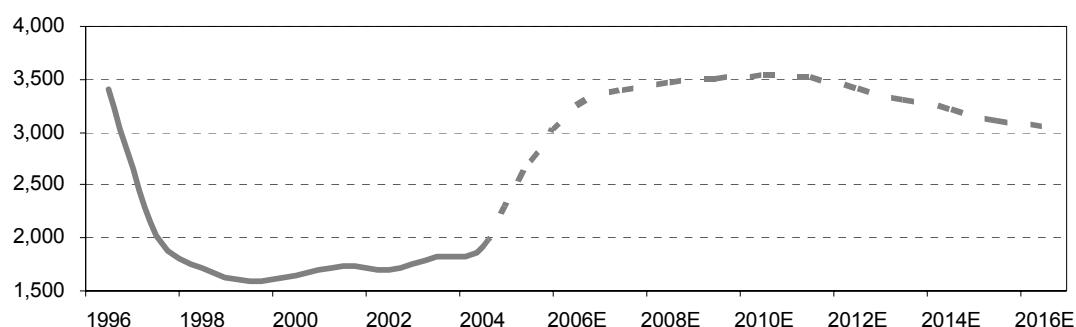
In the specialty plant nutrition business, we are reducing our revenue estimates, mainly because we now expect lower volume sales. In the first half of 2005, volume sales in the specialty plant nutrition business were an average of 10.1% below our estimates, mainly affected by lower sales of sodium potassium nitrate due to freight availability problems. While we believe that volume in the second half will partly offset the decrease in the first part of the year, we now believe that sales volume of potassium nitrate and blended fertilizers will decline 3.5% in 2005, a reversal of our previous estimate of a 3.6% increase. Looking forward, we continue to believe that the announced capacity increases for potassium nitrate will begin in late 2007, and we now expect that they will be fully operational in 2008. The company has not yet announced officially any further capacity expansions after 2008. Meanwhile, we believe that, given the capacity expansion for the blended and soluble fertilizers products, SQM could consider an additional expansion in potassium nitrate in the future. Mainly because of the reduction in our sales volume estimates, we are reducing our revenues estimates from US\$511.6 million to US\$506.1 million for 2005 and from US\$564.0 million to US\$536.4 million in 2006.

As for prices, we are not making any major changes from our previous estimates. We are increasing our forecast for the average price of nitrates products by 2.3% for the 2005-2007 period, as we continue to believe that the tight supply-demand situation for potassium nitrate will continue, at least until 2008. We also expect that the increased weight of more profitable products will increase the average price. Currently, the company has no other major expansion projects for potassium nitrate aside from the 30% capacity increase that which is expected to be finished in the second half of 2007. We continue to believe that this additional capacity expansion in 2007 will put moderate pressure on potassium nitrate prices, and we are looking for 1.5% decline in potassium nitrate prices in the 2007-2008 period. Looking long term, our average price forecast for potassium nitrate is US\$397.8, which is higher than the historical average, as we believe that the specialty plant nutrition product mix will continue improving in the future. We believe that SQM will continue expanding the development of the NPK blends business, which will help improve the company's sales mix and not affect the demand side.

LITHIUM

Sales estimates for the lithium business raised, as price scenario looks better.

Higher-than-expected lithium prices in 1H05, together with what we see an improvement in SQM's cost advantages in this business unit, led us to increase our earnings estimates. In the first half of 2005, SQM's average lithium price was above our estimates: we were expecting the average price to reach US\$2,064 per ton by mid 2005, but the reported figure was US\$2,693 per ton as demand continued to grow, driven by the glass and batteries applications. In addition, supply continues to be limited. Looking at the history of lithium prices, as shown in Figure 6, we believe that there is still upside potential for the price of this products, as we estimate that in 1996, before the entrance of SQM into the business which drove prices down, the average lithium price was US\$3,400 per ton (US\$4.140 per ton in real dollar terms), which is still significantly higher than the current price of US\$2,693 per ton. Therefore, we expect lithium prices to rise to US\$2,720 per ton in 2005 and US\$3.250 per ton in 2006, up from our previous estimates of US\$2,207 and US\$2,317 per ton, respectively. We point out that we do not expect any significant new capacity to come on stream in the near term, and we do not expect any major price elasticity affecting lithium products, as lithium represents a small part of the cost of the products in which it is used. On the back of the increase in the average price of lithium, we are raising our revenue estimates for this business unit from US\$76.6 million to US\$89.6 million in 2005 and from US\$82.8 million to US\$109.1 million in 2006.

Figure 6. SQM – Lithium and Derivatives Prices, 1996-2016E (U.S. Dollar per Ton)

Sources: Company reports and Santander Investment estimates.

We believe that in the lithium business, additional capacity could begin to surface when the average price per ton hits more than US\$4,000. While currently there are some projects for expanding capacity of lithium in Argentina (Salar Rincón) and some potential projects in the Qinhai province in China, those projects are still in early stages. If they finally become operational, they would not imply a structural change in the lithium market, in our view. We estimate that lithium demand could rise to more than 4,000 tons per year in the coming years, but we believe that these projects currently underway or under consideration would take care of no more than 50% of the projected increase in demand. However, we believe that the threat of new entrances into this business and/or capacity increases, rises significantly over the US\$4,000 per ton price level. According to our estimates, at that price level, it would be attractive for some producers of mineral lithium (especially from spodumene concentrates in Australia) to increase their capacity. Looking at 2007 and onward, we believe that the end of a contract between FMC and SQM in 2007 (which we believe includes a considerably lower than current average price), would have a positive effect on SQM's average lithium price. We also believe that SQM's prices will be boosted by an increased presence of lithium derivatives, such as lithium hydroxide and butyl lithium. Looking ahead, we are increasing our long-term estimate of average lithium prices from US\$2,506 per ton to US\$3.046 per ton, reflecting our higher-than-previously expected estimate of the cash costs of lithium mineral producers and our expectations of an improved long-term lithium product mix.

IODINE

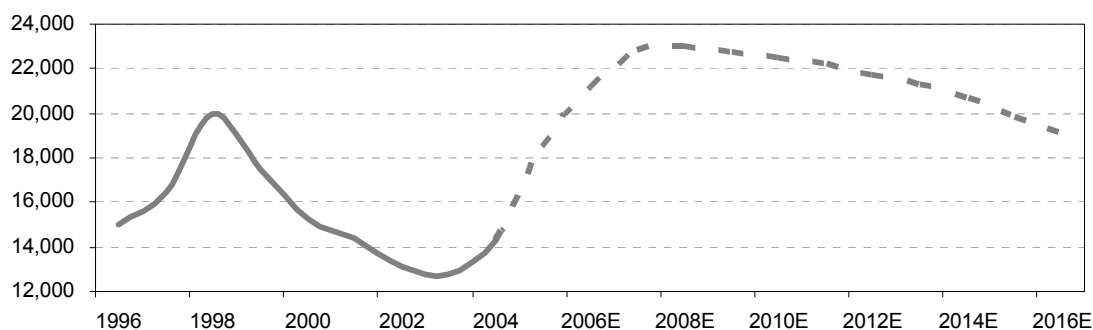
Edging up iodine revenue forecast on expectation of higher prices.

For iodine, we are raising our estimates slightly, as the previously expected capacity expansion announcements have not yet materialized. We estimate that in 1H05, the average iodine price rose 24.3% to US\$17.37 per kilo, as the tight supply/demand situation has continued. Demand continues to be supported by the consumption of x-ray contrast media and biocides, and SQM remains the only major player that has announced capacity increases. On the demand side, with the exception of the biocide uses of iodine (which represent 17% of the iodine market sales), we believe that price elasticity effects are not likely because of the lack of cost-effective substitutes (for nutritional, pharmaceutical, animal feed, and some chemical uses), or because of the relatively low cost of iodine as a part of a the total cost of the applications that use iodine (x-ray contrast media, biocides). Given that iodine prices were in line with our estimates in the first half of 2005, we are only making minor adjustments to our price expectations, from US\$18.13 per kilo to US\$18.54 per kilo in 2005 and from US\$20.14 to US\$21.19 in 2006. We estimate that, looking ahead, prices will be near the 1996-2005 historical maximum, which we estimate was US\$20 per kilo in 2000 (US\$23.80 per kilo in real dollar terms). However, we continue to believe that starting in 2008, iodine capacity increases at SQM, will put pressure on prices, and we are expecting a long-term average iodine price of US\$19.00/kilo. In terms of revenue, we are looking for US\$157.2 million and US\$192.4 in 2005 and 2006, respectively,



increasing from our previous estimates of US\$151.9 million and US\$181.3 million.

Figure 7. SQM – Iodine and Derivatives Prices, 1996-2016E (U.S. Dollars per Ton)



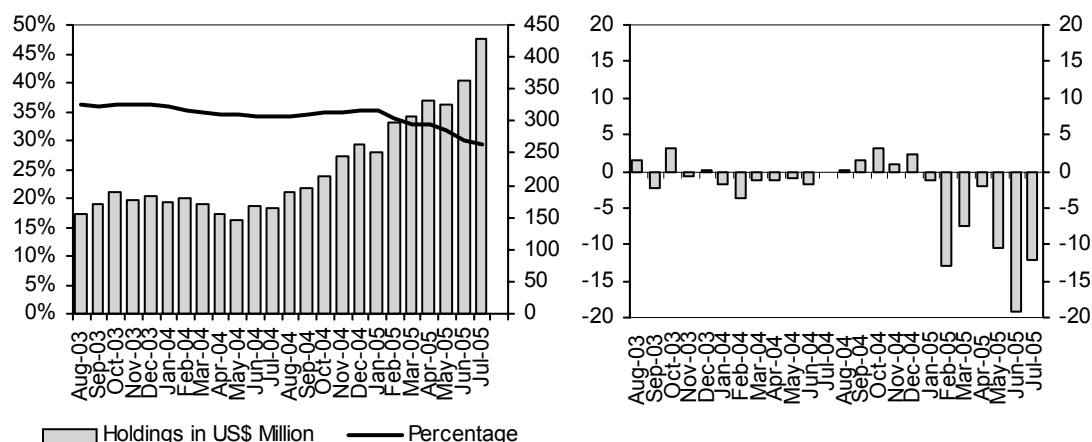
Sources: Company reports and Santander Investment estimates.

Positives	Concerns
<ul style="list-style-type: none">• Positive price scenario in SQM's main products (specialty plant nutrients, iodine, and lithium).• Worldwide leader in its main business.• Lower cost structure compared with its main competitors.• Diversified sales mix and clients.	<ul style="list-style-type: none">• A decrease in demand or a sizeable increase in the supply of lithium, iodine, and/or potassium nitrate could affect SQM's earnings.• Higher energy costs or a stronger peso could affect SQM.• Complicated shareholders structure.

RISKS TO INVESTMENT THESIS

- A different evolution in specialty plant nutrient, iodine, or lithium prices could impact SQM's results.** Unexpected capacity increases by SQM or competitors, as well as changes in the demand trends for SQM's businesses, could affect the company's cash flow. Also, any development of substitute products (for example, the development of fuel cells in the lithium business), new applications (such as additional uses for lithium batteries), or a slowdown in the world economy growth could affect SQM's sales volume. On the other hand, any new applications for SQM's products or unexpected reductions in supply could intensify the upward pressure on prices.
- Positive earnings visibility.** We believe that SQM currently offers attractive earnings growth potential. We are looking for a 36.8% increase the EBITDA generation in 2005 and 19.8% for 2006, which we believe is attractive compared with other companies in the Chilean market. Therefore, we believe the stock could react positively to the next quarterly earnings releases.
- FX and energy cost variations could affect SQM.** We estimate that 22% of SQM's costs are linked to the Chilean peso. In our valuation model, we are including an FX estimate of Ch\$570 per dollar for 2005 and Ch\$585 for 2006, and we estimate that an additional 1% appreciation in the Chilean peso would imply higher costs of US\$1.5 million in 2005 and US\$1.6 million in 2006. Any significant appreciation or depreciation of the Chilean peso could have an important impact on SQM's results. In terms of energy, we estimate that the company pays US\$50 million a year for its energy, including natural gas and diesel. In our estimates we are including a 24% increase in energy costs for 2005 and a 6.3% increase for 2006 because of higher oil prices and potential cuts in the natural gas supply from Argentina. Looking forward, we believe that there is risk of changes in the rates of the electricity and natural gas supply contracts.
- In the last few months, SQM has been one of the major divestitures of the AFPs and one of the largest investments of the ADRs.** According to our estimates, in the last 12 months the AFPs have divested US\$58.3 million of SQM, but that negative flow has been offset by the US\$52.6 million invested by ADR holders and by an estimated significant flow coming from Chilean retail investors. A change in the demand for SQM shares coming from ADR holders and/or retail investors could put pressure on SQM's stock price.

Figure 8. SQM B – AFP Holdings, % of the Company and Monthly Net Investment, July 2005



Sources: Superintendencia de AFP and Santander Investment.



MODEL AND ECONOMIC ASSUMPTIONS

Figure 9. SQM – Revenue Breakdown, 2004-2007E (U.S. Dollars in Millions^a)

Revenues	2004	2005E	2006E	2007E
Specialty Plant Nutrients	422.6	506.1	536.4	583.6
Potassium Nitrate and Blended Fertilizers	379.5	449.1	477.4	524.6
Potassium Sulfate	43.1	57.1	59.0	59.0
Industrial Chemicals	70.9	75.1	76.5	76.3
Industrial Nitrates	62.9	66.9	67.4	67.0
Sodium Sulfate	4.4	4.6	5.3	5.3
Boric Acid	3.6	3.6	3.8	4.0
Iodine and Derivatives	110.5	157.2	192.4	218.0
Lithium and Derivatives	62.6	89.6	109.1	118.7
Potassium Chloride	37.2	36.6	30.2	28.0
Other	84.8	76.3	87.6	87.6
Consolidated Sales	788.6	940.9	1,032.2	1,112.2

Sources: Company reports and Santander Investment estimates.

Figure 10. Chile – Select Economic Projections, 2002-2006F

	2003	2004	2005F	2006F
Real GDP (%)	3.7	6.1	5.8	5.2
CPI Inflation (%)	1.1	2.4	2.8	3.1
US\$ Exchange Rate (Year-End)	593.8	557.4	570.0	585.0
US\$ Exchange Rate (Average)	691.4	609.5	577.2	579.3
Interest Rate (Year-End)	2.3	2.3	4.3	5.3
Interest Rate (Average)	2.7	1.9	3.3	4.8
Fiscal Balance (% of GDP)	-0.8	2.2	2.3	1.8
Current Account Balance (% of GDP)	-1.5	1.6	0.7	-1.0
International Reserves (US\$ Bn)	15.9	16.0	16.0	16.0
Total External Debt (% of GDP)	60.2	49.9	43.6	40.4

Source: Santander Investment historicals and forecasts.

FINANCIAL STATEMENTS

Figure 11. SQM – Income Statement, Balance Sheet, and CF Statement, 2004-2007E
(U.S. Dollars in Millions)

Income Statement	2004	%	2005E	%	2006E	%	2007E	%
Sales	788.5	100.0%	940.8	100.0%	1,032.2	100.0%	1,112.2	100.0%
Cost of Sales	(608.7)	-77.2%	(688.1)	-73.1%	(736.0)	-71.3%	(789.0)	-70.9%
Gross Profit	179.8	22.8%	252.6	26.9%	296.2	28.7%	323.2	29.1%
SG&A Expenses	(55.7)	-7.1%	(65.6)	-7.0%	(70.8)	-6.9%	(76.3)	-6.9%
Operating Profit	124.1	15.7%	187.1	19.9%	225.4	21.8%	246.9	22.2%
Depreciation	(62.7)	-8.0%	(68.5)	-7.3%	(80.9)	-7.8%	(84.9)	-7.6%
EBITDA	186.8	23.7%	255.6	27.2%	306.2	29.7%	331.8	29.8%
Financing Costs	(15.6)	-2.0%	(20.7)	-2.2%	(15.5)	-1.5%	(19.1)	-1.7%
Interest Paid	(18.8)	-2.4%	(18.5)	-2.0%	(24.1)	-2.3%	(23.1)	-2.1%
Interest Earned	3.7	0.5%	5.3	0.6%	4.8	0.5%	4.2	0.4%
Monetary Gain/Loss	(1.7)	-0.2%	(1.6)	-0.2%	(2.1)	-0.2%	(0.2)	0.0%
Forex Exposure	1.2	0.2%	(5.9)	-0.6%	5.9	0.6%	0.0	0.0%
Goodwill Amortization	(1.1)	-0.1%	(1.3)	-0.1%	(1.3)	-0.1%	(1.3)	-0.1%
Other Financial Operations	(5.4)	-0.7%	(10.4)	-1.1%	(10.4)	-1.0%	(10.4)	-0.9%
Profits Related Companies	4.5	0.6%	2.0	0.2%	2.0	0.2%	2.0	0.2%
Profit before Taxes	106.5	13.5%	156.6	16.6%	200.2	19.4%	218.1	19.6%
Tax Provision	(27.3)	-3.5%	(38.8)	-4.1%	(52.4)	-5.1%	(57.1)	-5.1%
Profit after Taxes	79.2	10.0%	117.8	12.5%	147.9	14.3%	161.0	14.5%
Negative Goodwill Amort.	0.2	0.0%	0.2	0.0%	0.2	0.0%	0.2	0.0%
Minority Interest	(5.1)	-0.7%	(1.8)	-0.2%	(1.5)	-0.1%	(1.5)	-0.1%
Net Income	74.2	9.4%	116.2	12.4%	146.6	14.2%	159.8	14.4%
Balance Sheet	2004	%	2005E	%	2006E	%	2007E	%
Assets	1,407.5	100.0%	1,602.6	100.0%	1,658.9	100.0%	1,718.3	100.0%
Current Assets	552.0	39.2%	650.8	40.6%	669.1	40.3%	684.5	39.8%
Cash and Equivalents	83.2	5.9%	76.6	4.8%	76.6	4.6%	76.6	4.5%
Accounts Receivable	192.0	13.6%	210.5	13.1%	220.9	13.3%	229.8	13.4%
Inventories	254.0	18.0%	326.2	20.4%	334.1	20.1%	340.6	19.8%
Other Short-Term Assets	22.8	1.6%	37.5	2.3%	37.5	2.3%	37.5	2.2%
Long-Term Assets	855.4	60.8%	951.7	59.4%	989.8	59.7%	1,033.8	60.2%
Fixed Assets	696.7	49.5%	860.9	53.7%	900.0	54.3%	945.1	55.0%
Inv. In Related Companies	82.5	5.9%	19.3	1.2%	19.3	1.2%	19.3	1.1%
Other Assets	76.2	5.4%	71.6	4.5%	70.5	4.2%	69.3	4.0%
Liabilities	439.8	31.3%	594.3	37.1%	579.6	34.9%	574.4	33.4%
Current Liabilities	140.7	10.0%	244.6	15.3%	229.8	13.9%	224.7	13.1%
S.T. Financial Debt	48.7	3.5%	125.2	7.8%	103.8	6.3%	92.8	5.4%
Other Current Liabilities	92.0	6.5%	119.4	7.4%	126.1	7.6%	131.9	7.7%
L.T. Financial Debt	260.0	18.5%	300.0	18.7%	300.0	18.1%	300.0	17.5%
Other Liabilities	39.1	2.8%	49.7	3.1%	49.7	3.0%	49.7	2.9%
Equity	938.5	66.7%	976.6	60.9%	1,047.7	63.2%	1,112.2	64.7%
Minority Interest	29.1	2.1%	31.7	2.0%	31.7	1.9%	31.7	1.8%
Cash Flow	2004		2005E		2006E		2007E	
Net Income	74.2		116.2		146.6		159.8	
Depreciation	62.7		68.5		80.9		84.9	
Changes in Working Capital	(8.8)		(93.4)		(11.6)		(9.5)	
Non-Cash Items	1.5		8.8		(2.5)		1.5	
Cash Flow from Operations	129.7		100.2		213.4		236.7	
Capex	(90.0)		(250.0)		(120.0)		(130.0)	
Cash Flow	39.7		(149.8)		93.4		106.7	

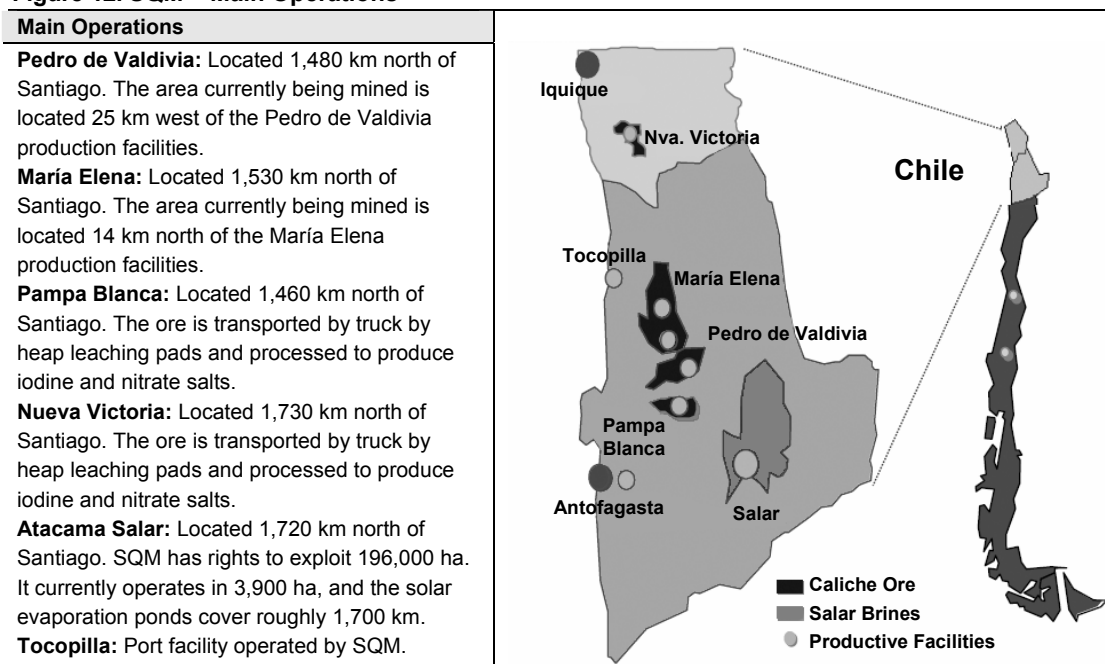
Sources: Company reports and Santander Investment estimates.



APPENDIX A. COMPANY DESCRIPTION

SQM is the world's largest integrated producer of specialty fertilizers, iodine, and lithium carbonate, and it is a producer of a number of industrial chemicals, including industrial nitrates. SQM's products are derived from mineral deposits found in the first and second regions of Chile, where the company mines and processes caliche ore and brine deposits. Caliche ore contains the largest known nitrate and iodine deposits in the world, and it is the world's only commercially exploited source of natural nitrates. The company also operates in Atacama Salar, which is located approximately 250 kilometers east of the city of Antofagasta in the second region in the Atacama Desert, the driest place in the world. Besides operational plants, the company has a worldwide commercial network that allows SQM to sell its products to more than 100 countries.

Figure 12. SQM – Main Operations



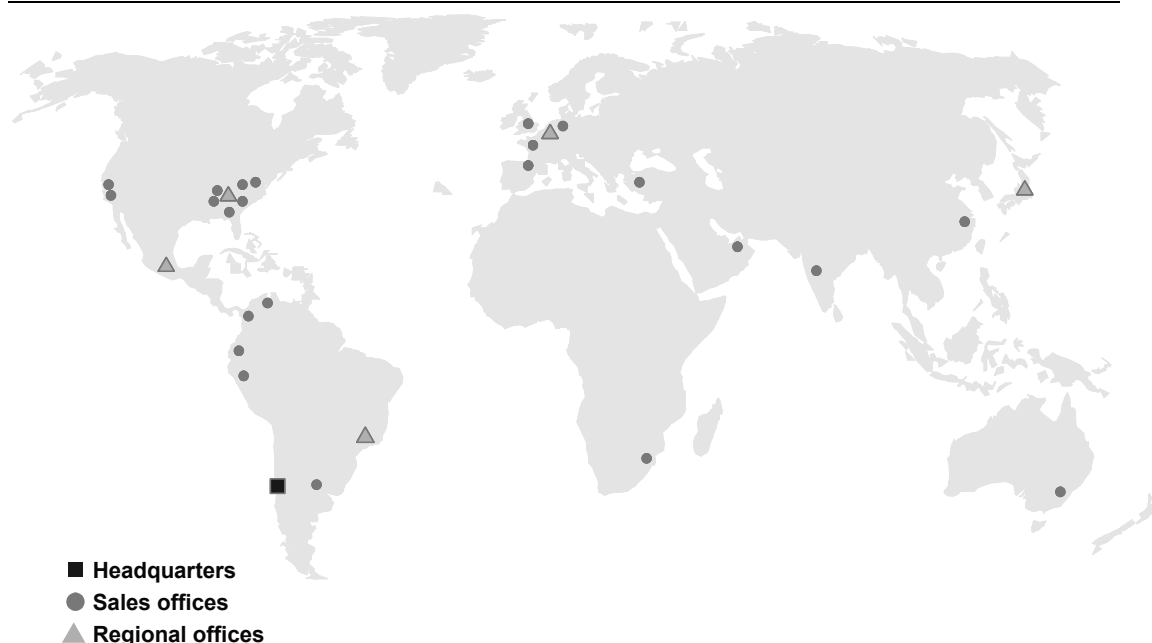
Source: Company reports.

Figure 13. SQM – Reserves and Weighted Average Age of Operation

Mine	Proven Reserves (Millions of Metric Tons)	Probable Reserves (Millions of Metric Tons)	Weighted Average Age (Years)
Caliche Ore			
Pedro de Valdivia	142.4	160.5	12.3
María Elena	154.0	187.4	12.8
Pampa Blanca	65.3	482.2	10.5
Nueva Victoria	37.4	112.2	6.8
Mapocho	4.6	243.3	NA
Soronal	158.9	59.1	NA
Atacama Salar			6.8 (Average)
Potassium	40.3		NA
Sulfate	36.6		NA
Lithium	1.9		NA
Boron	0.7		NA

NA Not available. Source: Company reports.

Figure 14. SQM – Commercial Network



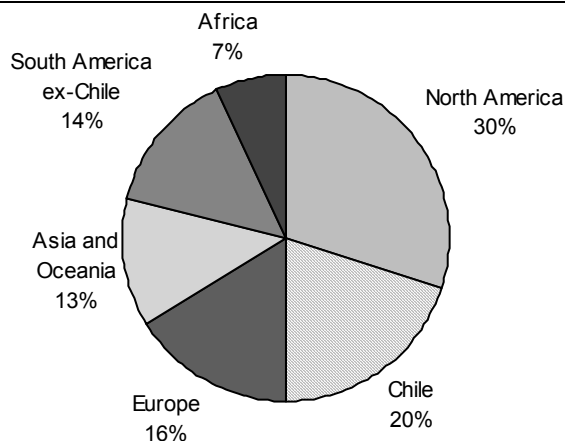
Source: Company reports.

WORLDWIDE LEADER IN ITS CORE BUSINESS

SQM's strategy is focused on consolidating the company's worldwide leadership in its three main businesses: specialty plant nutrients (50% world market share of potassium nitrate), iodine (29% world market share), and lithium (40% of world market share). We estimate that in 2004, these three business units represented 75.5% of SQM's consolidated revenue. To increase its presence in the specialty plant nutrients business, on June 30, 2004, SQM announced a 30% capacity increase in nitrates, from the current 1.0 million tons to 1.35 million tons, which is expected to be finished by mid-2007. Regarding iodine, we expect SQM to maintain its dominant position on the back of its large installed capacity, low production costs, and the financial constraints of its main competitors. As part of the announced capacity increases, the company also stated that it expects to increase its capacity from the current 7,000 tons to 10,000 tons by 2006. In the case of lithium, we expect SQM to maintain its leadership position on the back of its low cost structure. In addition, SQM is developing new value-added lithium-based products with higher margins.



Figure 15. SQM – Geographical Revenue Breakdown



Sources: Company reports and Santander Investment estimates.

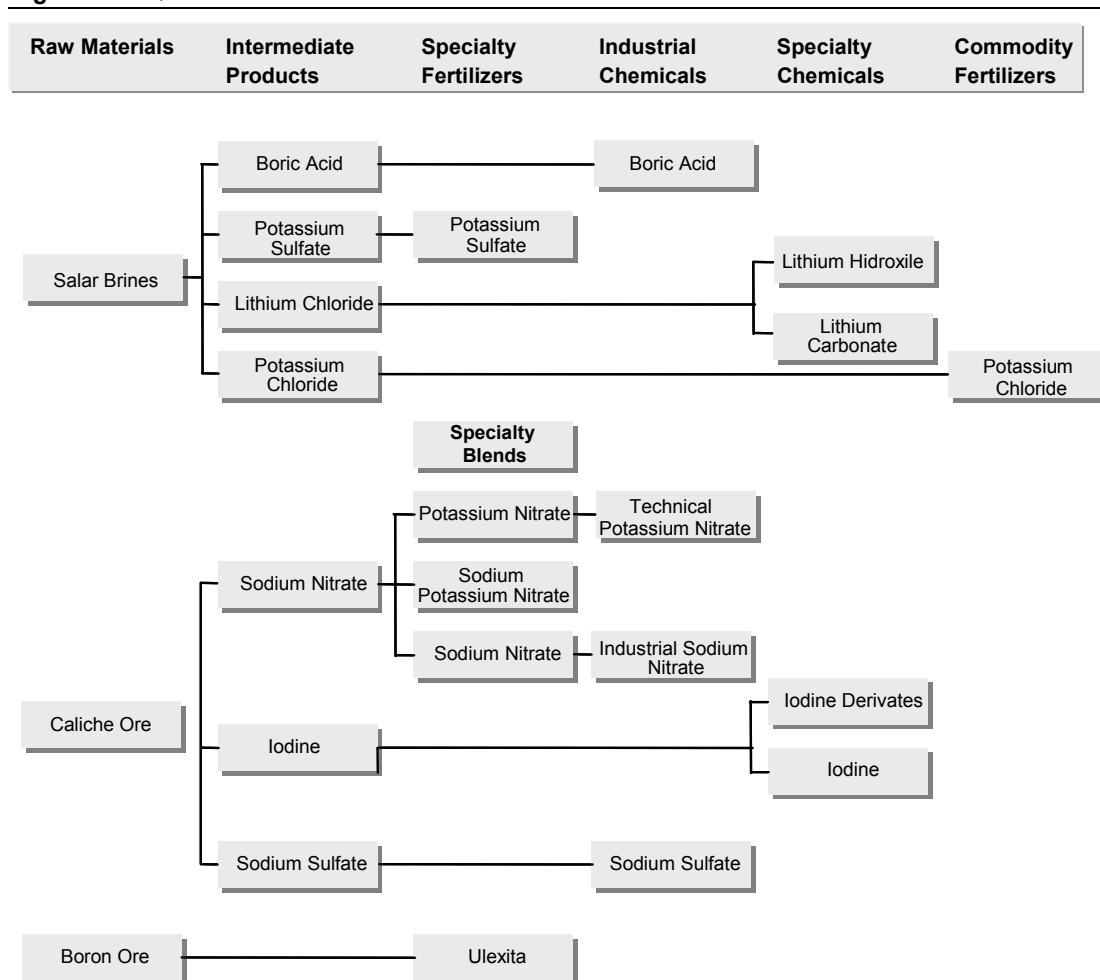
One of SQM's main strengths is its position as a low-cost producer. SQM has one of the largest reserves of iodine and nitrate in the world, together with a concession until 2030 for exploiting the brine deposits of Atacama Salar, which have a higher composition of potassium, lithium, sulfate, and boron. Its unique geographical location allows SQM to maintain one of the lower production costs of potassium nitrate, as it produces it two main raw materials, sodium nitrate (extracted from caliche ore) and potassium chloride (Atacama Salar). The Atacama Salar operations are located in one of the driest places on earth with a remarkable evaporation rate, which allows for lower costs.

SQM's network helps the company to satisfy demand worldwide. SQM sells its products to more than 100 countries through its own distribution network, with warehouses, commercial offices, and mixing plants in more than 20 countries. In addition, SQM has a commercial agreement with Yara (formerly known as Norsk Hydro ASA). This agreement allows SQM to use Yara's distribution network in countries in which SQM does not have a presence and to share logistics and back-office operations.

PRODUCT DESCRIPTION

SQM's products are divided into five main categories: **specialty fertilizers, iodine, lithium, industrial chemicals, and other products**. The specialty fertilizers have particular characteristics that allow them to improve yields and the quality of certain crops. Iodine is used in X-ray contrast media and biocides, as well as in the production of certain chemicals, human nutrition, and other uses. Lithium is used in the production of batteries, air conditioners, glass, grease, frits, and other industrial applications. Industrial chemicals are used in several applications, such as the manufacture of glass, explosives, and ceramics. Other products consist of potassium chloride and other commodity fertilizers that are bought from third parties and are mostly sold in Chile.

Figure 16. SQM – Main Products



Source: Company reports.

SPECIALTY PLANT NUTRIENTS

The specialty plant nutrients business is one of SQM's core businesses, representing **53.6% of the company's consolidated revenue in 2004**. SQM produces five main types of specialty fertilizers – sodium nitrate, potassium nitrate, sodium potassium nitrate, potassium sulfate, and specialty blends – that are used mainly in high-value crops, especially those that use modern agricultural techniques, such as greenhouse, drip irrigation, and hydroponics, due to the



fertilizers' special characteristics: they are chlorine free and water soluble. The company has an estimated 50% of world market share for potassium nitrate, which is its main product. SQM's competitors in potassium nitrate are Haifa Chemicals of Israel, Virgina of Chile, and Kemira of Finland. In potassium sulfate, SQM's main competitors are Kali und Salz, Tesserdelo Chimie, and Great Salt Lake Minerals, from Germany, the Netherlands, and the U.S., respectively.

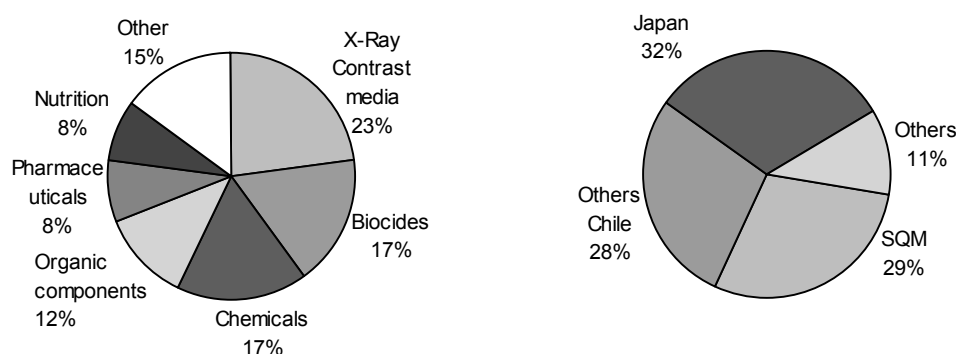
INDUSTRIAL CHEMICALS

In addition to those used for agricultural purposes, SQM produces sodium nitrate and sodium sulfate for industrial use, with different levels of purity. As the difference between sodium nitrate for agricultural uses and those for industrial uses is purity, these kinds of industrial products only need one more step in purification, which allows SQM to shift production from one grade to another depending on market conditions. Also, SQM produces industrial sodium sulfate and boric acid, which are by-products of the production of sodium nitrate and potassium sulfate. These products are used in a wide range of industrial applications, such as glass, ceramics, and explosives, as well as in several chemical processes and metal treatments. SQM is the world's largest producer of industrial sodium nitrate, with an estimated 70% worldwide market share. Its main competitors are BASF of Germany and Mitsubishi of Japan. In addition, SQM's industrial chemicals compete directly with substitute chemical products, such as sodium carbonate, sodium hydroxide, sodium sulfate, calcium nitrate, and ammonium nitrate.

IODINE

SQM has an estimated 29% market share in iodine, with an installed capacity of 7,000 tons per year. Iodine and its derivatives are used in medical, agricultural, and industrial applications. It is also used as a commodity raw material in the production of X-ray contrast media, biocides, antiseptics, pharmaceuticals, and organic compounds, as well as in edible salt to prevent iodine deficiency disorders. SQM obtains its iodine from the Caliche ore region in Chile.

Figure 17. SQM – Iodine: Main Uses and World Market Share



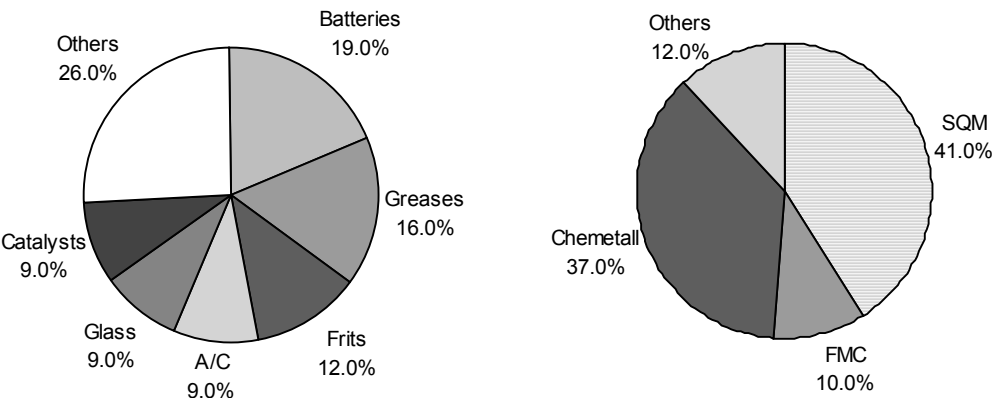
Sources: Company reports and Santander Investment.

LITHIUM

SQM is the world's largest producer of lithium carbonate (Li_2CO_3), with an estimated 41% of worldwide market share. Lithium carbonate is the most important lithium compound, as it is used as a feedstock for other lithium products. Lithium carbonate is used in several applications, such as batteries, greases, frits, air conditioners, and glass, and as a chemical catalyst. In the past years, consumption of lithium batteries has expanded significantly. SQM has a lithium carbonate production capacity of 28,000 metric tons per year, produced from the brines of Salar de Atacama. SQM's main competitors are Chemetall GmbH with operations in the U.S. and in Chile through its subsidiary Sociedad Chilena del Litio, which has a concession to use an estimated 9%

of the total land of Salar de Atacama. Another competitor is FMC Corp., whose lithium division produces lithium metal and organic lithium compounds in the U.S., and which has operations in Salar del Hombre Muerto, Argentina. SQM currently provides lithium carbonate to FMC via a long-term contract. LithChem International has operations in the U.S. and produces lithium carbonate and lithium hydroxide.

Figure 18. SQM – Lithium: Main Uses and World Market Share

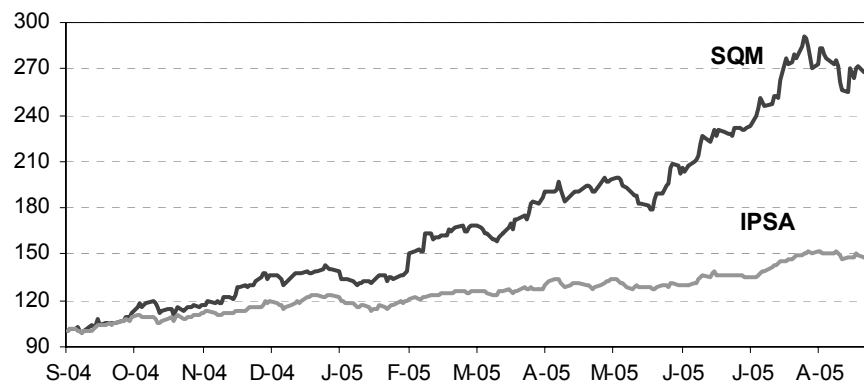


Sources: Company reports and Santander Investment estimates.



IMPORTANT DISCLOSURES

SQM – 12-Month Relative Performance (U.S. Dollars)



Sources: Bloomberg and Santander Investment.

IMPORTANT DISCLOSURES (CONTINUED)

Key to Investment Codes

Rating	Definition	% of Companies Covered with This Rating	% of Companies Provided Investment Banking Services in the Past 12 Months
Strong Buy	Expected to outperform the local market more than 15%.	55.45%	70.00%
Buy	Expected to outperform the local market 5%-15%.		
Hold	Expected to perform within a range of 5% above or below the local market.	29.09%	25.00%
Underperform	Expected to underperform the local market 5%-15%.	15.45%	5.00%
Sell	Expected to underperform the local market more than 15%.		
Under Review			

The numbers above reflect our Latin American universe.

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The benchmark used for establishing Argentina recommendations is our forecast of the year-end Argentina IFCI index.

For the Andean countries, our benchmark is the simple average of the country risk of each country plus the 10 year U.S. T-Bond yield plus 5.5% of equity risk premium. For additional information about our rating methodology, please call (212) 350-3974.

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Grupo Santander receives non-investment banking revenue from the subject company.

Within the past 12 months, Grupo Santander has received compensation for investment banking services from SQM.

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