ELITE PHARMACEUTICALS INC /DE/
Form 10-Q
February 14, 2008

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2007

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period ended to

Commission File Number: 333-45241

ELITE PHARMACEUTICALS, INC.
(Exact name of registrant as specified in its charter)

Delaware	22-3542636
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
165 Ludlow Avenue, Northvale, New Jersey	07647
(Address of principal executive offices)	(Zip Code)

(201) 750-2646
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [x] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]   Accelerated filer [ ]   Non-accelerated filer [x]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
Yes [ ] No [x]

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15 (d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes [ ] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of the common stock, $.01 par value, as of February 13, 2008: 22,494,330 (exclusive of 100,000 shares held in treasury).

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

INDEX

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 2007 (Unaudited)	**March 31, 2007** (Audited)
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,943,479	$ 811,545
Accounts receivable	---	215,837
Prepaid expenses and other current assets	1,157,908	1,119,364
Total current assets	7,101,387	2,146,746
PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization	5,003,414	4,861,601
INTANGIBLE ASSETS - net of accumulated amortization	37,139	42,809
OTHER ASSETS:		
Accrued interest receivable	3,795	949
Deposit on equipment	---	32,880
Investment in Novel Laboratories, Inc.	3,337,162	1,367,768
Security deposits	13,488	6,980
Restricted cash – debt service for EDA Bonds	429,048	414,999
EDA Bond offering costs, net of accumulated amortization of $31,816 and $21,178, respectively	322,636	333,274
Total other assets	4,106,129	2,156,850
Total assets	$ 16,248,069	$ 9,208,006

The accompanying notes are an integral part of the consolidated financial statements.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS’ EQUITY

	December 31, 2007 (Unaudited)	**March 31, 2007** (Audited)
CURRENT LIABILITIES:		
Current portion of EDA Bonds	200,000	185,000
Current portion of long-term debt	9,646	---
Dividends payable	102,222	---
Accounts payable, accrued expenses and other current liabilities	798,207	1,717,458
Total current liabilities	1,110,075	1,902,458
LONG TERM LIABILITIES:		
EDA bonds – net of current portion	3,595,000	3,795,000
Long-term debt, less current portion	44,937	---
Total long-term liabilities	3,639,937	3,795,000
Total liabilities	4,750,012	5,697,458
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS’ EQUITY:		
Preferred Stock -- $.01 par value;		
Authorized 4,483,442 shares (originally 5,000,000 shares of which 516,558 shares of Series A Convertible Preferred Stock were retired) and 0 shares outstanding as of December 31, 2007 and March 31, 2007	---	---
Authorized 10,000 Series B Convertible Preferred Stock - issued and outstanding – 8,410 and 9,695 shares, respectively	84	97
Authorized 20,000 Series C Convertible Preferred Stock issued and outstanding – 19,155 and 0 shares, respectively	192	---
Common Stock - $.01 par value;		
Authorized – 65,000,000 shares		
Issued and outstanding – 22,594,330 shares and 20,799,102 shares respectively	225,943	207,991
Subscription receivable	(75,000)	(75,000)
Additional paid-in capital	90,919,330	66,495,618
Accumulated deficit	(79,265,651)	(62,811,317)
	11,804,898	3,817,389
Treasury stock, at cost (100,000 shares)	(306,841)	(306,841)
Total stockholders’ equity	11,498,057	3,510,548
Total liabilities and stockholders’ equity	$ 16,248,069	$ 9,208,006

The accompanying notes are an integral part of the consolidated financial statements.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED DECEMBER 31,		NINE MONTHS ENDED DECEMBER 31,	
	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUES				
Manufacturing Fees	$ 116,366	$ 209,139	$ 671,239	$ 476,598
Royalties	59,805	22,295	167,728	66,939
Total Revenues	176,171	231,434	838,967	543,537
Costs of Revenues	140,937	---	671,174	---
Gross profit	35,234	231,434	167,793	543,537
COST OF OPERATIONS:				
Research and development	1,560,253	1,681,329	5,394,043	4,306,619
General and administrative	632,133	506,969	1,814,958	1,596,687
Depreciation and amortization	170,266	127,035	459,304	366,105
	2,362,652	2,315,333	7,668,305	6,269,411
LOSS FROM OPERATIONS	(2,327,418)	(2,083,899)	(7,500,512)	(5,725,874)
OTHER INCOME (EXPENSES):				
Interest income	83,201	63,250	310,031	250,515
Sale of New Jersey tax losses	---	377,259	---	377,259
Interest expense	(64,753)	(67,423)	(226,907)	(207,604)
Non-cash compensation through issuance of stock options and warrants	(549,133)	(1,848,876)	(2,125,626)	(2,438,188)
	(530,685)	(1,475,790)	(2,042,502)	(2,018,018)
LOSS BEFORE PROVISION FOR INCOME TAXES	(2,858,103)	(3,559,689)	(9,543,014)	(7,743,892)
Provision for Income Taxes	---	---	(3,120)	(1,000)
Minority Interest in Loss of Novel Laboratories, Inc.	---	5,498	---	5,498
	---	5,498	(3,120)	4,498
Loss before discontinued operations	(2,858,103)	(3,554,191)	(9,546,134)	(7,739,394)
Loss from discontinued operations	---	(10,780)	(2,979,600)	(10,780)
NET LOSS	$ (2,858,103)	$ (3,564,971)	$ (12,525,734)	$ (7,750,174)
Preferred Stock Dividends	(563,552)	(198,209)	(1,543,991)	(597,282)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ (3,421,655)	$ (3,763,180)	$ (14,069,725)	$ (8,347,456)

BASIC AND DILUTED LOSS PER COMMON SHARE	$ (.15)	$ (.19)	$ (.65)	(.43)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	22,262,379	19,881,677	21,536,585	19,520,884

The accompanying notes are an integral part of the consolidated financial statements.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Series B Preferred Stock		Series C Preferred Stock		Common Stock			Additional	Treasury Stock		Ac
	Shares	Amount	Shares	Amount	Shares	Amount	Subscription Receivable	Paid-In Capital	Shares	Amount	
BALANCE AT MARCH 31, 2007 (AUDITED)	**9,695**	**97**	**---**	**---**	**20,799,102**	**207,991**	**(75,000)**	**66,495,618**	**(100,000)**	**(306,841)**	**(6**
Proceeds from Preferred Series C Offering	---	---	20,000	200	---	---	---	19,999,800	---	---	
Conversion of Preferred to Common	(1,285)	(13)	(845)	(8)	937,992	9,380	---	(9,359)	---	---	
Exercise of Stock Options and Warrants	---	---	---	---	280,424	2,804	---	371,701	---	---	
Non-cash compensation through issuance of stock options and warrants	---	---	---	---	---	---	---	2,125,625	---	---	
Beneficial Conversion – Series C Warrants	---	---	---	---	---	---	---	2,384,609	---	---	
Costs associated with Raising Capital	---	---	---	---	---	---	---	(1,576,055)	---	---	
Net loss for the nine months ended December 31, 2007	---	---	---	---	---	---	---	---	---	---	(1
Dividends	---	---	---	---	576,812	5,768	---	---	---	---	
BALANCE AT DECEMBER 31, 2007	**8,410**	**84**	**19,155**	**192**	**22,594,330**	**225,943**	**(75,000)**	**90,919,330**	**(100,000)**	**(306,841)**	**(7**

The accompanying notes are an integral part of the consolidated financial statements .

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	NINE MONTHS END	
	DECEMBER 31,	
	2007	200
	(Unaudited)	(Unaudi
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (12,525,734)	$ (7,750,
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	408,298	366,
Minority Interest in loss of subsidiary	---	4,
Equity in loss of variable interest entity	3,030,606	
Non-cash compensation satisfied by issuance of common stock, options and warrants	2,125,625	2,438,
Changes in assets and liabilities:		
Accounts and interest receivable	212,991	(120,
Prepaid expenses and other current assets	(38,544)	(318,
Security deposit	(6,508)	
Accounts payable, accrued expenses and other current liabilities	(919,251)	(230,
NET CASH USED IN OPERATING ACTIVITIES	(7,712,517)	(5,609,
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(533,803)	(678,
Deposit for manufacturing equipment	32,880	
Deposits to restricted cash	(14,049)	
Release of restricted cash	---	579,
Investment in Novel Laboratories, Inc.	(5,000,000)	
Increase in intangible assets due to patent costs	---	(5,
NET CASH USED IN INVESTING ACTIVITIES	(5,514,972)	(104,
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(308,610)	(34,
Proceeds from issuance of Series C 8% Convertible Stock and Warrants	20,000,000	
Principal repayments NJEDA bonds	(185,000)	(175,
Proceeds - equipment note	58,004	
Principal equipment note payments	(3,421)	
Proceeds from exercise of stock options	61,500	88,
Proceeds from exercise of stock warrants	313,005	
Proceeds from sale of common stock	---	2,000,
Costs associated with raising capital	(1,576,055)	
NET CASH PROVIDED BY FINANCING ACTIVITIES	18,359,423	1,879,
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,131,934	(3,834,
CASH AND CASH EQUIVALENTS — beginning of period	811,545	8,919,
CASH AND CASH EQUIVALENTS — end of period	$ 5,943,479	$ 5,085,
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		

Cash paid for interest	$	163,990	$	207,
Cash paid for income taxes		3,120		1,
SCHEDULE OF NON-CASH FINANCING ACTIVITIES:				
Beneficial Conversion Dividend	$	2,384,609	$	
Preferred stock dividends of $1,133,158 and $593,584 paid by issuance of 576,812 and 278,585 shares of common stock in 2007 and 2006, respectively.		---		
Conversion of 1,285 and 305 shares of Series B Preferred into 572,743 and 136,873 shares of common stock in 2007 and 2006, respectively.		---		
Conversion of 845 shares of Series C Preferred into 365,249 shares of common stock		---		
Cashless exercise of 100,633 warrants into 36,174 shares of common stock		---		

The accompanying notes are an integral part of the consolidated financial statements.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED DECEMBER 31, 2007 AND 2006
(UNAUDITED)

NOTE 1 - <u>BASIS OF PRESENTATION</u>

The information in this Form 10-Q Report includes the results of operations of Elite Pharmaceuticals, Inc. and its consolidated subsidiaries (collectively the Company) including its wholly-owned subsidiaries, Elite Laboratories, Inc. (Elite Labs) and Elite Research, Inc. (ERI) for the nine months ended December 31, 2007 and 2006 and its variable interest entity, Novel Laboratories Inc. (Novel), for the six months ended September 30, 2007. In the quarter ended December 31, 2007, Novel ceased to be a variable interest entity of Elite. Accordingly, the information in this Form 10-Q has been prepared as if Elite divested of Novel as a wholly-owned subsidiary on October 1, 2007 and the operations are being reflected as a discontinued operation. As of December 31, 2007, the financial statements of all wholly owned entities are consolidated and all significant intercompany accounts are eliminated upon consolidation. The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to rules and regulations of the Securities and Exchange Commission in accordance with accounting principles generally accepted for interim financial statement presentation. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the condensed consolidated financial position, results of operations and cash flows of the Company for the periods presented have been included.

The financial results for the interim periods are not necessarily indicative of the results to be expected for the full year or future interim periods.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended March 31, 2007. There have been no changes in significant accounting policies since March 31, 2007.

The Company does not anticipate being profitable for fiscal year 2008; therefore a current provision for income tax was not established for the nine months ended December 31, 2007. Only the minimum corporation tax liability required for state purposes is reflected.

The condensed consolidated unaudited financial statements were prepared on the assumption that the Company will continue as a going concern. The Company's ability to continue is dependent upon its ability to obtain additional financing. There is no assurance that a financing can be completed in the amounts or at the times it is required.

NOTE 2 - <u>NJEDA REFINANCING</u>

On August 31, 2005, the Company successfully completed a refinancing through the issuance of the tax-exempt bonds (the Bonds) by the New Jersey Economic Development Authority (the Authority). The refinancing involved the borrowing of $4,155,000 evidenced by a 6.5% Series A Note in the principal amount of $3,660,000 maturing on September 1, 2030 and a 9% Series B Note in the principal amount of $495,000 maturing on September 1, 2012. The net proceeds, after payment of issuance costs, were used (i) to redeem the outstanding tax-exempt Bonds originally issued by the Authority on September 2, 1999, (ii) refinance other former equipment financing and (iii) for the purchase of certain equipment to be used in the manufacture of pharmaceutical products.

Interest is payable semiannually on March 1 and September 1 of each year. The Bonds are collateralized by a first lien on the Company's facility and equipment acquired with the proceeds of the original and refinanced Bonds. The related Indenture requires the maintenance of a $415,500 Debt Service Reserve Fund consisting of $366,000 from the Series A Bonds proceeds and $49,500 from the Series B Note proceeds. $1,274,311 of the proceeds had been deposited in a short-term restricted cash account to fund the future purchase of manufacturing equipment and development of the Company's facility. As of December 31, 2007, all of these funds have been expended to fund the above.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STAT EMENTS

NINE MONTHS ENDED DECEMBER 31, 2007 AND 2006

(UNAUDITED)

NOTE 3 - **BANK LOAN PAYABLE**

On June 7, 2007, the Company borrowed $3,000,000 at prime minus ½%, from a commercial bank to be used for working capital. Collateral was an assignment of a cash collateral account, in the amount of $3,000,000. The loan was repaid on July 24, 2007. Interest expense was $28,417.

On October 1, 2007, the Company borrowed $58,004 at a 9% interest rate from a commercial bank to be used to pay for transportation equipment, which was collateral for the loan. The loan is to be repaid in 60 installments of $1,180 per month through September 1, 2012. Interest expense through December 31, 2007 was $709.

NOTE 4 - **STOCKHOLDERS EQUITY**

Series B 8% Convertible Preferred Stock

On March 15, 2006, the Company sold in a private placement 10,000 shares of Series B 8% Convertible Preferred Stock (the Series B Preferred Stock), for gross proceeds of $10,000,000. The Series B Preferred Stock is convertible at $2.25 per share, into 4,444,444 shares of common stock, par value $0.01 per share (the Common Stock). In connection with the issuance of the Series B Preferred Stock, the Company also issued two classes of warrants which are exercisable for a period of five years and represent the right to purchase an aggregate of 1,111,111 shares of Common Stock at an exercise price of $2.75 per share and the second class of warrants are exercisable for a period of five years and represent the right to purchase an aggregate of 1,111,111 shares of Common Stock at an exercise price of $3.25 per share. Based on the relative fair values, the Company has attributed $2,033,029 of the total proceeds to the warrants and has recorded the warrants as additional paid-in capital. The remaining portion of the proceeds of $7,966,971 was used to determine the value of the 4,444,444 shares of the Company Common Stock underlying the Series B Preferred Stock, or $1.7925 per share. Since the value was $0.4774 lower than the fair market value of the Companys Common Stock on March 15, 2006, the $2,121,917 intrinsic value of the conversion option resulted in the recognition of a preferred stock dividend and an increase to additional paid-in capital.

Series C 8% Convertible Preferred Stock

On April 24, 2007, the Company sold 15,000 shares of its Series C 8% Convertible Preferred Stock, par value $0.01 (the Series C Preferred Stock), and 1,939,655 warrants for gross proceeds of $15,000,000. The 15,000 shares of Series C Preferred Stock are convertible into 6,465,517 shares of Common Stock. The warrants are exercisable at $3.00 per share and are exercisable through April 27, 2012. The Company paid $1,050,000 in commissions to the placement agent and others in connection with the sale of the Series C Preferred Stock. In addition, the Company granted the placement agent 193,965 warrants exercisable at $3.00 per share which were valued at $129,627. The gross proceeds of the private placement were $15,000,000 before payment of $1,050,000 in commissions to the placement agent and selected dealers. In addition, the Company agreed to reimburse the placement agent for all documented out-of-pocket expenses incurred by the placement agent in connection with the private placement, including reasonable fees and expenses of its counsel, which the Company and placement agent agreed to be limited to $25,000. Based on the relative fair values, the Company has attributed $1,182,101 of the total proceeds to the warrants and has recorded the warrants as additional paid-in capital. The remaining portion of the proceeds of $13,817,899 was used to determine the value of the 6,465,517 shares of the Company Common Stock underlying the Series C Preferred Stock, or $2.1372 per share. Since the value was $0.1628 lower than the fair market value of the Companys Common Stock on April 24, 2007, the $1,052,790 intrinsic value of the conversion option resulted in the recognition of a preferred stock dividend and an increase to additional paid-in capital.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STAT EMENTS
NINE MONTHS ENDED DECEMBER 31, 2007 AND 2006
(UNAUDITED)

NOTE 4 - STOCKHOLDERS EQUITY

Series C 8% Convertible Preferred Stock (Continued)

On July 17, 2007, the Company sold the remaining 5,000 authorized shares of its Series C Preferred Stock. Each share of Series C Preferred Stock was sold at a price of $1,000 per share and is initially convertible at $2.32 into 431.0345 shares of the Companys Common Stock, or an aggregate of 2,155,172 shares of Common Stock. Each purchaser of Series C Preferred Stock also received a warrant to purchase shares of the Companys Common Stock in an amount equal to 30% of the aggregate number of shares of Common Stock into which the shares of Series C Preferred Stock purchased by such purchaser may be converted. The warrants are exercisable on or before July 17, 2012 and represent the right to purchase an aggregate of 646,554 shares of Common Stock, at an exercise price of $3.00 per share. The lead placement agent for the offering was Oppenheimer & Company, Inc. The gross proceeds of the private placement were $5,000,000 before payment of $350,000 in commissions to the placement agent and its selected dealers and $18,000 in expenses incurred by the placement agent and its selected dealers. Pursuant to the placement agent agreement, the Company issued to the placement agent and its designees warrants (the "Placement Warrants") to purchase 64,655 shares of Common Stock. Such Placement Warrants are at an exercise price of $3.00 per share, exercisable on or prior to July 17, 2012. The Company received net proceeds from the sale of the Series C 8% Preferred Stock of $4,631,500. Based on the relative fair values, the Company has attributed $534,407 of the total proceeds to the warrants and has recorded the warrants as additional paid-in capital. The remaining portion of the proceeds of $4,465,593 was used to determine the value of the 2,155,172 shares of the Company Common Stock underlying the Series C Preferred Stock, or $2.0720 per share. Since the value was $0.6180 lower than the fair market value of the Companys Common Stock on July 17, 2007, the $1,331,819 intrinsic value of the conversion option resulted in the recognition of a preferred stock dividend and an increase to additional paid-in capital.

The Company sought and obtained the consent of 70% of the holders of its Series B Preferred Stock (the *Series B Consent*), as a condition to the sale of the Series C Preferred Stock, to modify to the Series B Certificate and to the creation of the Series C Preferred Stock.

The holders of the Series B Preferred Stock consented to (i) the filing of the Amended Certificate of Designations of Preferences, Rights and Limitations of the Series B Preferred Stock (the Amended Series B Preferred Certificate) with the Secretary of State of the State of Delaware, which, inter alia, (a) provides for group voting by and among the holders of the Series B Preferred Stock and the holders of the Series C Preferred Stock, and (b) extends the date on which the cumulative dividend rate increases from 8% to 15% from March 16, 2008 to April 24, 2009; and (ii) the authorization, creation, offering and issuance of the Series C Preferred Stock. On April 24, 2007, pursuant to the authority of its Board of Directors, Company filed with the Secretary of State of Delaware the Amended Series B Preferred Certificate.

In consideration for the Series B Consent, (i) the Company agreed to extend the expiration date of certain warrants issued to each holder of Series B Preferred Stock at the time of the original issuance of the Series B Preferred Stock from March 16, 2011 to March 16, 2012; and (ii) each of Midsummer Investment, Ltd. and Bushido Capital Master Fund, LP (each, a Principal Holder), as the holders of the largest number of the currently outstanding shares of Series B Preferred Stock, were granted a covenant by the Company pursuant to which, so long as each Principal Holder continues to hold at least 20% of the then outstanding Series B Preferred Stock, the Company will not take any action which requires the consent of at least 70% of the holders of the Preferred Stock, unless each Principal Holder consents to such action.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STAT EMENTS
NINE MONTHS ENDED DECEMBER 31, 2007 AND 2006
(UNAUDITED)

NOTE 4 - **STOCKHOLDERS EQUITY** (Continued)

Common Stock

During the nine month period ended December 31, 2007, holders of 1,285 shares of Series B 8% Preferred Stock converted their shares and accrued dividends through the date of conversion into 572,743 shares of Common Stock.

During the nine month period ended December 31, 2007, holders of 845 shares of Series C 8% Preferred Stock converted their shares into 365,249 shares of Common Stock. Accrued cash dividends were paid through date of conversion.

During the nine month period ended December 31, 2007, holders of 203,250 warrants exercised their warrants into 203,250 shares of Common Stock by contributing $313,005 in cash.

During the nine month period ended December 31, 2007, there were cashless exercises of 100,633 warrants issued in our October 2004 Private Placement, which resulted in the issuance of 36,174 shares of Common Stock.

During the nine month period ended December 31, 2007, 50,000 warrants issued in 2004 expired.

On April 20, 2007, $61,500 was received from the exercise of stock options previously granted to purchase 41,000 shares of Common Stock at $1.50 per share.

During the nine month period ended December 31, 2007, 1,201,000 stock options were either forfeited or expired.

Dividends accrued on Series B Preferred Stock through December 31, 2007, amounting to $547,220, were satisfied by the issuance of 270,215 shares of Common Stock.

Dividends accrued on Series C Preferred Stock through December 31, 2007, amounting to $994,826, were satisfied by the issuance of 306,597 shares of Common Stock and payment of $408,889 in cash.

Options and Warrants

At December 31, 2007, the Company had outstanding 5,470,500 options with exercise prices ranging from $1.50 to $3.00 per share and 9,216,736 warrants with exercise prices ranging from $1.23 to $3.74 per share; each option and warrant representing the right to purchase one share of Common Stock.

NOTE 5 - **COMMITMENTS AND CONTINGENCIES**

Consulting Agreements

On July 27, 2007, the Company entered into a consulting agreement with Willstar Consultants, Inc. (Willstar) for advice pertaining to overall strategic planning, business opportunities, acquisition policy investment and banking relationships and stockholder matters. The term of the agreement is for 120 days at a fee of $50,000. In addition Willstar received 90,000 non-qualified stock options, which vest over a three year period from the time of grant. These options are exercisable at $2.50 per option. Expenses incurred under this agreement amounted to $50,000 for the nine months ended December 31, 2007.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED DECEMBER 31, 2007 AND 2006

(UNAUDITED)

NOTE 5 - **COMMITMENTS AND CONTINGENCIES** (Continued)

Consulting Agreements (Continued)

On September 4, 2007, the Company entered into a consulting agreement with Bridge Ventures, Inc. ("BVI"), and Saggi Capital, Inc. ("SCI") relating to the introduction of potential contacts and investors, the attraction of investment capital and providing investor relations services and to generate investor interest in the Company. The term of the agreement is for a period of 180 days for a fee of $10,000 per month. In addition, each of BVI and SCI received five-year warrants to purchase 75,000 shares of Common Stock at $3.25 exercise price. Expenses incurred under this agreement amounted to $80,000 for the nine months ended December 31, 2007.

Alliance Agreement

On December 6, 2006, the Company entered into a Strategic Alliance Agreement (the "*Alliance Agreement*") with Dr. Veerappan S. Subramanian ("*VS*") and VGS Pharma, LLC, a Delaware limited liability company ("*VGS*"), under which (i) VS was appointed to the Company's Board of Directors, (ii) VGS made a $2,000,000 equity investment in the Company, (iii) VS was engaged to serve as strategic advisor on the research, development and commercialization of the Company's existing pipeline, (iv) the Company and VGS formed Novel Laboratories Inc., a Delaware corporation ("*Novel*"), as a separate specialty pharmaceutical company for the research, development, manufacturing, licensing and acquisition of specialty generic pharmaceuticals, and (v) the Company contributed $2,000,000 to Novel and agreed to make additional contributions.

Pursuant to the Alliance Agreement, Novel entered into an employment agreement with VS and the Company entered into (i) an Advisory Agreement with VS, (ii) a Registration Rights Agreement with VGS and VS, and (iii) a Stockholders Agreement with VS, VGS and Novel.

The Company initially contributed $2,000,000 to Novel and made additional contributions of $5,000,000 through September 30, 2007. Subsequent to the entry into the Alliance Agreement, the Company and VGS agreed that the performance milestones relating to the funding of the Company's remaining $20,000,000 of cash contributions would be as follows: (i) $10,000,000 upon the submission to the FDA of three abbreviated new drug applications (ANDAs) related to three different prospective products developed by Novel and (ii) $10,000,000 upon the submission to the FDA of three ANDAs related to at least three additional different prospective products developed by Novel. In October 2007, the Company was notified by Novel of the submission to the FDA of its third ANDA and, pursuant to the terms of the Alliance Agreement, the Company requested and received, in November 2007, written evidence verifying that such ANDA filings related to prospective products developed by Novel.

The Company elected not to fund its remaining contributions to Novel upon the terms set forth in the Alliance Agreement because (i) it recently reached agreement with the Food and Drug Administration under a Special Protocol Assessment on the Phase III clinical trial of ELI-216, the Company's Abuse Deterrent Oxycodone product and determined that its funds would be better used to support the clinical trials for ELI-216 and (ii) the Company determined it would utilize its rights to participate in future equity investment in Novel instead of investing at the valuation set forth under the Alliance Agreement.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED DECEMBER 31, 2007 AND 2006
(UNAUDITED)

NOTE 5 - **COMMITMENTS AND CONTINGENCIES** (Continued)

Alliance Agreement (Continued)

The Company and VGS negotiated alternative structures that would permit investments by the Company at valuations which differed from those set forth in the Alliance Agreement, however VGS and the Company were unable to agree upon an alternative acceptable to both parties. Accordingly, upon the Company's determination not to fund its remaining contributions to Novel at the valuation set forth in the Alliance Agreement, VGS exercised its rights pursuant to the Stockholders Agreement to purchase from the Company, its shares of Class A Voting Common Stock of Novel proportionate to the amount of remaining contributions which were not funded by the Company. As a result, the Company's remaining ownership interest in Class A Voting Common Stock of Novel is approximately 10% of the outstanding shares of Class A Voting Common Stock of Novel. The Company intends to rely upon its subscription rights in order to maintain its ownership in Novel and to determine, on an offering by offering basis, whether the valuation ascribed to Novel is appropriate for additional investments by Registrant.

Advisory Agreement - VS

The Advisory Agreement obligates VS to provide advisory services to the Company, including but not limited, to assist in the implementation of current and new drug product development projects of the Company and assisting in the Company's recruitment of additional R&D staff members. As an inducement to enter into the agreement, the Company granted VS a non-qualified stock option to purchase up to 1,750,000 shares of Common Stock (the "Option Shares") at a price of $2.13 per share. The option vests in 250,000 share installments, the first immediately, the second on May 6, 2007, the third on December 6, 2007, the fourth upon the Company's acceptance of the Initial Business Plan of Novel, and the other installments vesting on the accomplishment of certain milestones with respect to the first or second drug product developed by the Company (excluding drug products of Novel) on or after February 4, 2007, under the advisory services provided to the Company. The option terminates on December 6, 2016, or 90 days following a termination of his advisory services to the Company or his employment by Novel other than a termination without Cause or by VS for Good Reason or 48 months after the termination of his advisory services under the Advisory Agreement or his employment under the employment agreement as a result of: (i) a termination by the Company of the Advisory Agreement or by Novel of the employment agreement without Cause or by VS without Good Reason or (ii) the post-December 6, 2007, termination of the term of the Advisory Agreement or of the Novel employment agreement.

All unvested options terminate upon the termination of the Advisory Agreement (other than a termination by the Company without Cause or by VS for Good Reason) or at such time as the Company and its permitted transferees own in the aggregate less than 20% of the outstanding capital stock of Novel, except to the extent the Company at its sole discretion has determined that VS has provided substantial contribution to the development of any drug product which would otherwise trigger the vesting of options notwithstanding the failure to satisfy the foregoing 20% threshold.

Effective July 10, 2007, the Acquired Company Shares, the Option Shares and Warrant Shares were registered for reoffering under the Securities Act of 1933, as amended (the "Act").

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED DECEMBER 31, 2007 AND 2006
(UNAUDITED)

NOTE 5 - **COMMITMENTS AND CONTINGENCIES** (Continued)

Employment Agreements

On January 3, 2008, the Company entered into an employment agreement with Dr. Stuart Apfel (the Employment Agreement) providing for Dr. Apfel to serve as the Companys Chief Medical Officer through January 3, 2009 and automatically renewable for one year periods thereafter unless terminated by Dr. Apfel or the Company upon at least 60 days notice prior to the end of the then scheduled expiration date.

Dr. Apfel has an annual base salary of $220,000 and will be entitled to a discretionary bonus following the end of each calendar year of up to 50% of Dr. Apfels then annual base salary.

Additionally, the Company has granted to Dr. Apfel under the 2004 Plan fully vested options to purchase 120,000 shares of Common Stock at an exercise price of $1.75 per share.

The Company has granted to Dr. Apfel under the 2004 Plan options to purchase up to an additional 280,000 shares of Common Stock (Milestone Options) at an exercise price of $1.75 per share. Such Milestone Options vest and become exercisable as follows: (A) 80,000 shares upon the successful completion, as determined by the Board, of a Company sponsored Phase III clinical trial of the Companys developmental drug product referred to as ELI-216; (B) 80,000 shares upon the successful completion, as determined by the Board, of a Company sponsored Phase III clinical trial of the Companys developmental drug product referred to as ELI-154; (C) 80,000 shares upon the successful completion, as determined by the Board, by the Company during the term of the Employment Agreement of a Company sponsored long-term safety study for the Companysdevelopmental drug product referred to as ELI-216; and (D) 40,000 shares upon the closing of an exclusive product license for the United States national market, or product sale transaction of all of the Companys ownership rights, for either ELI-216 or ELI-154. Upon the earlier to occur of (x) January 3, 2017 and (y) the termination of Dr. Apfels employment hereunder, all unvested Milestone Options granted shall automatically terminate and all vested but unexercised Milestone Options shall terminate to the extent unexercised within ninety (90) days of such date and in accordance with the terms of the stock option agreement by and between Dr. Apfel and the Company with respect to the Milestone Options and the 2004 Plan. The shares of Common Stock issuable upon exercise of the Milestone Options are subject to an effective registration statement filed with the Securities and Exchange Commission.

Leases

On July 15, 2005, the Company entered into a lease for two years commencing on July 1, 2005 for part of a one-story warehouse to be used for the storage of finished and raw material of pharmaceutical products and equipment. The lease had a renewal option, which was exercised to rent the property through July 1, 2008 at a rental of $3,071 per month.

On June 21, 2007, the Company entered into an additional lease for two years commencing on August 1, 2007 for additional storage space. Monthly rental expense is $2,709 payable in advance plus prorated common area maintenance costs. The lease has a 3 year renewal option.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED DECEMBER 31, 2007 AND 2006

(UNAUDITED)

NOTE 6 - SUBSEQUENT EVENTS

On January 3, 2008, the Company entered into an employment agreement with Dr. Stuart Apfel as its Chief Medical Officer (see Note 5).

On January 3, 2008, the Company announced that it did not fund its remaining contributions to Novel upon the terms set forth in the Alliance Agreement which resulted in the repurchase of a portion of its shares of Class A Voting Common Stock in Novel. (see Note 5).

On January 3, 2008, the Company issued 99,341 of its common shares as a dividend on its Series B Preferred Shares to holders of record on January 1, 2008.

On January 3, 2008, the Company issued 167,205 of its common shares and paid cash of $102,222 as a dividend on its Series C Preferred Shares to holders of record on January 1, 2008.

On January 24, 2008, the Company's Board of Directors granted an aggregate of 148,800 options to purchase Common Stock to its employees which vest over 3 years from the date of grant. The options are exercisable at $1.08 per option. The options are subject to the Company's stock option agreements and the Company's Stock Option Plan.

On January 24, 2008, the Board granted 90,000 options to each of its three non-executive independent Board members under the Company's option plan. The options vest in equal thirds on June 26, 2008, 2009 and 2010, assuming each Director continues to serve on the Company's Board; provided, however that, the options shall fully vest upon such Director's death, disability, retirement as a director on the Board or such Director's removal as a director, without cause, at the request of the Board. The options are exercisable at $1.08 per option. The options are subject to the Company's customary stock option agreements and the Company's Stock Option Plan.

ITEM 2. MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2007 COMPARED TO THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2006 (UNAUDITED)

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements, the related Notes to Consolidated Financial Statements and Managements Discussion and Analysis of Financial Condition and Results of Operations included in the Companys Annual Report on Form 10-K for the fiscal year ended March 31, 2007 (the 10-K) and the Unaudited Condensed Consolidated Financial Statements and related Notes to Condensed Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q.

The Company has included in this Quarterly Report certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 concerning the Companys business, operations and financial condition. Forward-looking statements consist of all non-historical information, and the analysis of historical information, including the references in this Quarterly Report to future revenue growth, future expense growth, future credit exposure, earnings before interest, taxes, depreciation and amortization, future profitability, anticipated cash resources, anticipated capital expenditures, capital requirements, and the Companys plans for future periods. In addition, the words could, expects, anticipates, objective, plan, may may depend, believes, estimates, projects and similar words and phrases are also intended to identify suc forward-looking statements.

Actual results could differ materially from those projected in the Companys forward-looking statements due to numerous known and unknown risks and uncertainties, including, among other things, unanticipated technological difficulties, the volatile and competitive environment for drug delivery products, changes in domestic and foreign economic, market and regulatory conditions, the results of development agreements with pharmaceutical companies, the inherent uncertainty of financial estimates and projections, the uncertainties involved in certain legal proceedings, instabilities arising from terrorist actions and responses thereto, and other considerations described as Risk Factors in other filings by the Company with the SEC including its Annual Report on Form 10-K. Such factors may also cause substantial volatility in the market price of the Companys Common Stock. All such forward-looking statements are current only as of the date on which such statements were made. The Company does not undertake any obligation to publicly update any forward-looking statement to reflect events or circumstances after the date on which any such statement is made or to reflect the occurrence of unanticipated events.

Overview

We are a specialty pharmaceutical company principally engaged in the development and manufacture of oral, controlled release products. We develop oral, controlled release products using proprietary technology. Our strategy includes improving off-patent drug products for life cycle management and developing generic versions of controlled release drug products with high barriers to entry. Our technology is applicable to develop delayed, sustained or targeted release pellets, capsules, tablets, granules and powders.

We have two products, Lodrane 24(R) and Lodrane 24D(R), currently being sold commercially, and a pipeline of seven drug candidates under development in the therapeutic areas that include pain management, allergy and infection. Of the products under development, ELI-216, an abuse deterrent oxycodone product, and ELI-154, a once daily oxycodone product, are in clinical trials and we have completed pilot studies on two of our generic product candidates. The addressable market for the pipeline of products exceeds $6 billion. Our facility in Northvale, New Jersey also is a Good Manufacturing Practice (GMP) and DEA registered facility for research, development and manufacturing.

In January 2006, the FDA accepted our IND for ELI-154, our once-a-day oxycodone painkiller. We completed a second pharmacokinetic study to evaluate ELI-154s sustained release formation in 2006. In December 2007, we submitted to the FDA a Special Protocol Assessment (SPA) for the Phase III protocol for ELI-154. We are currently scaling up the product and expect to wait until we reach agreement with the FDA on this SPA before beginning the Phase III. Currently there is no once-daily oxycodone available. we estimate that the U.S. market for sustained release, twice-daily oxycodone was about $1.6 billion as of September, 2006.

15

In May 2005, the FDA accepted our IND for ELI-216, our once-a-day, abuse resistant oxycodone painkiller. After the acceptance of the IND, we completed two pharmacokinetic studies and a euphoria study in recreational drug users to assess the abuse deterrent properties of ELI-216. In November 2007, we reached agreement with the FDA on a Special Protocol Assessment for the Phase III protocol for ELI-216. We are currently scaling up the product and preparing for additional studies including a multi-dose study in opioid dependent patients, a food effect study and the Phase III study for ELI-216, Currently there is no abuse deterrent oxycodone product available.

At the end of 2006, we entered into a joint venture with VGS Pharma, LLC (VGS) and created Novel Laboratories, Inc. (Novel), a privately-held company specializing in pharmaceutical research, development, manufacturing, licensing, acquisition and marketing of specialty generic pharmaceuticals. Novel's business strategy is to focus on its core strength in identifying and timely executing niche business opportunities in the generic pharmaceutical area.

At the end of 2007, we elected not to fund our remaining contributions to Novel upon the terms set forth in the Alliance Agreement because (i) we recently reached agreement with the Food and Drug Administration under a Special Protocol Assessment on the Phase III clinical trial of ELI-216, our Abuse Deterrent Oxycodone product and determined that our funds would be better used to support the clinical trials for ELI-216 and (ii) we determined we would utilize our rights to participate in future equity investments in Novel rather than invest at the valuation set forth under the Alliance Agreement. We and VGS negotiated alternative structures that would permit investments by us at valuations which differed from those set forth in the Alliance Agreement, however VGS and us were unable to agree upon an alternative acceptable to both parties. Accordingly, upon our determination not to fund our remaining contributions to Novel at the valuation set forth in the Alliance Agreement, VGS exercised its rights to purchase from us our shares of Class A Voting Common Stock of Novel proportionate to the amount of remaining contributions which were not funded by us. As a result, our remaining ownership interest in Class A Voting Common Stock of Novel is approximately 10% of the outstanding shares of Class A Voting Common Stock of Novel.

As of October 1, 2007, Novel was no longer considered a variable interest entity of the Company. Accordingly, the information in the Form 10-Q report consolidates the results of operations of Novel for the six months ended September 30, 2007. As of October 1, 2007, Elite deconsolidated its financial statements from that of Novel. Our investment in Novel was decreased from $7,000,000 to $3,337,162 to recognize the cumulative losses of Novel from inception through September 30, 2007.

Strategy

We are focusing our efforts on the following areas: (i) development of our pain management products, (ii) manufacturing of Lodrane 24(R) and Lodrane 24D(R) products; (ii) the development of the other products in our pipeline; and (iii) commercial exploitation of our products either by license and the collection of royalties, or through the manufacture of our formulations, and (iv) development of new products and the expansion of our licensing agreements with other pharmaceutical companies, including co-development projects, joint ventures and other collaborations, including Novel.

We are focusing on the development of various types of drug products, including branded drug products (which require new drug applications (NDA) under Section 505(b)(1) or 505(b)(2) of the Drug Price Competition and Patent Term Restoration Act of 1984 as well as generic drug products (which require abbreviated new drug applications (ANDA)).

We intend to continue to collaborate in the development of additional products with our current partners. We also plan to seek additional collaborations to develop more drug products.

We believe that our business strategy enables us to reduce our risk by having a diverse product portfolio that includes both branded and generic products in various therapeutic categories and build collaborations and establish licensing agreements with companies with greater resources thereby allowing us to share costs of development and to improve cash-flow.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management□s discussion addresses our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgment, including those related to bad debts, intangible assets, income taxes, workers compensation, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its condensed consolidated financial statements. Our most critical accounting policies include the recognition of revenue upon completion of certain phases of projects under research and development contracts. We also assess a need for an allowance to reduce our deferred tax assets to the amount that we believe are more likely than not to be realized. We assess the recoverability of long-lived assets and intangible assets whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. We assess our exposure to current commitments and contingencies. It should be noted that actual results might differ from these estimates under different assumptions or conditions.

Results of Consolidated Operations

Three Months Ended December 31, 2007 Compared to Three Months Ended December 31, 2006

Our revenues for the three months ended December 31, 2007 were $176,171, a decrease of $55,263 or approximately 23.9%, under revenues for the comparable period of the prior year, and consisted of $116,366 in manufacturing fees and $59,805 in royalty fees. Revenues for the three months ended December 31, 2006, consisted of $209,139 in manufacturing fees and $22,295 in royalty fees. Manufacturing fees declined by 44% due to flucuatations in the number of batches shipped each quarter because of seasonality of sales and inventory adjustments. Royalties increased by 168 % due to the launch of our second product, Lodrane 24D® which was launched in December 2006 and due to growth of Lodrane 24 sales.

Research and development costs for the three months ended December 31, 2007, were $1,560,253, a decrease of $121,076 or approximately 7.2% from $1,681,329 of such costs for the comparable period of the prior year. Elite continues its spending on the development of the pain products, ELI-216 and ELI-154. We expect our research and development costs to increase in future periods primarily due to clinical costs for Phase III and other clinical trials for ELI-216 and ELI-154.

We are in the initial stages of breaking down the specific costs associated with the research and development of each product on which we devoted resources through the use of detailed time sheets and general ledger account classifications. In the past, we have not historically allocated these expenses to any particular product. We cannot estimate the additional costs and expenses that may be incurred in order to potentially complete the development of any product, nor can we estimate the amount of time that might be involved in such development because of the uncertainties associated with the development of controlled release drug delivery products as described in this report.

General and administrative expenses (G&A) for the three months ended December 31, 2007, were $632,133, an increase of $125,164, or approximately 24.7% from $506,969 of general and administrative expenses for the comparable period of the prior year. The increase was primarily attributable to increases in legal fees, timing of director fee payments and in salaries and fringe benefits as a result of yearly increments.

Depreciation and amortization increased by $43,231 from $127,035 for the comparable period of the prior year to $170,266. The increase was due to the acquisition of new machinery and equipment and the upgrading of Elites corporate and warehouse facilities.

Other expenses for the three months ended December 31, 2007 were $530,685, a decrease of $945,105, or approximately 64.0% from $1,475,790 for the comparable period of the prior year due to a decrease of $1,299,743 in charges related to the issuances of stock options and warrants and decreases in interest expense of $2,670 due to lower outstanding balances. These decreases were also the effect of additional interest income of

$19,951, due to higher compensating balances as a result of the private placements of our Series C 8% Convertible Preferred Stock.

As a result of the foregoing, our net loss for the three months ended December 31, 2007 was $2,858,103 compared to $3,564,971 for the three months ended December 31, 2006.

Nine Months Ended December 31, 2007 Compared to Nine Months Ended December 31, 2006

Our revenues for the nine months ended December 31, 2007 were $838,967, an increase of $295,430 or approximately 54.3%, over revenues for the comparable period of the prior year, and consisted of $671,239 in manufacturing fees and $167,728 in royalty fees. Revenues for the nine months ended December 31, 2006, consisted of $476,598 in manufacturing fees and $66,939 in royalty fees. The 41% increase in manufacturing fees and the 151% growth in royalties was primarily due to the launch of our second product, Lodrane 24D(R) and growth of the Lodrane 24® product.

Research and development costs for the nine months ended December 31, 2007, were $5,394,043, an increase of $1,087,424 or approximately 25.0% from $4,306,619 of such costs for the comparable period of the prior year, primarily due to the costs associated with increased spending on raw materials which are primarily for scale up of the pain products. We expect our research and development costs to continue to increase in future periods primarily due to the expenses associated with clinical costs for Phase III and other clinical trials for ELI-216 and ELI-154.

General and administrative expenses (G&A) for the nine months ended December 31, 2007, were $1,814,958, an increase of $218,271, or approximately 13.7% from $1,596,687 of G&A for the comparable period of the prior year. The increase was attributable to increases in salaries and fringe benefits as a result of increases in staff.

Depreciation and amortization increased by $93,199 from $366,105 for the comparable period of the prior year to $459,304. The increase was due to the acquisition of new machinery and equipment and the upgrading of Elites corporate and warehouse facilities.

Other expenses for the nine months ended December 31, 2007 were $2,042,502, an increase of $24,484, or approximately 1.2%, from $2,018,018 for the comparable period of the prior year due to increases in interest expense of $19,303 due to the borrowing of bank debt utilized to initially fund Novel and to finance purchased equipment and reductions of $377,259 in sale of New Jersey tax losses, offset somewhat by increases in interest income of $59,516 due to higher compensating balances as a result of the private placement of our Series C 8% Convertible Preferred Stock and reductions of $312,562 in charges related to the issuances of stock options and warrants.

As a result of the foregoing, our net loss for the nine months ended December 31, 2007 was $12,525,734 compared to $7,750,174 for the nine months ended December 31, 2006.

Material Changes in Financial Condition

Our working capital (total current assets less total current liabilities), increased to $5,991,312 as of December 31, 2007 from $244,288as of March 31, 2007, primarily due to net proceeds received as a result of our private placement of Series C 8% Convertible Preferred Stock, offset by net loss from operations, exclusive of non-cash charges.

We experienced negative cash flows from operations of $7,712,517 for the nine months ended December 31, 2007, primarily due to our net loss from operations of $12,525,734, an increase in prepaid expenses and security deposits of $47,267 and reductions of $919,251 in accounts payable, accrued expenses and other liabilities, offset by net reductions in accounts and interest receivable of $212,991 and by non-cash charges of $2,533,923, which included $2,125,625 in connection with the issuance of stock options and warrants, and $408,298 in depreciation and amortization expenses.

On November 15, 2004 and on December 18, 2006, Elites partner, ECR, launched Lodrane 24(R) and Lodrane 24D(R), respectively. Under its agreement with ECR, Elite is currently manufacturing commercial batches of Lodrane 24(R) and Lodrane 24D(R) in exchange for manufacturing margins and royalties on product revenues. Manufacturing revenues and royalty income earned for the nine months ended December 31, 2007 was $671,239 and $167,728, respectively. We expect future cash flows from manufacturing fees and royalties to provide additional cash to help fund our operations. However, no assurance can be given that we will generate any material revenues from the manufacturing fees and royalties of the Lodrane products.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2007, we had approximately six months of cash available based on our current operations. We are considering a number of different financing alternatives and we intend to seek additional capital in the first six months of 2008 through private financing or collaborative agreements. However, no assurance can be given that we will consummate a financing or that any material cash will be generated to us therefrom. If adequate funds are not available to us as we need them, we will be required to curtail significantly or delay or eliminate one or more product development programs. These matters raise substantial doubt over our ability to continue as a going concern. The accompanying financial statements do not provide for any adjustments should this occur.

For the nine months ended December 31, 2007, we expended $7,712,517 in operating activities which we funded through the $20,000,000 in gross proceeds raised through our private placement of Series C 8% Preferred Stock. Our working capital at December 31, 2007 was $6.0 million compared with working capital of $2.8 million at December

31, 2007 was $6.0 million compared with working capital of $2.8 million at December 31, 2006. Cash and cash equivalents at December 31, 2007 were $5.9 million, an increase of $2.3 million from the $3.6 million at December 31, 2006.

We spent approximately $534,000 on improvements and machinery and equipment during the nine months ended December 31, 2007.

On April 24, 2007, we sold in a private placement through Oppenheimer & Company, Inc., the placement agent (the placement agent), 15,000 shares of our Series C 8% Preferred Stock, at a price of $1,000 per share, each share convertible (at $2.32 per share) into 431.0345 shares of Common Stock, or an aggregate of 6,465,517 shares of Common Stock. The investors also acquired warrants to purchase shares of Common Stock, exercisable on or prior to April 24, 2012. The warrants represent the right to purchase an aggregate of 1,939,655 shares of Common Stock at an exercise price of $3.00 per share. The gross proceeds of the sale were $15,000,000 before payment of $1,050,000 in commissions to the Placement Agent and selected dealers. We also paid certain legal fees and expenses of counsel to the Placement Agent. We issued to the Placement Agent and its designees five year warrants to purchase 193,965 shares of Common Stock with similar terms to the warrants issued to the Investors with an exercise price of $3.00 per share.

On July 17, 2007 we sold, in a private placement, the remaining 5,000 authorized shares of its Series C 8% Preferred Stock at a price of $1,000 per share, each share convertible (at $2.32 per share) into 431.0345 shares of Common Stock, or an aggregate 2,155,172 shares of Common Stock. The investors also acquired warrants to purchase shares of Common Stock, exercisable on or prior to July 17, 2012. The warrants represent the right to purchase 646,554 shares of Common Stock, at an exercise price of $3.00 per share. The gross proceeds of the sale were $5,000,000 before payment of 350,000 in commissions to Placement Agent and selected dealers and $18,000 in expenses incurred by Placement Agent and selected dealers. We issued to the Placement Agent and its designees five year warrants to purchase 64,655 shares of Common Stock with similar terms to the warrants issued to the Investors with exercise price of $3.00 per share. The approximate $18,531,500 of net proceeds generated from these private placements will contribute materially to our efforts to advance our part of pain products through the clinic as well as accelerate the development of our other controlled release products, which utilize our proprietary oral drug delivery systems and abuse resistant technology.

From time to time we will consider potential strategic transactions including acquisitions, strategic alliances, joint ventures and licensing arrangements with other pharmaceutical companies. We retained an investment-banking firm to assist with our efforts. There can be no assurance that any such transaction will be available or consummated in the future.

As of December 31, 2007, after the closing of the sale of the additional Series C 8% Preferred Stock, our principal source of liquidity was approximately $5,943,000 of cash and cash equivalents. Additionally, we may have access to funds through the exercise of outstanding stock options and warrants in addition to funds that may be generated from the potential sale of New Jersey tax losses. There can be no assurance that the sale of tax losses or by the exercise of outstanding warrants or options will generate or provide sufficient cash.

The Company had outstanding, as of December 31, 2007, bonds in the aggregate principal amount of $3,795,000, consisting of $3,415,000 of 6.5% tax exempt Bonds with an outside maturity of September 1, 2030 and $380,000 of 9.0% Bonds with an outside maturity of September 1, 2012. The bonds are secured by a first lien on the Companys facility in Northvale, New Jersey. Pursuant to the terms of the bonds, several restricted cash accounts have been established for the payment of bond principal and interest. Bond proceeds were utilized for the redemption of previously issued tax exempt bonds issued by the Authority in September 1999 and to refinance equipment financing, as well as provide approximately $1,000,000 of capital for the purchase of additional equipment for the manufacture and development at the Companys facility of pharmaceutical products and the maintenance of a $415,500 debt service reserve. All of the restricted cash, other than the debt service was expended within the year ended March 31, 2007. Pursuant to the terms of the related bond indenture agreement, the Company is required to observe certain covenants, including covenants relating to the incurrence of additional indebtedness, the granting of liens and the maintenance of certain financial covenants. As of December 31, 2007, the Company was in compliance with the bond covenants.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company had no investments in marketable securities as of December 31, 2007 or assets and liabilities, which are denominated in a currency other than U.S. dollars or involve commodity price risks.

ITEM 4T. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, based on an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), the Chief Executive and Chief Financial Officer of the Company concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its Exchange Act reports is recorded, processed, summarized and reported within the applicable time periods specified by the SEC's rules and forms.

There have been no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.,

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the period ended March 31, 2007 or Form 10-Q for the quarters ended June 30, 2007 and September 30, 2007, except for the following:

IF WE ARE UNABLE TO OBTAIN ADDITIONAL FINANCING NEEDED FOR THE EXPENDITURES FOR THE DEVELOPMENT AND COMMERCIALIZATION OF OUR DRUG PRODUCTS, IT WOULD IMPAIR OUR ABILITY TO CONTINUE TO MEET OUR BUSINESS OBJECTIVES.

We continue to require additional financing to ensure that we will be able to meet our expenditures to develop and commercialize our products. As of December 31, 2007, we had cash and cash equivalents $5.9 million. We believe that our existing cash and cash equivalents will be sufficient to fund our anticipated operating expenses and capital requirements until June 30, 2008. We will require additional funding to continue our research and development programs, including clinical testing of our product candidates, for operating expenses and to pursue regulatory approvals for our product candidates. We are considering a number of different financing alternatives and we intend to seek additional capital in the first six months of 2008 through private financing or collaborative agreements. However, no assurance can be given that we will consummate a financing or that any material cash will be generated to us therefrom. Other possible sources of the required financing are income from product sales or sales of market rights, income from co-development or partnering arrangements and the cash exercise of warrants and options that are currently outstanding. No representation can be made that we will be able to obtain such revenue or additional financing or if obtained it will be on favorable terms, or at all. No assurance can be given that any offering if undertaken will be successfully concluded or that if concluded the proceeds will be material. If adequate funds are not available to us as we need them, we will be required to curtail significantly or delay or eliminate one or more product development programs which would impair our ability to meet our business objectives.

THERE IS DOUBT AS TO OUR ABILITY TO CONTINUE AS A GOING CONCERN.

Our condensed consolidated unaudited financial statements were prepared on the assumption that we will continue as a going concern. We estimate that our cash reserves will be sufficient to permit us to continue at our anticipated level of operations for approximately six months from December 31, 2007. During 2008, we will require additional funding to continue our research and development programs, including clinical testing of our product candidates, for operating expenses and to pursue regulatory approvals for our product candidates. We intend to use our cash reserves, as well as other funds in the event that they shall be available on commercially reasonable terms, to finance these activities and other activities described herein, although we can provide no assurance that these additional funds will be available in the amounts or at the times we may require. If sufficient capital is not available, we would likely be required to scale back or terminate our research and development efforts. See *Risk Factors* *If we are unable to obtain additional financing needed for the expenditures for the development and commercialization of our drug products, it would impair our ability to continue to meet our business objectives.*

IF WE RAISE ADDITIONAL FUNDING THROUGH SALES OF OUR SECURITIES, OUR EXISTING STOCKHOLDERS WILL LIKELY EXPERIENCE SUBSTANTIAL DILUTION.

If any future financing involves the further sale of our securities, our then-existing stockholders' equity could be substantially diluted. On the other hand, if we incurred debt, we would be subject to risks associated with indebtedness, including the risk that interest rates might fluctuate and cash flow would be insufficient to pay principal and interest on such indebtedness.

IF NOVEL LABORATORIES ISSUES ADDITIONAL EQUITY IN THE FUTURE, OUR EQUITY INTEREST IN NOVEL MAY BE DILUTED, RESULTING IN A DECREASE IN OUR SHARE OF REVENUE AND CASH FLOW GENERATED BY NOVEL.

As a result of our determination not to fund our remaining contributions to Novel at the valuation set forth in the Alliance Agreement and the resulting purchase from us of a portion of our shares of Class A Voting Common Stock of Novel by VGS Pharma, LLC, our remaining ownership interest in the equity of Novel was reduced to approximately 10% of the outstanding shares of Novel. Novel may seek to raise additional operating capital in the future and may do so by the issuance of equity. In the case of such issuance, we may determine not to exercise our subscription rights to maintain our percentage interest in Novel or, by the time of such issuance, our subscription rights may have terminated under the terms of the Stockholders Agreement granting such rights. In either case, our future equity interest in Novel will decrease and we will be entitled to a decreased portion of any revenue and cash flow which Novel may generate in the future.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On January 24, 2008, the Company's Board of Directors granted an aggregate of 148,800 options to purchase Common Stock to its employees which vest over 3 years from the date of grant. The options are exercisable at $1.08 per option. The options are subject to the Company’s customary stock option agreements and the Company’s Stock Option Plan. The issuance of the options are exempt from the registration provision of the Securities Act of 1933, as amended (the “Act”) pursuant to Section 4(2) thereunder.

On January 24, 2008, the Board granted 90,000 options to each of its three non-executive independent Board members under the Company's stock option plan. The options vest over three years, on June 26, 2008, 2009 and 2010, assuming each Director continues to serve on the Company's Board; provided, however that, the options shall fully vest upon such Director’s death, disability, retirement as a director on the Board or such Director’s removal as a director, without cause, at the request of the Board. The options are exercisable at $1.08 per option. The options are subject to the Company’s customary stock option agreements and the Company’s Stock Option Plan. The issuance of the options are exempt from the registration provision of the Act pursuant to Section 4(2) thereunder.

ITEM 6. EXHIBITS

The exhibits listed in the accompanying below are filed as part of this report.

Exhibit	Number Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ELITE PHARMACEUTICALS, INC.

Date: February 14, 2008

By: /s/ Bernard Berk
Bernard Berk
Chief Executive Officer
(Principal Executive Officer)

Date: February 14, 2008

By: /s/ Mark I. Gittelman
Mark I. Gittelman
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

: left"> -

278

10) FINANCIAL REPORTS

Note 19 **Contingencies and restrictions (continued)**

19.8 Indirect guarantees, continued

	Debtor			Pending balances as of the closing date of the financial statements	
Creditor of the guarantee	Name	**Relationship**	**Type of guarantee**	**12/31/2016 ThUS$**	**12/31/2015 ThUS$**
Credit Suisse International	SQM Investment Corp. N.V.	Subsidiary	Bond	-	-
Morgan Stanley Capital Services	SQM Investment Corp. N.V.	Subsidiary	Bond	-	-
The Bank of Tokyo-Mitsubishi UFJ Ltd.	SQM Investment Corp. N.V.	Subsidiary	Bond	-	-
HSBC	SQM Investment Corp. N.V.	Subsidiary	Bond	-	-
Deutsche Bank AG	SQM Investment Corp. N.V.	Subsidiary	Bond	-	-

279

10) FINANCIAL REPORTS

Note 20 Revenue

As of December 31, 2016 and 2015, revenue is detailed as follows:

	January to December	
	2016	2015
Types of revenue	ThUS$	ThUS$
Sales of goods	1,933,828	1,721,064
Provision of services	5,494	7,268
Total	1,939,322	1,728,332

Detail by line of business in Note 26.2 and 26.3

Note 21 Earnings per share

Basic earnings per share are calculated by dividing net income attributable to the Company's shareholders by the weighted average of the number of shares in circulation during that period.

As expressed, earnings per share are detailed as follows:

	12/31/2016	12/31/2015
Basic earnings per share	ThUS$	ThUS$
Earnings (losses) attributable to owners of the parent	278,290	213,168

	12/31/2016	12/31/2015
	Units	Units
Number of common shares in circulation	263,196,524	263,196,524

	12/31/2016	12/31/2015
Basic earnings per share (US$ per share)	1.0573	0.8099

The Company has not made any operations with a potential dilutive effect that assumes diluted earnings per share are different from the basic earnings per share.

280

10) FINANCIAL REPORTS

Note 22 Borrowing costs

The cost of interest is recognized as expenses in the year in which it is incurred, except for interest that is directly related to the acquisition and construction of tangible property, plant and equipment assets and that complies with the requirements of IAS 23. As of December 31, 2016, total interest expenses incurred amount to ThUS$57,459 (ThUS$69,853 as of December 31, 2015).

The Company capitalizes all interest costs directly related to the construction or to the acquisition of property, plant and equipment, which require a substantial time to be suitable for use.

22.1 Costs of capitalized interest, property, plant and equipment

The cost of capitalized interest is determined by applying the average or weighted average of all financing costs incurred by the Company to the monthly end balances of works-in-progress meeting the requirements of IAS 23.

The rates and costs for capitalized interest of property, plant and equipment are detailed as follows:

	12/31/2016		12/31/2015	
Capitalization rate of costs for capitalized interest, property, plant and equipment	4	%	5	%
Amount of costs for interest capitalized in ThUS$	5,406		4,666	

281

10) FINANCIAL REPORTS

Note 23 Effect of fluctuations on foreign currency exchange rates

a) Foreign currency exchange differences recognized in profit or loss except for financial instruments measured at fair value through profit or loss:

	12/31/2016 ThUS$	12/31/2015 ThUS$
Conversion foreign exchange gains (losses) recognized in the result of the year.	460	(12,364)
Conversion foreign exchange reserves attributable to the owners of the controlling entity	(5,428)	(6,334)
Conversion foreign exchange reserves attributable to the non-controlling entity	35	(165)

b) Reserves for foreign currency exchange differences:

As of December 31, 2016, and December 31, 2015, foreign currency exchange differences are detailed as follows:

Detail	12/31/2016 ThUS$	12/31/2015 ThUS$
Changes in equity generated by conversion of equity value:		
Comercial Hydro S.A.	1.004	1,004
SQMC Internacional Ltda.	(13)	(20)
Proinsa Ltda.	(10)	(15)
Comercial Agrorama Ltda.	(69)	(100)
Isapre Norte Grande Ltda.	(124)	(155)
Almacenes y Depósitos Ltda.	47	(31)
Sales de Magnesio Ltda.	(29)	(161)
Sociedad Prestadora de Servicios de Salud Cruz del Norte S.A.	(6)	(9)
Agrorama S.A.	(49)	(35)
Doktor Tarsa	(12.264)	(8,305)
SQM Vitas Fzco	(1.801)	(2,245)
Ajay Europe	(1.935)	(1,731)
SQM Eastmed Turkey	(95)	(81)
Charlee SQM (Thailand) Co. Ltd.	(460)	(476)
Coromandel SQM India	(282)	(301)

SQM Italia SRL	(287	)	(250	)
SQM Oceania Pty Ltd.	(634	)	(634	)
SQM Indonesia S.A.	(124	)	(123	)
Abu Dhabi Fertilizers Industries WWL.	(434	)	21	
SQM Vitas Holland	(280	)	(320	)
SQM Thailand Limited	(68	)	(68	)
SQM Europe N.V.	(1.550	)	-	
Total	(19.463	)	(14,035	)

282

10) FINANCIAL REPORTS

Note 23 Effect of fluctuations on foreign currency exchange rates (continued)

c) Functional and presentation currency

The functional currency in these companies corresponds to the currency of the country of origin of each entity, and its presentation currency is the U.S. dollar.

d) Reasons to use one presentation currency and a different functional currency

- The total revenues of these subsidiaries are associated with the local currency.
- The commercialization cost structure of these companies is affected by the local currency.
- The equities of these companies are expressed in local currency (Chilean peso).

Note 24 Environment

24.1 Disclosures of disbursements related to the environment

The Company is continuously concerned with protecting the environment both in its production processes and with respect to products manufactured. This commitment is supported by the principles indicated in the Company's Sustainable Development Policy. The Company is currently operating under an Environmental Management System (EMS) that has allowed it to strengthen its environmental performance through the effective application of the Company's Sustainable Development Policy.

Operations that use caliche as a raw material are carried out in desert areas with climatic conditions that are favorable for drying solids and evaporating liquids using solar energy. Operations involving the open-pit extraction of minerals, due to their low waste-to-mineral ratio, generate remaining deposits that slightly alter the environment. A portion of the ore extracted is crushed, a process in which particle emissions occur. Currently this operation is conducted only at the Pedro de Valdivia worksite and no ore crushing process is conducted in the María Elena sector.

Many of the Company's products are shipped in bulk at the Port of Tocopilla. In 2007, the city of Tocopilla was declared a zone saturated with MP10 Particles mainly due to the emissions from the electric power plants that operate in that city. In October 2010, the Decontamination Plan for Tocopilla was put in place. Accordingly, the Company has committed to taking several measures to mitigate the effects derived from bulk product movements in the port. These measures have been successfully implemented since 2007.

The Company carries out environmental follow-up and monitoring plans based on specialized scientific studies. Within this context, the Company entered into a contract with the National Forestry Corporation (CONAF) aimed at researching the activities of flamingo groups that live in the Salar de Atacama (Atacama Saltpeter Deposit) lagoons. Such research includes a population count of the birds, as well as breeding research. Environmental monitoring activities carried out by the Company at the Salar de Atacama and other systems in which it operates are supported by a number of studies that have integrated diverse scientific efforts from prestigious research centers, including Dictuc from the Pontificia Universidad Católica in Santiago and the School of Agricultural Science of the Universidad de Chile.

283

10) FINANCIAL REPORTS

Note 24 Environment (continued)

24.1 Disclosures of disbursements related to the environment, continued

Furthermore, within the framework of the environmental studies which the Company is conducting, the Company performs significant activities in relation to the recording of Pre-Columbian and historical cultural heritage, as well as the protection of heritage sites, in accordance with current Chilean laws. These activities have been especially performed in the areas surrounding Maria Elena and the Nueva Victoria plants. This effort is being accompanied by cultural initiatives within the community and the organization of exhibits in local and regional museums.

As emphasized in its Sustainable Development Policy, the Company strives to maintain positive relationships with the communities surrounding the locations in which it carries out its operations, as well as to participate in communities' development by supporting joint projects and activities which help to improve the quality of life for residents. For this purpose, the Company has focused its efforts on activities involving the rescue of historical heritage, education and culture, as well as development.

In order to do so, it acts both individually and in conjunction with private and public entities.

24.2 Detail of information on disbursements related to the environment

The accumulated disbursements in which the Company incurred as of December 31, 2016 for the concept of investments in production processes, verification and control of compliance with ordinances and laws relative to industrial processes and facilities, including prior year disbursements related to these projects amounted to ThUS$4,986 and are detailed as follows:

284

10) FINANCIAL REPORTS

Note 24 Environment (continued)

24.2 Detail of information on disbursements related to the environment, continued

Accumulated expenses as of 12/31/2016

Identification of the Parent or subsidiary	Name of the project with which expenditure is associated	Concept for which the expenditure was made or will be made	Asset
Miscellaneous	Environmental-operational area	Not classified	Expe
SQM S.A.	01-I003200 - Standardization of hazardous materials	Sustainability: Environment and Risk Prevention	Asset
SQM S.A.	01-I005500 - Standardization of SO2 plants	Sustainability	Asset
SQM S.A.	01-I007300 – Compliance with Exposure to Iodine Gas Standard	Sustainability: Environment and Risk Prevention	Asset
SQM S.A.	01-I006700 - Enablement of CPC wells	Sustainability: Environment and Risk Prevention	Expe
SQM S.A.	01-I007100 - 2015-2016 Environmental Follow-up Plan for Pampa del Tamarugal	Sustainability	Expe
SQM S.A.	01-I007200 – 2015-2016 Environmental Follow-up Plan Salar de Llamara	Sustainability: Environment and Risk Prevention	Asset
SQM S.A.	01-P003500 - Tur Development Master Plan	Sustainability: Environment and Risk Prevention	Expe
SQM S.A.	01-P003000 - Plant 1 Scrubber and Plant 3 Scrubber	Sustainability: Environment and Risk Prevention	Asset
SQM Industrial S.A.	04-I007600 - NV evaporation ponds	Sustainability: Environment and Risk Prevention	Expe
SQM Industrial S.A.	04-J004100 – Coya Sur Field Disposal DIA	Environmental processing	Asset
SQM Industrial S.A.	04-J004300 – Energetic Efficiency Study	Sustainability: Environment and Risk Prevention	Expe
SQM Industrial S.A.	04-J007000 – Environmental Impact Statement	Sustainability: Environment and Risk Prevention	Expe
SQM Industrial S.A.	04-J003300 – Improvement to water distribution	Sustainability: Environment and Risk Prevention	Expe
SQM Industrial S.A.	04-P003600 - NK PV project	Sustainability: Environment and Risk Prevention	Expe
SIT S.A.	03-T003000 - Archeological salvage for northern access, Port of Tocopilla	Sustainability	Expe
SQM Salar S.A.	19-L008100 – 2015 EIS Saltpeter Deposit	Sustainability: Environment and Risk Prevention	Expe
SQM Salar S.A.	19-C001500 – 2016 Disposal ponds	Sustainability: Environment and Risk Prevention	Expe
Total			

285

10) FINANCIAL REPORTS

Note 24 Environment (continued)

24.2 Detail of information on disbursements related to the environment, continued

Future expenses as of 12/31/2016

Identification of the Parent or subsidiary	Name of the project with which expenditure is associated	Concept for which the expenditure was made will be made
SQM S.A.	01-I003200 - Standardization of hazardous materials	Sustainability: Environment and Risk Preven
SQM S.A.	01-I005500 – Standardization of SO2 plants	Sustainability
SQM S.A.	01-I006700 – Enablement of CPC wells	Sustainability: Environment and Risk Preven
SQM S.A.	01-I007100 – 2015-2016 Environmental Follow-up Plan for Pampa del Tamarugal	Sustainability
SQM S.A.	01-I007200 - Environmental Follow-up Plan Salar de Llamara 2015-2016	Sustainability: Environment and Risk Preven
SQM S.A.	01-P003000 – Plant 1 Scrubber and Plant 3 Scrubber	Sustainability: Environment and Risk Preven
SQM S.A.	01-P003500 – Tur Development Master Plan	Sustainability: Environment and Risk Preven
SQM S.A.	01-I007300 – Compliance with Exposure to Iodine Gas Standard	Sustainability: Environment and Risk Preven
SQM Industrial S.A.	04-I007600 - NV evaporation ponds	Sustainability: Environment and Risk Preven
SQM Industrial S.A.	04-J003300 – Improvement to water distribution	Sustainability: Environment and Risk Preven
SQM Industrial S.A.	04-J004300 – Energetic Efficiency Study	Sustainability: Environment and Risk Preven
SQM Industrial S.A.	04-J007000 – Environmental Impact Statement	Sustainability: Environment and Risk Preven
SQM Industrial S.A.	04-I012400 – Acquisition of backup power generator for injection system at Puquios in Salar de Llamara	Sustainability: Environment and Risk Preven
SQM Industrial S.A.	04-P003600 - NK PV project	Sustainability: Environment and Risk Preven
SQM Salar S.A.	19-L012100 – Regularization of meteorological station	Sustainability: Environment and Risk Preven
SQM Salar S.A.	19-C001500 – 2016 Disposal ponds	Sustainability: Environment and Risk Preven
SIT S.A.	03-T003000 - Archeological salvage for northern access, Port of Tocopilla	Sustainability
Total		

286

10) FINANCIAL REPORTS

Note 24 Environment (continued)

24.2 Detail of information on disbursements related to the environment, continued

Accumulated expenses as of 12/31/2015

Identification of the Parent or subsidiary	Name of the project with which expenditure is associated	Concept for which the expenditure was made or will be made	Asset
Miscellaneous	Environmental-operational area	Not classified	Expe
SQM Industrial S.A.	04-IQWZ00 - Normalization TK NV liquid fuels	Sustainability: Environment and Risk Prevention	Asset
SQM Industrial S.A.	04-MP5W00 - Normalization TK´s Fuels	Sustainability: Environment and Risk Prevention	Asset
SQM Industrial S.A.	04-PPZU00 - Standardize and Certify Plant Fuel Tanks	Environmental processing	Asset
SQM Industrial S.A.	04-PQXM00 – Elaboration DIA Operation with batteries in PV	Environmental processing	Asset
SQM Industrial S.A.	04-I000200 - Nueva Iris TAS	Sustainability	Asset
SQM Industrial S.A.	04-I002300 - Acquisition of leak detection equipment	Sustainability: Environment and Risk Prevention	Asset
SQM Industrial S.A.	04-J003300 – Improvements to water distribution	Sustainability: Environment and Risk Prevention	Expe
SQM Industrial S.A.	04-I007600– NV evaporation ponds	Sustainability: Environment and Risk Prevention	Expe
SQM S.A.	01-IPFT00 - Cultural Heritage Region I	Sustainability	Expe
SQM S.A.	01-IQ1M00 - PSA Re-injection of water to Puquios Llamara	Sustainability: Environment and Risk Prevention	Asset
SQM S.A.	01-IQOW00- Deposit authorization for Humberstone heritage	Sustainability: Environment and Risk Prevention	Expe
SQM S.A.	01-IQWS00 - Mine Area equity measures Stage II	Sustainability: Environment and Risk Prevention	Expe
SQM S.A.	01-IQX600 – Environmental management plan of Tamarugos Pampa del Tamarugal 2013-2014	Sustainability: Environment and Risk Prevention	Asset
SQM S.A.	01-IQXB00– Environmental management plan of Tamarugos Salar de Llamara 2013-2014	Sustainability: Environment and Risk Prevention	Asset
SQM S.A.	01-I003200 – Standardization of hazardous materials	Sustainability: Environment and Risk Prevention	Asset
SQM S.A.	01-I004200 – Mine are equity measures Stage III	Sustainability: Environment and Risk Prevention	Expe
SQM S.A.		Sustainability	Expe

01-I004600 – Cultural Heritage Pampa Hermosa
2014 - 2015

287

10) FINANCIAL REPORTS

Note 24 Environment (continued)

24.2 Detail of information on disbursements related to the environment, continued

Accumulated expenses as of 12/31/2015, continued

Identification of the Parent or subsidiary	Name of the project with which expenditure is associated	Concept for which the expenditure was made or will be made	Asset
SQM S.A.	01-IQWP00 - 01-J001100 - DIA expansion of NV mine site	Environmental processing	Expe
SQM S.A.	01-I005500 – Standardization of SO2 plants	Sustainability	Asset
SQM S.A.	01-I006700 – Enablement of CPC wells	Sustainability: Environment and Risk Prevention	Expe
SQM S.A.	01-I007100 – 2015-2016 Environmental Follow-up Plan for Pampa del Tamarugal	Sustainability	Expe
SQM S.A.	01-I007200 - Environmental Follow-up Plan Salar de Llamara 2015-2016	Sustainability: Environment and Risk Prevention	Asset
SQM S.A.	01-I007300 – Compliance with Iodine and Gas Capture Standard	Sustainability: Environment and Risk Prevention	Asset
SQM S.A.	01-P003000 – Plant 1 Scrubber and Plant 3 Scrubber	Sustainability: Environment and Risk Prevention	Asset
SQM S.A.	01-P003500 – Tur Development Master Plan	Sustainability: Environment and Risk Prevention	Expe
SQM Salar S.A.	19-LQDM00 – certification of tanks	Sustainability: Replacement of equipment	Asset
SIT S.A.	03-TQQ500 – Environmental curtains, Field No.8	Sustainability: Environment and Risk Prevention	Expe
SIT S.A.	03-T000800 – Mobile belt protections 2, 5 and 7	Sustainability: Environment and Risk Prevention	Expe
SIT S.A.	03-T003000 – Archeological salvage for northern access, Port of Tocopilla	Sustainability	Expe
Total			

288

10) FINANCIAL REPORTS

Note 24 Environment (continued)

24.2 Detail of information on disbursements related to the environment, continued

Future expenses as of 12/31/2015

Identification of the Parent or subsidiary	Name of the project with which expenditure is associated	Concept for which the expenditure was made will be made
SQM Industrial S.A.	04-IQWZ00 - Normalization TK NV liquid fuels	Sustainability: Environment and Risk Preven
SQM Industrial S.A.	04-MP5W00 - Normalization TK´s Fuels	Sustainability: Environment and Risk Preven
SQM Industrial S.A.	04-PPZU00 - Standardize and Certify Plant Fuel Tanks	Environmental processing
SQM Industrial S.A.	04-M000600 – Significant maintenance of ME town streets and ME garbage dumps	Sustainability
SQM Industrial S.A.	04-J004100 – Coya Sur Field Disposal DIA	Environmental processing
SQM Salar S.A.	19-LQXW00 – White water	Environmental processing
SQM S.A.	01-I003200- Hazardous Materials Standardization	Sustainability
SQM S.A.	01-I004600 - Cultural heritage Pampa Hermosa 2014 – 2015	Sustainability
SQM S.A.	01-I005500 – Standardization of SO2 plants	Sustainability
SQM S.A.	01-I006700 – Enablement of CPC wells	Sustainability: Environment and Risk Preven
SQM S.A.	01-I007100 – 2015-2016 Environmental Follow-up Plan for Pampa del Tamarugal	Sustainability
SQM S.A.	01-I007200 – 2015-2016 Environmental Follow-up Plan Salar de Llamara 2015-2016	Sustainability: Environment and Risk Preven
SQM S.A.	01-I007300 – Compliance with Iodine and Gas Capture Standard	Sustainability: Environment and Risk Preven
Total		

289

10) FINANCIAL REPORTS

Note 24 Environment (continued)

24.3 Description of each project, indicating whether these are in process or have been finished

SQM Industrial S.A.

J0033: This project contemplates improving the reliability and sustainability of industrial water and drinking water, mitigating uncontrolled water loss, making investments for the change in the distribution line to processing plants, investment in technological equipment and engineering studies; improving water adduction from the Loa and San Salvador rivers, complying with the ongoing controls by the Governmental Authorities (DGA (the General Directorate of Water and Seremi Salud (the Ministerial Regional Secretariat for Health). This project is in process.

I0076: Development of the Project for the exploitation of iodine in the northern area of Iquique. This project is in progress. Fundación San José is a not-for-profit Foundation engaged in providing aid to children and pregnant women complying with a social responsibility for helping both children and mothers at risk.

J0041: Preparation and processing of the Environmental Impact Statement: 1. New areas:137.1 hectares 2. Area to be regularized:7.7 hectares 3. Extension of authorized area: 11.2 hectares. The project is in process.

J0043: Conducting a strategic alliance with a related party for new technologies and energetic efficiency – search for new technology and alternatives – Performance of alternative engineering. The project is in progress.

J0070: Relates to the preparation and processing of an Environmental Impact Statement (EIS), with the purpose of obtaining the environmental authorization (RCA) of the fields, including in the background information the air quality baseline for which a MP 2.5 and gas monitoring station was installed supplementing the stations existing at ME. The project is in progress.

P0036: This project's objective is that, based on basic engineering which has already been developed and completed in December 2015, the Company is able to develop detailed engineering to allow the acquisition of critical equipment (at long-term or key for the project).This project is in process.

I0124: This project consists of acquiring a power generator which allows providing continuity to water injection through the operation of an extraction well directly feeding the injection pipeline when energy outages occur. This project is in process.

SQM S.A.

I0032: Presenting departures from the standard currently in force with respect to storage of hazardous substances and provisions of SD 78/2010. This project is in process.

290

10) FINANCIAL REPORTS

Note 24 Environment (continued)

24.3 Description of each project, indicating whether these are in process or have been finished, continued

I0055: This project consists of changing gas extractors to increase air flows, changing SO2 absorption towers for prilling, extending the diameter of ducts; thereby guaranteeing an increase and sustaining the gas/liquid ratio. In order to decrease SO2 emissions require the installation of a scrubber unit (tower, pump, gas extractor and piping), the same concept developed at the ME Iodine SO2 plant. This project is in progress.

I0067: This stage of the project will allow identifying equity findings and other environmental commitments in addition to the performance of the basic engineering for the impulsion, electric line and crossing of Ruta 5 Norte highway. This project is in progress.

I0071: This project consists of implementing mitigation and compensation actions as committed in the Environmental Assessment of the Pampa Hermosa Environmental Impact Assessment (EIA). Actions to be implemented are those contemplated in the Environmental Management Plan of Tamarugos in Pampa del Tamarugal (Environmental Education Program, planting tamarugos, ex situ conservation of tamarugos, tamarugo production, and support for the phytosanitary control of tamarugos). This project is in progress.

I0072: This project consists of implementing mitigation and compensation actions as committed in the Environmental Assessment of the Pampa Hermosa Environmental Impact Assessment (EIA). Actions to be implemented are those contemplated in the Environmental Management Plan of Tamarugos in Salar de Llamara (Environmental Education Program, planting tamarugos, ex situ conservation of tamarugos, tamarugo production, and support for the phytosanitary control of tamarugos). This project is in progress.

I0073: System for capturing iodine gases operating very inefficiently. Iodine steam level exceed the range between 150% and 4,900% of the levels allowed for work positions at the Iodine Plant and Warehouse in accordance with Article 61 Supreme Decree 594/1999 approving Basic Sanitary and Environmental Conditions in Workplaces. This project is in process.

10) FINANCIAL REPORTS

Note 24 Environment (continued)

24.3 Description of each project, indicating whether these are in process or have been finished, continued

SQM S.A.

P0030: To reply to the indication by the Health Service, the Company must install a Scrubber tower in each plant, which will collect the residual SO2 from the plant chimneys. To perform this, the Company will install existing towers through which brine solutions will go through absorbing the SO2 found in the gaseous phase. This project is in progress.

P0035: The cultural, historical and local promotion, the dissemination of the saltpeter touristic amenities and the enhancement of tangible and intangible saltpeter equity. This project is in progress.

SIT S.A.

T0030: An archeological salvage must be performed through excavations with stratigraphic control, with the purpose of recovering the remains of, at least, four funeral contexts noted in the profiles of trenches Nos. 9 and 11. In addition, it is necessary to collect the disturbed osseous remains, which, due to reasons unknown to us, are located in the current surface of the land where the trenches are located. This project is in process.

SQM Salar.

L0081: The authority requires conducting different environmental impact studies either for exploration or the construction of new wells and being able to support current production. This project is in process.

C0015: It will be harvested and floor will be built for a pool. A propulsion system will be built. This process is in progress.

L0121: Acquisition and change of equipment in meteorological station. This process is in process.

292

10) FINANCIAL REPORTS

Note 25 Other current and non-current non-financial assets

As of December 31, 2016, and December 31, 2015, the detail of other current and non-current assets is as follows:

Other non-financial assets, current	12/31/2016	12/31/2015
	ThUS$	ThUS$
Domestic Value Added Tax	13,999	16,112
Foreign Value Added Tax	2,537	7,795
Prepaid mining licenses	1,136	1,209
Prepaid insurance	6,323	6,536
Other prepayments	408	602
Refund of Value Added Tax to exporters	855	13,183
Other assets	5,015	2,004
Total	30,273	47,441

Other non-financial assets, non-current	12/31/2016	12/31/2015
	ThUS$	ThUS$
Stain development expenses and prospecting expenses (1)	23,008	31,911
Guarantee deposits	685	496
Pension plan	-	27
Other assets	997	1,092
Total	24,690	33,526

1) Reconciliation of changes in assets for exploration and mineral resource evaluation, by type

Movements in assets for the exploration and evaluation of mineral resources as of December 31, 2016, and December 31, 2015:

Reconciliation	12/31/2016	12/31/2015
	ThUS$	ThUS$
Opening balance	31,911	29,569
Changes		
Additions, other than business combinations	-	3,871
Depreciation and amortization	(9,498)	(2,287)

Increase (decrease) due to transfers and other charges	595	758
Total changes	(8,903)	2,342
Total	23,008	31,911

As of the presentation date, no reevaluations of assets for exploration and assessment of mineral resources have been conducted.

293

10) FINANCIAL REPORTS

Note 26 Reportable segments

26.1 Reportable segments

General information:

The amount of each item presented in each operating segment is equal to that reported to the maximum authority that makes decisions regarding the operation, in order to decide on the allocation of resources to the defined segments and to assess its performance.

Factors used to identify segments on which a report should be presented:

Segments reported are strategic business units that offer different products and services. These are managed separately because each business requires different technology and marketing strategies.

Description of the types of products and services on which each reportable segment obtain its income from ordinary activities

The operating segments, through which incomes of ordinary activities are obtained, that generate expenses and whose operating results are reviewed on a regular basis by the maximum authority who makes decisions regarding operations, relate to the following groups of products:

1. Specialty plant nutrients
2. Iodine and its derivatives
3. Lithium and its derivatives

4.	Industrial chemicals
5.	Potassium
6.	Other products and services

Description of income sources for all the other segments

Information relative to assets, liabilities, profit and expenses that cannot be assigned to the segments indicated above, due to the nature of production processes, is included under "Unassigned amounts" category of the disclosed information.

Basis of accounting for transactions between reportable segments

Sales between segments are made in the same conditions as those made to third parties, and are consistently measures as presented in the income statement.

294

10) FINANCIAL REPORTS

Note 26 Reportable segments (continued)

26.1 Reportable segments, continued

Description of the nature of the differences between measurements of results of reportable segments and the result of the entity before the expense or income tax expense of incomes and discontinued operations.

The information reported in the segments is extracted from the Company's consolidated financial statements and therefore is not required to prepare reconciliations between the data mentioned above and those reported in the respective segments, according to what is stated in paragraph 28 of IFRS 8, "Operating Segments".

Description of the nature of the differences between measurements of assets of reportable segments and the Company´s assets

Assets are not shown classified by segments, as this information is not readily available. Some of these assets are not separable by the type of activity by which they are affected since this information is not used by management in decision-making with respect to resources to be allocated to each defined segment, All assets are disclosed in the "unallocated amounts" category.

Description of the nature of the differences between measurements of liabilities of reportable segments and the Company's liabilities

Liabilities are not shown classified by segments, as this information is not readily available. Some of these liabilities are not separable by the type of activity by which they are affected, since this information is not used by management in decisions making regarding resources to be allocated to each defined segment. All liabilities are disclosed in the "unallocated amounts" category.

10) FINANCIAL REPORTS

Note 26 Reportable segments (continued)

26.2 Reportable segment disclosures:

12/31/2016

Operating segment items	Specialty plant nutrients ThUS$	Iodine and its derivatives ThUS$	Lithium and its derivatives ThUS$	Industrial chemicals ThUS$	Potassium ThUS$	Other products and services ThUS$	Reportable segments ThUS$	Operating segments ThUS$
Revenue	623,853	231,144	514,627	104,137	403,323	62,238	1,939,322	1,939,322
Revenues from transactions with other operating segments of the same entity	91,087	301,917	372,838	356,334	333,823	198,836	1,654,835	1,654,835
Revenues from external customers and transactions with other operating segments of the same entity	714,940	533,061	887,465	460,471	737,146	261,074	3,594,157	3,594,157
Costs of sales	(478,074)	(191,298)	(175,616)	(67,378)	(359,477)	(56,442)	(1,328,285)	(1,328,285)
Administrative expenses	-	-	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-	-	-
Depreciation and amortization expense	(89,864)	(35,958)	(33,010)	(12,666)	(67,571)	(10,612)	(249,681)	(249,681)
The entity’s interest in the profit or loss of associates and joint ventures accounted for by the equity method	-	-	-	-	-	-	-	-
Income tax expense, continuing operations	-	-	-	-	-	-	-	-
Other items other than significant cash	-	-	-	-	-	-	-	-
Income (loss) before taxes	145,779	39,846	339,011	36,759	43,846	5,796	611,037	611,037
Net income (loss) from continuing operations	145,779	39,846	339,011	36,759	43,846	5,796	611,037	611,037
Net income (loss) from discontinued operations								

Net income (loss)	145,779	39,846	339,011	36,759	43,846	5,796	611,037	611,037
Assets	-	-	-	-	-	-	-	-
Equity-accounted investees	-	-	-	-	-	-	-	-
Increase of non-current assets	-	-	-	-	-	-	-	-
Liabilities	-	-	-	-	-	-	-	-
Impairment loss recognized in profit or loss	-	-	(251)	-	-	(698)	(949)	(949)
Reversal of impairment losses recognized in profit or loss for the period	133	325		233	2,216	-	2,907	2907
Cash flows from (used in) operating activities	-	-	-	-	-	-	-	-
Cash flows from (used in) investing activities	-	-	-	-	-	-	-	-
Cash flows from (used in) financing activities	-	-	-	-	-	-	-	-

296

10) FINANCIAL REPORTS

Note 26 Reportable segments (continued)

26.2 Reportable segment disclosures, continued

12/31/2015

Operating segment items	Specialty plant nutrients ThUS$	Iodine and its derivatives ThUS$	Lithium and its derivatives ThUS$	Industrial chemicals ThUS$	Potassium ThUS$	Other products and services ThUS$	Reportable segments ThUS$	Operating segments ThUS$
Revenue	652,278	262,570	223,021	97,551	430,642	62,270	1,728,332	1,728,332
Revenues from transactions with other operating segments of the same entity	137,944	389,172	139,575	347,168	407,903	289,157	1,710,919	1,710,919
Revenues from external customers and transactions with other operating segments of the same entity	790,222	651,742	362,596	444,719	838,545	351,427	3,439,251	3,439,251
Costs of sales	(461,028)	(184,551)	(109,389)	(71,252)	(303,645)	(55,718)	(1,185,583)	(1,185,583)
Administrative expenses	-	-	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-	-	-
Depreciation and amortization expense	(105,545)	(42,249)	(25,044)	(16,312)	(69,513)	(12,758)	(271,421)	(271,421)
The entity’s interest in the profit or loss of associates and joint ventures accounted for by the equity method	-	-	-	-	-	-	-	-
Income tax expense, continuing operations	-	-	-	-	-	-	-	-
Other items other tan significant cash	-	-	-	-	-	-	-	-
Income (loss) before taxes	191,250	78,019	113,632	26,300	126,997	6,552	542,750	542,750
Net income (loss) from continuing operations	191,250	78,019	113,632	26,300	126,997	6,552	542,750	542,750
Net income (loss) from discontinued operations								

Net income (loss)	191,250	78,019	113,632	26,300	126,997	6,552	542,750	542,750
Assets	-	-	-	-	-	-	-	-
Equity-accounted investees	-	-	-	-	-	-	-	-
Increase of non-current assets	-	-	-	-	-	-	-	-
Liabilities	-	-	-	-	-	-	-	-
Impairment loss recognized in profit or loss	-	(200)	(317)	(3)	(3,049)	(373)	(3,939)	(3,939)
Reversal of impairment losses recognized in profit or loss for the period	2,751	-	-	1,285	-	-	4,036	4,036
Cash flows from (used in) operating activities	-	-	-	-	-	-	-	-
Cash flows from (used in) investing activities	-	-	-	-	-	-	-	-
Cash flows from (used in) financing activities	-	-	-	-	-	-	-	-

297

10) FINANCIAL REPORTS

Note 26 Reportable segments (continued)

26.3 Statement of comprehensive income classified by reportable segments based on groups of products

	12/31/2016						
Items in the statement of comprehensive income	Specialty plant nutrients ThUS$	Iodine and its derivatives ThUS$	Lithium and its derivatives ThUS$	Industrial chemicals ThUS$	Potassium ThUS$	Other products and services ThUS$	Corpor Unit ThUS
Revenue	623,853	231,144	514,627	104,137	403,323	62,238	-
Cost of sales	(478,074)	(191,298)	(175,616)	(67,378)	(359,477)	(56,442)	
Gross profit	145,779	39,846	339,011	36,759	43,846	5,796	-
Other incomes by function	-	-	-	-	-	-	14,78
Administrative expenses	-	-	-	-	-	-	(88,43
Other expenses by function	-	-	-	-	-	-	(89,73
Other gains (losses)	-	-	-	-	-	-	679
Financial income	-	-	-	-	-	-	10,55
Financial costs	-	-	-	-	-	-	(57,49
interest in the profit or loss of associates and joint ventures accounted for by the equity method	-	-	-	-	-	-	13,04
Exchange differences	-	-	-	-	-	-	460
Profit (loss) before taxes	145,779	39,846	339,011	36,759	43,846	5,796	(196,
Income tax expense	-	-	-	-	-	-	(132,9
Profit (loss) from continuing operations	145,779	39,846	339,011	36,759	43,846	5,796	(329,
Profit (loss) from discontinued operations	-	-	-	-	-	-	-
Profit (loss)	145,779	39,846	339,011	36,759	43,846	5,796	(329,
Profit (loss), attributable to							
Profit (loss) attributable to the controller´s owners	-	-	-	-	-	-	-
Profit (loss) attributable to the non-controllers	-	-	-	-	-	-	-
Profit (loss)	-	-	-	-	-	-	-

298

10) FINANCIAL REPORTS

Note 26 Reportable segments (continued)

26.3 Statement of comprehensive income classified by reportable segments based on groups of products, continued

	12/31/2015						
Items in the statement of comprehensive income	Specialty plant nutrients ThUS$	Iodine and its derivatives ThUS$	Lithium and its derivatives ThUS$	Industrial chemicals ThUS$	Potassium ThUS$	Other products and services ThUS$	Corpor Unit ThUS$
Revenue	652,278	262,570	223,021	97,551	430,642	62,270	-
Cost of sales	(461,028)	(184,551)	(109,389)	(71,252)	(303,645)	(55,718)	-
Gross profit	191,250	78,019	113,632	26,299	126,997	6,552	-
Other incomes by function	-	-	-	-	-	-	15,343
Administrative expenses	-	-	-	-	-	-	(86,83
Other expenses by function	-	-	-	-	-	-	(113,6
Other gains (losses)	-	-	-	-	-	-	3,760
Financial income	-	-	-	-	-	-	11,570
Financial costs	-	-	-	-	-	-	(69,85
interest in the profit or loss of associates and joint ventures accounted for by the equity method	-	-	-	-	-	-	10,326
Exchange differences	-	-	-	-	-	-	(12,36
Profit (loss) before taxes	191,250	78,019	113,632	26,299	126,997	6,552	(241,6
Income tax expense	-	-	-	-	-	-	(83,76
Profit (loss) from continuing operations	191,250	78,019	113,632	26,299	126,997	6,552	(325,4
Profit (loss) from discontinued operations	-	-	-	-	-	-	-
Profit (loss)	191,250	78,019	113,632	26,299	126,997	6,552	(325,4
Profit (loss), attributable to							
Profit (loss) attributable to the controller´s owners	-	-	-	-	-	-	-
Profit (loss) attributable to the non-controlling interests	-	-	-	-	-	-	-
Profit (loss)	-	-	-	-	-	-	-

299

10) FINANCIAL REPORTS

Note 26 Reportable segments (continued)

26.4 Revenue from transactions with other Company's operating segments

12/31/2016

Items in the statement of comprehensive income	Specialty plant nutrients ThUS$	Iodine and its derivatives ThUS$	Lithium and its derivatives ThUS$	Industrial chemicals ThUS$	Potassium ThUS$	Other products and services ThUS$	Total segments and Corporate unit ThUS$
Revenue	623,853	231,144	514,627	104,137	403,323	62,238	1,939,322

12/31/2015

Items in the statement of comprehensive income	Specialty plant nutrients ThUS$	Iodine and its derivatives ThUS$	Lithium and its derivatives ThUS$	Industrial chemicals ThUS$	Potassium ThUS$	Other products and services ThUS$	Total segments and Corporate unit ThUS$
Revenue	652,278	262,570	223,021	97,551	430,642	62,270	1,728,332

26.5 Disclosures on geographical areas

As indicated in paragraph 33 of IFRS 8, the entity discloses geographical information on its revenue from operating activities with external customers and from non-current assets that are not financial instruments, deferred income tax assets, assets related to post-employment benefits or rights derived from insurance contracts.

26.6 Disclosures on main customers

With respect to the degree of dependency of the Company on its customers, in accordance with paragraph N° 34 of IFRS N° 8, the Company has no external customers who individually represent 10% or more of its revenue, Credit risk concentrations with respect to trade and other accounts receivable are limited due to the significant number of entities in the Company’s portfolio and its worldwide distribution, The Company’s policy requires guarantees (such as letters of credit, guarantee clauses and others) and/or to maintain insurance policies for certain accounts as deemed necessary by the Company's Management.

300

10) FINANCIAL REPORTS

Note 26 Reportable segments (continued)

26.7 Segments by geographical areas as of December 31, 2016 and December 31, 2015

Items	12/31/2016 Chile ThUS$	Latin America and the Caribbean ThUS$	Europe ThUS$	North America ThUS$	Asia and others ThUS$	Total ThUS$
Revenue	162,478	240,607	411,807	416,380	708,051	1,939,323
Investment accounted for under the equity method	-	25,000	25,009	13,456	69,674	133,139
Intangible assets other than goodwill	109,227	-	-	211	1	109,439
Goodwill	23,731	86	11,373	724	2,058	37,972
Property, plant and equipment, net	1,524,936	234	3,521	2,536	1,483	1,532,710
Investment property	-	-	-	-	-	-
Other non-current assets	24,551	139	-	-	-	24,690
Non-current assets that are not financial instruments	1,682,445	25,459	39,903	16,927	73,216	1,837,950

Items	12/31/2015 Chile ThUS$	Latin America and the Caribbean ThUS$	Europe ThUS$	North America ThUS$	Asia and others ThUS$	Total ThUS$
Revenue	188,592	258,262	351,353	439,645	490,480	1,728,332
Investment accounted for under the equity method	1,535	-	23,410	12,913	41,444	79,302
Intangible assets other than goodwill	110,199	-	-	228	1	110,428
Goodwill	26,929	86	11,373	-	-	38,388
Property, plant and equipment, net	1,677,194	260	2,183	2,486	1,453	1,683,576
Investment property	-	-	-	-	-	-
Other non-current assets	33,384	116	-	26	-	33,526
Non-current assets that are not financial instruments	1,849,241	462	36,966	15,653	42,898	1,945,220

301

10) FINANCIAL REPORTS

Note 26 Reportable segments (continued)

26.8 Property, plant and equipment classified by geographical areas

The company's main productive facilities are located near their mines and extraction facilities in northern Chile. The following table presents the main production facilities as of December 31, 2016 and December 31, 2015:

	Location		**Products**
-	Pedro de Valdivia	:	Production of iodine and nitrate salts
-	María Elena	:	Production of iodine and nitrate salts
-	Coya Sur	:	Production of nitrate salts
-	Nueva Victoria	:	Production of iodine and nitrate salts
-	Salar de Atacama	:	Potassium chloride, lithium chloride, boric acid and potassium sulfate
-	Salar del Carmen	:	Production of lithium carbonate and lithium hydroxide
-	Tocopilla	:	Port facilities

302

10) FINANCIAL REPORTS

Note 27 Gains (losses) from operating activities in the statement of income by function of expenses, included according to their nature

27.1 Revenue

	12/31/2016 ThUS$	12/31/2015 ThUS$
Products	1,933,828	1,721,064
Services	5,494	7,268
Total	1,939,322	1,728,332

27.2 Cost of sales

	12/31/2016 ThUS$	12/31/2015 ThUS$
Raw material and supplies	(485,788)	(484,797)
Types of employee benefits expenses		
Salaries and wages	(104,144)	(97,010)
Other short-term employee benefits	(77,507)	(33,662)
Termination benefit expenses	(3,836)	(5,719)
Total employee benefits expenses	(185,487)	(136,391)
Depreciation expense	(239,546)	(253,979)
Amortization expense	(3,210)	(3,469)
Small deposit amortization expense	(6,917)	-
Impairment losses (reversals of impairment losses) recognized in profit or loss for the period	1,956	96
Operating leases	(107,284)	(89,229)
Investment plan expenses	(16,624)	(17,574)
Maintenance and repair	(7,187)	(10,112)
Contractors	(62,501)	(49,727)
Operations transport	(54,476)	(52,079)
Freight and product transport costs	(43,716)	(31,052)
Packaging costs	(1,703)	(1,369)
Sales commissions	(9,434)	(7,742)
Port costs	(20,793)	(11,613)
CORFO right costs	(41,962)	(23,155)
Adjustment of customer prices	(8,380)	(2,132)
Other expenses, by nature	(35,233)	(11,260)
Total	(1,328,285)	(1,185,583)

303

10) FINANCIAL REPORTS

Note 27 **Gains (losses) from operating activities in the statement of income by function of expenses, included according to their nature, (continued)**

27.3 Other income

	12/31/2016	12/31/2015
	ThUS$	ThUS$
Discounts obtained from suppliers	771	1,343
Indemnification received and insurance recoveries	205	39
Penalties charged to suppliers	358	73
Tax recoveries	26	12
Insurance recoveries	5,636	2,182
Excess in the provision for liabilities with 3rd parties	573	1,039
Overstatement of doubtful accounts	56	115
Sale of property, plant and equipment	657	8
Sale of materials, spare parts and supplies	30	1,358
Sale de scrap	1	-
Overstatement of allowance for inventories	815	5
Options on mining properties	2,577	2,261
Easements, ducts and roads	219	1,980
Non-conventional renewable energy	639	344
Reimbursement of mining patents and notarial expenses	1,300	1,025
Miscellaneous services	-	405
Reimbursements from creditors	-	890
Other operating income	918	3,154
Total	14,781	15,343

304

10) FINANCIAL REPORTS

Note 27 Gains (losses) from operating activities in the statement of income by function of expenses, included according to their nature, (continued)

27.4 Administrative expenses

	12/31/2016 ThUS$	12/31/2015 ThUS$
Employee benefit expenses by nature		
Salaries and wages	(42,828)	(41,661)
Other short-term benefits to employees	(4,389)	(3,011)
Total employee benefit expenses	(47,217)	(44,672)
Amortization expense	(6)	(5)
Advisory services	(7,086)	(7,293)
Audit fees	(1,767)	(415)
Marketing costs	(1,338)	(1,614)
Building and facilities rent expenses	(2,489)	(1,836)
Advertising expenses	(173)	(230)
Luncheon expenses	(548)	(350)
Accommodation expenses	(633)	(434)
Personnel expenses	(453)	(27)
Representation expenses	(506)	(277)
Tickets and transportation	(1,599)	(1,594)
Isapre (Healthcare institution) contribution payments	(532)	(363)
Other employee expenses	(1,386)	(1,440)
General materials	(1,110)	(1,434)
Light truck rent	(622)	(517)
Professional services	(1,275)	(2,164)
Data transmission services	(1,365)	(1,317)
Maintenance services	(713)	(559)
Miscellaneous contractors	(2,497)	(2,141)
Mobile phone services	(584)	(303)
Acquisition of software	(1,945)	(1,258)
Real estate contributions	(838)	(819)
Business licenses	(843)	(1,052)
Insurance policies	(1,271)	(774)
Miscellaneous expenses	(1,184)	(1,044)
Other expenses, by nature	(8,456)	(12,898)
Total	(88,436)	(86,830)

305

10) FINANCIAL REPORTS

Note 27 Gains (losses) from operating activities in the statement of income by function of expenses, included according to their nature (continued)

27.5 Other expenses by function

	12/31/2016 ThUS$	12/31/2015 ThUS$
Employee benefit expenses by nature		
Depreciation and amortization expenses		
Depreciation of stopped assets	(111)	(316)
Subtotal to date	(111)	(316)
Impairment loss (review of impairment losses) recognized in profit or loss for the year		
Impairment of allowance for doubtful accounts	(7.198)	(2.981)
Subtotal to date	(7.198)	(2.981)
Other expenses, by nature		
Legal Expenses	(5,737)	(17,204)
Mine site activity disruption expenses	(32,061)	(57,665)
Indemnities paid	-	(3,714)
VAT and other unrecoverable tax	(1,015)	(1,146)
Fines, interests and tax (*)	(1,378)	(4,648)
SEC and Department of Justice fines	(30,488)	-
Advisory services	(59)	(15)
Provisions, materials and action sales	(815)	(2)
Investment plan expenses	(6,657)	(19,744)
Provision for energy arbitration proceeding	-	3,500
Article No, 21 one-off tax, (*)	-	(5,793)
Donations rejected as tax credits	(1,692)	(1,350)
Other operating expenses	(2,520)	(2,525)
Subtotal to date	(82,422)	(110,306)
Total	(89,731)	(113,603)

(*) These balances are considered payments as at September 2015 for approximately ThUS$9.5 in taxes (Tax under Article No. 21 of the Income Tax Law and Value-added Tax), interest and other charges performed by the Company to the Chilean Internal Revenue Service (Servicio de Impuestos Internos) because of the submission of amendments to its income tax returns for tax years from 2009 through 2014, as it identified expenses for which the Company did not have sufficient supporting documentation to be considered expenses necessary to generate income in accordance with the current Chilean tax regulations for approximately ThUS$14.7.

27.6 Other income (expenses)

	12/31/2016	12/31/2015
	ThUS$	ThUS$
Adjustment of reversal of provision for staff severance indemnities	-	3,575
Provision for staff severance indemnities	(6,300)	-
Sale of investments in associates	7,636	
Other gains (losses)	(657)	185
Total	679	3,760

306

10) FINANCIAL REPORTS

Note 27 Gains (losses) from operating activities in the statement of income by function of expenses, included according to their nature (continued)

27.7 Summary of expenses by nature

	January to December	
	2016	2015
	ThUS$	ThUS$
Raw material and supplies used	(485,788)	(484,797)
Types of employee benefits expenses		
Salaries and wages	(146,972)	(138,671)
Other short-term employee benefits	(81,896)	(36,673)
Termination benefit expenses	(3,836)	(5,719)
Total employee benefit expenses	(232,704)	(181,063)
Depreciation and amortization expenses		
Depreciation expense	(239,657)	(254,295)
Amortization expense	(3,217)	(3,475)
Small deposit amortization expenses	(6,917)	-
Impairment loss (reversal of impairment losses) recognized in profit or loss for the year	(6,057)	(2,887)
Operating leases	(107,284)	(89,229)
Production disruption expenses	(32,061)	(61,379)
Fines paid	(31,867)	(4,648)
Investment plan expenses	(23,281)	(37,318)
Maintenance and repair	(7,187)	(10,112)
Contractors	(62,501)	(49,727)
Operations transport	(54,476)	(52,079)
Freight and product transport costs	(43,716)	(31,052)
Packaging costs	(1,703)	(1,369)
Sales commissions	(9,434)	(7,742)
Port costs	(20,793)	(11,613)
Corfo rights	(41,962)	(23,155)
Adjustment of customer prices	(8,380)	(2,132)
Advisory services	(7,086)	(744)
Audit fees	(1,767)	(415)
Marketing costs	(1,338)	(1,614)
Rent of buildings and facilities	(2,489)	(417)
Advertising expenses	(173)	(230)
Luncheon expenses	(548)	(350)
Accommodation expenses	(633)	(434)

Personnel expenses	(453)	(27)
Representation expenses	(506)	(277)
Tickets and transportation expenses	(1,599)	(1,594)
Isapre (healthcare institution) contributions	(532)	(363)
Other employee expenses	(1,386)	(1,440)
General material expenses	(1,110)	(1,434)
Rent of light trucks	(622)	(517)
Professional services	(1,275)	(2,164)
Data transmission services	(1,365)	(1,317)
Maintenance services	(713)	(559)
Miscellaneous contractors	(2,497)	(2,141)
Mobile phone services	(584)	(303)
Acquisition of software	(1,945)	(1,258)
Real estate contributions	(838)	(819)
Business license	(843)	(1,052)
Insurance policies	(1,271)	(774)
Miscellaneous expenses	(1,184)	(1,044)
Other expenses by nature	(54,709)	(56,657)
Total expenses by nature	(1,506,451)	(1,386,016)

This table corresponds to the summary required by the Chilean Superintendence of Securities and Insurance (SVS) and considers notes 27.2, 27.4 and 27.5.

307

10) FINANCIAL REPORTS

Note 27 Gains (losses) from operating activities in the statement of income by function of expenses, included according to their nature (continued)

27.8 Finance expenses

	January to September	
	2016	2015
	ThUS$	ThUS$
Interest expense from bank borrowings and overdrafts	(854)	(932)
Interest expense from bonds	(57,409)	(66,456)
Interest expense from loans	(4,581)	(6,922)
Capitalized interest expenses	5,406	4,666
Other finance costs	(60)	(209)
Total	(57,498)	(69,853)

Note 28 Income tax and deferred taxes

Accounts receivable from taxes as of December 31, 2016 and December 31, 2015, are as follows:

28.1 Current and non-current tax assets

a) Current tax assets

	12/31/2016	12/31/2015
	ThUS$	ThUS$
Monthly provisional income tax payments, Chilean companies current year	49,110	62,126
Monthly provisional payment Royalty	3,542	1,138
Monthly provisional income tax payments, foreign companies	1,323	1,178
Corporate tax credits (1)	748	830
Corporate tax absorbed by tax losses (2)	64	5
Total	54,787	65,277

b) Non-current tax assets

	12/31/2016	12/31/2015
	ThUS$	ThUS$
Monthly provisional income tax payments, Chilean companies prior year	3,243	-
Specific tax on mining activities paid (on consignment)	25,781	14,566
Total	29,024	14,566

(1) These credits are available to companies and relate to the corporate tax payment in April of the following year. These credits include, amongst others, training expense credits (SENCE) and property, plant and equipment acquisition credits that are equivalent to 4% of the property, plant and equipment purchases made during the year. In addition, some credits relate to the donations the Group has made during 2016 and 2015.

(2) This concept corresponds to the absorption of non-operating losses (NOL's) determined by the company at year end, which must be imputed or recorded in the Retained Taxable Profits Registry (FUT).

308

10) FINANCIAL REPORTS

Note 28 Income tax and deferred taxes (continued)

28.1 Current and non-current tax assets, continued

In accordance with the laws in force and as provided by article 31 No, 3 of the Income Tax Law, when profits recorded in the FUT that have not been withdrawn or distributed are totally or partially absorbed by NOL's, the corporate tax paid on such profits (24%, 22,5%, 21%, 20% or 17%, depending on the year in which profits were generated) will be considered to be a provisional payment with respect to the portion representing the absorbed accumulated tax profits.

Tax payers are entitled to apply for a refund of this monthly provisional income tax payments on the absorbed profits recorded in the FUT registry via their tax returns (Form 22).

Therefore, the provisional payment for absorbed profits (PPAP) recorded in the FUT is in effect a recoverable tax, and as such the Company records it as an asset.

28.2 Current tax liabilities

Current tax liabilities	12/31/2016	12/31/2015
	ThUS$	ThUS$
1st Category income tax	50,174	30,705
Foreign company income tax	25,276	21,090
Article 21 single tax	422	275
Total	75,872	52,070

Income tax is calculated based on the profit or loss for tax purposes that is applied to the effective tax rate applicable in Chile. As established by Law No.20,780, an income tax rate of 21% was set starting from 2014, a rate of 22.5% for 2015, a rate of 24% for 2016, a rate of 25.5% for 2017, and a rate of 27% starting from 2018.

The provision for royalty is determined by applying the tax rate determined for the net operating income (NOI). Currently, the Company pays 5% for the application of the Tax Invariability Contract established with the Ministry of

Economy in 2010.

In conclusion, both concepts represent the estimated amount the Company will have to pay for income tax and tax on mining.

309

10) FINANCIAL REPORTS

Note 28 Income tax and deferred taxes (continued)

28.3 Tax earnings

As of December 31, 2016 and December 31, 2015, the Company and its subsidiaries have recorded the following consolidated balances for retained tax earnings, income not constituting revenue subject to income tax, accumulated tax losses and credit for shareholders:

	12/31/2016 ThUS$	12/31/2015 ThUS$
Taxable profits with credit rights	727,624	1,254,859
Taxable profits without credit right	588,942	94,073
Taxable loss	9,081	9,947
Credit for shareholders	203,612	302,081

The Retained Taxable Profits Registry (FUT) is a chronological registry where the profits generated and distributed by the company are recorded. The object of the FUT is to control the accumulated tax profits of the company that may be distributed, withdrawn or remitted to the owners, shareholders or partners, and the final taxes that must be imposed, called in Chile Global Aggregate Tax (that levies persons resident or domiciled in Chile), or additional tax (that levies persons “not” resident or domiciled in Chile).

The FUT Register contains profits with credit rights and profits without credit rights, which arise out of the inclusion of the net taxable income determined by the company or the profits received by the company that may be dividends received or withdrawals made during the period.

Profits without credit rights represent the tax payable by the company within the year and filed the following year, therefore they will be deducted from the FUT Registry the following year.

Profits with credit rights may be used to reduce the final tax burden of owners, shareholders or partners, which upon withdrawal are entitled to use the credits associated with the relevant profits.

In summary, companies use the FUT Registry to maintain control over the profits they generate that have not been distributed to the owners and the relevant credits associated with such profits.

28.4 Income tax and deferred taxes

Assets and liabilities recognized in the statement of financial position are offset if and only if:

1 The Company has legally recognized before the right the tax authority to offset the amounts recognized in these entries; and

2 Deferred income tax assets and liabilities are derived from income tax related to the same tax authority on:

(i) the same entity or tax subject; or

(ii) different entities or tax subjects who intend either to settle current fiscal assets and liabilities for their net amount, or to realize assets and pay liabilities simultaneously in each of the future periods in which the Company expects to settle or recover significant amounts of deferred tax assets or liabilities.

310

10) FINANCIAL REPORTS

Note 28 Income tax and deferred taxes (continued)

28.4 Income tax and deferred taxes, continued

Deferred income tax assets recognized are the income taxes that are to be recovered in future periods, related to:

a) deductible temporary differences.

b) the offset of losses obtained in prior periods and not yet subject to tax deduction; and

c) the offset of unused credits from prior periods.

The Company recognizes a deferred tax asset when there is certainty that these can be offset with tax income from subsequent periods, losses or fiscal credits not yet used, but solely as long as it is more likely than not that there will be tax earnings in the future against which to charge to these losses or unused fiscal credits.

Deferred tax liabilities recognized refer to the amounts of income taxes payable in future periods related to taxable temporary differences.

d.1 Income tax assets and liabilities as of December 31, 2016 are detailed as follows:

Description of deferred income tax assets and liabilities	Net position, assets		Net position, liabilities	
	Assets	Liabilities	Assets	Liabilities
	ThUS$	ThUS$	ThUS$	ThUS$
Depreciation	-	(1)	-	(221,791)
Doubtful accounts impairment	32	-	4,273	-
Accrued vacations	-	-	4,062	-
Manufacturing expenses	-	-	-	(110,718)
Unrealized gains (losses) from sales of products	-	-	86,156	-
Fair value of bonds	-	-	-	(24)
Severance indemnity	-	-	-	(5,203)
Hedging	-	-	10,230	-

Inventory of products, spare parts and supplies	77	-	20,899	-
Research and development expenses	-	-	-	(4,641)
Tax losses	-	-	1,302	-
Capitalized interest	-	-	-	(1,340)
Expenses in assumption of bank loans	-	-	-	(3,115)
Unaccrued interest	-	-	136	-
Fair value of property, plant and equipment	-	-	-	(4,179)
Employee benefits	-	-	6,783	-
Royalty deferred income taxes	-	-	-	(6,458)
Acquisition of intangible assets			-	(218)
Provision for lawsuits and legal expenses	-	-	9,276	-
Provision for investment plan	-	-	1,953	-
Provision for materials, spare-parts and supplies	-	-	7,547	-
Deferred taxes, investments in equity instruments	-	-	-	(1,300)
Provision for mine closure, fine copper and crushing	-	-	-	-
Other	575	(19)	251	-
Balance to date	684	(20)	152,868	(358,987)
Net balance	664	-	-	(206,119)

311

10) FINANCIAL REPORTS

Note 28 Income tax and deferred taxes (continued)

28.4 Income tax and deferred taxes, continued

d.2 Income tax assets and liabilities as of December 31, 2015 are detailed as follows

Description of deferred tax assets and liabilities	Net asset position		Net liability position	
	Assets	Liabilities	Assets	Liabilities
	ThUS$	ThUS$	ThUS$	ThUS$
Depreciation	-	-	-	233.073
Doubtful accounts impairment	-	-	5.119	-
Accrued vacations	-	-	3.368	-
Manufacturing expenses	-	-	-	109.134
Unrealized gains (losses) from sales of products	-	-	87.440	-
Fair value of bonds	-	-	446	-
Severance indemnity	-	-	-	4.178
Hedging	-	-	11.876	-
Inventory of products, spare parts and supplies	1	-	29.473	-
Research and development expenses	-	-	-	7.981
Tax losses	-	-	1.522	-
Capitalized interest	-	-	-	3.133
Expenses in assumption of bank loans	-	-	-	3.651
Unaccrued interest	-	-	156	-
Fair value of property, plant and equipment	-	-	-	3.375
Employee benefits	-	-	1.920	-
Royalty deferred income taxes	-	-	-	6.410
Acquisition of intangible assets	-	-	-	-
Provision for lawsuits and legal expenses	-	-	7.357	-
Provision for investment plan	-	-	3.312	-
Provision for mine closure, fine copper and crushing	-	-	-	-
Other	160	-	-	445
Balance to date	161	-	151.989	371.380
Net balance	161	-	-	219.391

312

10) FINANCIAL REPORTS

Note 28 Income tax and deferred taxes (continued)

28.4 Income tax and deferred taxes, continued

d.3 Reconciliation of changes in deferred tax liabilities (assets) as of December 31, 2016

	Deferred tax liabilities (assets) at the beginning of the period	Deferred tax expense (income) recognized in profit or loss	Deferred tax related to items credited (debited) directly to equity	Total increase (decrease) of deferred tax liabilities (assets)	Deferred tax liabilities (assets) at the end of the period
	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$
Depreciation	233,073	(11,281)	-	(11,281)	221,792
Doubtful accounts impairment	(5,119)	814	-	814	(4,305)
Accrued vacations	(3,368)	(694)	-	(694)	(4,062)
Manufacturing expenses	109,134	1,584	-	1,584	110,718
Unrealized gains (losses) from sales of products	(87,440)	1,284	-	1,284	(86,156)
Fair value of bonds	(446)	-	470	470	24
Severance indemnity	4,178	1,946	(920)	1,025	5,203
Hedging	(11,876)	1,646	-	1,646	(10,230)
Inventory of products, spare parts and supplies	(29,474)	8,498	-	8,498	(20,976)
Research and development expenses	7,981	(3,340)	-	(3,340)	4,641
Capitalized interest	3,133	(1,793)	-	(1,793)	1,340
Expenses in assumption of bank loans	3,651	(536)	-	(536)	3,115
Unaccrued interest	(156)	20	-	20	(136)
Fair value of property, plant and equipment	3,375	804	-	804	4,179
Employee benefits	(1,920)	(4,863)	-	(4,863)	(6,783)
Royalty deferred income taxes	6,410	48	-	48	6,458
Unused tax losses	(1,522)	220	-	220	(1,302)
Purchase of intangible assets	-	218	-	218	218
Provision for lawsuits and legal expenses	(7,357)	(1,919)	-	(1,919)	(9,276)
Provision for investment plan	(3,312)	1,359	-	1,359	(1,953)
Provision of fines and crushing site closure	-	(7,547)	-	(7,547)	(7,547)
Other ID	-	-	1,300	1,300	1,300
Depreciation	285	(1,092)	-	(1,092)	(807)

Total temporary differences, losses and unused fiscal credits	219,230	(14,624)	849	(13,775)	205,455

313

10) FINANCIAL REPORTS

Note 28 Income tax and deferred taxes (continued)

28.4 Income tax and deferred taxes, continued

d.4 Reconciliation of changes in deferred tax liabilities (assets) as of December 31, 2015

	Deferred tax liabilities (assets) at the beginning of the period	Deferred tax expense (income) recognized in profit or loss	Deferred tax related to items credited (debited) directly to equity	Total increase (decrease) of deferred tax liabilities (assets)	Deferred tax liabilities (assets) at the end of the period
	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$
Depreciation	233,862	(789)	-	(789)	233,073
Doubtful accounts impairment	(6,755)	1,636	-	1,636	(5,119)
Accrued vacations	(3,735)	367	-	367	(3,368)
Manufacturing expenses	81,650	27,484	-	27,484	109,134
Unrealized gains (losses) from sales of products	(83,355)	(4,085)	-	(4,085)	(87,440)
Fair value of bonds	(350)	-	(96)	(96)	(446)
Severance indemnity	5,950	(2,081)	309	(1,772)	4,178
Hedging	(5,512)	(6,364)	-	(6,364)	(11,876)
Inventory of products, spare parts and supplies	(24,632)	(4,842)	-	(4,842)	(29,474)
Research and development expenses	4,285	3,696	-	3,696	7,981
Capitalized interest	26,904	(23,771)	-	(23,771)	3,133
Expenses in assumption of bank loans	4,011	(360)	-	(360)	3,651
Unaccrued interest	(150)	(6)	-	(6)	(156)
Fair value of property, plant and equipment	(70)	3,445	-	3,445	3,375
Employee benefits	(2,450)	530	-	530	(1,920)
Royalty deferred income taxes	7,791	(1,381)	-	(1,381)	6,410
Unused tax losses	(715)	(807)	-	(807)	(1,522)
Purchase of intangible assets	235	(235)	-	(235)	-
Provision for lawsuits and legal expenses	(3,663)	(3,694)	-	(3,694)	(7,357)
Provision for investment plan	(8,946)	5,634	-	5,634	(3,312)
Provision of fines and crushing site closure	(1,654)	1,654	-	1,654	-
Other ID	308	(23)	-	(23)	285

Total temporary differences, losses and unused fiscal credits	223,009	(3,992)	213	(3,779)	219,230

During the period ended December 31, 2016 and December 31, 2015, the Company calculated and accounted for taxable income considering a rate of 24% and 22.5% respectively, in conformity with Law No, 20,780, Tax Reform, published in the Official Gazette on September 29, 2014.

The main amendments include a gradual increase in the corporate income tax rate up to 27% starting from 2018.

314

10) FINANCIAL REPORTS

Note 28 Income tax and deferred taxes (continued)

28.4 Income tax and deferred taxes, continued

d.5 Deferred taxes related to benefits for tax losses

The Company's tax loss carryforwards (NOL carryforwards) were mainly generated by losses in Chile, which in accordance with current Chilean tax regulations have no expiration date.

As of December 31, 2016 and December 31, 2015, tax loss carryforwards (NOL carryforwards) are detailed as follows:

	12/31/2016 ThUS$	12/31/2015 ThUS$
Chile	1,302	1,522
Total	1,302	1,522

Tax losses as of December 31, 2016 correspond mainly to SQM S.A., Exploraciones Mineras S.A. and Agrorama S.A.

d.6 Unrecognized deferred income tax assets and liabilities

Unrecognized deferred tax assets and liabilities as of December 31, 2016 and December 31, 2015 are as follows:

	12/31/2016 ThUS$ Assets (liabilities)	12/31/2015 ThUS$ Assets (liabilities)
Tax losses (NOL's)	139	139
Doubtful accounts impairment	81	81

Inventory impairment	1,020	1,020
Pensions plan	(715)	(715)
Accrued vacations	29	29
Depreciation	(57)	(57)
Other	(19)	(19)
Balances to date	478	478

Tax losses mainly relate to the United States, and they expire in 20 years.

315

10) FINANCIAL REPORTS

Note 28 Income tax and deferred taxes (continued)

28.4 Income tax and deferred taxes, continued

d.7 Movements in deferred tax assets and liabilities

Movements in deferred tax assets and liabilities as of December 31, 2016 and December 31, 2015 are detailed as follows:

	12/31/2016 ThUS$ Liabilities (assets)	12/31/2015 ThUS$ Liabilities (assets)
Deferred tax assets and liabilities, net opening balance	219,230	223,009
Increase (decrease) in deferred taxes in profit or loss	(14,624)	(3,992)
Increase (decrease) in deferred taxes in equity	849	213
Balances to date	205,455	219,230

d.8 Disclosures on income tax expense (income)

The Company recognizes current tax and deferred taxes as income or expenses, and they are included in profit or loss, unless they arise from:

(a) a transaction or event recognized in the same period or in a different period, outside profit or loss either in other comprehensive income or directly in equity; or

(b) a business combination

Current and deferred tax expenses (income) are detailed as follows:

	12/31/2016 ThUS$ Income (expenses)	12/31/2015 ThUS$ Income (expenses)
Current income tax expense		
Current income tax expense	(147,589)	(89,869)
Adjustments to prior year current income tax	-	2,111
Current income tax expense, net, total	(147,589)	(87,758)
Deferred tax expense		
Deferred tax expense (income) relating to the creation and reversal of temporary differences	14,624	3,992
Deferred tax expense, net, total	14,624	3,992
Tax expense (income)	(132,965)	(83,766)

316

10) FINANCIAL REPORTS

Note 28 Income tax and deferred taxes (continued)

28.4 Income tax and deferred taxes, continued

Tax expenses (income) for foreign and domestic parties are detailed as follows:

	12/31/2016 ThUS$ Income (expenses)	12/31/2015 ThUS$ Income (expenses)
Current income tax expense by foreign and domestic parties, net		
Current income tax expense, foreign parties, net	(10,844)	(5,719)
Current income tax expense, domestic, net	(136,745)	(82,039)
Current income tax expense, net, total	(147,589)	(87,758)
Deferred tax expense by foreign and domestic parties, net		
Deferred tax expense, foreign parties, net	626	(232)
Deferred tax expense, domestic, net	13,998	4,224
Deferred tax expense, net, total	14,624	3,992
Income tax expense	(132,965)	(83,766)

d.9 Equity interest in taxation attributable to equity-accounted investees

The Company does not recognize any deferred tax liability in all cases of taxable temporary differences associated with investments in subsidiaries, branches and associated companies or interest in joint ventures, because as indicated in the standard, the following two conditions are jointly met:

(a) the parent, investor or interest holder is able to control the time for reversal of the temporary difference; and

(b) It is more likely than not that the temporary difference is not reversed in the foreseeable future.

In addition, the Company does not recognize deferred income tax assets for all deductible temporary differences from investments in subsidiaries, branches and associated companies or interests in joint ventures because it is not possible to meet for the following requirements:

(a) Temporary differences are reversed in a foreseeable future; and

(b) The Company has tax earnings, against which temporary differences can be used.

317

10) FINANCIAL REPORTS

Note 28 Income tax and deferred taxes (continued)

28.4 Income tax and deferred taxes, continued

d.10 Disclosures on the tax effects of other comprehensive income components:

Income tax related to other income and expense components with a charge or credit to net equity	Amount before taxes (expense) gain	(Expense) income for income taxes	Amount after taxes
	12/31/2016 ThUS$	12/31/2016 ThUS$	12/31/2016 ThUS$
Gain (loss) from defined benefit plans	(3,397)	920	(2,477)
Cash flow hedge	2,233	(470)	1,763
Reserve for gains (losses) from financial assets measured at fair value through other comprehensive income	4,813	(1,300)	3,513
Total	3,649	(849)	2,800

Income tax related to components of other income and expense with a charge or credit to net equity	Amount before taxes (expense) gain	((Expense) income for income taxes	Amount after taxes
	12/31/2015 ThUS$	12/31/2015 ThUS$	12/31/2015 ThUS$
Gain (loss) from defined benefit plans	(174)	(309)	(483)
Cash flow hedge	86	96	182
Total	(88)	(213)	(301)

d.11 Explanation of the relationship between expense (income) for tax purposes and accounting income.

In accordance with paragraph No, 81, letter c) of IAS 12, the Company has estimated that the method that discloses more significant information for the users of its financial statements is the reconciliation of tax expense (income) to the result of multiplying income for accounting purposes by the tax rate in force in Chile, This option is based on the fact that the Parent and its subsidiaries incorporated in Chile generate almost the total amount of tax expense (income) and the fact that amounts of subsidiaries incorporated in foreign countries have no relevant significance within the context of the total amount of tax expense (income).

318

10) FINANCIAL REPORTS

Note 28 Income tax and deferred taxes (continued)

28.4 Income tax and deferred taxes, continued

Reconciliation of numbers in income tax expenses (income) and the result of multiplying financial gain by the rate prevailing in Chile,

	Income (expense)	
	12/31/2016	12/31/2015
	ThUS$	ThUS$
Consolidated income before taxes	414,889	301,098
Income tax rate in force in Chile	24 %	22,5 %
Tax expense using the legal rate	(99,573)	(67,747)
Effect of royalty tax expense	(6,310)	(9,157)
Tax effect of non-taxable revenue	3,610	3,013
Effect of taxable rate of non-deductible expenses for determination of taxable income (loss)	(9,768)	(4,350)
Tax effect of tax rates supported abroad	3,980	1,572
Other tax effects from the reconciliation between the accounting income and tax expense	(24,904)	(7,097)
Tax expense using the effective rate	(132,965)	(83,766)

d.12 Tax periods potentially subject to verification:

The Group's Companies are potentially subject to income tax audits by tax authorities in each country. These audits are limited to a number of interim tax periods, which, in general, when they elapse, give rise to the expiration of these inspections,

Tax audits, due to their nature, are often complex and may require several years, Below, we provide a summary of tax periods that are potentially subject to verification, in accordance with tax regulations in force in the country of origin:

Chile

According to article 200 of Decree Law No 830, the tax authority shall review for any deficiencies in its settlement and taxes turn giving rise, by applying a requirement of 3 years term from the expiration of the legal deadline when payment should have been made, Besides, this requirement was extended to 6 years term for the revision of taxes subject to declaration, when such declaration was not been filed or has been presented maliciously false.

United States

In the United States, the tax authority may review tax returns for up to 3 years from the expiration date of the tax return, In the event that an omission or error is detected in the tax return of sales or cost of sales, the review can be extended for a period of up to 6 years.

319

10) FINANCIAL REPORTS

Note 28 Income tax and deferred taxes (continued)

28.4 Income tax and deferred taxes, continued

Mexico:

In Mexico, the tax authority can review tax returns up to 5 years from the expiration date of the tax return.

Spain:

In Spain, the tax authority can review tax returns up to 4 years from the expiration date of the tax return.

Belgium:

In Belgium, the tax authority may review tax returns for up to 3 years from the expiration date of the tax return if no tax losses exist, In the event of detecting an omission or error in the tax return, the review can be extended for a period of up to 5 years.

South Africa:

In South Africa, the tax authority may review tax returns for up to 3 years from the expiration date of the tax return, In the event an omission or error in the tax return is detected, the review can be extended for a period of up to 5 years.

10) FINANCIAL REPORTS

Note 29 Disclosures on the effects of fluctuations in foreign currency exchange rates

Assets held in foreign currency subject to fluctuations in exchange rates are detailed as follows:

Class of assets	Currency	**12/31/2016 ThUS**	**12/31/2015 ThUS$**
Current assets:			
Cash and cash equivalents	ARS	4	1
Cash and cash equivalents	BRL	60	8
Cash and cash equivalents	CLP	6,044	2,656
Cash and cash equivalents	CNY	400	272
Cash and cash equivalents	EUR	11,386	4,245
Cash and cash equivalents	GBP	71	-
Cash and cash equivalents	IDR	-	-
Cash and cash equivalents	INR	12	14
Cash and cash equivalents	MXN	310	1,439
Cash and cash equivalents	PEN	3	1
Cash and cash equivalents	THB	-	1
Cash and cash equivalents	YEN	2,150	1,690
Cash and cash equivalents	ZAR	3,250	4,123
Subtotal cash and cash equivalents		23,690	14,450
Other current financial assets	CLF	-	17,507
Other current financial assets	CLP	50,740	131,633
Subtotal other current financial assets		50,740	149,140
Other current non-financial assets	ARS	5	-
Other current non-financial assets	AUD	45	34
Other current non-financial assets	BRL	-	8
Other current non-financial assets	CLF	47	38
Other current non-financial assets	CLP	14,554	39,091
Other current non-financial assets	CNY	10	27
Other current non-financial assets	EUR	822	2,278
Other current non-financial assets	MXN	1,734	1,036
Other current non-financial assets	THB	21	8
Other current non-financial assets	YEN	53	29
Other current non-financial assets	ZAR	18	4,466
Subtotal other current non-financial assets		17,309	47,015
Trade and other receivables	BRL	23	19

Trade and other receivables	CLF	545	993
Trade and other receivables	CLP	71,908	76,748
Trade and other receivables	CNY	48	77
Trade and other receivables	EUR	30,941	38,797
Trade and other receivables	GBP	152	582
Trade and other receivables	MXN	423	425
Trade and other receivables	PEN	-	112
Trade and other receivables	THB	2,777	1,473
Trade and other receivables	YEN	209	-
Trade and other receivables	ZAR	25,835	15,549
Subtotal trade and other receivables		132,861	134,775
Receivables from related parties	PEN	40	-
Receivables from related parties	CLP	41	52
Receivables from related parties	EUR	476	604
Receivables from related parties	THB	705	1,112
Receivables from related parties	CNY	48	-
Receivables from related parties	YEN	-	193
Subtotal receivables from related parties		1,310	1,961

321

10) FINANCIAL REPORTS

Note 29 Disclosures on the effects of fluctuations in foreign currency exchange rates (continued)

Class of assets	Currency	**12/31/2016** **ThUS$**	**12/31/2015** **ThUS$**
Current tax assets	ARS	5	-
Current tax assets	CLP	1,640	1,453
Current tax assets	EUR	118	177
Current tax assets	BRL	3	-
Current tax assets	ZAR	386	424
Current tax assets	MXN	202	8
Current tax assets	PEN	203	222
Subtotal current tax assets		2,557	2,284
Non-current assets			
Other non-current financial assets	CLP	20	20
Other non-current financial assets	YEN	41	39
Subtotal other non-current financial assets		61	59
Other non-current non-financial assets	BRL	139	116
Other non-current non-financial assets	CLP	729	536
Subtotal other non-current non-financial assets		868	652
Non-current right receivable	CLF	344	415
Non-current right receivable	CLP	1,382	467
Subtotal non-current rights receivable		**1,726**	882
Equity-accounted investees	AED	31,297	23,369
Equity-accounted investees	CLP	-	1,535
Equity-accounted investees	EUR	7,373	7,201
Equity-accounted investees	INR	1,499	962
Equity-accounted investees	THB	1,932	1,672
Equity-accounted investees	TRY	16,712	15,103
Subtotal equity-accounted investees		58,813	49,842
Intangible assets other than goodwill	CLP	294	284
Intangible assets other than goodwill	CNY	1	1
Subtotal intangible assets other than goodwill		295	285
Property, plant and equipment	CLP	3,810	4,089
Subtotal property, plant and equipment		3,810	4,089
Total non-current assets		65,573	55,809
Total assets		294,040	405,434

10) FINANCIAL REPORTS

Note 29 Disclosures on the effects of fluctuations in foreign currency exchange rates (continued)

Liabilities held in foreign currencies are detailed as follows:

		12/31/2016			12/31/2015		
Class of liability	Currency	91 days to year ThUS$	91 days to 1 year ThUS$	Total ThUS$	Up to90 days ThUS$	91 days to 1 year ThUS$	Total ThUS$
Current liabilities							
Other current financial liabilities	CLF	44,327	6,098	50,425	4,423	5,610	10,033
Other current financial liabilities	CLP	-	20,919	20,919	-	-	-
Subtotal other current financial liabilities		44,327	27,017	71,344	4,423	5,610	10,033
Trade and other payables	BRL	38	-	38	38	-	38
Trade and other payables	THB	131	-	131	-	-	-
Trade and other payables	CLP	40,604	2,808	43,412	48,707	-	48,707
Trade and other payables	EUR	30,545	-	30,545	8,591	-	8,591
Trade and other payables	GBP	6	-	6	55	-	55
Trade and other payables	INR	1	-	1	1	-	1
Trade and other payables	MXN	67	-	67	76	-	76
Trade and other payables	PEN	4	-	4	11	-	11
Trade and other payables	ZAR	3,054	-	3,054	1,727	-	1,727
Subtotal trade and other payables		74,450	2808	77,258	59,206	-	59,206
Other current provisions	BRL	-	-	-	9	-	9
Other current provisions	CLP	-	70	70	15	-	15
Other current provisions	EUR	5	-	5	5	-	5
Subtotal other current provisions		5	70	75	29	-	29
Current tax liabilities	CLP	-	131	131	-	-	-
Current tax liabilities	CNY	-	36	36	-	2	2
Current tax liabilities	EUR	-	3,987	3,987	-	889	889
Current tax liabilities	ZAR	27	-	27	-	-	-
Current tax liabilities	MXN	-	56	56	-	24	24
Subtotal current tax liabilities		27	4,210	4,237	-	915	915

323

10) FINANCIAL REPORTS

Note 29 Disclosures on the effects of fluctuations in foreign currency exchange rates (continued)

Class of liability	Currency	12/31/2016 Up to 90 days ThUS$	over 90 days to 1 year ThUS$	Total ThUS$	12/31/2015 Up to90 days ThUS$	Over 90 days to 1 year ThUS$	Total ThUS$
Other current non-financial liabilities	BRL	4	-	4	3	-	3
Other current non-financial liabilities	CLP	7,481	2,820	10,301	4,684	6,556	11,240
Other current non-financial liabilities	CNY	78	-	78	28	-	28
Other current non-financial liabilities	EUR	958	-	958	1,143	-	1,143
Other current non-financial liabilities	MXN	1,284	35	1,319	394	31	425
Other current non-financial liabilities	PEN	70	-	70	70	-	70
Other current non-financial liabilities	GBP	-	-	-	-	-	-
Other current non-financial liabilities	ZAR	866	-	866	13	-	13
Subtotal other current non-financial liabilities		10,741	2,855	13,596	6,335	6,587	12,922
Total current liabilities		129,550	36,960	166,510	69,993	13,112	83,105

324

10) FINANCIAL REPORTS

Note 29 Disclosures on the effects of fluctuations in foreign currency exchange rates (continued)

Class of liability	Currency	12/31/2016 1 to 2 years ThUS$	2 to 3 years ThUS$	3 to 4 years ThUS$	4 to 5 years ThUS$	Over 5 years ThUS$	Total ThUS$
Non-current liabilities							
Other non-current financial liabilities	CLF	5,903	5,903	5,903	5,903	243,297	266,909
Subtotal other non-current financial liabilities		5,903	5,903	5,903	5,903	243,297	266,909
Non-current provisions for employee benefits	CLP	-	-	-	-	494	494
Non-current provisions for employee benefits	MXN	-	-	-	-	61	61
Non-current provisions for employee benefits	YEN	-	-	-	-	561	561
Subtotal non-current provisions for employee benefits		-	-	-	-	1,116	1,116
Total non-current liabilities		5,903	5,903	5,903	5,903	244,413	268,025

Class of liability	Currency	12/31/2015 1 to 2 years ThUS$	2 to 3 years ThUS$	3 to 4 years ThUS$	4 to 5 years ThUS$	Over 5 years ThUS$	Total ThUS$
Non-current liabilities							
Other non-current financial liabilities	CLF	41,485	5,413	5,413	5,413	228,083	285,807
Subtotal other non-current financial liabilities		41,485	5,413	5,413	5,413	228,083	285,807
Non-current provisions for employee benefits	CLP	-	-	-	-	539	539
Non-current provisions for employee benefits	MXN	-	-	-	-	100	100
Non-current provisions for employee benefits	YEN	-	-	-	-	495	495
Subtotal non-current provisions for employee benefits		-	-	-	-	1,134	1,134
Total non-current liabilities		41,485	5,413	5,413	5,413	229,217	286,941

325

10) FINANCIAL REPORTS

Note 30 Mineral resource exploration and evaluation expenditure

Because of the nature of the operations of Sociedad Química y Minera de Chile S.A. and its subsidiaries and the type of exploration they conduct (which is different than other mining businesses where the exploration process results in significant time), the exploration and process and the definition of the economic feasibility occurs normally within the year. Accordingly, although expenditure is initially capitalized, it could be recognized in profit or loss for the same year should there be no technical and commercial feasibility. This results in having no significant expenditure that have no feasibility study at the end of the year.

Prospecting expenditure can be found in 4 different stages: execution, economically feasible, not economically feasible and under exploitation:

1. Execution: prospecting expenditure which are under execution and accordingly there is no yet a definition as to its economic feasibility are classified in the caption property, plant and equipment, as of December 31, 2016 and December 31, 2015, the balance amounts to ThUS$12,163 and ThUS$10,135, respectively,

2. Economically feasible: prospecting expenditure, which upon completion, has been concluded to be economically feasible is classified in the caption non-current assets in other non-current non-financial assets, as of December 31, 2016 and December 31, 2015, the balance amounts to ThUS$23,008 and ThUS$31,911 respectively,

3. Not economically feasible: Prospecting expenditure, which upon completion it has been concluded that are not economically feasible are recorded in profit or loss: As of December 31, 2016, this amounts to ThUS$0 and ThUS$520 as of December 31, 2015.

4. Under exploitation: Prospecting expenditure under exploitation is classified in the caption current assets in current inventories. These are amortized considering the exploited material, as of December 31, 2016 and December 31, 2015, the balance amounts to ThUS$674 and ThUS$1,269 respectively.

For the amount of capitalized expenditure, the total amount disbursed in exploration and evaluation of mineral resources as of December 31, 2016 ThUS$2,028, and correspond to non-metallic projects, Such expenditure mainly correspond to studies, either topographical, geological, exploratory drilling, sampling, among others,

With respect to this expenditure, the Company has defined classifying it in accordance with IFRS 6.9:

For exploration expenditure where the mineral has low ore grade that is not economically exploitable, it is debited directly to profit or loss.

If studies determine that the ore grade is economically exploitable, it is classified in other non-current assets in the caption stain development and prospecting expenses and at the time of making the decision for exploiting the zone it is classified in the caption inventories as part of the cost of raw materials required for production purposes.

326

10) FINANCIAL REPORTS

Note 31 Lawsuits and complaints

Lawsuits and complaints

During 2015, the Chilean IRS has filed several lawsuits and complaints related to the so-called “SQM Case”, which are associated with the irregular financing of politicians against a number of individuals, amongst others, the legal representatives of the Company Patricio de Sominihac T. – CEO – and Ricardo Ramos R. – Vice President of Corporate Services–. Basically, those lawsuits and complaints relate to alleged tax crimes associated with a possible undue decrease in taxable net income of the Company and two of its subsidiaries over the last seven years by recording as expenses in their accounting records invoices and fee receipts, which could be considered to be ideologically false. Such legal actions are also filed against the taxpayers who provided the tax documents that allowed the alleged performance of the related illicit acts.

Additionally, during 2015 and within the context of the “SQM Case”, the Deputy of the Tarapacá Region of Chile Hugo Gutiérrez G. filed a lawsuit for alleged extortion-bribery and money laundering referred to in Law No. 20.393 on Legal Responsibility of Juridical Persons against SQM and its legal representative Patricio de Sominihac T. and Senators of the Tarapacá Region of Chile Jaime Orpis B. and Fulvio Rossi C.

Actions performed by the Authority

The Public Ministry and Chilean IRS (Servicio de Impuestos Internos (SII)) have performed a number of actions within the framework of the so-called “SQM Case” where the Company and its executives have provided their cooperation. Several of the Company’s executives have granted access to their computers and made several statements at the request of the Prosecutors responsible for the investigation. Additionally, SQM has provided physical and digital copies of its accounting records and its subsidiaries’ accounting records. In addition, SQM has also provided the Public Ministry with its email files and all the documentation that has been required by the related authority.

327

10) FINANCIAL REPORTS

Note 31 Lawsuits and complaints, (continued)

Shearman & Sterling and Ad-Hoc Committee

The Company's Board of Directors, at its Extraordinary Meeting of February 26, 2015, formed an Ad-hoc Committee. This Committee was formed with the purpose of conducting an investigation and gather all the information necessary related to the "Penta case –SQM aspect," so that upon completion of such investigation the Committee is able to report to the Board of Directors its results, conclusions and recommendations. The Board of Directors provided the Committee with the authority necessary to conduct its intended duties and provided it with powers so that, at its discretion, engages all the legal and accounting, and other independent advisory services it deemed appropriate and that, upon completion of its duties, reports to the Board of Directors under the aforementioned terms.

The Committee engaged the legal Advisory of the law firms Shearman & Sterling and Vial / Serrano, and the forensic services provided by the US company FTI (the "Advisors") to conduct an investigation and analysis of the possible contingencies to which SQM may be exposed under the standards contained in the Foreign Corrupt Practices Act (FCPA) of the United States of America, which is applicable to the Company as the issuer of securities in the US market. Specifically, the investigation was focused on conducting an analysis of: (a) whether the Company had made any undue payment defined as a corrupt practice for FCPA purposes; and (b) whether the Company had not complied with the accounting regulations in accordance with that established in the FCPA.

On December 15, 2015, the Committee, together with the Advisors, reported to the Board of Directors the results, conclusions and recommendations resulting from their work. Likewise, on the same date, the Advisors reported such results, conclusions and recommendations to the Chilean Authorities and on January 7, 2016, they reported these to the US Regulators.

The main conclusions contained in the Ad-Hoc Committee Report are: (a) the Committee identified payments authorized by the former General Manager of SQM, Mr. Patricio Contesse G. with respect to which the Company found no sufficient supporting documentation; (b) no evidence was identified demonstrating that such payments were made with the purpose of inducing an public officer to act or refrain from acting with the purpose of helping SQM obtain economic benefits: (c) a conclusion was reached with respect to the cost center managed by the former General Manager of SQM Mr. Patricio Contesse G., that the Company's accounting records did not accurately reflect the transactions challenged, notwithstanding the fact that, because of their amount, such transactions are below the materiality level defined by the Company's external auditors determined in comparison to the volume of equity, sales, expenses or profits of SQM within the reported period; and that (d) SQM's internal controls were not sufficient to monitor the expenses included in the cost center managed by the former General Manager of SQM and that the Company relied in the adequate use of the resources by Mr. P. Contesse G. ”

328

10) FINANCIAL REPORTS

Note 31 Lawsuits and complaints, (continued)

Investigation by the Department of Justice and the Securities Exchange Commission

SQM informed of the investigation currently being performed by Shearman & Sterling on US regulating entities (Department of Justice and Securities and Exchange Commission), in conformity with the standards effective in the United States of America. The outcome of such investigation was delivered to these regulating entities, which have started investigations to determine the existence of possible noncompliance with FCPA (Foreign Corruption Practices Act) or internal control standards (refer to Note 35).

Note 32 Sanction proceedings

On April 1, 2015, the SVS started an administrative proceeding against five Directors of SQM for supposedly not having provided to the market on a timely and truthful basis information which could be significant for making investment decisions. Such information mainly relates to the preliminary estimate of the impact on the Company's financial statements of certain expenses paid by the Company between 2008 and 2014 and which might not qualify as expenses under current Chilean tax regulations because of the absence of supporting documentation.

On December 31, 2015, the Company reported that the Chilean Superintendence of Securities and Insurance (SVS) has made its resolution to impose sanctions on Patricio Contesse Fica, Julio Ponce Lerou – former Company's Directors–, Hernán Büchi Buc, Juan Antonio Guzmán Molinari and Wolf von Appen Berhmann –former Directors of SQM– for not having reported to the market, in March 2015, as an Essential event and in their role of Company's Directors, on the expenses that SQM incurred during certain years, which did not have sufficient reporting documentation or might be considered to be unnecessary to generate income. The sanction imposed relates to a fine of UF 1,000 on each of the aforementioned individuals and a remedy can be sought with the Chilean Superintendence of Securities and Insurance (SVS) and courts of justice.

Note 33 Closure of the Pedro de Valdivia Site

On September 22, 2015, the Company reported to the Chilean Superintendence of Securities and Insurance (SVS) that its Board of Directors opted to close the mining operations at the Pedro de Valdivia site and a portion of such site's industrial operations. The larger part of this closure occured at the end of November 2015 and the nitrate and iodine operations that will continue to generate production in the remaining industrial plants at the Pedro de Valdivia operation will amount to approximately one third of the current production volumes.

329

10) FINANCIAL REPORTS

Note 33 Closure of the Pedro de Valdivia Site, continued

This decision is based on the fact that the Company has continued to increase its production capacity of iodine and nitrate salts in its industrial mining operations at the Nueva Victoria site and has reduced its production costs to meet sales forecasts and increase its current worldwide market share in the iodine market.

As of December 31, 2015, the effect on profit or loss of stopping operations are detailed as follows:

	ThUS$
Property, plant and equipment	36,823
Constructions in progress	3,195
Total property, plant and equipment	40,018
Legal and voluntary severance indemnity payments	17,647
Total closure of the Pedro de Valdivia site	57,665

Note 34 Railway for transportation of products between the site Coya Sur and the Port of Tocopilla

As a result of the rain storms that affected the Tocopilla Zone at the beginning of August 2015, SQM S.A. confirmed the existence of damages in several zones in the railway between the sites Coya Sur and Tocopilla. Accordingly, starting from such date the Company has used the transport of trucks replacing the transport through the railway. SQM has performed several internal and external studies with the purpose of determining the costs and terms necessary to repair the damages in the railway.

The analysis of the internal and external reports allows concluding that the costs associated with repairing the damages caused by the rain storms would imply long-terms and high costs, and accordingly, it is not convenient at short and medium-term to repair the railway. Such decision does not affect the production process or imply additional employee reductions.

Consequently, SQM has adjusted the value of the assets associated with the railway (fixed equipment, facilities and rolling equipment), which has translated into a charge of approximately US$32 million which are reflected in the line other expenses by function in the consolidated statement of income for the period. Such amount approximately represents 0.7% of SQM’s total assets reported at the end of September 2016.

Note 35 Events occurred after the reporting date

35.1 Authorization of the financial statements

The consolidated financial statements of Sociedad Química y Minera de Chile S.A. and subsidiaries prepared in accordance with International Financial Reporting Standards for the period ended December 31, 2016 were approved and authorized for issuance by the Board of Directors at their meeting held on November 23, 2016.

330

10) FINANCIAL REPORTS

Note 35 Events occurred after the reporting date, (continued)

35.2 Disclosures on events occurring after the reporting date

On January 13, 2017, the Company entered into agreements with the Department of Justice (the “DOJ”) and the Securities and Exchange Commission (the “SEC”),both based in the United States of America (the “United States”), with respect to the investigations that such agencies have conducted as a result of payments to suppliers and entities that might have been related to politically exposed persons during the years from 2008 through 2015, which resulted in the performance of an internal investigation at the Company through an Ad-hoc Committee from its Board of Directors and which was led by the law firm Shearman & Sterling (the “Investigated Facts”). Because the Company’s securities are traded in the United States, the Company is subject to the U.S. legislation. The Company has voluntarily provided the results of its internal investigation and documents supporting it to the DOJ, the SEC and the relevant Chilean authorities.

In conformity with the terms of the agreement entered into with the DOJ, referred to as Deferred Prosecution Agreement (the “DPA”), the Company has accepted that the DOJ presents (i) a charge for the infractions referred to the absence of implementation of effective internal accounting systems and internal accounting controls and (ii) a charge for infractions related to failure to properly maintain accounting ledgers, records and sections with respect to the Investigated Facts. By virtue of the DPA, the DOJ has agreed not to prosecute those charges against the Company for a period of 3 years and releasing the Company from such responsibility after such period to the extent that within such term the Company complies with the terms in the DPA, which include the payment of a fine of 15,487,500 United States dollars (“U.S. dollars”) and the acceptance of an external monitor for a term of 24 months (the “Monitor”) which evaluates the Company’s compliance program, for a subsequent independent report by the Company for an additional year.

With respect to the agreement entered into with the SEC, the Company has agreed to (i) pay a fine of 15 million of U.S. dollars and (ii) maintaining the Monitor for the aforementioned term.

The SEC has issued a Cease and Desist Order which does not identify any other events of noncompliance with the standards applicable in the United States.

The aforementioned amounts of approximately US$30.5 million were reflected in the profit or loss of SQM during the fourth quarter of 2016 in the line item Other expenses by function.

Management is not aware of any other significant events occurring between December 31, 2016 and the date of issuance of these consolidated financial statements, which affect them.

35.3 Detail of dividends declared after the reporting date

As of the closing date of the financial statements, there are no dividends declared after the reporting date.

331

10) FINANCIAL REPORTS

Report of Acounting Inspectors

332

10) FINANCIAL REPORTS

Reasoned Analysis of the Financial Situation

1. Analysis of the Financial Statements

Statement of Financial Position (In millions of U.S. dollars)	At December 31, 2016	At December 31, 2015
Total current assets	2,335.1	2,682.3
Cash and cash equivalents	514.7	527.3
Other current financial assets	289.2	636.3
Accounts receivable (1)	451	402.1
Inventories	993.1	1,003.80
Other	87.1	112.9
Total non-current assets	1,883.6	1,961.5
Other non-current financial assets	14.1	0.5
Investments in related parties	133.1	79.3
Property, plant and equipment	1,532.70	1,683.60
Other non-current assets	203.6	198.1
Total Assets	4,218.60	4,643.80
Total current liabilities	580.3	702.9
Other current financial liabilities	179.1	402
Other	401.2	300.9
Total non-current liabilities	1,331.00	1,540.50
Other non-current financial liabilities	1,093.40	1,290.20
Other	237.6	250.3
Equity before minority interest	2,246.10	2,339.80
Minority interest	61.2	60.6
Total Equity	2,307.30	2,400.40
Total Liabilities and Equity	4,218.60	4,643.80

Liquidity (2)	4.0	3.8

(1) Trade and other receivables, current + Trade receivables due from related parties, current

(2) Current assets / Current liabilities

333

10) FINANCIAL REPORTS

1.1 Analysis of the Consolidated Statement of Financial Position

As of December 31, 2016, the Company's total assets amount to MUS$4,218.6, representing a decrease of approximately 9% compared to MUS$4,643.8 obtained as of December 31, 2015. Such difference between both periods is mainly the result of the variance in the following captions:

Current assets decrease by approximately 13%, from MUS$2,682.3 recorded at the end of the prior year to MUS$2,335.1 in the current period.

- Cash and cash equivalents decreased by MUS$12.6 (2%) closing as of December 31, 2016 amounting to MUS$514.7. The detail of this caption is disclosed in Note 7.
- Other current financial assets decreased by MUS$347.1 (55%) closing at December 31, 2016 amounting to MUS$289.2. The detail of the caption is disclosed in Note 10.
- Accounts receivable increased by MUS$48.9 (12%) closing at December 31, 2016 amounting to MUS$451.0. The detail of this caption is disclosed in Note 10.
- Current inventories decreased by MUS$10.7 (1%) closing at December 31, 2016 amounting to MUS$993.8. The detail of this caption is disclosed in Note 8.

Non-current assets decreased by approximately 4%, from MUS$1,961.5 recorded at the end of prior year, to MUS$1,883.6 for the current quarter.

- Property, plant and equipment decreased by MUS$150.9 (9%), closing at December 31, 2016 amounting to MUS$1,532.7. The detail of this caption is disclosed in Note 14.

As of December 31, 2016, the Company's total liabilities amount to MUS$1,911.3, representing a decrease of approximately 15% compared to MUS$2,243.4 recorded at December 31, 2015. Such difference is mainly generated by changes in the following captions:

Current liabilities decreased by approximately 17%, from MUS$702.9 recorded at the end of December of the prior year to MUS$580.3 for the current quarter.

- Other current financial liabilities decreased by MUS$222.9 (55%) closing at December 31, 2016 amounting to MUS$179.1. The detail of this caption is disclosed in Note 10.
- Other current non-financial liabilities increased by MUS$100.3 (33%) closing at December 31, 2016 amounting to MUS$401.2. The detail of this caption is disclosed in Note 18.

Non-current liabilities decreased by approximately 14%, from MUS$1,540.3 recorded at the end of the prior year, to MUS$1,331.0 for the current quarter.

- Other non-current financial liabilities decreased by MUS$196.8 (15%) closing at December 31, 2016 amounting to MUS$1,093.4.

334

10) FINANCIAL REPORTS

The consolidated financial statements of Sociedad Química y Minera de Chile S.A. and Subsidiaries have been prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS") and represent the comprehensive, explicit and unreserved adoption of International Financial Reporting Standards as issued by the International Accounting Standard Board (IASB). Should there be any discrepancies between IFRS and the instructions issued by the Chilean Superintendence of Securities and Insurance (SVS) the latter shall prevail.

These consolidated financial statements fairly reflect the Company's equity and financial position and the results of its operations, changes in in the statement of income and expenses recognized and cash flows, which have occurred in the year then ended.

The valuation of the main assets and liabilities has been performed as follows:

Inventories: The Company states inventories for the lower of cost and net realizable value. The cost price of finished products and products in progress includes the direct cost of materials and, when applicable, labor costs, indirect costs incurred to transform raw materials into finished products, and general expenses incurred in carrying inventories to their current location and conditions. The method used to determine the cost of inventories is weighted average cost.

Commercial discounts, rebates obtained, and other similar entries are deducted in the determination of the acquisition price.

The net realizable value represents the estimate of the sales price, less all finishing estimated costs and costs which will be incurred in commercialization, sales, and distribution processes.

The Company conducts an evaluation of the net realizable value of inventories at the end of each year, recording an estimate with a charge to income when these are overstated. When a situation arises whereby the circumstances, which previously caused the rebate to cease to exist, or when there is clear evidence of an increase in the net realizable value due to a change in the economic circumstances or prices of main raw materials, the estimate made previously is modified.

The valuation of obsolete, impaired or slow-moving products relates to their net estimated, net realizable value.

The provisions for technical specification on the Company's inventories have been made based on a technical study covering different variables affecting products in stock (density, moist, among others).

Raw materials, supplies and materials are recorded at the lower of acquisition cost or market value. Acquisition cost is calculated according to the annual average price method.

Property, plant and equipment: Tangible property, plant and equipment assets are stated at acquisition cost, net of the related accumulated depreciation and impairment losses that they have experienced.

335

10) FINANCIAL REPORTS

1.2 Consolidated Statement of Comprehensive Income

Statement of Income

(in millions of U.S. dollars)	Fourth Quarter		Accumulated at December 31,	
	2016	2015	2016	2015
Revenue	553.8	411.3	1,939.3	1,728.3
Specialty plant nutrition (1)	136.8	149.9	623.9	652.3
Iodine and derivatives	56.1	63.3	231.1	262.6
Lithium and derivatives	176.8	63.0	514.6	223.0
Industrial chemicals	60.8	18.2	104.1	97.6
Potassium chloride & potassium sulfate	107.3	96.8	403.3	430.6
Other revenue	16.1	20.1	62.2	62.3
Cost of sales	(289.4)	(222.5)	(1,089.9)	(917.3)
Depreciation and amortization (2)	(59.6)	(70.9)	(238.4)	(268.3)
Gross margin	204.8	118.0	611.0	542.7
Administrative expenses	(25.8)	(22.9)	(88.4)	(86.8)
Finance costs	(12.3)	(17.8)	(57.5)	(69.9)
Finance income	2.6	3.0	10.5	11.6
Foreign currency translation differences	1.0	(2.5)	0.5	(12.4)
Other	(36.0)	(11.9)	(61.2)	(84.2)
Profit (loss) before taxes	134.4	65.8	414.9	301.1
Income tax	(51.8)	(19.2)	(133.0)	(83.8)
Profit before minority interest	82.5	46.6	281.9	217.3
Minority interest	(1.7)	(2.0)	(3.6)	(4.2)
Profit for the year	80.9	44.6	278.3	213.2
Earnings per share (US$)	0.31	0.17	1.06	0.81

(1) Includes other specialty plant nutrition

(2) Does not include the depreciation associated with the stopping of the train (US$32.8), recognized under "Other".

336

10) FINANCIAL REPORTS

1.2.1 Analysis by business area and market variances

Specialty plant nutrition

Revenue from our line of business specialty plant nutrition for the twelve months ended December 31, 2016 amounted to US$623.9 million, which is lower than the US$652.3 million recognized for the same period of 2016.

During the fourth quarter of, revenue amounted to US$136.8 million, which is lower than the amount of US$149.9 million reported in the fourth quarter of 2015.

For this line of business, sales volumes during 2016 increased by a slight 1% compared to 2015. Average prices during 2016 decreased by approximately 5.4% compared to the prices recorded in the prior year.

We expect to note ongoing growth in the water soluble market of approximately 5% and are well positioned to satisfy this growing demand. We continue to be confident in the future of potassium nitrate and specialty plant nutrition fertilizer markets and will continue to invest in developing and expanding such market.

The **gross margin** for the specialty plant nutrition segment represented approximately 24% of the consolidated gross margin of AQM for the twelve months ended December 31, 2016.

Iodine and derivatives

Revenue from the sales of iodine and derivatives during the twelve month-period ended December 31, 2016 amounted to US$231.1 million, reflecting a decrease of 12.0% compared to US$262.6 million reported for the twelve-month period ended December 31, 2015.

Revenue from iodine and derivatives for the fourth quarter of 2016 amounted to US$56.1 million, representing a decrease of 11.4% compared to the US$63.3 million recorded in the fourth quarter of 2015.

The decrease in revenues from iodine was the result of a decrease in prices. During 2016, we continued to note a downward trend for the price of iodine; average prices amounted to approximately US$23/kilogram, which is a decrease of approximately 19% compared to the average prices noted during 2015. During the last quarter of 2016, average prices decreased to a little less than US$21/kilogram. Over the last few months, we have noted price stabilization and feel cautiously optimistic that prices might not experience further impairment during 2017. However, we expect our average price in 2017 to be lower than the average price noted during 2016.

Our sales volumes during 2016 totaled 10,200 MT, approximately 9% more than the sales volume noted during 2015. We believe the global demand of iodine slightly increased in 2016. We expect to increase again our market share in 2017. In line with our strategy for iodine, our greater sales volumes allowed us to increase our market share to almost 29% in 2016. Through the present date, we have effective capacity of 10,000 MT/year where 9,000 MT come from our most efficient plant in Nueva Victoria.

The **gross margin** for the iodine and derivatives segment represented approximately 7% of SQM’s consolidated gross margin for the twelve months ended December 31, 2016.

Lithium and derivatives

Revenues from lithium and its derivatives totaled US$514.6 million for the twelve-month period ended December 31, 2016, reflecting an increase of 130.8% compared to the amount of US$223.0 million reported for the same period of 2015.

10) FINANCIAL REPORTS

Revenues from the sales of lithium and by product during the fourth quarter of 2016 increased by 180.8% compared to those of the fourth quarter of 2015. Total revenues amounted to US$176.8 million during the fourth quarter of 2016 compared to those US$63.0 million recorded in the fourth quarter of 2015.

The lithium market exceeded the expectations during 2016 where growth in demand was sound and we estimate that it was close to 14%. The supply did not maintain its pace and accordingly, market prices reflected historical increases. At the same time, we noted delays in certain lithium projects resulting in stress in the market and significant pressure on market ´prices during 2016.

The trend for prices, together we higher sales volume, had an impact on our revenues for 2016. In line with our expectations, our sales volumes increased by 28% during 2016 compared to 2015 amounting to 49,700 MT. Average prices for this line of business increased significantly by 80% compared to average prices noted during 2015.

New offer and date of entry of new projects will be significant for the determination of the prices of lithium during 2017. We anticipate that a new supply will enter the market during the second half of 2017. Sales volumes for the line of business in 2016 should be similar than those noted during 2016. However, we expect that our mix of products changes leading to greater sales volumes for lithium hydroxide in 2017. We believe lithium hydroxide is increasingly becoming the preferred product used for the production related to batteries for electric vehicles and we expect demand growth for lithium hydroxide to exceed demand growth for lithium carbonate over the next few years.

The **gross margin** for the lithium and derivatives segment represented approximately 55% of SQM’s consolidated gross margin for the twelve months ended December 31, 2016.

Potassium: Potassium chloride and potassium sulfate

Revenues from potassium chloride and potassium sulfate sales for the twelve-month period ended December 31, 2016 totaled US$403.3 million, which represents a decrease of 6.3% compared to the same period of 2015, when revenues amounted to US$430.6 million.

Revenues from sales of potassium chloride and potassium sulfate increased by 10.8% in the fourth quarter of 2016, amounting to US$107.3 million, compared to those US$96.8 million recorded during the fourth quarter of 2015.

Revenues from the line of business of potassium chloride and potassium sulfate were impacted by the prices of potassium chloride. Average prices of the line of business of potassium chloride and potassium sulfate decreased by approximately 24% during 2016 compared to 2015, amounting to US$263/MT. Previously, we informed that average prices slightly recovered at the end of 2016 and average prices for the fourth quarter were approximately 6% higher than the average prices reported during the fourth quarter of 2016.

It has been estimated that in 2017, the global demand for potassium may increase by 2 million of additional tons. We will increase the clarity as to the situation in the potassium chloride market upon termination of contracts between the most significant producers and China, which should occur within the next few months. Through the present date, we estimate that average prices in 2017 will be lower than average prices recorded in 2016. We believe we could note a decrease in the production of potassium chloride in 2017, and sales volumes for potassium chloride, which increased by more than 24% in 2016 compared to 2015, could decrease in the future. Sales volumes noted in 2016 compared to 2015 allowed us to go back to the sales volumes noted in 2014.

338

10) FINANCIAL REPORTS

The **gross margin** for the potassium chloride and potassium sulfate segment represented approximately 7% of SQM's consolidated gross margin for the twelve months ended December 31, 2016.

Industrial chemicals

Sales revenues of industrial chemicals for the twelve-month period ended December 31, 2016 amounted to US$104.1 million, representing an increase of 6.8% compared to the US$97.6 million recorded during the same period of 2015.

Revenues for the fourth quarter of 2016 totaled US$60.8 million, representing an increase of 233.6% compared to the figures of revenues for the fourth quarter of 2015, which amounted to US$18.2 million.

Revenues for the line of business of industrial chemicals increased as a result of the greater sales volumes and greater average prices. Such increased sales volumes related to an increase in solar salts, which amounted to almost 60,000 MT this year, which exceeded our most recent estimations. Prices during 2016 remained stable compared to 2015.

The **gross margin** for the industrial chemicals segment represented approximately 6% of SQM's consolidated gross margin for the twelve months ended December 31, 2016.

Other commodity fertilizers and other revenues

Revenue from other commodity fertilizers and other revenues amounted to US$62.2 million for the twelve months ended December 31, 2016, representing a decrease compared to the US$62.3 million for the twelve months ended December 31, 2015.

Financial Information

Capital investments

During 2016, capital expenditure amounted to approximately US$131 million and most of such expenditure related to maintenance and the beginning of certain projects related to the production of nitrates and lithium hydroxide. In addition to such expenditure, we also invested US$25 million in Minera Exar S.A. and US$20 million in Elemental Minerals (currently Kore Potash Limited).

During 2017, we expect that capital expenditure amount to approximately US$170 million. In addition to maintenance, we will invest in the construction of a new lithium hydroxide plant and the expansion of our capacity for the production of potassium nitrate.

During 2017, we also expect to invest approximately US$100 million in the development of a new lithium project, Cauchari-Olaroz in Argentina. We have made progress in the project's engineering and design, including the hydrological model and are confident that we will commence the construction as foreseen during the first half of 2017.

Administrative expenses

Administrative expenses totaled US$88.4 million (4.6% of revenue) for the twelve months ended December 31, 2016, compared to the US$86.8 million (5.0% of revenue) reported for the twelve months ended December 31, 2015.

10) FINANCIAL REPORTS

Net finance costs

Net finance costs for the twelve months ended December 31, 2016 amounted to US$46.9 million, compared to the US$58.3 million reported for the twelve months ended December 31, 2015.

Income tax expense

Income tax expense amounted to US$133.0 million for the twelve-month period ended December 31. 2016, representing an effective tax rate of 32.0%, compared to income tax expense of US$83.8 million during the twelve-month period ended December 31, 2015. The corporate income tax rate in Chile was 24.0% for 2016 and 22.5% for 2015.

Other

The EBITDA margin was approximately 39.2% for the twelve-month period ended December 31, 2016. The EBITDA margin for the twelve-month period ended December 31, 2015 was approximately 41.9%. The EBITDA margin for the fourth quarter of 2016 was approximately 43.1%.

10) FINANCIAL REPORTS

2. Financial ratios

Liquidity ratios		12-31-2016	12-31-2015	
Current liquidity	Times	4.02	3.84	$\frac{\textit{Current assets}}{\textit{Current liabilities}}$
Acid test	Times	2.31	2.41	$\frac{(\textit{Current assets – Inventories})}{\textit{Current liabilities}}$

Indebtedness ratios		12-31-2016	12-31-2015	
Indebtedness ratio	%	85	96	$\frac{\textit{Liabilities}}{\textit{Equity attributable to owners of the Parent}}$
Short-term debt to total debt ratio	%	30.4	31.3	$\frac{\textit{Current liabilities}}{\textit{Total debt}}$
Long-term debt to total debt ratio	%	69.6	68.7	$\frac{\textit{Non-current liabilities}}{\textit{Total debt}}$

Activity ratios		12-31-2016	12-31-2015	
Total assets	MUS$	4,219	4,644	
Inventory turnover	Times	1.34	1.18	$\frac{\textit{Cost of sales}_{LTM}}{\textit{Inventories}}$
Inventory permanence	Days	269	305	$\frac{\textit{360 days}}{\textit{Inventory turnover}}$

Profitability ratios		12-31-2016	12-31-2015	
Earnings per share	Times	1.07	0.83	$\frac{\textit{Net profit (loss)}_{LTM}}{\textit{Shares subscribed}}$
Return on equity	%	12.2	9.1	$\frac{\textit{Net profit (loss)}_{LTM}}{\textit{Equity}}$

Return on assets	%	16.0	13.4	*Net profit (loss)* $_{LTM}$ / *Assets*

341

10) FINANCIAL REPORTS

2.1 Analysis of Financial Indicators

Liquidity:

- Current liquidity: This increase can be explained by the ratio because although there was a decrease in current assets (13%), there was also a decrease in current liabilities (17%), resulting in an improved result ratio. The main variance in assets ref, for further details see Note 10.1. For liabilities, the most significant change was kin financial liabilities, which decrease by approximately 55.4%. For further details, see Note 10.4
- Acid test: Despite a decrease between both years, the proportional amount it represents in current assets increased by approximately 5%, which is reflected in a lower amount acid test ratio, for further details see Note 8.

Indebtedness:

- Indebtedness ratio: this decrease may be explained because although both balance items were reduced, the proportional amount in which total liabilities were reduced was greater, resulting in a greater ratio, which means that for each U.S. dollar contributed by the owners a lower amount of debt was assumed compared to the prior year. The main variance in liabilities was noted in financial liabilities both current and non-current, which decreased by approximately MUS$400, for further details see Note 10.4. For equity, the largest reduction was noted in Retained earnings (losses) which decreased by an amount greater than profit for the year generating lower total equity.
- Proportional amount of debt: Although both short-term and long-term debt were reduced, the latter was reduced by a larger percentage resulting in variances in proportional debt ratios. However, they maintained levels close to those recorded in the prior year. For further details, please see Note 10.4.

Activities:

- Inventory turnover and permanence: We note an increase in inventory turnover mainly due to the increase in sales, which is linked to a higher cost of sales and a reduction in inventories (Note 8). Because of such increase, we also note a reduction in inventory permanence of 36 days, as both ratios are inversely proportional.

Profitability:

- Earnings per share: recording the same number of shares, because of an increase in profit for the period, an increase is generated in this ratio. For further details, please, see the statement of income.
- ROE: The increase in this ratio was due to an increase in profit for the period and a decrease in equity. The main reasons for such fluctuations are explained in the preceding ratios.
- ROA: The increase in such ratio was due to an increase in profit for the period and a decrease in equity. The main reasons for such fluctuations are explained in the preceding ratios.

342

10) FINANCIAL REPORTS

3. Analysis of the Statement of Cash Flows

The detail of the main components of cash flows as of December 31, 2016 and 2015 is as follows:

Statement of cash flows	12/31/2016 ThUS$	12/31/2015 ThUS$
Net cash flows from (used in) operating activities	640,119	427,317
Net cash flows from (used in) investing activities	155,929	(69,805)
Net cash flows from (used in) financing activities	(816,410)	(180,343)
Effects of changes in exchange rates on cash and cash equivalents	7,772	(4,476)
Cash and cash equivalents at the beginning of the period	527,259	354,566
Cash and cash equivalents at the end of the period	514,669	527,259

4. Market risk analysis

Interest rate: As of December 31, 2016, the Company's financial liabilities, current and non-current that accrue interest amount to MUS$1,340.5 and include the following types of financing:

i. Bank borrowing bearing current interest in Chilean pesos for the amount equivalent to MUS$20 at fixed rate in U.S. dollars through a Cross Currency Swap of 1.13%.

ii. Unsecured obligations bearing interest, current and non-current (considering principal owed only): a bond in U.S. dollars of MUS$300 considering a fixed interest rate of 3.625%, a bond in U.S. dollars of MUS$250 considering a fixed interest rate of 5.5%, a bond in U.S. dollars of MUS$250 considering a fixed interest rate of 4.375; a bond in UF for the amount equivalent to MUS$53.9 at fixed rate in U.S. dollars, through a Cross Currency Swap, of 5.84%; a bond in UF for the amount equivalent to MUS$191.6 at fixed rate in U.S. dollars, through a Cross Currency Swap, of 4.03%; a bond in UF for the amount equivalent to MUS$46.5 at fixed rate in U.S. dollars, through a Cross Currency Swap, of 2,9%; and a bond in UF for the amount equivalent to MUS$68.3 at fixed rate in U.S. dollars, through a Cross Currency Swap, of 3.56%.

Approximately 2% of financial obligations in U.S. dollars are at variable rate and consider risks inherent to international interest rates, in particular the LIBOR rate.

As of December 31, 2016, the Company recorded MUS$179.1 within other current financial liabilities and MUS$1,093.4 within other non-current financial liabilities.

343

10) FINANCIAL REPORTS

Exchange rate: SQM's main economic environment operates in U.S. dollars. However, because of the Company's internationalization, the Company operates in different countries which generate exposure to changes in exchange rates for the different currencies with respect to U.S. dollar. Accordingly, SQM has hedging contracts to mitigate the exposure generated by its main mismatches (assets net of liabilities) in currencies other than U.S. dollar against the variation in the exchange rate, updating such contracts on a weekly basis depending on the quantity of assets and liabilities necessary to hedge in currencies other than U.S. dollar.

To ensure the difference between its assets and liabilities, as of December 31, 2016, the Company had the following derivative contracts (as the sum of the absolute value of their notional values): MUS $63.5 in Chilean peso/U.S. dollar derivative contracts, MUS$35.4 in Euro/U.S. dollar derivative contracts, MUS$21.2 in South African rand/U.S. dollar and MUS$3.3 in other currencies.

In addition, the Company had MUS$30.95 in derivative contracts to hedge its investments in term deposits in Chilean pesos.

To hedge its expected net cash flows in Chilean pesos related to the businesses associated with the trading of fertilizers in Chile, the Company did not maintain any Chilean peso/U.S. dollar derivative contract as of December 31, 2016. To hedge its expected net cash flows in Euros the Company did not maintain any Euro/U.S. dollar derivative contracts as of December 31, 2016.

Commodity prices: The main commodities the Company uses are oil (petroleum) as fuel and in all its forms. Currently, the Company has no hedging contracts hedging international changes in prices. However, the Company has long-term contracts for energy supply.

As indicated in the Company's Annual Report, markets in which the Company operates are unpredictable, exposed to significant fluctuations in supply and demand, and price high volatility. Additionally, the supply of certain fertilizers or chemicals, including certain products which the Company trades, vary mainly depending on the production of top producers and their related business strategies. Accordingly, the Company cannot forecast with certainty changes in demand, responses from competitors or fluctuations in the final price of its products. These factors can lead to significant impacts on the Company's product sales volumes, financial position and share price.

Note 4 of the Consolidated Financial Statements as of December 31, 2016 includes a detailed analysis of risks associated with the Company’s businesses.

344

10) FINANCIAL REPORTS

10) B) SUMMARY FINANCIAL STATEMENTS

The summary consolidated or individual financial statements of all companies mentioned in SVS General Rule No. 346, Section I, No. 2,1, Letter a,4,2 are provided below. The complete financial statements of such companies are available to the public in our offices and at the offices of the SVS.

SQM POTASIO S.A. AND SUBSIDIARIES: SUMMARY FINANCIAL STATEMENTS

Summary Consolidated Classified Statements of Financial Position

	As of December 31, 2016 ThUS$	As of December 31, 2015 ThUS$
Assets		
Current assets		
Cash and cash equivalents	65,633	81,569
Trade receivables due from related parties, current	605,444	454,442
Current inventories	190,206	201,129
Other current assets	69,708	78,637
Total current assets	930,991	815,777
Non-current assets		
Property, plant and equipment	809,331	881,951
Other non-current assets	133,812	81,034
Total non-current assets	943,143	962,985
Total assets	1,874,134	1,778,762
Liabilities and Equity		
Liabilities		
Current liabilities		
Other current financial liabilities	20,948	100,640
Trade payables due to related parties, current	559,566	343,300
Other current liabilities	139,469	75,194
Total current liabilities	719,983	519,134

Non-current liabilities		
Deferred tax liabilities	196,449	202,735
Other non-current liabilities	2,402	1,842
Total non-current liabilities	198,851	204,577
Total liabilities	918,834	723,711
Equity		
Equity attributable to owners of the Parent	835,841	902,886
Non-controlling interests	119,459	152,165
Total equity	955,300	1,055,051
Total liabilities and equity	1,874,134	1,778,762

345

10) FINANCIAL REPORTS

SQM POTASIO S.A. AND SUBSIDIARIES: SUMMARY FINANCIAL STATEMENTS

Summary Consolidated Statements of Income by Function

	January to december	
	2016	2015
	ThUS$	ThUS$
Revenue	983,229	774,881
Cost of sales	(538,890)	(459,961)
Gross profit	444,339	314,920
Profit (loss) from operating activities	430,888	308,255
Profit (loss) before taxes	419,514	308,726
Income tax expense, continuing operations	(113,342)	(89,135)
Profit for the year	306,172	219,591
Profit attributable to		
Owners of the Parent	252,321	184,315
Non-controlling interests	53,851	35,276
Profit for the year	306,172	219,591
Earnings per share		
Common shares		
Basic earnings per share (US$ per share)	2,001	1,4351
Basic earnings per share (US$ per share) from continuing operations	2,001	1,4351
Diluted common shares		
Diluted earnings per share (US$ per share)	2,001	1,4351
Diluted earnings per share (US$ per share) from continuing operations	2,001	1,4351

Summary Consolidated Statements of Comprehensive Income

	January to december	
	2016	2015
	ThUS$	ThUS$
Profit for the year	306,172	219,591
Other comprehensive income	67	213
Total comprehensive income	306,239	219,804

Comprehensive income attributable to		
Owners of the Parent	250,799	184,504
Non-controlling interests	55,440	35,270
Total comprehensive income	306,239	219,804

346

10) FINANCIAL REPORTS

SQM POTASIO S.A. AND SUBSIDIARIES: SUMMARY FINANCIAL STATEMENTS

Summary Consolidated Statements of Cash Flows

	12/31/2016 ThUS$	12/31/2015 ThUS$
Net cash generated from (used in) operating activities	555,237	466,118
Net cash generated from (used in) investing activities	(84,454)	(45,841)
Net cash generated from (used in) financing activities	(487,564)	(468,286)
Net increase (decrease) in cash and cash equivalents before the effect of changes in the exchange rate	(16,781)	(48,009)
Effects of exchange rate fluctuations on cash held	845	(1,305)
Net (decrease) increase in cash and cash equivalents	(15,936)	(49,314)
Cash and cash equivalents at beginning of period	81,569	130,883
Cash and cash equivalents at end of period	65,633	81,569

347

10) FINANCIAL REPORTS

SQM POTASIO S.A. AND SUBSIDIARIES: SUMMARY FINANCIAL STATEMENTS

Summary Consolidated Statements of changes in Equity

2016	Share capital	Other reserves	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total
	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$
Equity at beginning of the year	257,010	8,057	637,819	902,886	152,165	1,055,051
Profit for the year	-	-	252,322	252,332	53,851	306,173
Other comprehensive income	-	93	-	93	(26)	67
Comprehensive income	-	93	252,322	252,415	53,825	306,240
Dividends	-	-	(319,531)	(319,460)	(86,532)	(405,991)
Increase (decrease) due to transfers and other changes	-	71	(67,209)	(67,045)	(32,706)	(99,751)
Equity As of December 31, 2016	257,010	8,221	570,610	835,841	119,459	955,300

2015	Share capital	Other reserves	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total
	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$
Equity at beginning of the year	257,010	7,838	812,519	1,077,367	175,901	1,253,268
Profit for the year	-	-	184,315	184,315	35,276	219,591
Other comprehensive income	-	219	-	219	(6)	213
Comprehensive income	-	219	184,315	184,534	35,270	219,804
Dividends	-	-	(359,015)	(359,015)	(59,006)	(418,021)
Increase (decrease) due to transfers and other changes	-	219	(174,700)	(174,481)	(23,736)	(198,217)
Equity As of December 31, 2015	257,010	8,057	637,819	902,886	152,165	1,055,051

348

10) FINANCIAL REPORTS

SQM POTASIO S.A. AND SUBSIDIARIES: SUMMARY FINANCIAL STATEMENTS

Detail of related parties and related party transactions

Transactions between the Parent and its subsidiaries are part of the Company's common transactions. Their conditions are those customary for this type of transactions in respect of terms and market prices. In addition, these have been eliminated in consolidation and are not detailed in this note.

Maturity terms for each case vary by virtue of the transaction giving rise to them.

As of December 31, 2016 and December 31, 2015, there are no allowances for doubtful accounts related to balances pending of transactions with related parties as there is no impairment in them.

As of December 31, 2016 and December 31, 2015, the details of transactions with related parties are as follows:

Tax ID No,	Company	Nature	Country of origin	Transaction	**12/31/2016**	**12/31/2015**
					ThUS$	ThUS$
Extranjero	SQM Africa Pty. Ltd..	Other related parties	South Africa	Sale of products	28,932	43,309
77.557.430-5	Sales de Magnesio Ltda.	Associate	Chile	Sale of products	1,343	1,153
77.557.430-5	Sales de Magnesio Ltda.	Associate	Chile	Dividends	402	286
Extranjero	SQM Ecuador S.A.	Other related parties	Ecuador	Sale of products	12,236	10,503
Extranjero	SQM Europe N.V.	Other related parties	Belgium	Sale of products	401,107	198,260
Extranjero	SQM Europe N.V.	Other related parties	Belgium	Services received	12	6
96.592.190-7	SQM Nitratos S.A.	Associate	Chile	Current account interest	914	749
96.592.190-7	SQM Nitratos S.A.	Associate	Chile	Services provided	2,088	-

79.947.100-0	SQM Industrial S.A.	Common parent	Chile	Sale of products	96,037	102,428
79.947.100-0	SQM Industrial S.A.	Common parent	Chile	Sale of fixed asset	47	6
79.947.100-0	SQM Industrial S.A.	Common parent	Chile	Current account interest	4,327	1,439
79.947.100-0	SQM Industrial S.A.	Common parent	Chile	Services received	1,821	2,086
79.947.100-0	SQM Industrial S.A.	Common parent	Chile	Services provided	1,821	5,155
79.947.100-0	SQM Industrial S.A.	Common parent	Chile	Dividends	319	-
93.007.000-9	SQM S.A.	Parent	Chile	Current account interest	1,359	230
93.007.000-9	SQM S.A.	Parent	Chile	Current account interest	18,218	4,702
93.007.000-9	SQM S.A.	Parent	Chile	Services provided	2,145	1,588
93.007.000-9	SQM S.A.	Parent	Chile	Services received	1,669	2,474
Extranjero	SQM North America Corp.	Other related parties	United States	Sale of products	64,116	81,479
79.768.170-9	Soquimich Comercial S.A.	Other related parties	Chile	Sale of products	16,620	28,030
Extranjero	Ajay No rth America	Associate	United States	Dividends	3,759	5,185
Extranjero	Kowa Company Ltd.	Other related parties	Japan	Sale of products	68,501	37,435
79.770.780-5	SIT S.A.	Other related parties	Chile	Current account interest	1,002	4,836
Extranjero	SQM Comercial de México S.A. de C.V.	Other related parties	México	Sale of products	36,629	48,459
Extranjero	SQM Iberian S.A.	Other related parties	Spain	Sale of products	28,438	22,962

349

10) FINANCIAL REPORTS

SQM POTASIO S.A. AND SUBSIDIARIES: SUMMARY FINANCIAL STATEMENTS

Tax ID No,	Company	Nature	Country of origin	Transaction	12/31/2016	12/31/2015
					ThUS$	ThUS$
Extranjero	SQM Vitas Brasil Agroindustria	Other related parties	Brazil	Sale of products	9,653	21,030
Extranjero	Sichuan SQM Migao Chemical	Other related parties	China	Sale of products	-	19,355
Extranjero	SQM Vitas Perú S,A,C,	Other related parties	Perú	Sale of products	8,278	17,522
Extranjero	Charlle SQM Thailandia	Other related parties	Thailand	Sale of products	143	308
Extranjero	SQM Thailand Limited	Other related parties	Thailand	Sale of products	4,417	4,871

Trade receivables due from related parties, current:

Tax ID N°	Company	Nature	Country of origin	Currency	**12/31/2016**	**12/31/2015**
					ThUS$	**ThUS$**
Foreign	Nitratos Naturais Do Chile Ltda.	Other related parties	Brazil	US$	2,358	2,358
Foreign	RS Agro Chemical Trading Corporation A.V.V.	Other related parties	Aruba	US$	8	-
Extranjero	Soquimich European Holding B.V.	Other related parties	Dutch Antille	US$	63,770	78,637
79.770.780-5	Serv. Integrales de Tránsito y Transf. S.A.	Associate	Chile	US$	117	-
Foreign	SQM Thailand Limited	Other related parties	Tailandia	US$	5,730	6,310
Foreign	SQM Africa Pty Ltd.	Other related parties	South Africa	US$	32,506	40,625
Foreign	SQM Corporation N.V	Other related parties	Dutch Antille	US$	3,568	3,539
Foreign	SQM Ecuador S.A.	Other related parties	Ecuador	US$	12,979	10,503
Foreign	SQM Europe N.V.		Belgium	US$	168,526	86,328

		Other related parties				
Foreign	SQM Iberian S.A.	Other related parties	Spain	US$	25,271	11,645
79.947.100-0	SQM Industrial S.A	Matriz Común	Chile	US$	104,468	49,325
96.592.190-7	SQM Nitratos S.A.	Associate	Chile	US$	19,587	16,185
Foreign	SQM North America Corp.	Associate	United States	US$	96,832	65,280
Foreign	SQM Perú S.A.	Other related parties	Perú	US$	1,080	1,080
79.768.170-9	Soquimich Comercial S.A.	Other related parties	Chile	US$	6,996	10,225
Foreign	SQM Comercial de México S.A. de C.V.	Other related parties	México	US$	14,226	20,967
Foreign	Kowa Company Ltd.	Other related parties	Japan	US$	25,716	17,336
Foreign	Ajay North America	Other related parties	United States	US$	23	23
Foreign	Charlee SQM Thailand Co.Ltd	Other related parties	Thailand	US$	-	305
77.557.430-5	Sales de Magnesio Ltda	Associate	Chile	US$	-	352
Foreign	Sichuan SQM Migao Chemical Fertilizers Co Ltda.	Other related parties	China	US$	12,912	12,794
Foreign	SQM Vitas Brasil Agroindustria	Other related parties	Brazil	US$	3,946	11,456
Foreign	SQM Vitas Fzco	Other related parties	United Arab Emirates	US$	65	65
Foreign	SQM Vitas Perú S.A.C	Other related parties	Perú	US$	4,005	8,250
93.007.000-9	SQM S.A.	Parent	Chile	US$	755	854
Total as of to date					605,444	454,442

350

10) FINANCIAL REPORTS

SQM POTASIO S.A. AND SUBSIDIARIES: SUMMARY FINANCIAL STATEMENTS

Trade payables due to related parties, current:

Tax ID N°	Company	Nature	Country of origin	Currency	12/31/2016	12/31/2015
					ThUS$	ThUS$
Foreign	RS Agro Chemical Tranding	Associate	Aruba	US$	5,168	5,188
79.770.780-5	SIT S.A.	Associate	Chile	US$	31,164	13,496
Foreign	SQM(beijing) Commercial Co..Ltd.	Other related parties	China	US$	991	1,718
Foreign	SQM Europe N.V.	Other related parties	Belgium	US$	36	-
79.947.100-0	SQM Industrial S.A.	Matriz Común	Chile	US$	14,501	-
Foreign	Charlee SQM(thailand) Co	Other related parties	Thailand	US$	23	-
93.007.000-9	SQM S.A.	Matriz	Chile	US$	507,683	322,898
Total as of to date					559,566	343,300

351

10) FINANCIAL REPORTS

SQM POTASIO S.A. AND SUBSIDIARIES: SUMMARY FINANCIAL STATEMENTS

Summary Consolidated Classified Statements of Financial

	As of December 31, 2016 ThUS$	As of December 31, 2015 ThUS$
Assets		
Current assets		
Cash and cash equivalents	179,427	187,718
Trade receivables due from related parties, current	315,842	265,134
Current inventories	1,044,201	1,017,417
Other current assets	172,784	130,998
Total current assets	1,712,254	1,601,267
Non-current assets		
Investments in associates	75,632	68,101
Property, plant and equipment	498,565	549,254
Other non-current assets	28,722	31,705
Total non-current assets	602,919	649,060
Total assets	2,315,173	2,250,327
Liabilities and Equity		
Liabilities		
Current liabilities		
Trade payables due to related parties, current	1,117,980	1,037,251
Other current liabilities	172,070	163,177
Total current liabilities	1,290,050	1,200,428
Non-current liabilities		
Deferred tax liabilities	64,935	64,565
Other non-current liabilities	23,629	21,252
Total non-current liabilities	88,564	85,817
Total liabilities	1,378,614	1,286,245
Equity		
Equity attributable to owners of the Parent	890,930	907,559

Non-controlling interests	45,629	56,523
Total equity	936,559	964,082
Total liabilities and equity	2,315,173	2,250,327

352

10) FINANCIAL REPORTS

SQM POTASIO S.A. AND SUBSIDIARIES: SUMMARY FINANCIAL STATEMENTS

Summary Consolidated Statements of Income by Function

	January to December	
	2016	2015
	ThUS$	ThUS$
Revenue	1,748,595	1,636,597
Cost of sales	(1,602,817)	(1,506,618)
Gross profit	145,778	129,979
Profit (loss) from operating activities	55,461	24,785
Profit (loss) before taxes	25,203	20,501
Income tax expense, continuing operations	(16,766)	(3,923)
Profit for the year	8,437	16,578
Profit attributable to		
Owners of the Parent	17,261	19,144
Non-controlling interests	(8,824)	(2,566)
Profit for the year	8,437	16,578

	January to December	
	2016	2015
	US$	US$
Earnings per share		
Common shares		
Basic earnings per share (US$ per share)	0,0241	0,0268
Basic earnings per share (US$ per share) from continuing operations	0,0241	0,0268
Diluted common shares		
Diluted earnings per share (US$ per share)	0,0241	0,0268
Diluted earnings per share (US$ per share) from continuing operations	0,0241	0,0268

353

10) FINANCIAL REPORTS

SQM POTASIO S.A. AND SUBSIDIARIES: SUMMARY FINANCIAL STATEMENTS

Summary Consolidated Statements of comprehensive income

	January to December	
	2016	2015
	ThUS$	ThUS$
Profit for the year	8,437	16,578
Other comprehensive income	(2,855)	(8,935)
Resultado integral Total	5,582	7,643
Comprehensive income attributable to		
Owners of the Parent	14,625	11,384
Non-controlling interests	(9,043)	(3,741)
Total comprehensive income	5,582	7,643

Summary Consolidated Statements of Cash Flows

	12/31/2016	12/31/2015
	ThUS$	ThUS$
Net cash generated from (used in) operating activities	119,153	202,648
Net cash generated from (used in) investing activities	(96,092)	(101,389)
Net cash generated from (used in) financing activities	(33,517)	(12,756)
Net increase (decrease) in cash and cash equivalents before the effect of changes in the exchange rate	(10,456)	88,503
Effects of exchange rate fluctuations on cash held	2,165	(774)
Net (decrease) increase in cash and cash equivalents	(8,291)	87,729
Cash and cash equivalents at beginning of period	187,718	99,989
Cash and cash equivalents at end of period	179,427	187,718

354

10) FINANCIAL REPORTS

SQM POTASIO S.A. AND SUBSIDIARIES: SUMMARY FINANCIAL STATEMENTS

Summary Consolidated Statements of Changes in Equity

2016	Share capital	Other reserves	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total
	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$
Equity at beginning of the year	715,066	(10,872)	203,365	907,559	56,523	964,082
Profit for the year)	-	-	17,261	17,261	(8,824)	8,437
Other comprehensive income	-	(2,636)	-	(2,636)	(219)	(2,855)
Comprehensive income	-	(2,636)	17,261	14,625	(9,043)	5,582
Dividends	-	-	(33,517)	(33,517)	(1,851)	(35,368)
Increase (decrease) due to transfers and other changes	-	6,364	(4,101)	2,263	-	2,263
Increase (decrease) in equity	-	3,728	(20,357)	(16,629)	(10,894)	(27,523)
Equity as of December 31, 2016	715,066	(7,144)	183,008	890,930	45,629	936,559

2015	Share capital	Other reserves	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interests	Total
	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$
Equity at beginning of the year	715,066	(3,112)	194,595	906,549	61,567	968,116
Profit for the year)	-	-	19,144	19,144	(2,566)	16,578
Other comprehensive income	-	(7,760)	-	(7,760)	(1,175)	(8,935)
Comprehensive income	-	(7,760)	19,144	11,384	(3,741)	7,643
Dividends	-	-	(10,374)	(10,374)	(1,303)	(11,677)
Increase (decrease) in equity	-	(7,760)	8,770	1,010	(5,044)	(4,034)
Equity as of December 31, 2015	715,066	(10,872)	203,365	907,559	56,523	964,082

355

10) FINANCIAL REPORTS

SQM POTASIO S.A. AND SUBSIDIARIES: SUMMARY FINANCIAL STATEMENTS

Balances and transactions with related parties

Related party disclosures

Balances pending at period-end are not guaranteed, accrue no interest and are settled in cash. No guarantees have been delivered or received for trade and other receivables due from related parties or trade and other payables due to related parties. For the period ended December 31, 2016, the Company has not recorded any impairment in accounts receivable related to amounts owed by related parties. This evaluation is conducted every year through an examination of the financial position of the related party in the market in which it operates.

Detailed identification of the link between the Parent and subsidiary

Transactions between the Parent and its subsidiaries are part of the Company's common transactions. Their conditions are those customary for this type of transactions in respect of terms and market prices. In addition, these have been eliminated in consolidation and are not detailed in this note.

Maturity terms for each case vary by virtue of the transaction giving rise to them.

As of December 31, 2016 and December 31, 2015, there are no allowances for doubtful accounts related to balances pending of transactions with related parties as there is no impairment in them.

As of December 31, 2016 and December 31, 2015, the details of transactions with related parties are as follows:

Tax ID No.	Company	Nature	Country of origin	Transaction	12/31/2016 ThUS$	12/31/2015 ThUS$
96.592.190-7	SQM Nitratos S.A.	Common parent	Chile	Sale of services	-	6,577
96.592.190-7	SQM Nitratos S.A.	Common parent	Chile	Purchase products	96,235	146,731
96.592.190-7	SQM Nitratos S.A.	Common parent	Chile	Purchase fixed asset	-	1,368
96.592.190-7	SQM Nitratos S.A.	Common parent	Chile	Sale of fixed assets	75	251
96.592.190-7	SQM Nitratos S.A.	Common parent	Chile	Current account interest	26,530	31,172
96.592.190-7	SQM Nitratos S.A.	Common parent	Chile	Current account interest	598	2,857
93.007.000-9	SQM S.A.	Parent	Chile	Sale of solutions	100,830	143,233
93.007.000-9	SQM S.A.	Parent	Chile	Current account interest	4,264	31,171
93.007.000-9	SQM S.A.	Parent	Chile	Current account interest	3,256	15,963
93.007.000-9	SQM S.A.	Parent	Chile	Sale of services	142	585
93.007.000-9	SQM S.A.	Parent	Chile	Rental payments received	-	241
93.007.000-9	SQM S.A.	Parent	Chile	Purchase fixed asset	526	2,081
93.007.000-9	SQM S.A.	Parent	Chile	Sale of fixed assets	554	1,036
79.626.800-K	SQM Salar S.A.	Common parent	Chile	Sale of product	218	216
79.626.800-K	SQM Salar S.A.	Common parent	Chile	Sale of services	16,224	710
79.626.800-K	SQM Salar S.A.	Common parent	Chile	Rental payments received	-	216
79.626.800-K	SQM Salar S.A.	Common parent	Chile	Purchase fixed asset	-	1,665
79.626.800-K	SQM Salar S.A.	Common parent	Chile	Sale of fixed assets	-	933
79.626.800-K	SQM Salar S.A.	Common parent	Chile	Current account interest	3,218	1,146
79.626.800-K	SQM Salar S.A.	Common parent	Chile	Current account interest	1,007	4,841

356

10) FINANCIAL REPORTS

SQM POTASIO S.A. AND SUBSIDIARIES: SUMMARY FINANCIAL STATEMENTS

Tax ID No.	Company	Nature	Country of origin	Transaction	12/31/2016 ThUS$	12/31/2015 ThUS$
Foreign	Royal Seed Trading Corporation A.V.V.	Other related parties	Aruba	Current account interest	-	923
Foreign	SQM Investment Corporation N.V	Other related parties	Dutch Antilles	Current account interest	-	679
Foreign	Ajay Europe SARL	Associate	France	Sale of products	-	23,545
Foreign	Ajay Europe SARL	Associate	France	Dividends	-	1,748
Foreign	Abu Dhabi Fertilizer Industries WWL.	Associate	United Arab Emirates	Sale of products	-	7,901
Foreign	Ajay North America LLC	Other related parties	United States	Sale of products	-	15,618
Foreign	Doktor Tarsa Tarim Sanayi AS	Associate	Turkey	Sale of products	-	17,842
Foreign	Kowa Company Ltd.	Other related parties	Japan	Sale of products	-	7,348
96.651.060-9	SQM Potasio S.A.	Common parent	Chile	Current account interest	1,108	298
Foreign	Charlee SQM Thailand Co. Ltd.	Associate	Thailand	Sale of products	1,699	5,249
Foreign	SQM Japon Co. Ltd.	Other related parties	Japan	Sale of products	348	617
Foreign	Coromandel SQM	Joint venture	India	Sale of products	197	4,012
Foreign	Sichuan SQM Migao Chemical Fertiliezers Co Ltda.	Joint venture	China	Sale of products	9,950	3,270
Foreign	SQM Vitas Brasil Agroindustria	Joint venture	Brazil	Sale of products	8,033	10,989
Foreign	SQM Vitas Fzco.	Joint venture	Arab Emirates	Sale of products	-	1,060
Foreign	SQM Vitas Perú S.A.C.	Joint venture	Perú	Sale of products	13,708	17,064
Foreign	SQM Vitas Southem Africa Pty	Joint venture	South Africa	Sale of products	-	2,187
Foreign	SQM Vitas Spain	Joint venture	Spain	Sale of products	-	8,587

357

10) FINANCIAL REPORTS

SQM POTASIO S.A. AND SUBSIDIARIES: SUMMARY FINANCIAL STATEMENTS

Trade receivables due from related parties, current:

Tax ID N°	Company	Nature	Country of origin	Currency	12/31/2016 ThUS$	12/31/2015 ThUS$
79.876.080-7	Adepo Ltda	Other related parties	Chile	Ch$	1	1
Extranjero	Comercial Caiman Int. S.A.	Other related parties	Panama	US$	799	799
76.425.380-9	Exploraciones Mineras S.A..	Other related parties	Chile	US$	35	33
76.359.919-1	Orcoma Estudio Spa	Other related parties	Chile	US$	-	1
Extranjero	SQm Japan K.K.	Other related parties	Japan	US$	201	75
Extranjero	Soquimich SRL Argentina	Subsidiary	Argentina	US$	158	159
79.049.778-9	Callegari Agrícola S.A.	Jointly controlled entity	Chile	Ch$	41	52
Extranjero	Kowa Company Ltd.	Jointly controlled entity	Japan	US$	2,960	1,127
96.511.530-7	Soc. Inv P. Calichera S.A.	Jointly controlled entity	Chile	US$	6	6
Extranjero	Abu Dhabi Fertilizer Ind	Other related parties	United Arab Emirates	US$	764	772
Extranjero	Ajay Europe SARL	Other related parties	France	US$	3,678	2,827
Extranjero	Ajay North América llc	Other related parties	United States	US$	1,529	1,808
Extranjero	Charlee SQM Thailand Co.	Other related parties	Thailand	Bath Tailandés	1,338	2,032
Extranjero	Doktor Tarsa	Other related parties	Turkey	US$	-	9,314
77.557.430-5	Sales de Magnesio Ltda.	Other related parties	Chile	US$	-	25

Extranjero	Coromandel SQM India	Joint venture	India	Rupia India	1,177	751
Extranjero	SQM Star Qingdao Corp Nutrition Co.. Ltd	Joint venture	China	US$	48	52
Extranjero	SQM Migao Sichuan Fertilizer	Joint venture	China	US$	11,635	8,670
Extranjero	SQM Vitas Brasil Agroindustria	Joint venture	Brazil	US$	5,634	7,699
Extranjero	SQM Vitas Fzco.	Joint venture	United Arab Emirates	US$	31	-
Extranjero	SQM Vitas Perú S.A.C	Joint venture	Perú	US$	9,313	7,777
Extranjero	SQM Vitas Plantacote B.V	Negocio conjunto	Holanda	US$	91	-
Extranjero	SQM Vitas Spain (JV)	Joint venture	Spain	US$	-	566
93.007.000-9	SQM S.A.	Parent	Chile	US$	47,271	5,861
Total as of to date					86,710	50,407

358

10) FINANCIAL REPORTS

SQM POTASIO S.A. AND SUBSIDIARIES: SUMMARY FINANCIAL STATEMENTS

Trade payables due to related parties, current:

Tax ID No,	Company	Nature	Country of origin	Currency	12/31/2016 ThUS$	12/31/2015 ThUS$
Foreign	Doktor Tarsa Tarim Sanaryi AS	Other related parties	Turkey	US$	8	-
Foreign	Royal Seed Trading Co.	Other related parties	Aruba	US$	15,498	30,239
Foreign	SQM Investment Co.	Other related parties	Dutch Antilles	US$	40,780	40,879
96.592.190-7	SQM Nitratos S.A.	Other related parties	Chile	US$	625,036	494,516
79.626.800-k	SQM Salar S.A.	Other related parties	Chile	US$	391,151	260,080
96.651.060-9	SQM Potasio S.A.	Common parent	Chile	Ch$	23,519	20,343
Foreign	SQMC Holding Corporation L.L.P.	Other related parties	United States	US$	21,980	21,136
96.592.180-k	Ajay SQM Chile S.A.	Other related parties	Chile	Ch$	8	-
Foreign	SQM Vitas Fzco.	Joint venture	United Arab Emirates	Arab Emirates dirham	-	316
Foreign	SQM Vitas Plantacote B.V.	Other related parties	Holland	Euro	-	184
93.007.000-9	SQM S.A.	Parent	Chile	US$	-	169,558
Total as of to date					1,117,980	1,037,251

359

10) FINANCIAL REPORTS

SQM NITRATOS S.A.: SUMMARY FINANCIAL STATEMENTS

Summary Classified Statements of Financial Position

Assets	As of December 31, 2016 ThUS$	As of December 31, 2015 ThUS$
Current assets		
Trade receivables due from related parties, current	638,289	507,058
Other current assets	17,932	14,889
Total current assets	656,221	521,947
Non-current assets		
Property, plant and equipment	44,944	55,035
Other non-current assets	9,236	14,124
Total non-current assets	54,180	69,159
Total assets	710,401	591,106
Liabilities and Equity		
Liabilities		
Current liabilities		
Trade payables due to related parties, current	632,591	518,068
Other current liabilities	12,019	13,834
Total current liabilities	644,610	531,902
Non-current liabilities		
Deferred tax liabilities	5,791	7,781
Provisions for employee benefits, non-current	199	132
Total non-current liabilities	5,990	7,913
Total liabilities	650,600	539,815
Equity		

Equity attributable to owners of the Parent	59,801	51,291
Non-controlling interests	-	-
Total equity	59,801	51,291
Total liabilities and equity	710,401	591,106

360

10) FINANCIAL REPORTS

SQM NITRATOS S.A.: SUMMARY FINANCIAL STATEMENTS

Summary Statements of Income by Function

	January to December	
	2016	2015
	ThUS$	ThUS$
Revenue	96,235	146,731
Cost of sales	(79,384)	(123,282)
Gross profit	16,851	23,449
Profit (loss) from operating activities	16,581	(4,689)
Profit (loss) before taxes	16,598	(5,056)
Income tax expense, continuing operations	(4,421)	4,341
Profit for the year	12,177	(715)

	January to December	
	2016	2015
	US$	US$
Earnings per share		
Common shares		
Basic earnings per share (US$ per share)	0,2657	0,0156
Basic earnings per share (US$ per share) from continuing operations	0,2657	0,0156
Diluted common shares		
Diluted earnings per share (US$ per share)	0,2657	0,0156
Diluted earnings per share (US$ per share) from continuing operations	0,2657	0,0156

361

10) FINANCIAL REPORTS

SQM NITRATOS S.A.: SUMMARY FINANCIAL STATEMENTS

Summary Statements of Comprehensive Income

	2016 ThUS$	2015 ThUS$
Profit for the year	12,177	(715)
Other comprehensive income	(14)	(24)
Total comprehensive income	12,163	(739)
Comprehensive income attributable to		
Owners of the Parent	12,163	(739)
Non-controlling interests	-	-
Total comprehensive income	12,163	(739)

Summary Statements of Cash Flows

	12/31/2016 ThUS$	12/31/2015 ThUS$
Net cash generated from (used in) operating activities	6,880	1,642
Net cash generated from (used in) investing activities	(6,850)	(1,621)
Net increase (decrease) in cash and cash equivalents before the effect of changes in the exchange rate	30	21
Effects of exchange rate fluctuations on cash held	(22)	(20)
Net (decrease) increase in cash and cash equivalents	8	1
Cash and cash equivalents at beginning of period	75	74
Cash and cash equivalents at end of period	83	75

362

10) FINANCIAL REPORTS

SQM NITRATOS S.A.: SUMMARY FINANCIAL STATEMENTS

Summary Statements of Changes in Equity

2016	Share capital	Other reserves	Retained earnings	Equity attributable to owners of the Parent	Total
	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$
Equity at beginning of the year	30,350	(24)	20,965	51,291	51,291
Profit for the year)	-	-	12,177	12,177	12,177
Other comprehensive income		(14)	-	(14)	(14)
Comprehensive income	-	(14)	12,177	12,163	12,163
Dividends	-	-	(3,653)	(3,653)	(3,653)
Incremento (disminución) en el patrimonio	-	(14)	8,524	8,510	8,510
Equity as of December 31, 2016	30,350	(38)	29,489	59,801	59,801

2015	Share capital	Other reserves	Retained earnings	Equity attributable to owners of the Parent	Total
	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$
Equity at beginning of the year	30,350	-	16,150	46,500	46,500
Profit for the year)	-	-	(715)	(715)	(715)
Other comprehensive income		(24)	-	(24)	(24)
Comprehensive income	-	(24)	(715)	(739)	(739)
Dividends	-	-	5,530	5,530	5,530
Equity as of December 31, 2015	30,350	(24)	20,965	51,291	51,291

363

10) FINANCIAL REPORTS

SQM NITRATOS S.A.: SUMMARY FINANCIAL STATEMENTS

Related party disclosures

Balances pending at period-end are not guaranteed, accrue no interest and are settled in cash. No guarantees have been delivered or received for trade and other receivables due from related parties or trade and other payables due to related parties. For the period ended December 31, 2016, the Company has not recorded any impairment in accounts receivable related to amounts owed by related parties. This evaluation is conducted every year through an examination of the financial position of the related party in the market in which it operates.

Detail of related parties and related party transactions

Transactions between the Parent and its subsidiaries are part of the Company's common transactions. Their conditions are those customary for this type of transactions in respect of terms and market prices.

Maturity terms for each case vary by virtue of the transaction giving rise to them.

Tax ID No	Company	Nature	Country of origin	Transaction	12/31/2016 ThUS$	12/31/2015 ThUS$
79.947.100-0	SQM Industrial S.A.	Common parent	Chile	Sale of products	96,235	146,731
79.947.100-0	SQM Industrial S.A.	Common parent	Chile	Services received	-	76
79.947.100-0	SQM Industrial S.A.	Common parent	Chile	Current account interest	26,530	31,172
79.947.100-0	SQM Industrial S.A.	Common parent	Chile	Purchase fixed asset	75	251
79.947.100-0	SQM Industrial S.A.	Common parent	Chile	Sale of fixed assets	-	1,368
79.947.100-0	SQM Industrial S.A.	Common parent	Chile	Consulting services	3,894	4,269

93.007.000-9	SQM S.A.	Parent	Chile	Mining concession rental service	5,806	11,172
93.007.000-9	SQM S.A.	Parent	Chile	Services received	12	12
93.007.000-9	SQM S.A.	Parent	Chile	Current account interest	25,374	29,264
93.007.000-9	SQM S.A.	Parent	Chile	Consulting services	586	504
93.007.000-9	SQM S.A.	Parent	Chile	Dividends	3,670	-
79.770.780-5	Serv. Integrales de Tránsito y Transferencias S.A.	Other related parties	Chile	Services received	-	6,045
79.770.780-5	Serv. Integrales de Tránsito y Transferencias S.A.	Other related parties	Chile	Current account interest	598	2,857
79.626.800-K	SQM Salar S.A.	Other related parties	Chile	Current account interest	13	13
76.725.380-9	Exploraciones Mineras S.A.	Other related parties	Chile	Current account interest	16	16
79.906.120-1	Isapre Norte Grande Ltda.	Other related parties	Chile	Services received	4	219
76.534.490-5	Sociedad Prestadora de Servicios de Salud Cruz del Norte S.A.	Other related parties	Chile	Services received	4	236
96.651.060-9	SQM Potasio S.A.	Common parent	Chile	Current account interest	885	720
96.651.060-9	SQM Potasio S.A.	Common parent	Chile	Services received	2,088	3,233

364

10) FINANCIAL REPORTS

SQM NITRATOS S.A.: SUMMARY FINANCIAL STATEMENTS

Trade receivables due from related parties. current:

RUT	Nombre	Naturaleza	País de origen	Moneda	12/31/2016 ThUS$	12/31/2015 ThUS$
79.947.100-0	SQM Industrial S.A.	Matriz común	Chile	US$	638,289	507,058
				Total as of to date	638.289	507,058

Trade payables due to related parties. current:

RUT	Nombre	Naturaleza	País de origen	Moneda	12/31/2016 ThUS$	12/31/2015 ThUS$
93.007.000-9	SQM S.A.	Matriz	Chile	US$	599,751	489,340
96.651.060-9	SQM Potasio S.A.	Other related parties	Chile	US$	18,941	15,571
79.770.780-5	SIT S.A.	Other related parties	Chile	US$	13,253	12,542
79.626.800-k	SQM Salar S.A.	Other related parties	Chile	US$	295	279
76.425.380-9	Exploraciones Mineras S.A.	Other related parties	Chile	US$	351	335
				Total as of to date	632,591	518,067

As of December 31, 2016 and December 31, 2015, there are no allowances for doubtful accounts related to balances pending of transactions with related parties as there is no impairment in them.

365

10) FINANCIAL REPORTS

ORCOMA SPA: SUMMARY FINANCIAL STATEMENTS

Summary Classified Statements of Financial Position

	As of December 31. 2016 ThUS$	As of December 31. 2015 ThUS$
Assets		
Non-current assets		
Intangible assets other than goodwill	2,356	2,356
Other non-current assets	4	-
Total non-current assets	2,360	2,356
Total assets	2,360	2,356

	As of December 31. 2016 ThUS$	As of December 31. 2015 ThUS$
Liabilities and Equity		
Liabilities		
Current liabilities		
Trade payables due to related parties. current	13	8
Total current liabilities	13	8
Equity		
Share capital	2,358	2,358
Retained earnings	(11)	(10)
Total equity	2,347	2,348
Total liabilities and equity	2,360	2,356

Summary Statements of Income by Function

	January to December	
	2016	2015
	ThUS$	ThUS$
Administrative expenses	(5)	(7)
Profit (loss) from operating activities	(5)	(7)
Profit for the year	(5)	(7)

366

10) FINANCIAL REPORTS

ORCOMA SPA: SUMMARY FINANCIAL STATEMENTS

Summary Statements of Changes in Equity

2016	Share capital	Retained earnings	Equity attributable to owners of the Parent	Total
	THUS$	THUS$	THUS$	THUS$
Equity at beginning of the year	2,358	(10)	2,348	2,348
Profit for the year)	-	(1)	(1)	(1)
Other comprehensive income	-	-	-	-
Comprehensive income	-	(1)	(1)	(1)
Equity as of December 31, 2016	2,358	(11)	2,347	2,347

2015	Share capital	Retained earnings	Equity attributable to owners of the Parent	Total
	THUS$	THUS$	THUS$	THUS$
Equity at beginning of the year	2,358	(3)	2,355	2,355
Profit for the year)	-	(7)	(7)	(7)
Other comprehensive income	-	-	-	-
Comprehensive income	-	(7)	(7)	(7)
Equity as of December 31, 2015	2,358	(10)	2,348	2,348

367

10) FINANCIAL REPORTS

ORCOMA SPA: SUMMARY FINANCIAL STATEMENTS

Detail of related parties and related party transactions

Transactions between the Parent and its subsidiaries are part of the Company's common transactions. Their conditions are those customary for this type of transactions in respect of terms and market prices.

Maturity terms for each case vary by virtue of the transaction giving rise to them.

As of December 31, 2016 and December 31, 2015, there are no allowances for doubtful accounts related to balances pending of transactions with related parties as there is no impairment in them.

As of December 31, 2016 and December 31, 2015, the details of transactions with related parties are as follows:

Tax ID No.	Company	Nature	Country of origin	Transaction	12/31/2016	12/31/2015
					ThUS$	ThUS$
93.007.000-9	SQM S.A.	Parent	Chile	Capital contribution	-	2,358
93.007.000-9	SQM S.A.	Parent	Chile	Municipal patent expenses	-	3

368

10) FINANCIAL REPORTS

RS AGRO CHEMICAL TRADING CORPORATION A.V.V.: SUMMARY FINANCIAL STATEMENTS

Summary Classified Statements of Financial Position

	As of December 31, 2016 ThUS$	As of December 31, 2015 MUS$
Assets		
Current assets		
Cash and cash equivalents	11	6
Trade receivables due from related parties. current	5,168	5,188
Total current assets	5,179	5,194
Total assets	5,179	5,194

	As of December 31. 2016 ThUS$	As of December 31. 2015 MUS$
Liabilities		
Current liabilities		
Trade payables due to related parties. current	8	-
Total current liabilities	8	-
Equity		
Share capital	6	6
Retained earnings	5,165	5,188
Total equity	5,171	5,194
Total liabilities and equity	5,179	5,194

Summary Statements of Income by Function

	January to December	
	2016	2015

	ThUS$	ThUS$
Profit (loss) from operating activities	(22)	(6)
Profit (loss) before taxes	(23)	(7)
Income tax expense. continuing operations	-	-
Profit (loss) from continuing operations	(23)	(7)
Profit for the year	(23)	(7)

369

10) FINANCIAL REPORTS

RS AGRO CHEMICAL TRADING CORPORATION A.V.V.: SUMMARY FINANCIAL STATEMENTS

	January to December 2016 US$	2015 US$
Earnings per share		
Common shares	60	60
Basic earnings per share (US$ per share)	(0.38)	(0.12)
Basic earnings per share (US$ per share) from continuing operations	(0.38)	(0.12)
Diluted common shares		
Diluted earnings per share (US$ per share)	(0.38)	(0.12)
Diluted earnings per share (US$ per share) from continuing operations	(0.38)	(0.12)

Summary Statements of Comprehensive Income

	January to December 2016 ThUS$	2015 ThUS$
Profit for the year	(23)	(7)
Total comprehensive income	(23)	(7)

Statements of cash flows

	31/12/2016 ThUS$	31/12/2015 ThUS$
Net cash generated from (used in) operating activities	5	(6)
Net increase (decrease) in cash and cash equivalents before the effect of changes in the exchange rate	5	(6)

Net (decrease) increase in cash and cash equivalents	5	(6)
Cash and cash equivalents at beginning of period	6	12
Cash and cash equivalents at end of period	11	6

370

10) FINANCIAL REPORTS

RS AGRO CHEMICAL TRADING CORPORATION A.V.V.: SUMMARY FINANCIAL STATEMENTS

Summary Statements of Changes in Equity

2016	Share capital ThUS$	Retained earning ThUS$	Total ThUS$
Equity at beginning of the year	6	5,188	5,194
Profit for the year)	-	(23)	(23)
Comprehensive income	-	(23)	(23)
Equity as of December 31, 2016	6	5,165	5,171

2015	Share capital ThUS$	Retained earning ThUS$	Total ThUS$
Equity at beginning of the year	6	5,195	5,201
Profit for the year)	-	(7)	(7)
Comprehensive income	-	(7)	(7)
Equity as of December 31, 2015	6	5,188	5,194

371

10) FINANCIAL REPORTS

RS AGRO CHEMICAL TRADING CORPORATION A.V.V.: SUMMARY FINANCIAL STATEMENTS

Transactions with related parties

Transactions between the Parent and its subsidiaries are part of the Company's common transactions. Their conditions are those customary for this type of transactions in respect of terms and market prices.

Maturity terms for each case vary by virtue of the transaction giving rise to them.

As of December 31, 2016 and December 31, 2015, there are no transactions between Rs Agro Chemical Trading Corporation A.V.V. and related parties.

As of December 31, 2016 and December 31, 2015, there are no allowances for doubtful accounts related to balances pending of transactions with related parties as there is no impairment in them.

Trade receivables due from related parties. current:

Tax ID No.	Company	Nature	Country of origin	Currency	12/31/2016 ThUS$	12/31/2015 ThUS$
Foreign	SQM Investment Corporation N.V.	Associate	Aruba	US$	5,168	5,188
Total as of to-date					5,168	5,188

372

10) FINANCIAL REPORTS

ORCOMA ESTUDIOS SPA: SUMMARY FINANCIAL STATEMENTS

Summary Classified Statements of Financial Position

	As of December 31, 2016 ThUS$	As of December 31, 2015 ThuS$
Assets		
Current assets		
Cash and cash equivalents	669	2,057
Other current non-financial assets	2	1
Total current assets	671	2,058
Non-current assets		
Property. plant and equipment	4,135	1,375
Total non-current assets	4,135	2,931
Total assets	4,806	4,989

	As of December 31, 2016 ThUS$	As of December 31, 2015 ThuS$
Liabilities and Equity		
Liabilities		
Current liabilities		
Trade and other receivables. current	159	94
Trade receivables due from related parties. current	-	245
Current tax liabilities	-	3
Other current non-financial liabilities	-	4
Total current liabilities	159	346
Total liabilities	159	346
Equity		
Share capital	4,632	4,632
Retained earnings	15	11

Total equity	4,647	4,643
Total liabilities and equity	4,806	4,989

373

10) FINANCIAL REPORTS

ORCOMA ESTUDIOS SPA: SUMMARY FINANCIAL STATEMENTS

Summary Statements of Income by Function

	Nota N°	January to December 2016 ThUS$	2015 ThUS$
Foreign currency translation differences		1	12
Profit (loss) before taxes		1	12
Income tax expense. continuing operations		3	(3)
Profit (loss) from continuing operations		4	9
Profit for the year		4	9

Summary Statements of Comprehensive Income

	January to December 2016 ThUS$	2015 ThUS$
Profit for the year	4	9
Total comprehensive income	4	9

374

10) FINANCIAL REPORTS

ORCOMA ESTUDIOS SPA: SUMMARY FINANCIAL STATEMENTS

Summary Statements of Cash Flows

	12/31/2016 ThUS$	12/31/2015 ThUS$
Net cash generated from (used in) operating activities	(184)	(1,017)
Net cash generated from (used in) financing activities	(1,204)	(1,556)
Net increase (decrease) in cash and cash equivalents before the effect of changes in the exchange rate	(1,388)	(2,573)
Net (decrease) increase in cash and cash equivalents	(1,388)	(2,573)
Cash and cash equivalents at beginning of period	2,057	4,630
Cash and cash equivalents at end of period	669	2,057

Summary Statements of Changes in Equity

2016	Share capital	Retained earnings (accumulated deficit)	Total equity
	ThUS$	ThUS$	ThUS$
Initial balance. current year at 01/01/2016	4,632	11	4,643
Restated initial balance			
Profit (loss)	-	4	4
Comprehensive income	-	4	4
Closing balance. current year at 12/31/2016	4,632	15	4,647

2015	Share capital	Equity attributable to owners of the Parent	Total
	ThUS$	ThUS$	ThUS$
Equity at beginning of the year	4,632	2	4,634
Profit for the year)	-	9	9

Comprehensive income	-	9	9
Equity as of December 31. 2015	4,632	11	4,643

375

10) FINANCIAL REPORTS

ORCOMA ESTUDIOS SPA: SUMMARY FINANCIAL STATEMENTS

Related party disclosures

Balances pending at each year-end are not guaranteed and are settled in cash. No guarantees have been delivered or received for trade and other receivables due from related parties or trade and other payables due to related parties. For the year ended December 31, 2016, the Company has not recorded any impairment in accounts receivable related to amounts owed by related parties. This evaluation is conducted every year through an examination of the financial position of the related party in the market in which it operates.

Relationships between the parent and the entity

Orcoma Estudios SPA. is controlled by two shareholders, Sociedad Química y Minera de Chile S.A. and IM Inversiones Limitada with ownership percentages of 51% and 49% respectively.

Sociedad Química y Minera de Chile S.A. is registered with the Securities Registry of the Chilean Superintendence of Securities and Insurance under No. 0184 of March 18, 1983 and accordingly, is subject to the oversight of such regulating authority.

Detailed identification of the link between the Parent and subsidiary

As of December 31, 2016 and December 31, 2015, the details of entities that are related parties are as follows :

Tax ID No.	Name	Country of origin	Functional currency	Nature
93.007.000-9	Sociedad Química y Minera de Chile S.A.	Chile	U.S. dollar	Parent
79.947.100-0	SQM Industrial S.A.	Chile	U.S. dollar	Other related parties

Trade payables due to related parties. current:

Tax ID No.	Company	Nature	Country of origin	Currency	12/31/2016 ThUS$	12/31/2015 ThUS$
93.007.000-9	SQM S.A.	Parent	Chile	Ch$	-	245
Total as of to-date					-	245

As of December 31, 2016 and December 31, 2015, there are no allowances for doubtful accounts related to balances pending of transactions with related parties as there is no impairment in them.

376

10) FINANCIAL REPORTS

AJAY SQM CHILE: SUMMARY FINANCIAL STATEMENTS

Summary Classified Statements of Financial Position

	As of December 31, 2016 ThUS$	As of December 31, 2015 ThUS$
Assets		
Current assets		
Trade and other receivables. current	4,054	3,031
Trade receivables due from related parties. current	7,162	6,629
Current inventories	4,942	6,400
Other current assets	1,081	984
Total current assets	17,232	17,044
Non-current assets		
Property. plant and equipment	990	902
Other non-current assets	79	156
Total non-current assets	1,069	1,058
Total assets	18,308	18,102

	As of December 31, 2016 ThUS$	As of December 31, 2015 ThUS$
Liabilities and Equity		
Liabilities		
Current liabilities		
Trade payables due to related parties. current	536	667
Other current liabilities	438	212
Total current liabilities	974	879
Non-current liabilities		
Deferred tax liabilities	-	116
Provisions for employee benefits. non-current	388	563
Total non-current liabilities	388	679

Total liabilities	1,362	1,558
Equity		
Total equity	16,946	16,545
Total liabilities and equity	18,308	18,102

Summary Statements of Income by Function

	January to December	
	2016	2015
	ThUS$	ThUS$
Revenue	28,035	38,414
Cost of sales	(23,889)	(33,697)
Gross profit	4,146	4,717
Profit (loss) from operating activities		
Profit (loss) before taxes	3,658	4,094
Income tax expense. continuing operations	(882)	(929)
Profit for the year	2,776	3,165

377

10) FINANCIAL REPORTS

AJAY SQM CHILE: SUMMARY FINANCIAL STATEMENTS

	January to December	
	2016	2015
	US$	US$
Earnings per share		
Common shares		
Basic earnings per share (US$ per share)	2.911	3.319
Basic earnings per share (US$ per share) from continuing operations	2.911	3.319
Diluted common shares		
Diluted earnings per share (US$ per share)	2.911	3.319
Diluted earnings per share (US$ per share) from continuing operations	2.911	3.319

Summary Statements of Cash Flows

	2016	2015
	ThUS$	ThUS$
Net cash generated from (used in) operating activities	2.273	2.273
Net cash generated from (used in) investing activities	(2.374)	(35)
Net cash generated from (used in) financing activities	572	(3.972)
Net increase (decrease) in cash and cash equivalents before the effect of changes in the exchange rate	572	(1.734)
Effects of exchange rate fluctuations on cash held	-	-
Net (decrease) increase in cash and cash equivalents	572	(1.734)
Cash and cash equivalents at beginning of period	247	1.981
Cash and cash equivalents at end of period	819	247

378

10) FINANCIAL REPORTS

AJAY SQM CHILE: SUMMARY FINANCIAL STATEMENTS

Summary Statements of Changes in Equity

2016	Share capital	Retained earnings	Total
	ThUS$	ThUS$	ThUS$
Equity at beginning of the year	5.314	11.230	16.544
Profit for the year)	-	2.776	2.776
Comprehensive income	-	2.776	2.776
Dividends	-	(2.374)	(2.374)
Increase (decrease) in equity	-	402	402
Equity as of December 31. 2016	5.314	11.632	16.946

2015	Share capital	Retained earnings	Total
	ThUS$	ThUS$	ThUS$
Equity at beginning of the year	5.314	12.037	17.351
Profit for the year)	-	3.165	3.165
Comprehensive income	-	3.165	3.165
Dividends	-	(3.972)	(3.972)
Increase (decrease) in equity		(807)	(807)
Equity as of December 31. 2015	5.314	11.230	16.544

379

10) FINANCIAL REPORTS

AJAY SQM CHILE: SUMMARY FINANCIAL STATEMENTS

Related party disclosures

Balances pending at period-end are not guaranteed, accrue no interest and are settled in cash. No guarantees have been delivered or received for trade and other receivables due from related parties or trade and other payables due to related parties. For the period ended December 31, 2016, the Company has not recorded any impairment in accounts receivable related to amounts owed by related parties. This evaluation is conducted every year through an examination of the financial position of the related party in the market in which it operates.

Relationships between the parent and the entity

Ajay-SQM Chile S.A. is controlled by two shareholders: Sociedad Química y Minera de Chile S.A. and Ajay Chemicals Inc. with ownership percentages of 51% and 49% respectively.

Sociedad Química y Minera de Chile S.A. is registered with the Securities Registry of the Chilean Superintendence of Securities and Insurance (SVS) under No. 0184 dated March 18, 1983 and is subject to the inspection of the SVS.

Detailed identification of the link between the Parent and subsidiary

As of December 31, 2016 and December 31, 2015, the details of entities that are related parties are as follows:

Tax ID No.	Name	Country of origin	Functional currency	Nature
93.007.000-9	Sociedad Química y Minera de Chile S.A.	Chile	US$	Parent

Trade receivables due from related parties. current:

Tax ID N°	Company	Nature	Country of origin	Currency	12/31/2016 ThUS$	12/31/2015 ThUS$
93.007.000-9	SQM S.A.	Parent	Chile	Ch$	7,162	6,629
Total a la fecha					7,162	6,629

As of December 31, 2016 and December 31, 2015, there are no allowances for doubtful accounts related to balances pending of transactions with related parties as there is no impairment in them.

380

11) RESPONSIBILITY STATEMENT

11) RESPONSIBILITY STATEMENT

The Directors and Chief Executive Officer of SQM S.A. declare that we have exercised our respective functions as administrators and chief executive of the Company in conformity with the practices that are customarily used for such purposes in Chile and, in accordance with these practices, we swear under oath that the information in this 2016 Annual Report is true and that we accept any liability that may arise from this statement.

381

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHEMICAL AND MINING COMPANY OF CHILE INC.

(Registrant)

Date: April 7, 2017 /s/ Ricardo Ramos
By: Ricardo Ramos
CFO & Vice-President of Development

Persons who are to respond to the collection of information contained SEC 1815 (04-09) in this form are not required to respond unless the form displays currently valid OMB control number.