

MOSAIC CO  
Form 10-Q  
January 09, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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☐ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended November 30, 2007

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-32327

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**The Mosaic Company**

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

3033 Campus Drive

Suite E490

Plymouth, Minnesota 55441

20-0891589  
(I.R.S. Employer  
Identification No.)

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(800) 918-8270

(Address and zip code of principal executive offices and registrant's telephone number, including area code)

Not Applicable

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

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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  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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 443,105,762 common shares as of January 3, 2008.

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****THE MOSAIC COMPANY****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In millions, except per share amounts)

(Unaudited)

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>November 30,</b>		<b>November 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net sales	\$ 2,195.4	\$ 1,522.0	\$ 4,198.7	\$ 2,810.6
Cost of goods sold	1,572.3	1,361.5	3,053.8	2,453.8
Gross margin	623.1	160.5	1,144.9	356.8
Selling, general and administrative expenses	79.8	70.4	146.4	136.1
Restructuring loss (gain)	10.3		10.3	(0.4)
Other operating (income) expense	3.4	(0.6)	9.0	(1.2)
Operating earnings	529.6	90.7	979.2	222.3
Interest expense, net	25.5	36.5	59.5	76.5
Foreign currency transaction (gain) loss	52.4	(19.8)	71.8	(27.1)
Loss on extinguishment of debt	1.6		2.1	
Other income	(2.8)	(1.6)	(3.3)	(16.7)
Earnings from consolidated companies before income taxes	452.9	75.6	849.1	189.6
Provision for income taxes	100.9	24.1	201.7	31.5
Earnings from consolidated companies	352.0	51.5	647.4	158.1
Equity in net earnings of non-consolidated companies	45.5	15.4	57.3	19.3
Minority interests in net earnings of consolidated companies	(3.5)	(1.0)	(5.2)	(2.5)
Net earnings	\$ 394.0	\$ 65.9	\$ 699.5	\$ 174.9
Basic earnings per share	\$ 0.89	\$ 0.15	\$ 1.58	\$ 0.41
Diluted earnings per share	\$ 0.89	\$ 0.15	\$ 1.57	\$ 0.40
Basic weighted average common shares outstanding	442.3	438.1	441.8	428.8
Diluted weighted average common shares outstanding	445.0	439.4	444.5	438.7

See Notes to Condensed Consolidated Financial Statements

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**THE MOSAIC COMPANY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(In millions, except share and per share amounts)

(Unaudited)

	November 30, 2007	May 31, 2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 642.2	\$ 420.6
Receivables, net	555.9	516.3
Trade receivables due from Cargill, Incorporated and affiliates	57.7	40.7
Inventories	866.7	787.4
Deferred income taxes	38.2	35.0
Other current assets	117.1	155.5
<b>Total current assets</b>	<b>2,277.8</b>	<b>1,955.5</b>
Property, plant and equipment, net	4,578.2	4,449.4
Investments in nonconsolidated companies	429.3	384.9
Goodwill	2,160.0	2,283.8
Deferred income taxes	168.2	
Other assets	80.6	90.0
<b>Total assets</b>	<b>\$ 9,694.1</b>	<b>\$ 9,163.6</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Short-term debt	\$ 105.9	\$ 138.6
Current maturities of long-term debt	199.0	403.8
Accounts payable	508.6	423.8
Trade accounts payable due to Cargill, Incorporated and affiliates	6.9	9.7
Cargill prepayments and accrued liabilities	28.1	22.7
Accrued liabilities	490.7	494.6
Accrued income taxes	75.8	100.9
Deferred income taxes	29.0	35.6
<b>Total current liabilities</b>	<b>1,444.0</b>	<b>1,629.7</b>
Long-term debt, less current maturities	1,381.1	1,816.2
Long-term debt-due to Cargill, Incorporated and affiliates	1.5	1.9
Deferred income taxes	588.4	634.4
Other noncurrent liabilities	1,062.7	875.2
Minority interest in consolidated subsidiaries	26.3	22.3
Stockholders equity:		
Common stock, \$0.01 par value, 700,000,000 shares authorized, 442,975,251 and 440,815,272 shares issued and outstanding as of November 30, 2007 and May 31, 2007, respectively	4.4	4.4
Capital in excess of par value	2,365.7	2,318.0
Retained earnings	2,102.1	1,402.6
Accumulated other comprehensive income	717.9	458.9
<b>Total stockholders equity</b>	<b>5,190.1</b>	<b>4,183.9</b>

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Total liabilities and stockholder equity

\$ 9,694.1 \$ 9,163.6

See Notes to Condensed Consolidated Financial Statements

**Table of Contents****THE MOSAIC COMPANY****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In millions)

(Unaudited)

	<b>Six months ended November 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash Flows from Operating Activities</b>		
Net cash provided by operating activities	\$ 980.9	\$ 300.4
<b>Cash Flows from Investing Activities</b>		
Capital expenditures	(161.2)	(122.2)
Proceeds from sale of businesses	7.5	
Other	0.9	(0.1)
Net cash used in investing activities	(152.8)	(122.3)
<b>Cash Flows from Financing Activities</b>		
Payments of short-term debt	(277.0)	(437.1)
Proceeds from issuance of short-term debt	242.9	360.6
Payments of long-term debt	(637.5)	(11.5)
Proceeds from issuance of long-term debt		0.3
Proceeds from stock options exercised	37.6	21.9
Contributions from Cargill, Incorporated	1.5	
Dividend paid to minority shareholder	(3.5)	
Net cash used in financing activities	(636.0)	(65.8)
Effect of exchange rate changes on cash	29.5	(17.2)
Net change in cash and cash equivalents	221.6	95.1
Cash and cash equivalents beginning of period	420.6	173.3
Cash and cash equivalents end of period	\$ 642.2	\$ 268.4
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during the period for:		
Interest (net of amount capitalized)	\$ 79.4	\$ 106.2
Income taxes	97.0	37.4

See Notes to Condensed Consolidated Financial Statements

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**THE MOSAIC COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Tables in millions, except per share amounts and as otherwise designated)

(Unaudited)

**1. Organization and Nature of Business**

The Mosaic Company ( *Mosaic* ), and individually or in any combination with its consolidated subsidiaries, *we* , *us* , *our* , or the *Company* ) was created to serve as the parent company of the business that was formed through the business combination ( *Combination* ) of IMC Global Inc. ( *IMC* or *Mosaic Global Holdings* ) and the Cargill Crop Nutrition fertilizer businesses ( *CCN* ) of Cargill, Incorporated and its subsidiaries (collectively, *Cargill* ) on October 22, 2004.

We produce and market concentrated phosphate and potash crop nutrients. We conduct our business through wholly and majority owned subsidiaries as well as businesses in which we own less than a majority or a non-controlling interest, including consolidated variable interest entities and investments accounted for by the equity method. We are organized into the following business segments:

Our **Phosphates** business segment owns and operates mines and production facilities in Florida which produce phosphate fertilizer and phosphate-based animal feed ingredients, and processing plants in Louisiana which produce phosphate fertilizer. Our Phosphates segment's results include North American distribution activities. Our consolidated results also include Phosphate Chemicals Export Association, Inc. ( *PhosChem* ), a U.S. Webb-Pomerene Act association of phosphate producers which exports phosphate fertilizer products around the world for us and PhosChem's other members. Our share of PhosChem's sales of dry phosphate fertilizer products is approximately 80% and is eliminated in consolidation.

Our **Potash** business segment owns and operates potash mines and production facilities in Canada and the U.S. which produce potash-based fertilizer, animal feed ingredients and industrial products. Potash sales include domestic and international sales. We are a member of Canpotex, Limited ( *Canpotex* ), an export association of Canadian potash producers through which we sell our Canadian potash internationally.

Our **Offshore** business segment consists of sales offices, fertilizer blending and bagging facilities, port terminals and warehouses in several key international countries, including Brazil. In addition, we own or have strategic investments in production facilities in Brazil and in a number of other countries. Our Offshore segment serves as a market for our Phosphates and Potash segments but also purchases and markets products from other suppliers worldwide. In August 2007, we completed the sale of our distribution businesses in Russia and Ukraine which was immaterial to our financial statements.

During the second quarter of fiscal 2008, we completed a strategic review in which we identified the Nitrogen business as non-core to our ongoing business. Therefore, based primarily on how our chief operating decision makers view and evaluate the business, we have eliminated the Nitrogen business as a separate reportable segment. The results of the Nitrogen business are now included as part of Corporate, Eliminations, and Other. Accordingly, the prior period comparable results have been updated to reflect our Nitrogen business as a part of Corporate, Eliminations and Other segment for comparability purposes.

Intersegment sales are eliminated within the Corporate, Eliminations and Other segment. See Note 18 to the Condensed Consolidated Financial Statements.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The accompanying unaudited Condensed Consolidated Financial Statements of Mosaic have been prepared on the accrual basis of accounting and in accordance with the requirements of the Securities and Exchange



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Commission ( *SEC* ) for interim financial reporting. As permitted under these rules, certain footnotes and other financial information that are normally required by accounting principles generally accepted in the United States ( *U.S. GAAP* ) can be condensed or omitted. The Condensed Consolidated Financial Statements included in this document include, in the opinion of our management, all adjustments (consisting of only normal recurring adjustments, except as noted elsewhere in the Notes to the Condensed Consolidated Financial Statements) necessary for fair presentation of our financial position as of November 30, 2007, our results of operations for the three and six months ended November 30, 2007 and 2006, and cash flows for the six months ended November 30, 2007 and 2006. The following notes should be read in conjunction with the accounting policies and other disclosures in the Notes to the Consolidated Financial Statements incorporated by reference in our Annual Report on Form 10-K for the fiscal year ended May 31, 2007. Sales, expenses, cash flows, assets and liabilities can and do vary during the year. Therefore, interim results are not necessarily indicative of the results to be expected for the full fiscal year. Throughout the Notes to Condensed Consolidated Financial Statements, amounts in tables are in millions of dollars except per share data and as otherwise designated.

***Accounting Estimates***

Preparation of the Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The more significant estimates made by management are the determination of the fair value of stock-based awards, the valuation of goodwill, the useful lives and net realizable values of long-lived assets, environmental and reclamation liabilities, the measurement of restructuring charges, the costs of our employee benefit obligations for pension plans and postretirement benefits, deferred income tax assets and liabilities, including the valuation allowance against deferred income tax assets, and accruals for pending legal and environmental matters. Actual results could differ from these estimates.

***Income Taxes***

In preparing our Condensed Consolidated Financial Statements, we utilize the asset and liability approach in accounting for income taxes. We recognize income taxes in each of the jurisdictions in which we operate. For each jurisdiction, we estimate the actual amount of taxes currently payable or receivable, as well as deferred income tax assets and liabilities attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for those deferred tax assets for which it is more likely than not that the related tax benefits will not be realized. In determining whether a valuation allowance is required to be recorded, we apply the principles enumerated in SFAS No. 109, *Accounting for Income Taxes*, in the U.S. and each foreign jurisdiction in which a deferred income tax asset is recorded. We consider tax planning strategies, scheduled reversals of temporary differences and factor in the expiration period of our tax carryforwards. In addition, as part of the process of recording the Combination, we have made certain adjustments to valuation allowances related to the businesses of IMC (Purchase Accounting Valuation Allowances). If during an accounting period we determine that we will not realize all or a portion of our deferred income tax assets, we will increase our valuation allowances with a charge to income tax expense. Conversely, if we determine that we will ultimately be able to realize all or a portion of the related tax benefits, we will reduce valuation allowances with either (i) a reduction to goodwill, if the reduction relates to Purchase Accounting Valuation Allowances, or (ii) in all other cases, with a reduction to income tax expense.

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Prior to the Combination, the provision or benefit for income taxes for some of the entities comprising CCN were determined by the application of Cargill's tax allocation policies, whereby income tax expenses or benefits were generally allocated on the basis of the individual entity's taxable income or loss and applicable credits in relation to the combined or consolidated totals for all Cargill entities included in the relevant return filing.

***Reclassifications***

Certain reclassifications have been made to prior years' financial statements to conform to the current year presentation.

We reclassified amounts related to interest income that were previously included in other non-operating income to interest expense, net for the period ended November 30, 2006. The reclassification was to conform to a change in the presentation adopted in fiscal 2007. In the November 30, 2006 Condensed Consolidated Statement of Operations, the amount reclassified to interest expense was \$8.5 million for the six months ended November 30, 2006 and \$5.1 million for the three months ended November 30, 2006. The reclassification was deemed immaterial to the financial statements as it had no effect on net earnings, total stockholders' equity, total assets or cash flows.

We also reclassified certain amounts from building and leasehold improvements to mineral properties and rights for the May 31, 2007 balances. The balances were reclassified to correct an error in Note 6 of our May 31, 2007 Notes to Consolidated Financial Statements which was caused by account mappings in our new enterprise resource planning system. In Note 6 of our May 31, 2007 Notes to Consolidated Financial Statements, the amounts reclassified from building and leasehold improvements to mineral properties and rights was \$94.4 million. The reclassification was deemed immaterial to the financial statements as it had no effect on net earnings, total stockholders' equity, total assets or cash flows.

**3. Recently Issued Accounting Guidance**

In June 2006, the Financial Accounting Standards Board ( *FASB* ) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* ( *FIN 48* ). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a two-step method of first, evaluating whether a tax position has met a more-likely-than-not recognition threshold, and second, measuring that tax position to determine the amount of benefit to be recognized in the financial statements. FIN 48 provides guidance on the presentation of such positions within a classified statement of financial position as well as on de-recognition, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 became effective for the Company on June 1, 2007. The adoption of FIN 48 and its effects are described in Note 5.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ( *SFAS 157* ). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and requires enhanced disclosures about fair value measurements. This statement was effective for financial statements issued for fiscal years beginning after November 15, 2007; however, during the recent quarter, the FASB agreed to a one-year deferral of SFAS 157's fair-value measurement requirements for nonfinancial asset and liabilities that are not required or permitted to be measured at fair value on a recurring basis. The FASB also intends to clarify disclosure requirements about the fair-value measurements of pension plan assets by plan sponsors and will develop additional guidance on how SFAS 157 applies to liabilities. We are currently reviewing SFAS 157 to determine the impact and materiality of its adoption to the Company.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ( *SFAS 158* ). SFAS 158 requires the

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recognition of the funded status of pension and other postretirement benefit plans on the balance sheet. The overfunded or underfunded status would be recognized as an asset or liability on the balance sheet with changes occurring during the current year reflected through the comprehensive income portion of equity. SFAS 158 also requires the measurement of the funded status of a plan to match that of the date of our fiscal year-end financial statements, eliminating the use of earlier measurement dates previously permissible. We applied the recognition provision of SFAS 158 as of May 31, 2007. The measurement provision of SFAS 158 is effective on May 31, 2009. We are currently reviewing the measurement provision requirements to determine the impact and materiality of its adoption to the Company.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of Statement of Financial Accounting Standards No. 115 ( SFAS 159 )*. SFAS 159 expands opportunities to use fair value measurement in financial reporting by permitting entities to choose to measure many eligible financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected must be reported in earnings. SFAS 159 is effective for the Company on June 1, 2008. We are currently reviewing SFAS 159 to determine the impact and materiality of its adoption to the Company.

In April 2007, the FASB issued FASB Staff Position No. FIN 39-1, *Amendment of FASB Interpretation No. 39 ( FIN 39-1 )*. FIN 39-1 requires entities that are party to a master netting arrangement to offset the receivable or payable recognized upon payment or receipt of cash collateral against fair value amounts recognized for derivative instruments that have been offset under the same master netting arrangement in accordance with FASB Interpretation No. 39. Entities are required to recognize the effects of applying FIN 39-1 as a change in accounting principle through retrospective application for all financial statements presented unless it is impracticable to do so. The guidance provided by FIN 39-1 is effective for us on June 1, 2008. We are currently reviewing FIN 39-1 to determine the impact and materiality of its adoption to the Company.

In May 2007, the FASB issued FASB Staff Position No. FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48 ( FIN 48-1 )*. FIN 48-1 provides guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The guidance became effective for the Company upon the initial adoption of FIN 48 on June 1, 2007. The adoption of FIN 48-1 and its effects are described in Note 5.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations ( SFAS 141R )*, which replaces FASB Statement No. 141, *Business Combinations ( SFAS 141 )*. SFAS 141R expands the definition of a business combination and requires the fair value of the purchase price of an acquisition, including the issuance of equity securities, to be determined on the acquisition date. SFAS 141R also requires that all assets, liabilities, contingent considerations, and contingencies of an acquired business be recorded at fair value at the acquisition date. In addition, SFAS 141R requires that acquisition costs generally be expensed as incurred, restructuring costs generally be expensed in periods subsequent to the acquisition date and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period impact income tax expense. SFAS 141R is effective for the Company's fiscal year beginning June 1, 2009, with early adoption prohibited. The Company is in the process of evaluating the impact of adoption of SFAS 141R.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 ( SFAS 160 )*. SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest,

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changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. In addition, SFAS 160 provides reporting requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for the Company on June 1, 2009. We are currently reviewing SFAS 160 to determine the impact and materiality of its adoption to the Company.

In December 2007, the Securities and Exchange Commission ( *SEC* ) issued Staff Accounting Bulletin No. 110 ( *SAB 110* ). SAB 110 amends and replaces Question 6 of Section D.2 of Topic 14, *Share-Based Payment* of the Staff Accounting Bulletin series. Question 6 of Section D.2 of Topic 14 expresses the views of the staff regarding the use of the simplified method in developing an estimate of expected term of plain vanilla share options and allows usage of the simplified method for share option grants prior to December 31, 2007. SAB 110 allows public companies which do not have historically sufficient experience to provide a reasonable estimate to continue use of the simplified method for estimating the expected term of plain vanilla share option grants after December 31, 2007. We currently use the simplified method to estimate the expected term for share option grants as we do not have enough historical experience to provide a reasonable estimate. We will continue to use the simplified method until we have enough historical experience to provide a reasonable estimate of expected term in accordance with SAB 110. SAB 110 is effective for the Company on January 1, 2008.

**4. Earnings Per Share**

The numerator for diluted earnings per share ( *EPS* ) is net earnings, unless the effect of the assumed conversion of Mosaic's 7.50% mandatory convertible preferred stock (which was converted on July 1, 2006) is anti-dilutive, in which case earnings available for common stockholders is used. For all periods presented, the numerator for diluted EPS is net earnings.

The denominator for basic EPS is the weighted-average number of shares outstanding during the period. The denominator for diluted EPS includes the weighted average number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued unless the shares are anti-dilutive. The following is a reconciliation of the denominator for the basic and diluted EPS computations:

(shares in millions)	Three months ended		Six months ended	
	November 30 2007	2006	November 30 2007	2006
Basic weighted average common shares outstanding	442.3	438.1	441.8	428.8
Common stock issuable upon vesting of restricted stock awards	0.7	0.5	0.7	0.4
Common stock equivalents	2.0	0.8	2.0	0.6
Common stock issuable upon conversion of preferred stock				8.9
Diluted weighted average common shares outstanding	445.0	439.4	444.5	438.7

A total of 0.7 million shares of common stock subject to stock options for the six months ended November 30, 2007, and 4.9 million and 5.8 million shares for the three and six months ended November 30, 2006, respectively, have been excluded from the computation of diluted EPS, as the effect would be anti-dilutive.

**Table of Contents****THE MOSAIC COMPANY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. Income Taxes**

Income tax expense was \$100.9 million and \$201.7 million and the effective tax rate was 22.3% and 23.8%, for the three and six months ended November 30, 2007, respectively, and reflected net benefits of \$35.9 million and \$59.0 million, respectively, which are specific to the periods. For the three and six months ended November 30, 2007, the benefits were primarily driven by our ability to utilize foreign tax credits of \$38.8 million and \$57.2 million. For the three and six months ended November 30, 2006 we had income tax expense of \$24.1 million and \$31.5 million and an effective tax rate of 31.9% and 16.6%, respectively. The three months ended November 30, 2006 tax rate included a reduction of the Canadian corporate tax rate as well as less impact of certain losses without a tax benefit. The six months ended November 30, 2006 also included a benefit of \$39.0 million from the reduction of the Canadian federal corporate tax rate and the elimination of the Canadian corporate surtax.

***Reduction of Valuation Allowance***

In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. In making this assessment, we consider the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies.

Prior to fiscal 2008, we had provided a valuation allowance for a portion of our U.S. deferred tax assets and certain non-U.S. deferred tax assets. During the three months ended August 31, 2007, we determined that it is more likely than not that we will realize the benefits of the U.S. deferred tax assets related to NOL carryforwards, alternative minimum tax ( *AMT* ) credit carryforwards and other deductible temporary differences for which a U.S. valuation allowance had been recorded. Accordingly, of the approximately \$276.5 million U.S. valuation allowance at May 31, 2007, approximately \$228.7 million will be reversed as a reduction to goodwill and \$33.8 million will be reversed as a reduction to tax expense during fiscal 2008. In accordance with Accounting Principles Bulletin Opinion No. 28, *Interim Financial Reporting ( APB 28 )*, paragraph 20, and Financial Accounting Standards Board Interpretation No. 18 *Accounting for Income Taxes in Interim Periods: an Interpretation of APB Opinion No. 28*, paragraph 8, the Company is reversing approximately \$27.5 million of U.S. valuation allowance that relates to current year income and will reduce income tax expense over the course of fiscal 2008 through the Company's estimated annual effective tax rate. This is expected to be recorded over each of the quarters of fiscal 2008 as the related income is generated. Approximately \$6.3 million of the U.S. valuation allowance is related to future year income and the realizability of deferred tax assets in years beyond fiscal 2008, and in accordance with APB 28, paragraph 20, was recognized in income tax expense in the first quarter of fiscal 2008. In accordance with Emerging Issues Task Force Issue No. 93-7, *Uncertainties Related to Income Taxes in Business Combination*, (EITF 93-7), the recognition of \$228.7 million as a reduction to goodwill is required as those benefits arose from the Combination. The reversal of the \$228.7 million will result in a reduction of goodwill over the course of fiscal 2008 (consistent with the method used for the valuation allowance that is related to current year income and is being reversed to tax expense as described above (i.e., APB 28, paragraph 20)) since it relates to deferred tax assets acquired. The reversal is expected to be recorded over each of the quarters of fiscal 2008 as the related income is generated. For the six months ended November 30, 2007, we reversed U.S. valuation allowances of approximately \$118.9 million to goodwill and \$19.8 million to tax expense. To fully realize these benefits we will need taxable income of approximately \$3 billion in the U.S. in fiscal 2008 and in future years, prior to expiration of the tax carryforwards.

We continue to carry a valuation allowance of approximately \$14 million against U.S. capital loss carryforwards and a valuation allowance of approximately \$30 million against certain non-U.S. deferred tax

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**THE MOSAIC COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

assets because we have determined that it is not more likely than not that we will realize those deferred tax assets. The \$14 million of U.S. capital loss carryforwards will expire at the end of fiscal 2008 if they are not utilized. As a result, the corresponding valuation allowance of approximately \$14 million will be eliminated at the time these assets expire. Currently, there is no tax planning strategy that will result in the realization of these capital loss carryforwards. If realized, the approximate \$14 million U.S. valuation allowance would be reversed as a reduction to goodwill. The approximate \$30 million non-U.S. valuation allowance, if realized, would be recorded as a reduction of tax expense.

***Adoption of FIN 48***

Effective June 1, 2007, we adopted the provisions of FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109 and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken in a tax return. Under FIN 48, the impact of an uncertain tax position on the income tax return must be recognized at the largest amount that is more likely than not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on subsequent derecognition of tax positions, financial statement classification, recognition of interest and penalties, accounting in interim periods and disclosure and transition rules. The adoption of FIN 48 did not have a material impact on our financial condition, results of operations or cash flows.

The adoption of FIN 48 resulted in the reclassification from other tax accounts of a \$200.6 million liability that is included in other noncurrent liabilities.

As of June 1, 2007, we had \$235.6 million of unrecognized tax benefits. If recognized, \$27.2 million would have an impact on our effective tax rate. Included in the balance of unrecognized tax benefits at June 1, 2007 are \$208.4 million of tax benefits that, if recognized, would result in a decrease to goodwill recorded as a result of the Combination in accordance with Emerging Issues Task Force Issue No. 93-7, *Uncertainties Related to Income Taxes in a Business Combination*. During the three and six months ended November 30, 2007, the unrecognized tax benefits increased by \$10.3 and \$10.9 million respectively. We expect to resolve approximately \$33.5 million of unrecognized tax benefits and \$5.0 million of gross interest accrued on such unrecognized benefits, within the next 12 months.

We recognize interest and penalties related to unrecognized tax benefits as a component of our income tax provision. This policy did not change as a result of the adoption of FIN 48. Interest and penalties accrued in our Condensed Consolidated Balance Sheet at June 1, 2007 and November 30, 2007 are \$15.0 million and \$29.3 million respectively and are included in other noncurrent liabilities in the Condensed Consolidated Balance Sheet. Interest and penalties recognized in our Condensed Consolidated Statement of Operations totaled \$10.9 and \$12.6 million for the three and six months ended November 30, 2007.

We operate in multiple tax jurisdictions, both within the United States and outside the United States, and face audits from various tax authorities regarding transfer pricing, deductibility of certain expenses, and intercompany transactions, as well as other matters. With few exceptions, we are no longer subject to examination for tax years prior to 2001.

We are currently under audit by the Internal Revenue Service and Canadian Revenue Agency for the fiscal years 2004 to 2006 and 2001 to 2002, respectively. Based on the information available at November 30, 2007, we do not anticipate significant additional changes to our unrecognized tax benefits as a result of these examinations.

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Inventories consist of the following:

(in millions)	November 30 2007	May 31 2007
Raw materials	\$ 16.7	\$ 9.7
Work in process	152.1	138.8
Finished goods	581.3	529.0
Operating materials and supplies	116.6	109.9
	\$ 866.7	\$ 787.4

**7. Property, Plant and Equipment**

Property, plant and equipment consist of the following:

(in millions)	November 30 2007	May 31 2007
Land	\$ 185.4	\$ 182.2
Mineral properties and rights	1,995.8	1,893.6
Buildings and leasehold improvements	1,202.0	1,153.1
Machinery and equipment	2,779.2	2,586.2
Construction in-progress	227.6	263.9
	6,390.0	6,079.0
Less: accumulated depreciation, depletion and amortization	1,811.8	1,629.6
	\$ 4,578.2	\$ 4,449.4

**8. Goodwill**

The changes in the carrying amount of goodwill, by reporting unit, for the six months ended November 30, 2007 are as follows:

(in millions)	Phosphates	Potash	Total
Balance as of May 31, 2007	\$ 723.7	\$ 1,560.1	\$ 2,283.8
Income tax adjustment	(68.7)	(114.7)	(183.4)
Foreign currency translation		59.6	59.6
Balance as of November 30, 2007	\$ 655.0	\$ 1,505.0	\$ 2,160.0

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The Company has recorded adjustments to goodwill during fiscal 2008 which are related to the reversal of tax valuation allowances and other purchase accounting adjustments for income tax-related amounts.

### **9. Guarantees and Indemnities**

We enter into various contracts that include indemnification and guarantee provisions as a routine part of our business activities. Examples of these contracts include asset purchase and sale agreements, surety bonds, financial assurances to regulatory agencies in connection with reclamation and closure obligations, commodity sale and purchase agreements, and other types of contractual agreements with vendors and other third parties. These agreements indemnify counterparties for matters such as reclamation and closure obligations, tax liabilities, environmental liabilities, litigation and other matters, as well as breaches by Mosaic of



**Table of Contents****THE MOSAIC COMPANY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

representations, warranties and covenants set forth in these agreements. In many cases, we are essentially guaranteeing our own performance, in which case the guarantees do not fall within the scope of FASB Interpretation No. 45 ( *FIN 45* ), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*.

Material guarantees and indemnities within the scope of FIN 45 are as follows:

*Guarantees to Brazilian Financial Parties.* From time to time, we issue guarantees to financial parties in Brazil for certain amounts owed the institutions by certain customers of Mosaic. The guarantees are for all or part of the customers' obligations. In the event that the customers default on their payments to the institutions and we would be required to perform under the guarantees, we have in most instances obtained collateral from the customers. The guarantees generally have a one-year term, but may extend up to two years or longer depending on the crop cycle, and we expect to renew many of these guarantees on a rolling twelve-month basis. As of November 30, 2007, we have estimated the maximum potential future payment under the guarantees to be \$34.7 million. The fair value of these guarantees is immaterial to the financial statements at November 30, 2007 and May 31, 2007.

*Asset Divestiture Indemnities.* We have entered into agreements relating to the sale of various businesses in prior years which include certain indemnification rights granted to the purchasers of these businesses. These indemnification rights are contingent commitments, primarily related to specified environmental matters and legal proceedings pending as of the date the businesses were sold. The majority of these indemnification rights do not have a set term, but exist so long as the underlying matters to which they relate remain pending. As of November 30, 2007, for those matters where a dollar amount is estimable, we have estimated the maximum potential future payments we could be required to make under these indemnification rights to be \$2.5 million. We have recorded a liability of \$1.4 million for the fair value of these guarantees as of November 30, 2007 and May 31, 2007, respectively. We could not make an estimate for certain matters due to their current status. The sale agreements also customarily contain indemnifications to the purchasers for breaches of representations or warranties made by our selling entity, which are intended to protect the purchasers against specified types of undisclosed risks. In some cases, these general indemnities do not limit the duration of our obligations to perform under them. Our maximum potential exposure under these arrangements can range from a specified dollar amount to an unlimited amount, depending on the transaction. We do not believe that we currently have any material liability relating to these routine indemnification obligations.

*Other Indemnities.* Our maximum potential exposure under other indemnification arrangements can range from a specified dollar amount to an unlimited amount, depending on the nature of the transaction. Total maximum potential exposure under these indemnification arrangements is not estimable due to uncertainty as to whether claims will be made or how they will be resolved. We do not believe that we will be required to make any material payments under these indemnity provisions.

Because many of the guarantees and indemnities we issue to third parties do not limit the amount or duration of our obligations to perform under them, there exists a risk that we may have obligations in excess of the amounts described above. For those guarantees and indemnities that do not limit our liability exposure, we may not be able to estimate what our liability would be until a claim is made for payment or performance due to the contingent nature of these arrangements.

**10. Financing Arrangements*****Short Term Debt***

Short-term debt consists of the revolving credit facility under our restated senior secured bank credit agreement ( *Restated Credit Agreement* ), a revolving line of credit that funds working capital (including receivables) of

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**THE MOSAIC COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Phoschem, and various other short-term borrowings related to our Offshore business. Short-term borrowings were \$105.9 million and \$138.6 million as of November 30, 2007 and May 31, 2007, respectively. The weighted average interest rate on short-term borrowings was 6.6% as of November 30, 2007 and May 31, 2007.

We had no outstanding borrowings under the revolving credit facility as of November 30, 2007 and May 31, 2007, respectively. We had outstanding letters of credit that utilized a portion of the revolving credit facility of \$86.2 million and \$102.7 million as of November 30, 2007 and May 31, 2007, respectively. The net available borrowings under the revolving credit facility as of November 30, 2007 and May 31, 2007 were approximately \$363.8 million and \$347.3 million, respectively. Unused commitment fees of \$0.4 million and \$0.3 million were expensed during each of the fiscal quarters ended November 30, 2007 and 2006, respectively. Borrowings under the revolving credit facility bear interest at LIBOR plus 1.5%.

On November 30, 2007, Phosphate Chemicals Export Association, Inc. ( PhosChem ) entered into a revolving line of credit providing for borrowings of up to \$55.0 million through November 29, 2009 to fund its working capital (including receivables). The revolving line of credit supports PhosChem's funding of its purchases of crop nutrients from us and other PhosChem members and is with recourse to PhosChem but not to us. The line of credit is secured by PhosChem's accounts receivable, inventories, deposit accounts and certain other assets. Outstanding borrowings under the line of credit bear interest at the prime rate plus 1.0% or LIBOR plus 0.7%, at PhosChem's election. PhosChem did not have outstanding debt under the revolving line of credit as of November 30, 2007. The revolving line of credit replaced a prior \$55.0 million receivables purchase facility, which PhosChem terminated in connection with entering into the new line of credit. The outstanding principal under the terminated receivables purchase facility was \$28.0 million at May 31, 2007 and is included in short-term borrowings.

The remainder of the short-term borrowings balance consisted of lines of credit relating to our Offshore segment and other short-term borrowings. As of November 30, 2007, these borrowings bear interest rates between 5.3% and 9.0%. As of November 30, 2007 and May 31, 2007, \$105.9 million and \$110.6 million, respectively, were outstanding.

***Long-Term Debt, including Current Maturities***

Long-term debt primarily consists of term notes, industrial revenue bonds, secured notes, unsecured notes, and unsecured debentures. The significant long-term debt items are discussed below.

As of November 30, 2007 and May 31, 2007, we had \$202.5 million and \$807.3 million, respectively, outstanding under the term loan facilities that are part of our senior secured credit facility. The term loan facility bears interest at LIBOR plus 1.50%-1.75%.

On June 29, 2007, September 28, 2007 and October 29, 2007, we prepaid \$150.0 million, \$300 million and \$150.0 million, respectively, aggregate principal amount of term loans under our senior secured bank credit facility.

We have two industrial revenue bonds which total \$42.1 million as of November 30, 2007 and May 31, 2007, respectively. As of November 30, 2007, the industrial revenue bonds bear interest rates at 5.5% and 7.7%. The maturity dates are 2009 and 2022.

We have several other secured notes which total \$33.3 million and \$38.5 million as of November 30, 2007 and May 31, 2007, respectively. As of November 30, 2007, the secured notes bear interest rates between 5.6% and 10.8%. The maturity dates range from 2007 to 2010.

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

We have several unsecured notes which total \$986.3 million and \$987.9 million as of November 30, 2007 and May 31, 2007, respectively. As of November 30, 2007, the unsecured notes bear interest rates between 7.0% and 10.9%. The maturity dates range from 2008 to 2016.

We have several unsecured debentures which total \$264.4 million and \$290.7 million as of November 30, 2007 and May 31, 2007, respectively. As of November 30, 2007, the unsecured debentures bear interest rates between 7.3% and 9.5%. The maturity dates range from 2011 to 2028.

On July 16, 2007, we paid the remaining principal balance of \$26.0 million on the Mosaic Global Holdings 6.875% Debentures due 2007 at maturity.

The remainder of the long-term debt balance relates to capital leases and fixed asset financings, variable rate loans, and other types of debt. As of November 30, 2007 and May 31, 2007, \$51.5 million and \$53.5 million, respectively, were outstanding.

As of November 30, 2007, Mosaic had at least \$552.5 million available for restricted payments, including the payment of cash dividends with respect to its common stock, under the covenants limiting the payment of dividends in the indenture relating to the senior notes due 2014 and 2016 (the New Senior Notes), and \$150.3 million available for the payment of cash dividends with respect to its common stock under the covenants limiting the payment of dividends in the Restated Credit Agreement.

***Registration Rights Agreements for New Senior Notes***

As part of a refinancing that was consummated on December 1, 2006, Mosaic issued and sold the New Senior Notes, consisting of \$475.0 million aggregate principal amount of 7.375% senior notes due 2014 and \$475.0 million aggregate principal amount of 7.625% senior notes due 2016, to qualified institutional buyers in accordance with Rule 144A under the Securities Act of 1933 (the Securities Act), and to non-U.S. persons in reliance on Regulation S under the Securities Act. The New Senior Notes were not registered under the Securities Act and may not be offered or sold in the U.S. absent registration or an applicable exemption from registration requirements.

In connection with the issuance of the New Senior Notes, Mosaic entered into registration rights agreements with the initial purchasers of the New Senior Notes pursuant to which, in general and subject to, among other things, the exception described below:

Mosaic agreed to use its reasonable best efforts to file with the SEC and cause to become effective a registration statement under the Securities Act relating to an offer to exchange the New Senior Notes for an issue of notes registered under the Securities Act, with terms identical to those of the New Senior Notes;

following the effective date of such registration statement, Mosaic agreed to offer to exchange the New Senior Notes for such registered notes;

Mosaic agreed to use reasonable best efforts to cause to become effective a shelf registration for resale of each series of the New Senior Notes under any of the following circumstances:

if interpretations of the staff of the SEC did not permit Mosaic to effect the exchange offers;

if the exchange offers were not completed by December 1, 2007; or

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under certain circumstances, at the request of the initial purchasers of the New Senior Notes; provided that effectiveness of a shelf registration was in no event required prior to December 1, 2007;

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if such an exchange offer were not completed (or, if required, the shelf registration statement were not declared effective) on or before December 1, 2007 with respect to either series of the New Senior Notes, the annual interest rate on such series of New Senior Notes would increase by 0.25% per annum for the first 90-day period immediately following such date and by an additional 0.25% per annum for each subsequent 90-day period, up to an additional rate of 1.00% per annum, until the exchange offer was completed (or, if required, the shelf registration statement was declared effective).

The Securities Act and the rules and regulations of the SEC thereunder require any such registration statement and subsequent periodic reports by Mosaic under the Securities Exchange Act of 1934 to include condensed consolidating financial information for Mosaic, the subsidiary guarantors of the New Senior Notes and the subsidiary non-guarantors of the New Senior Notes. As a result of certain challenges and transitional issues associated with the implementation of Mosaic's new enterprise resource planning system, using reasonable best efforts Mosaic has been unable to produce the required condensed consolidating financial information, or to file a registration statement relating to an offer to exchange the New Senior Notes or a shelf registration for resale of the New Senior Notes.

The registration rights agreements also provide that Mosaic's obligations (i) to offer to exchange the New Senior Notes for an issue of notes registered under the Securities Act, (ii) to file a shelf registration under the Securities Act and (iii) to pay the increased interest rate discussed above in the event an exchange offer was not completed (or a shelf registration statement was not declared effective) by December 1, 2007, terminates when the New Senior Notes are eligible to be sold pursuant to Rule 144(k) (or any similar provision then in force, but not Rule 144A) under the Securities Act. Pursuant to amendments to Rule 144 adopted by the SEC effective February 15, 2008, the New Senior Notes will be eligible to be sold pursuant to successor provisions to Rule 144(k) effective February 15, 2008. In light of these rule amendments, Mosaic's obligations to offer to exchange the New Senior Notes for an issue of notes registered under the Securities Act or to file a shelf registration statement will expire before Mosaic is able to furnish the condensed consolidating financial information required to file the registration statement for an exchange offer or a shelf registration statement, and, accordingly, Mosaic will not make any such exchange offer or file such a shelf registration statement. In addition, Mosaic's obligation to pay the increased interest rate discussed above will expire on February 14, 2008.

**11. Accounting for Asset Retirement Obligations**

We account for asset retirement obligations ( *AROs* ) in accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations*. Our legal obligations related to asset retirement require us to: (i) reclaim lands disturbed by mining as a condition to receive permits to mine phosphate ore reserves; (ii) treat low pH process water in phosphogypsum management systems to neutralize the acidity; (iii) close phosphogypsum management systems at our Florida and Louisiana facilities at the end of their useful lives; (iv) remediate certain other conditional obligations; and (v) remove all surface structures and equipment, plug and abandon mine shafts, contour and re-vegetate, as necessary, and monitor for three years after closing our Carlsbad, New Mexico facility. The estimated liability for these legal obligations is based on the estimated cost to satisfy the above obligations which is discounted to its present value using a credit-adjusted risk-free rate.

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A reconciliation of our AROs is as follows:

<b>(in millions)</b>	
Asset retirement obligation, May 31, 2007	\$ 541.5
Liabilities incurred	17.4
Liabilities settled	(44.5)
Accretion expense	15.9
Revision in estimated cash flows	5.2
Asset retirement obligation, November 30, 2007	535.5
Less current portion	75.6
	 \$ 459.9

**12. Pension Plans and Other Benefits**

We sponsor pension and post-retirement benefits through a variety of plans including defined benefit plans, defined contribution plans, and post-retirement benefit plans. In addition, we are a participating employer in Cargill's defined benefit pension plans.

We sponsor two defined benefit pension plans in the United States and four active defined benefit plans in Canada. We assumed these plans from IMC on the date of the Combination. In addition, we provide post-retirement health care benefit plans for certain retired employees.

The components of net periodic benefit costs include the following:

<b>(in millions)</b>	<b>Pension Plans</b>			
	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>November 30</b>		<b>November 30</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Service cost	\$ 1.7	\$ 1.8	\$ 3.4	\$ 3.6
Interest cost	7.9	7.9	15.8	15.8
Expected return on plan assets	(9.3)	(8.5)	(18.6)	(17.0)
Net periodic cost	\$ 0.3	\$ 1.2	\$ 0.6	\$ 2.4

<b>(in millions)</b>	<b>Post-retirement Benefit Plans</b>			
	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>November 30</b>		<b>November 30</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Service cost	\$ 0.2	\$ 0.3	\$ 0.4	\$ 0.6
Interest cost	1.6	1.6	3.2	3.2
Net periodic cost	\$ 1.8	\$ 1.9	\$ 3.6	\$ 3.8

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Based on an actuarial assessment, we estimate that contributions will be approximately \$25 million to our pension plans and approximately \$12 million to our other post-retirement benefit plans in fiscal year 2008. During the three and six months ended November 30, 2007, we contributed \$4.5 and \$10.0 million to our pension plans, respectively, and \$1.1 and \$2.6 million to our post-retirement benefit plans, respectively. During the three and six months ended November 30, 2006, we contributed \$7.9 and \$14.8 million to our pension plans, respectively, and \$2.2 and \$4.2 million to our post-retirement benefit plans, respectively.

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We have described below judicial and administrative proceedings to which we are subject. These proceedings include environmental, tax and other matters. Tax matters typically relate to matters other than income taxes.

***Environmental Matters***

We have contingent environmental liabilities that arise principally from three sources: (i) facilities currently or formerly owned by our subsidiaries or their predecessors; (ii) facilities adjacent to currently or formerly owned facilities; and (iii) third-party Superfund or state equivalent sites. At facilities currently or formerly owned by our subsidiaries or their predecessors, the historical use and handling of regulated chemical substances, crop and animal nutrients and additives and by-product or process tailings have resulted in soil, surface water and/or groundwater contamination. Spills or other releases of regulated substances have occurred previously at these facilities, and potentially could occur in the future, possibly requiring us to undertake or fund cleanup. In some instances, pursuant to consent orders or agreements with appropriate governmental agencies, we are undertaking certain remedial actions or investigations to determine whether remedial action may be required to address contamination. At other locations, we have entered into consent orders or agreements with appropriate governmental agencies to perform required remedial activities that will address identified site conditions. Taking into consideration established accruals of approximately \$14.5 million and \$16.7 million at November 30, 2007 and May 31, 2007, respectively, expenditures for these known conditions currently are not expected, individually or in the aggregate, to have a material effect on our business or financial condition. However, material expenditures could be required in the future to remediate the contamination at known sites or at other current or former sites.

*Hutchinson, Kansas Sinkhole.* In January 2005, a 210-foot diameter sinkhole developed at a former IMC salt solution mining and steam extraction facility in Hutchinson, Kansas. Under Kansas Department of Health and Environment ( *KDHE* ) oversight, we completed measures to fill and stabilize the sinkhole to prevent further expansion. We also settled claims from BNSF Railway Company related to actions to protect its railroad tracks for \$0.5 million. In July 2006, KDHE requested further information regarding future monitoring of the sinkhole and steps taken to ensure the long term stability of the sinkhole. KDHE also requested that we investigate the potential for subsidence or collapse at approximately 20 to 30 former salt solution mining wells at the property, some of which are in the vicinity of nearby residential properties and roadways. We submitted a report to KDHE providing the requested information regarding future sinkhole monitoring and stability. With KDHE approval, we also initiated a trial microgravity investigation at one of the former wells in June 2007 to investigate the potential for subsidence or collapse. In September 2007, KDHE advised us that the microgravity results did not, in KDHE's view, produce sufficient information regarding the subsurface conditions associated with the former wells. KDHE requested that, in lieu of further microgravity assessments, we initiate sonar assessment of the former wells under a Consent Order. We are currently in discussions with KDHE regarding a proposal we have made to conduct an initial sonar investigation at several of the former wells under a Letter of Understanding. We do not expect that the costs related to these matters will have a material impact on our business or financial condition in excess of amounts accrued. If further subsidence were to occur at the existing sinkhole, additional sinkholes were to develop or further investigation at the site reveals subsidence or sinkhole risk, it is possible that we could be subject to additional claims from governmental agencies or other third parties that could exceed established accruals, and it is possible that the amount of any such claims could be material.

*EPA RCRA Initiative.* The U.S. Environmental Protection Agency ( *EPA* ) Office of Enforcement and Compliance Assurance has announced that it has targeted facilities in mineral processing industries, including phosphoric acid producers, for a thorough review under the U.S. Resource Conservation and Recovery Act



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( **RCRA** ) and related state laws. Mining and processing of phosphates generate residual materials that must be managed both during the operation of a facility and upon a facility's closure. Certain solid wastes generated by our phosphate operations may be subject to regulation under RCRA and related state laws. The EPA rules exempt extraction and beneficiation wastes, as well as 20 specified mineral processing wastes, from the hazardous waste management requirements of RCRA. Accordingly, certain of the residual materials which our phosphate operations generate, as well as process wastewater from phosphoric acid production, are exempt from RCRA regulation. However, the generation and management of other solid wastes from phosphate operations may be subject to hazardous waste regulation if the waste is deemed to exhibit a hazardous waste characteristic. The EPA's announcement indicated that by the end of 2007, the EPA intended to inspect each facility in the phosphoric acid production sector to ensure full compliance with applicable RCRA regulations and to address any imminent and substantial endangerment found by the EPA under RCRA. We have provided the EPA with substantial amounts of information regarding the process water recycling practices and the hazardous waste handling practices at our phosphate production facilities in Florida and Louisiana, and the EPA has inspected all of our currently operating processing facilities in the U.S. In addition to the EPA's inspections, our Bartow and Green Bay facilities entered into consent orders in December 2005 to perform analyses of existing environmental data, to perform further environmental sampling as may be necessary, and to assess whether the facilities pose a risk of harm to human health or the surrounding environment. Our Uncle Sam and Faustina facilities in Louisiana entered similar consent orders in May 2007. We may enter similar orders for some or the remainder of our phosphate production facilities in Florida.

We have received Notices of Violation ( **NOVs** ) from the EPA related to the handling of hazardous waste at our Riverview (September 2005), New Wales (October 2005), Mulberry (June 2006) and Bartow (September 2006) facilities in Florida. The EPA has issued similar NOVs to our competitors and has referred the NOVs to the U.S. Department of Justice ( **DOJ** ) for further enforcement. We currently are engaged in discussions with the DOJ and EPA. We believe we have substantial defenses to most of the allegations in the NOVs, including but not limited to, previous EPA regulatory interpretations and inspection reports finding that the process water handling practices in question comply with the requirements of the exemption for extraction and beneficiation wastes. We have met several times with the DOJ and EPA to discuss potential resolutions to this matter. In addition to seeking various changes to our operations, the DOJ and EPA expressed a desire to obtain financial assurances for the closure of phosphogypsum management systems which may be significantly more stringent than current requirements in Florida or Louisiana. We intend to evaluate various alternatives and continue discussions to determine if a negotiated resolution can be reached. If a resolution cannot be reached, we intend to vigorously defend these matters in any enforcement actions that may be pursued. Should we fail in our defense in any enforcement actions, we could incur substantial capital and operating expenses to modify our facilities and operating practices relating to the handling of process water, and we could also be required to pay significant civil penalties.

We have established accruals to address the cost of implementing the related consent orders at our Bartow, Green Bay, Faustina and Uncle Sam facilities and the fees that will be incurred defending against the NOVs discussed above. We cannot at this stage of the discussions predict whether the costs incurred as a result of the EPA's RCRA initiative, the consent orders, or the NOVs will have any material effect on our business or financial condition.

*Clean Air Act New Source Review.* In January 2006 and March 2007, EPA Region 6 submitted administrative subpoenas to us under Section 114 of the Clean Air Act ( **114 Requests** ) regarding compliance of our Uncle Sam A Train and D Train Sulfuric Acid Plants with New Source Review requirements of the Clean Air Act. The 114 Requests appear to be part of a broader EPA national enforcement initiative focused on investigating sulfuric acid plants through 114 Requests generally, followed by proceedings that seek reduction in sulfur dioxide emissions from these plants. We have responded to parts of the 114 Requests, and are engaged in

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ongoing discussions with EPA representatives to resolve this matter. We have established accruals to address penalties that might be sought by the EPA as well as defense costs and expenses. Although the resolution of this matter also may require capital improvements at significant cost, at this stage of these proceedings, we cannot determine what modifications will be necessary and whether the outcome of this matter will have a material effect on our business or financial condition.

*2004 Florida Hurricanes.* During the 2004 hurricane season, three hurricanes impacted our central Florida processing facilities and mining operations, resulting in releases of phosphoric acid process wastewater at our Riverview facility. In July 2005, we entered into a consent order with the Florida Department of Environmental Protection ( *FDEP* ) to pay a civil fine of \$0.3 million as a result of a sudden release at Riverview of approximately 65 million gallons of partially treated phosphoric acid process water during Hurricane Frances. The consent order also requires us to meet certain negotiated process water inventory reduction goals. We are currently in compliance with the commitments under the consent order and anticipate that we will continue to be so in the future. Portions of the Riverview release, which was caused primarily as a result of extraordinary rainfall and hurricane force winds, ultimately flowed into Hillsborough Bay. Apart from the consent order, governmental agencies are asserting claims for natural resources damages in connection with the release. Negotiations with government agencies acting as natural resource trustees are ongoing. We intend to assert appropriate defenses to the claims and do not currently expect that the claims will have a material effect on our business or financial condition.

In September 2004, prior to the completion of the Combination, a Class Action Complaint and Demand for Jury Trial was filed against Cargill in the Circuit Court of the Thirteenth Judicial Circuit for Hillsborough County, Florida. The complaint, which arises out of the sudden release of phosphoric acid process water from our Riverview facility described above, contains four counts, including statutory strict liability, common law strict liability, common law public nuisance and negligence. We have assumed the defense of this lawsuit because it is related to the fertilizer businesses contributed to Mosaic as part of the Combination. The strict liability counts relate to the discharge of pollutants or hazardous substances. Plaintiffs seek class certification and an award of damages, attorneys' fees and costs on behalf of a class of unknown size comprising all fishermen and those persons engaged in the commercial catch and sale of fish, bait, and related products in the Tampa Bay area who lost income and suffered damages because of the pollution, contamination and discharge of hazardous substances by the defendant. Our motion to dismiss the statutory strict liability counts was granted in November 2005; our other motions to dismiss the action were denied. The plaintiffs amended their complaint, and we filed an additional motion to dismiss which was heard by the Circuit Court in August 2006. The Circuit Court granted our second motion to dismiss the case with prejudice on January 9, 2007. Plaintiffs have appealed the dismissal to the Florida Second District Court of Appeal. We believe that we have substantial defenses to the claims asserted and intend to vigorously defend against the action. We cannot anticipate the outcome or assess the potential financial impact of this matter at this time.

*Financial Assurances for Phosphogypsum Management Systems in Florida and Louisiana.* In Florida and Louisiana, we are required to comply with financial assurance regulatory requirements to provide comfort to the government that sufficient funds will be available for the ultimate closure and post-closure care of our phosphogypsum management systems. The estimated discounted net present value of our liabilities for such closure and post-closure care are included in our AROs, which are discussed in Note 11 of our Condensed Consolidated Financial Statements. In contrast, the financial assurance requirements in Florida and Louisiana are based on the undiscounted amounts of our liabilities in the event we were no longer a going concern. These financial assurance requirements can be satisfied without the need for any expenditure of corporate funds to the extent our financial statements meet certain balance sheet/income statement criteria, referred to as the financial tests. In the event that we are unable to satisfy these financial tests, we must utilize alternative methods of complying with the financial assurance requirements or could be subject to enforcement proceedings brought by

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relevant governmental agencies. Potential alternative methods of compliance include negotiating a consent decree that imposes alternative financial assurance or other conditions or, alternatively, providing credit support in the form of cash escrows, surety bonds from insurance companies, letters of credit from banks, or other forms of financial instruments or collateral to satisfy the financial assurance requirements.

In February 2005, the Florida Environmental Regulation Commission approved certain modifications to the financial assurance rules for the closure and long-term care of phosphogypsum management systems located in Florida that impose financial assurance requirements that are more stringent than prior rules, including the requirement that the closure cost estimates include the cost of treating process water to Florida water quality standards. In light of the burden that would have been associated with meeting the new requirements at that time, in April 2005 we entered into a consent agreement with the FDEP that allows us to comply with alternate financial tests until the consent agreement expires (May 31, 2009, unless extended), at which time we will be required to comply with the new rules. Although there can be no assurance that we will be able to comply with the revised rules during or upon the expiration of the consent agreement, if current trends in our results of operations, cash flows and financial condition continue, we do not expect that compliance will have a material effect on our results of operations, liquidity or capital resources.

The State of Louisiana also requires that we provide financial assurance for the closure and long-term care of phosphogypsum management systems located in Louisiana. Because of a change in our corporate structure resulting from the Combination, we currently do not meet the financial responsibility tests under Louisiana's applicable regulations. After consulting with the Louisiana Department of Environmental Quality ( *LDEQ* ), we requested an exemption, proposing an alternate financial responsibility test that included revised tangible net worth and U.S. asset requirements. LDEQ initially denied our request for an exemption in May 2006. We continue to pursue discussions with LDEQ with respect to our exemption request. If LDEQ does not grant the exemption, we will be required to (i) seek an alternate financial assurance test acceptable to LDEQ, (ii) provide credit support, which may include surety bonds, letters of credit and cash escrows or a combination thereof, currently in an amount of approximately \$144.2 million, or (iii) enter into a compliance order with the agency. In light of our current cash balances and access to borrowings, letters of credit and surety bonds, we do not expect that compliance with current or alternative requirements will have a material affect on our results of operations, liquidity or capital resources.

*Cubatao Valley, Brazil.* The Cubatao Public Prosecution Office in Brazil, jointly with OIKOS UNIÃO DOS DEFENSORES DA TERRA (Defenders of the Earth Union), filed a lawsuit in the 2nd Civil Court of Cubatao on January 15, 1986 against several companies, including a facility operated by our fertilizer businesses in the Cubatao Valley in Brazil. The plaintiffs seek recovery of damages for the companies' alleged continuous discharge of pollutants into the atmosphere, which they assert would have caused, among other damage, degradation and the perishing of a considerable part of the vegetation cover in the slopes of the Serra do Mar mountain range. Review of this matter by a court-appointed expert panel is pending. In June 2007, the court issued specific directions regarding the expert panel's review, and we expect its findings should be issued by June of 2008. Our appeal of the directions issued by the court because we believe they are contrary to the court's prior decisions in the case was not accepted by the Court of Sao Paulo State and we have appealed to the Supreme Court. We cannot anticipate the outcome or assess the potential financial impact of this matter at this time.

*Parana Public Prosecution Service v. Fospar and IBAMA.* The Paraná Public Prosecution Service brought actions in August 1999 and October 1999 in the 1st Federal Court of Paranagua against Fospar and another party seeking to (i) suspend activities that might eliminate mangrove swamp areas near a proposed maritime terminal and bulk pier, (ii) redress environmental damage, (iii) enjoin dredging and certain other activities that could cause an adverse environmental impact on the estuary, and (iv) void environmental licenses and authorizations for the proposed maritime terminal and bulk pier. A federal judge subsequently ordered an expert environmental

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investigation relating to both cases. Although the results of the investigation were favorable to Fospar, in July 2004, the federal court issued a consolidated ruling unfavorable to the defendants, finding that the request for canceling the licenses and authorizations was partially valid. Fospar and the other defendant were ordered to jointly pay nominal amounts plus monetary correction of Brazilian currency and 6% interest from the date of the alleged violation. Additionally, Fospar was ordered to pay 2% of its annual revenues for the five year period of 2000-2004. Fospar has appealed the monetary aspects of the ruling and the Paraná Public Prosecution Service has filed an appeal requesting dismantling of the maritime terminal and bulk pier and cancellation of licenses and authorizations. Fospar estimates that its liability for these costs, which is pending the appeal, could range from zero to \$2.9 million. As of November 30, 2007, no liability has been recorded in connection with this action as management does not consider it probable.

*Other Environmental Matters.* Superfund and equivalent state statutes impose liability without regard to fault or to the legality of a party's conduct on certain categories of persons who are considered to have contributed to the release of hazardous substances into the environment. Under Superfund, or its various state analogues, one party may, under certain circumstances, be required to bear more than its proportionate share of cleanup costs at a site where it has liability if payments cannot be obtained from other responsible parties. Currently, certain of our subsidiaries are involved or concluding involvement at several Superfund or equivalent state sites. Our remedial liability from these sites, either alone or in the aggregate, currently is not expected to have a material effect on our business or financial condition. As more information is obtained regarding these sites and the potentially responsible parties involved, this expectation could change.

We believe that, pursuant to several indemnification agreements, our subsidiaries are entitled to at least partial, and in many instances complete, indemnification for the costs that may be expended by us or our subsidiaries to remedy environmental issues at certain facilities. These agreements address issues that resulted from activities occurring prior to our acquisition of facilities or businesses from parties including, but not limited to, ARCO (BP); Beatrice Fund for Environmental Liabilities; Conoco; Conserv; Estech, Inc.; Kaiser Aluminum & Chemical Corporation; Kerr-McGee Inc.; PPG Industries, Inc.; The Williams Companies and certain other private parties. Our subsidiaries have already received and anticipate receiving amounts pursuant to the indemnification agreements for certain of their expenses incurred to date as well as future anticipated expenditures. Potential indemnification is not considered in our established accruals.

***Phosphate Mine Permitting in Florida***

*The Ona Extension of our Florida Mines.* In February 2004, the FDEP issued a Revised Notice of Intent to issue an environmental resource permit for the Ona extension of our phosphate mines in central Florida. Certain counties and other petitioners challenged the issuance of the permit alleging primarily that phosphate mining in the Peace River Basin would have an adverse impact on the quality and quantity of the downstream water supply and on the quality of the water in Florida's Charlotte Harbor. The matter went to hearing before an Administrative Law Judge (ALJ) in 2004 and to a remand hearing in October 2005. The ALJ issued a Recommended Order in May 2005 and a Recommended Order on Remand in June 2006. The ALJ recommended that the FDEP issue the permit to us with certain conditions which we viewed as acceptable. In the initial order, the ALJ found that phosphate mining has little, if any, impact on downstream water supplies or on Charlotte Harbor. The Deputy Secretary of the FDEP issued a Final Order on July 31, 2006 adopting the ALJ's orders with minor modifications and directed FDEP to issue the permit. The petitioners appealed the Final Order. On March 14, 2007, one of the petitioners, the Peace River Manasota Regional Water Supply Authority, filed a motion with the appellate court requesting that the court relinquish jurisdiction to the FDEP to consider newly discovered evidence that was part of a report issued by the FDEP regarding past impacts of development, including mining, within the Peace River basin. The other petitioners joined in the motion. The court granted the motion and relinquished jurisdiction to the FDEP on May 2, 2007. On May 11, 2007, the Sierra Club filed a

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motion to intervene as a petitioner or to otherwise participate in the relinquishment proceedings. On June 15, 2007, the Secretary of the FDEP issued an order denying the motion by the petitioners to reopen the matter based on newly discovered evidence, concluding that the new evidence was not material to the impacts of the Ona mine and would not have changed the result in the initial hearings. The Secretary further denied the Sierra Club's motion to intervene. The case is pending in the Florida appellate court. We anticipate that the permit will be upheld on appeal and that the appeal process will not adversely affect our future mining plans for the Ona extension.

*The Altman Extension of the Four Corners Mine.* Prior to the Combination, IMC applied for an environmental resource permit for the Altman Extension of our Four Corners mine in central Florida. The permit application was challenged administratively by certain counties and other plaintiffs, and the FDEP ultimately denied the permit due to certain perceived deficiencies in the application. We made corrections in response to the findings of the FDEP in the course of the administrative challenge, and we renewed the permit application in 2005. The FDEP issued a Notice of Intent in November 2005 stating that it intended to issue the permit. One prior petitioner, Charlotte County, initiated an administrative challenge. In February 2006, the Charlotte County Board of County Commissioners reviewed a proposed settlement of the challenge, and voted to settle the matter if we agreed to certain additional permit conditions. An agreement was reached in May 2006 and the permit was issued as proposed in June 2006. We anticipate receiving a federal wetlands permit from the Army Corps of Engineers. The Manatee County staff drafted a report recommending that the Planning Commission and the Manatee Board of County Commissioners deny the authorizations necessary to mine the Altman Extension. We have been in discussions with the Manatee County staff to address their concerns.

As a large mining company, denial of the permits sought at any of our mines, issuance of the permits with cost-prohibitive conditions, or substantial additional delays in issuing the permits may create challenges for us to mine the phosphate rock required to operate our Florida and Louisiana phosphate plants at desired levels in the future.

***IMC Salt and Ogden Litigation***

In August 2001, Madison Dearborn Partners, LLC (MDP) filed a lawsuit, Madison Dearborn Partners, LLC v. IMC Global Inc. (now known as Mosaic Global Holdings), in the Circuit Court of Cook County, Illinois alleging that Mosaic Global Holdings breached a non-binding letter of intent for the sale of the Salt and Ogden businesses to MDP. Mosaic Global Holdings sold the Salt and Ogden businesses to a party other than MDP in November 2001. MDP's original complaint sought in the alternative specific performance or damages in excess of \$0.1 million. In October 2004, the court granted Mosaic Global Holdings' motion for partial summary judgment, ordering that the remedy available to plaintiff, should it prevail on its theory of liability, would be limited to the costs plaintiff expended for the negotiation process, and not plaintiff's claim to the difference between the purchase price MDP offered for the business and the price for which Mosaic Global Holdings ultimately sold the Salt and Ogden businesses plus lost profits of those businesses. In October 2004, the court denied MDP's motion for an interlocutory appeal of the order for partial summary judgment. In April 2005, approximately two weeks before the trial on this lawsuit was scheduled to begin, MDP filed a motion to amend its complaint to add a new claim for fraud. The court granted MDP's motion, and MDP subsequently filed its second amended complaint. In its latest amended complaint, in addition to its preexisting breach of contract and promissory estoppel claims, MDP alleged that Mosaic Global Holdings fraudulently misrepresented its intent to enter a transaction with MDP under the terms outlined in the non-binding letter of intent, and that MDP suffered damages in relying on the allegedly fraudulent statements. Under its fraud claim, MDP sought reliance damages and punitive damages. In December 2005, the court granted Mosaic Global Holdings' motion for partial summary judgment limiting damages under the fraud claim to out-of-pocket expenses that were incurred during a 36-day exclusivity period that expired on March 21, 2001. A bench trial was held from March 20, 2006 through April 12, 2006. At the conclusion of the trial, the judge

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granted Mosaic Global Holdings' motion for a directed verdict on the fraud claim. On April 11, 2007, the judge ruled in our favor on the promissory estoppel claim and in favor of MDP on the breach of contract claim, awarding MDP approximately \$1.9 million in damages. We have appealed the liability finding on the breach of contract claim and MDP has appealed the partial summary judgment described above. The matter will likely be heard by the Illinois Court of Appeals in 2008.

***Fosfertil Merger Proceedings***

In December 2006, Fosfertil and Bunge Fertilizantes S.A. ( *Bunge Fertilizantes* ) proposed a reorganization pursuant to which Bunge Fertilizantes would become a subsidiary of Fosfertil and subsidiaries of Bunge Limited ( *Bunge Group* ) would increase their ownership in Fosfertil. Pursuant to the proposed reorganization, the existing ownership interests in Fosfertil would be diluted to less than 50% of the combined enterprise. In June 2006, Mosaic Fertilizantes do Brazil, S.A. ( *Mosaic Fertilizantes* ) filed a lawsuit against Bunge Fertilizantes, Fertilizantes Ouro Verde S.A. ( *Verde* , the parent of Bunge Group), Fosfertil and Fertifos Administração e Participação S.A. (Fertifos, the parent holding company of Fosfertil) in the Lower Court in Sao Paulo, Brazil, challenging the validity of corporate actions taken by Fosfertil and Fertifos in advance of the proposal for the reorganization. These corporate actions included, among other things, actions taken at an April 2006 meeting of the shareholders of Fertifos to replace our representatives on the Fertifos Board of Directors and subsequent acts by the reconstituted Fertifos Board. In February 2007, Mosaic Fertilizantes filed a petition with the Brazilian Securities Commission challenging, among other things, the valuation placed by Bunge Fertilizantes on Fosfertil. In December 2006, the Court of Appeals in Sao Paulo, Brazil, granted Mosaic Fertilizantes an injunction that enjoined the general meeting of Fosfertil's shareholders to vote on the proposed merger from occurring until the merits of Mosaic Fertilizantes' lawsuit against Bunge Fertilizantes and the other parties were adjudicated. In February 2007, the Court of Appeals upheld its injunction. In February 2007, Bunge Fertilizantes and Verde filed an appeal with the Supreme Justice Court in Brasilia, Brazil of the decision by the Court of Appeals to uphold the injunction. On March 30, 2007, the Lower Court ruled in favor of Verde, Fosfertil and Fertifos with respect to the validity of corporate actions taken by Fosfertil and Fertifos, lifting the injunction against the general meeting of Fosfertil's shareholders. Following the Lower Court's decision, Mosaic Fertilizantes filed an appeal of the decision of the Lower Court, Fosfertil called another meeting of its shareholders and we obtained an injunction from the Court of Appeals to suspend the shareholders' meeting until the Court of Appeals' decision on our appeal. In August 2007, the Court of Appeals ruled in our favor, nullifying the actions taken at the April 2006 meeting of shareholders to replace our representatives on the Board of Fertifos and subsequent acts by the Fertifos Board. In October 2007, the Court of Appeals rejected an appeal by Fosfertil, Fertifos, Bunge Fertilizantes and Verde that requested clarification of the decision. Fosfertil, Fertifos, Bunge and Verde have appealed the decision of the Court of Appeals to the Supreme Courts in Brasilia, Brazil, and we intend to vigorously defend the decision of the Court of Appeals. If Mosaic Fertilizantes is not successful in these matters and the merger is consummated on the terms proposed by Fosfertil and Bunge Fertilizantes, Mosaic's resulting ownership interest in the combined enterprise would be diluted based on the relative valuations ascribed to each entity in any such merger.

***Tax Contingencies***

Mosaic and our subsidiaries and affiliates are engaged, from time to time, in judicial and administrative proceedings with respect to various tax matters. Substantially all of these proceedings relate to matters other than income taxes. Our material tax judicial or administrative matters include the following:

*Brazilian Tax Matters.* Our Brazilian subsidiary is engaged in a number of judicial and administrative proceedings relating to various non-income tax matters. We estimate that our maximum potential liability with respect to these matters is approximately \$33.6 million. We have recorded an accrual of approximately

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\$5.0 million with respect to these proceedings. Based on the current status of similar tax cases involving unrelated taxpayers, we believe we have recorded adequate accruals for the probable liability with respect to these Brazilian judicial and administrative proceedings. In addition, with respect to some of the Brazilian judicial proceedings, we have made deposits with various courts in Brazil to cover our potential liability with respect to these proceedings. The total amount of these judicial deposits stands at approximately \$3.5 million, as of November 30, 2007. In addition, as a result of a change in Brazilian law, we have the ability to utilize certain excess PIS Cofins tax credits (sales and use tax) to satisfy our obligations to make certain tax payments. As of November 30, 2007, the amount of these excess PIS Cofins tax credits stands at approximately \$3.2 million. In the event that the Brazilian government were to prevail in connection with all judicial and administrative matters involving us, our maximum cash tax liability with respect to these matters would be approximately \$26.9 million.

*Florida Sales and Use Tax.* In July 2005, a Notice of Intent to Make Audit Changes ( *Notice* ) was sent to Cargill Fertilizer, Inc. followed by a letter by the Florida Department of Revenue ( *FDOR* ) asserting that taxes of \$46.6 million, together with penalties and interest through July 1, 2005 totaling \$28.7 million (for a total of \$75.3 million), were owed to the State of Florida for unpaid sales and use taxes for the period beginning June 1, 1997 through May 31, 2002. In general, we assumed the obligations of Cargill Fertilizer, Inc. in the Combination. The July 2005 Notice relates to a sales and use tax audit which has been pending in Florida for several years. We have continued to work with FDOR and, as of November 30, 2007, we estimate a total assessment of approximately \$3.7 million, of which \$2.0 million has been paid.

*Freeport-McMoRan Inc. Louisiana Tax Audit.* In January 2006, the Louisiana Department of Revenue filed suit against Mosaic Global Holdings in the 19th Judicial District Court, Parish of East Baton Rouge, Louisiana, in connection with its audit of income tax returns for 1996 and 1997 and corporate franchise tax returns for 1997 and 1998 for Freeport-McMoRan Inc., which was merged into Mosaic Global Holdings in December 1997. The complaint seeks payment of \$3.2 million in allegedly unpaid taxes, interest on the unpaid taxes (\$4.6 million through November 30, 2007), plus unspecified amounts of penalties and attorneys' fees. Much of the asserted liability is attributable to the reclassification of items of income shown as apportionable income on the returns to Louisiana allocable income. In May 2006, the trial court rejected several procedural exceptions to the suit by Mosaic Global Holdings, including improper venue, and the Louisiana First Circuit Court of Appeal rejected an application by Mosaic Global Holdings for interlocutory review of the trial court's decision denying the exception regarding improper venue. In August 2006, Mosaic Global Holdings filed a motion alleging that the suit was untimely and therefore should be dismissed, with prejudice. That motion was decided in favor of Mosaic Global Holdings on September 17, 2007. The judgment of dismissal was signed on October 22, 2007. On November 28, 2007 the state filed an appeal. We intend to vigorously defend this action. We do not expect that this matter will have a material impact on our business or financial condition.

**Other Claims**

We also have certain other contingent liabilities with respect to judicial, administrative and arbitration proceedings and claims of third parties arising in the ordinary course of business. We do not believe that any of these contingent liabilities will have a material adverse impact on our business or financial condition.

**14. Share-Based Payments**

We sponsor one share-based compensation plan. The Mosaic Company 2004 Omnibus Stock and Incentive Plan (the *Omnibus Plan* ), which was approved by shareholders and became effective October 20, 2004 and amended on October 4, 2006, permits the grant of shares and share options to employees for up to 25 million shares of common stock. The Omnibus Plan provides for grants of stock options, restricted stock, restricted stock units, and a variety of other share-based and non-share-based awards. Our employees, officers, directors, consultants, agents, advisors, and independent contractors, as well as other designated individuals, are eligible to

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participate in the Omnibus Plan. Mosaic settles stock option exercises and restricted stock units with newly issued common shares. The Compensation Committee of the Board of Directors administers the Omnibus Plan subject to the provisions of the Plan and applicable law.

We recorded share-based compensation expense of \$4.6 million and \$8.4 million for the three and six months ended November 30, 2007, respectively, and \$5.3 and \$11.6 million for the three and six months ended November 30, 2006, respectively. The components of share-based compensation expense are included primarily in selling, general and administrative expenses in our Condensed Consolidated Statement of Operations.

We granted approximately 0.7 million stock options and 0.1 million restricted stock units during the six months ended November 30, 2007. The weighted average grant date fair value of stock options and restricted stock units was \$18.72 and \$40.03, respectively.

We granted approximately 1.7 million stock options and 0.5 million restricted stock units during the six months ended November 30, 2006. The weighted average grant date fair value of stock options and restricted stock units was \$7.97 and \$15.62, respectively.

To calculate the fair value of stock options, we use the Black-Scholes option pricing model. A summary of significant assumptions used to estimate the fair value of stock option awards is as follows:

	<b>Six months ended November 30</b>	
	<b>2007</b>	<b>2006</b>
<b>Weighted average assumptions used in option valuations:</b>		
Expected volatility	40.5%	40.8%
Expected dividends		
Expected term (in years)	6.0	6.0
Risk-free interest rate	4.64%	4.82%

Cash received from options exercised under all share-based payment arrangements for the six months ended November 30, 2007 and November 30, 2006 was \$37.6 million and \$21.9 million, respectively.

**15. Comprehensive Income**

Components of comprehensive income were as follows:

<b>(in millions)</b>	<b>Three months ended November 30</b>		<b>Six months ended November 30</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net earnings	\$ 394.0	\$ 65.9	\$ 699.5	\$ 174.9
Foreign currency translation adjustment	228.1	(88.3)	264.5	(92.4)
Minimum pension liability adjustment	9.6		9.6	
Deferred tax adjustment	(15.1)		(15.1)	
	<b>\$ 616.6</b>	<b>\$ (22.4)</b>	<b>\$ 958.5</b>	<b>\$ 82.5</b>

**16. Accounting for Derivative Instruments and Hedging Activities**



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We are exposed to the impact of interest rate changes on borrowings, fluctuations in the relative value of currencies and the impact of fluctuations in the purchase prices of natural gas, ammonia and sulfur consumed in operations, changes in ocean freight costs as well as changes in the market value of our financial instruments. We

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periodically enter into derivatives in order to mitigate our interest rate risk, foreign currency risks and the effects of changing commodity prices, but not for speculative purposes.

We use financial instruments, including forward contracts, zero-cost collars and futures, which typically expire within one year, to reduce the impact of foreign currency exchange risk in the Condensed Consolidated Statements of Operations. One of the primary currency exposures relates to several of our Canadian entities, whose sales are denominated in U.S. dollars, but whose costs are paid principally in Canadian dollars, which is their functional currency. Our Canadian businesses monitor their foreign currency risk by estimating their forecasted transactions and measuring their balance sheet exposure in U.S. dollars and Canadian dollars. We hedge certain of these risks through forward contracts and zero-cost collars. Our international distribution and production operations monitor their foreign currency risk by assessing their balance sheet and forecasted exposures. Our Brazilian operations enter into foreign currency futures traded on the Futures and Commodities Exchange Bolsa de Mercadorias e Futuros and also enter into forward contracts to hedge foreign currency risk. Our other foreign locations also use forward contracts to reduce foreign currency risk.

We use forward purchase contracts, swaps and zero-cost collars to reduce the risk related to significant price changes in our inputs and product prices. We use interest rate swap contracts to manage our exposure to movements in interest rates. The use of these financial instruments modifies the exposure of these risks with the intent to reduce our risk and variability. Our foreign currency exchange contracts, commodities contracts and interest rate contracts do not qualify for hedge accounting under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* ( *SFAS 133* ); therefore, unrealized gains and losses are recorded in the Condensed Consolidated Statements of Operations. Unrealized gains and losses on foreign currency exchange contracts related to inventory purchases and commodities contracts are recorded in cost of goods sold in the Condensed Consolidated Statements of Operations. Unrealized gains or losses used to hedge changes in our financial position are included in the foreign currency transaction (gains) losses line on the Condensed Consolidated Statements of Operations. Below is a table that shows our derivative unrealized (gains) losses related to foreign currency exchange contracts and commodities contracts:

(in millions)	Three months ended		Six months ended	
	November 30		November 30	
	2007	2006	2007	2006
Foreign currency exchange contracts included in cost of goods sold	\$ 4.3	\$ 9.6	\$ 10.9	\$ 17.2
Commodities contracts in cost of goods sold	(9.2)	(11.4)	14.2	(19.6)
Foreign currency exchange contracts included in foreign currency transaction (gain) loss	6.6	1.0	10.7	1.0

On June 29, 2007, we prepaid \$150.0 million aggregate principal of term loans under our senior secured bank credit facility. In association with the prepayment, we terminated \$175.0 million of interest rate swaps and \$75.0 million of zero-cost collars at a gain of \$1.0 million. As of November 30, 2007, we had no interest rate swaps or zero-cost collars outstanding.

**17. Related Party Transactions**

Cargill is considered a related party due to its majority ownership interest in us. As of November 30, 2007, Cargill and certain of its subsidiaries owned approximately 64.5% of our outstanding common stock. We have entered into transactions and agreements with Cargill and certain of its non-consolidated subsidiaries (affiliates) from time to time, and anticipate that we will enter into additional transactions and agreements with Cargill and its affiliates in the future.

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As of November 30, 2007 the net amount due to Cargill and its affiliates related to these transactions totaled \$21.2 million. At May 31, 2007 the net amount due from Cargill and its affiliates was \$6.4 million.

Cargill made net equity contributions of \$1.5 million to us during the six months ended November 30, 2007 and \$2.3 million during fiscal year 2007.

The Condensed Consolidated Statements of Operations included the following transactions with Cargill and its affiliates:

(in millions)	Three months ended November 30		Six months ended November 30	
	2007	2006	2007	2006
Transactions with Cargill and affiliates included in net sales	\$ 56.1	\$ 73.3	\$ 115.2	\$ 108.3
Payments to Cargill and affiliates included in cost of goods sold	81.0	10.1	145.1	36.9
Payments to Cargill and affiliates included in selling, general and administrative expenses	4.1	2.8	8.0	5.8

We have also entered into transactions and agreements with certain of our non-consolidated companies. As of November 30, 2007 and May 31, 2007, the net amount due from our non-consolidated companies totaled \$23.5 million and \$87.0 million, respectively.

The Condensed Consolidated Statements of Operations included the following transactions with our non-consolidated companies:

(in millions)	Three months ended November 30		Six months ended November 30	
	2007	2006	2007	2006
Transactions with non-consolidated companies included in net sales	\$ 137.1	\$ 2.2	\$ 284.5	\$ 5.7
Payments to non-consolidated companies included in cost of goods sold	87.0	62.9	166.8	118.7

**18. Business Segments**

The reportable segments are determined by management based upon factors such as different technologies, different market dynamics, and for which segment financial information is available. For a description of the business segments see Note 1. We evaluate performance based on the operating earnings of the respective business segments, which includes certain allocations of corporate selling, general and administrative expenses. The segment results may not represent the actual results that would be expected if they were independent, stand-alone businesses. During the second quarter of fiscal 2008, we completed a strategic review in which we identified the Nitrogen business as non-core to our ongoing business. Therefore, based primarily on how our chief operating decision makers view and evaluate our operations, we have eliminated the Nitrogen business as a separate reportable segment. The results of the Nitrogen business are now included as part of Corporate, Eliminations, and Other. Accordingly, the prior period comparable results have been updated to reflect our Nitrogen business as a part of Corporate, Eliminations and Other segment for comparability purposes. The Corporate, Eliminations and Other segment primarily represents activities associated with our Nitrogen distribution business, equity in net earnings from our 50% ownership interest in Saskferco Products Inc., a

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Saskatchewan-based producer of nitrogen-based fertilizers and animal feed ingredients, unallocated corporate office activities and eliminations. All intersegment sales are eliminated within the Corporate, Eliminations and Other segment. Segment information was as follows:

(in millions)	Phosphates	Potash	Offshore	Corporate, Eliminations and Other	Total
<b>Three months ended November 30, 2007</b>					
Net sales to external customers	\$ 1,106.4	\$ 415.4	\$ 641.3	\$ 32.3	\$ 2,195.4
Intersegment net sales	124.4	16.2	3.0	(143.6)	
Net sales	1,230.8	431.6	644.3	(111.3)	2,195.4
Gross margin	397.6	175.2	50.1	0.2	623.1
Restructuring loss	10.3				10.3
Operating earnings (loss)	346.8	161.2	25.7	(4.1)	529.6
Capital expenditures	31.1	43.2	3.3	1.5	79.1
Depreciation, depletion and amortization	47.5	30.1	4.5	2.4	84.5
Equity in net earnings of non-consolidated companies	0.7		20.8	24.0	45.5
<b>Three months ended November 30, 2006</b>					
Net sales to external customers	\$ 678.0	\$ 330.1	\$ 496.9	\$ 17.0	\$ 1,522.0
Intersegment net sales	85.9	22.0	3.0	(110.9)	
Net sales	763.9	352.1	499.9	(93.9)	1,522.0
Gross margin	35.9	88.4	23.8	12.4	160.5
Operating earnings	5.1	78.2	4.5	2.9	90.7
Capital expenditures	7.8	15.3	2.1	7.5	32.7
Depreciation, depletion and amortization	43.5	30.2	3.9	1.2	78.8
Equity in net earnings of non-consolidated companies	0.3		5.9	9.2	15.4
<b>Six months ended November 30, 2007</b>					
Net sales to external customers	\$ 2,198.2	\$ 811.6	\$ 1,137.1	\$ 51.8	\$ 4,198.7
Intersegment net sales	215.1	31.8	4.7	(251.6)	
Net sales	2,413.3	843.4	1,141.8	(199.8)	4,198.7
Gross margin	751.1	301.8	101.2	(9.2)	1,144.9
Restructuring loss	10.3				10.3
Operating earnings (loss)	657.0	271.4	55.8	(5.0)	979.2
Capital expenditures	77.8	72.1	9.8	1.5	161.2
Depreciation, depletion and amortization	94.7	58.8	8.5	4.7	166.7
Equity in net earnings of non-consolidated companies	1.7		34.8	20.8	57.3
<b>Six months ended November 30, 2006</b>					
Net sales to external customers	\$ 1,376.8	\$ 596.5	\$ 799.2	\$ 38.1	\$ 2,810.6
Intersegment net sales	176.7	45.7	4.6	(227.0)	
Net sales	1,553.5	642.2	803.8	(188.9)	2,810.6
Gross margin	145.1	157.8	37.1	16.8	356.8
Restructuring gain	(0.4)				(0.4)
Operating earnings (loss)	88.0	139.0	0.9	(5.6)	222.3
Capital expenditures	62.7	42.0	5.6	11.9	122.2

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Depreciation, depletion and amortization	88.9	55.7	7.6	1.9	154.1
Equity in net earnings of non-consolidated companies	0.7		7.9	10.7	19.3

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Financial information relating to our operations by geographic area was as follows:

(in millions)	Three months ended		Six months ended	
	November 30		November 30	
	2007	2006	2007	2006
<i>Net sales<sup>(a)</sup></i>				
India	\$ 458.6	\$ 243.7	\$ 877.9	\$ 479.7
Brazil	404.1	244.6	738.4	447.0
Canpotex <sup>(b)</sup>	123.4	101.7	264.2	178.0
Canada	114.0			