

*Financial statements
December 31, 2003 and 2002*

Fertilizantes Fosfatados S.A. Fosfertil
(Public-held company)

Financial statements
December 31, 2003 and 2002

(A free translation of the original report in Portuguese as published in Brazil containing financial statements prepared in accordance with accounting principles adopted in Brazil and the rules of the Brazilian Securities Exchange Commission (CVM))

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Financial statements

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Independent auditors' report

To
The Board of Directors and the Shareholders
Fertilizantes Fosfatados S.A. Fosfertil
Uberaba - MG

1. We have examined the balance sheets of Fertilizantes Fosfatados S.A. Fosfertil and the consolidated balance sheets of the Company and its subsidiary as of December 31, 2003 and 2002 and the related statements of income, changes in shareholders' equity and changes in financial position for the years then ended, which are the responsibility of its management. Our responsibility is to express an opinion on these financial statements.
2. Our examinations were conducted in accordance with auditing standards generally accepted in Brazil and included: (a) planning of the audit work, considering the materiality of the balances, the volume of transactions and the accounting systems and internal accounting controls of the Company and its subsidiary; (b) verification, on a test basis, of the evidence and records which support the amounts and accounting information disclosed; and (c) evaluation of the most significant accounting policies and estimates adopted by Company management and its subsidiary, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Fertilizantes Fosfatados S.A. Fosfertil and the consolidated financial position of the Company and its subsidiary as of December 31, 2003 and 2002, and the results of its operations, changes in its shareholders' equity and changes in its financial position for the years then ended, in conformity with accounting practices adopted in Brazil.

January 16, 2004

KPMG Auditores Independentes
CRC 14428/F-MG

Adelino Dias Pinho
Contador CRC SP097869/O-06-S-MG

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Statements of income

Years ended December 31, 2003 and 2002

(In thousands of Reais)

	Parent Company		Consolidated	
	2003	2002	2003	2002
Gross sales and services rendered	861.102	683.469	2.101.061	1.578.586
Sales deductions	<u>(77.843)</u>	<u>(61.324)</u>	<u>(226.328)</u>	<u>(167.999)</u>
Net sales and services rendered	783.259	622.145	1.874.733	1.410.587
Cost of sales and services rendered	<u>(516.596)</u>	<u>(357.267)</u>	<u>(1.270.523)</u>	<u>(867.565)</u>
Gross profit	<u>266.663</u>	<u>264.878</u>	<u>604.210</u>	<u>543.022</u>
Other operating income (expenses)				
Selling	(3.353)	(2.229)	(7.198)	(5.439)
General and administrative				
Boards' and Directors' fees	(1.132)	(1.139)	(1.984)	(1.862)
Administrative	(15.655)	(14.692)	(39.943)	(37.292)
Employee profit sharing	(6.712)	(5.834)	(20.995)	(18.384)
Financial income	35.564	100.126	101.183	180.442
Financial expenses	(80.937)	(200.340)	(116.872)	(271.064)
Cost of unscheduled stoppage	(1.892)	(4.556)	(20.076)	(13.867)
Other operating expenses, net	(17.516)	(8.343)	(44.817)	(24.616)
Equity in earnings	191.061	160.211	-	(101)
	<u>99.428</u>	<u>23.204</u>	<u>(150.702)</u>	<u>(192.183)</u>
Operating profit	366.091	288.082	453.508	350.839
Non-operating result, net	<u>1.029</u>	<u>(1.468)</u>	<u>2.720</u>	<u>8.141</u>
Income before income and social contribution taxes	367.120	286.614	456.228	358.980
Income and social contribution taxes				
Current	(43.523)	(24.219)	(137.052)	(100.780)
Deferred	<u>2.976</u>	<u>(3.285)</u>	<u>7.950</u>	<u>54</u>
Net income for the year	<u>326.573</u>	<u>259.110</u>	<u>327.126</u>	<u>258.254</u>
Net income per thousand shares at the end of the year - R\$	<u>3,06</u>	<u>2,43</u>		

See the accompanying notes to the financial statements

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Statements of changes in shareholders' equity

Years ended December 31, 2003 and 2002

(In thousand of Reais)

	Paid-in capital	Capital reserve	Revaluation reserve	Profit reserves			Retained earnings	Total
		Tax incentives		Legal	Treasury shares	Profit retention		
At December 31, 2001	276.122	49	70.754	39.950	(5.523)	161.875	-	543.227
Purchase of company's shares	-	-	-	-	(4.411)	-	-	(4.411)
Cancelling of company's shares	-	-	-	-	8.771	(8.771)	-	-
Dividends	-	-	-	-	-	(151.735)	-	(151.735)
Realization of revaluation reserve	-	-	(3.317)	-	-	-	3.317	-
Net income for the year	-	-	-	-	-	-	259.110	259.110
Distributions:								
Legal reserve	-	-	-	12.956	-	-	(12.956)	-
Interest on shareholders' equity - Law 9249/95 (to be considered as minimum obliged dividend of 2002 "ad-referendum" of the Supervisory Board Meeting)	-	-	-	-	-	-	(45.521)	(45.521)
Dividends	-	-	-	-	-	-	(49.896)	(49.896)
Profit retention reserves	-	-	-	-	-	154.054	(154.054)	-
At December 31, 2002	276.122	49	67.437	52.906	(1.163)	155.423	-	550.774
Cancelling of company's shares	-	-	-	-	1.163	(1.163)	-	-
Realization of revaluation reserve	-	-	(3.317)	-	-	-	3.317	-
Net income for the year	-	-	-	-	-	-	326.573	326.573
Distributions:								
Legal reserve	-	-	-	2.318	-	-	(2.318)	-
Interest on shareholders' equity - Law 9249/95 (to be considered as minimum obliged dividend of 2003 "ad-referendum" of the Supervisory Board Meeting)	-	-	-	-	-	-	(54.886)	(54.886)
Dividends	-	-	-	-	-	-	(32.507)	(32.507)
Profit retention reserves	-	-	-	-	-	240.179	(240.179)	-
At December 31, 2003	<u>276.122</u>	<u>49</u>	<u>64.120</u>	<u>55.224</u>	<u>-</u>	<u>394.439</u>	<u>-</u>	<u>789.954</u>

See the accompanying notes to the financial statements

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Statements of changes in financial position

Years ended December 31, 2003 and 2002

(In thousands of Reais)

	Parent Company		Consolidated	
	2003	2002	2003	2002
Source of funds				
Operations				
Net income for the year	326.573	259.110	327.126	258.254
Items not affecting working capital				
Depreciation, amortization and depletion	32.135	31.823	82.832	79.577
Residual value of permanent asset disposals	45	321	192	2.094
Provision for adjustment for market value	(743)	252	(2.228)	761
Provisions for contingencies	11.683	7.938	26.089	23.450
Deferred income taxes and social contribution	(2.976)	3.348	(7.950)	9
Equity in income of wholly-owned subsidiary	(191.061)	(160.211)	-	-
Monetary variation on noncurrent liabilities	1.685	107.126	(13.713)	140.372
Noncurrent tax credits - PIS	-	(1.655)	-	13.165
Others	-	-	-	916
Resources from operations	<u>177.341</u>	<u>248.052</u>	<u>412.348</u>	<u>518.598</u>
Related and third parties				
Increase in noncurrent liabilities	6.042	456	18.065	80.413
Dividends received from wholly-owned subsidiary	294.946	38.123	-	-
	<u>300.988</u>	<u>38.579</u>	<u>18.065</u>	<u>80.413</u>
Total resources provided	<u>478.329</u>	<u>286.631</u>	<u>430.413</u>	<u>599.011</u>
Application of funds				
Permanent assets:				
Investments	35	-	-	-
Property, plant and equipment	22.313	17.254	82.568	61.394
Deferred charges	306	235	312	736
Transfer from noncurrent to current liabilities	108.571	68.624	134.672	79.248
Decrease of negative goodwill on investment in wholly-owned subsidiary and minority interest	-	-	35	-
Purchase of company's shares	-	4.411	-	4.411
Dividends and interest on shareholders' equity	87.393	247.152	87.393	247.152
Increase in noncurrent assets	26.128	6.751	58.497	16.262
Total resources used	<u>244.746</u>	<u>344.427</u>	<u>363.477</u>	<u>409.203</u>
Increase (decrease) in working capital	<u>233.583</u>	<u>(57.796)</u>	<u>66.936</u>	<u>189.808</u>
Changes in working capital				
Current assets				
At the end of the year	572.359	438.030	976.788	901.955
At the beginning of the year	438.030	307.874	901.955	478.031
	<u>134.329</u>	<u>130.156</u>	<u>74.833</u>	<u>423.924</u>
Current Liabilities				
At the end of the year	289.351	388.605	559.926	552.029
At the beginning of the year	388.605	200.653	552.029	317.913
	<u>(99.254)</u>	<u>187.952</u>	<u>7.897</u>	<u>234.116</u>
Increase (decrease) in working capital	<u>233.583</u>	<u>(57.796)</u>	<u>66.936</u>	<u>189.808</u>

See the accompanying notes to the financial statements.

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Notes to the financial statements

Years ended December 31, 2003 and 2002

(In thousands of Reais)

1 Operations

The company's main activities are the manufacture of fertilizers and other products for agriculture and cattle feed using minerals extracted from the company's own mines, as well as the sale, transportation, import and export of these products, procurement and manufacturing on behalf of third parties and investment in other commercial or civil entities, domestically or abroad, as either partner, shareholder or quotaholder.

The main activities of its wholly-owned subsidiary Ultrafertil S.A. are the production and sale of fertilizers and chemical products, as well as operating its own harbor terminal for its own purposes and for third parties.

2 Presentation of the financial statements

The financial statements were prepared in accordance with accounting practices adopted in Brazil and the rules of the Brazilian Securities Exchange Commission (CVM).

Description of significant accounting policies

a. Statements of income

The result of operations recorded on an accrual basis.

b. Foreign currency

Monetary assets and liabilities denominated in foreign currencies were translated into Reais at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognized in the statements of income.

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Notes to the financial statements

(In thousands of Reais)

c. Current and noncurrent assets

Provision for doubtful accounts

The provision for doubtful accounts is calculated in amount considered adequate by management to cover any losses arising on collection of accounts receivable.

Inventories

Inventories are stated at the average or production cost that does not exceed its market value.

Programmed maintenance prepaid costs

The performed maintenance costs are amortized using the straight-line method, taking into account the next programmed maintenance.

d. Permanent assets

Investments

Investment in wholly-owned subsidiary is valued using the equity method, less negative goodwill to be amortized. Other permanent investments were valued at cost, less a provision for devaluation, when deemed as necessary.

Property, plant and equipment

Property, plant and equipment are recorded at the cost of acquisition or construction increased by the revaluation performed in 1986. Depreciation is provided using the straight-line method at rates that take into account the estimated useful lives of the corresponding assets.

Deferred charges

Deferred charges are recorded at purchase and formation cost, less amortization, which is calculated by the straight-line method with rates that consider the useful life of the assets.

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(In thousands of Reais)

e. Current and noncurrent liabilities

Obligations are priced-level restated according to the exchange rates or index and interest rates specified in the agreements in force, to reflect amounts accrued up to the balance sheet date.

f. Provisions

Provisions, accounting estimates, are recorded by management considering objective and subjective factors, representing the best estimates of the obligation recorded in the financial statements.

g. Income and social contribution taxes

The income and social contribution taxes, current and deferred, are calculated based on effective taxable income rates. The deferred tax assets related to temporary differences were recorded in accordance with CVM Instruction 371/02.

h. Reclassifications

Certain amounts of prior year financial statements have been reclassified to conform with the current year presentation.

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Notes to the financial statements

(In thousands of Reais)

3 Consolidated financial statements

The consolidated financial statements were prepared in accordance with the technical criteria described in CVM Instruction 247/96 and include the accounts of the wholly-owned subsidiary Ultrafertil S.A.

	<u>Interest percentage</u>	
	2003	2002
Ultrafertil S.A.	100.00	99.99
UF Distribuidora de Combustíveis Ltda.	99.00	99.00

Description of main consolidation procedures

- a. Elimination of intercompany asset and liability account balances;
- b. Elimination of investment in the wholly-owned subsidiary's capital, reserves and retained earnings;
- c. Elimination of intercompany income and expense balances and unearned income arising from intercompany transactions.
- d. Identification of minority interests in the consolidated financial statements as of December 31, 2002.

Accounting policies were adopted in conformity throughout the consolidated companies and conform to prior year presentation, as well.

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(In thousands of Reais)

Reconciliation of the net income for the year and shareholders' equity is shown below:

	<u>Net income for the year</u>		<u>Shareholders' equity</u>	
	2003	2002	2003	2002
Parent Company	326,573	259,110	822,461	550,774
Elimination of income earned/deferred by the Parent company in transactions with the wholly-owned subsidiary, net	<u>553</u>	<u>(856)</u>	<u>(963)</u>	<u>(1,516)</u>
Consolidated	<u>327,126</u>	<u>258,254</u>	<u>821,498</u>	<u>549,258</u>

4 Interest earning bank deposits

Performed in financial institutions indicated by specialized rating companies. For further information, see Note 21 d.

5 Trade accounts receivable

	<u>Parent company</u>		<u>Consolidated</u>	
	2003	2002	2003	2002
Current:				
Customers	9,507	11,193	59,317	53,209
Wholly-owned subsidiary	<u>1,177</u>	<u>51</u>	<u>-</u>	<u>-</u>
	<u>10,684</u>	<u>11,244</u>	<u>59,317</u>	<u>53,209</u>
Long-term:				
Customers	5,804	5,753	8,599	8,122
Provision for doubtful accounts	<u>(5,297)</u>	<u>(5,753)</u>	<u>(7,915)</u>	<u>(8,122)</u>
	<u>507</u>	<u>-</u>	<u>684</u>	<u>-</u>

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(In thousands of Reais)

6 Inventories

	<u>Parent company</u>		<u>Consolidated</u>	
	2003	2002	2003	2002
Finished goods	52,795	58,826	97,278	92,319
Raw material	15,240	21,026	27,184	32,960
Auxiliary materials	6,427	2,446	35,190	25,347
Maintenance materials and others	42,090	35,872	100,111	87,440
Imports in transit	<u>12,795</u>	<u>98</u>	<u>19,605</u>	<u>2,949</u>
	<u>129,347</u>	<u>118,268</u>	<u>279,368</u>	<u>241,015</u>

7 Deferred income and social contribution taxes

The deferred income and social contribution taxes are recognized to reflect future tax effects attributable to temporary differences between the tax bases of assets and liabilities and their book values.

	<u>Parent Company</u>		<u>Consolidated</u>	
	2003	2002	2003	2002
Income and social contribution:				
Provision for contingencies to tax claims, labor and civil	11,850	8,014	27,724	18,953
Provision for losses with Eletrobrás notes	877	1,115	2,529	3,217
Other provisions	676	1,299	1,431	1,602
Provision for pension plans				
CVM Deliberation 371/00	-	-	10,271	10,251
Tax losses carry forward	<u>-</u>	<u>-</u>	<u>16</u>	<u>-</u>
	<u>13,403</u>	<u>10,428</u>	<u>41,971</u>	<u>34,023</u>

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(In thousands of Reais)

Management considers that the deferred tax asset balance recorded based on temporary differences is realizable at the proportion of a final outcome of the provision for contingencies and the settlement of the projected pension fund obligations.

8 Tax credits - PIS

The company recorded, at December 31, 2001, a credit related to over payment of PIS (Federal Tax). The recognition of this credit was based on the opinion of the Company's legal counselors and by the Supreme Court - STF, which declared Laws 2445/88 and 2449/88 as unconstitutional. This decision is also based on several decisions made by the Taxpayers' Council, the Ministry of Finance and the opinion of its legal counsel. Its current balance as of December 31, 2003, is R\$ 13,540 and as of December 31, 2002 was R\$ 11,435.

9 Investment in wholly-owned subsidiary

	<u>Parent Company</u>	
	2003	2002
Financial Information of wholly-owned subsidiary		
Percentage holding - %	100.00	99.99
Restated paid-in capital	397,137	397,137
Shareholders' equity	744,225	646,377
Net income for the year	190,917	160,517
Unearned income on intercompany transactions	2,840	2,983
Movement of the investment account		
At the beginning of the year	604,990	482,902
Equity in earnings	191,061	160,211
Purchase of wholly-owned subsidiary's shares	8	-
Dividends	(294,946)	(38,123)
At the end of the year	501,113	604,990
Negative goodwill to be amortized	(37,792)	(37,819)
	<u>463,321</u>	<u>567,171</u>

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Negative goodwill is attributed to other economic reasons (according to article 21, line “c” of CVM Instruction 1/78), and, therefore, will be amortized upon sale or write-off of the investment, in compliance with article 14, paragraph 4, of CVM Instruction 247/96. In the consolidated financial statements, the negative goodwill was presented as “Deferred income”.

The financial statement of the wholly-owned subsidiary Ultrafertil S.A. are examined by the same independent auditor of the Parent company.

10 Property, plant and equipment

	Parent company		Consolidated		Depreciation and depletion annual rate (p.a.) %
	2003	2002	2003	2002	
Costs:					
Buildings and improvements	338,250	337,508	589,072	593,795	4
Machinery and equipment	415,284	410,917	1,198,883	1,146,847	4 to 25 (i)
Mineral rights	10,655	10,072	16,500	15,917	(ii)
Vehicles	33,842	24,764	40,322	31,684	25
Computer equipment	5,774	5,858	25,001	23,704	20
Other	<u>4,163</u>	<u>4,154</u>	<u>9,131</u>	<u>8,861</u>	10
	807,968	793,273	1,878,909	1,820,808	
Accumulated depreciation and depletion	<u>(563,006)</u>	<u>(537,012)</u>	<u>(1,260,110)</u>	<u>(1,187,492)</u>	
	244,962	256,261	618,799	633,316	
Cost of non-depreciated items:					
Land	53,837	53,837	60,867	59,889	
Inventory for fixed assets	-	-	30,771	14,698	
Work in progress	12,836	9,333	45,723	41,611	
Rights and concessions	505	505	505	505	
Advances to suppliers	<u>6</u>	<u>301</u>	<u>1,776</u>	<u>5,483</u>	
	<u>312,146</u>	<u>320,237</u>	<u>758,441</u>	<u>755,502</u>	

(i) Average rate of 8.52%

(ii) Depletion is calculated based on production compared to the mineral rights balance.

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(In thousands of Reais)

The company, based on CVM Instruction 288/98 and CVM Deliberation 183/95, utilized the monetary corrected cost to value its fixed assets. However, it maintained a portion of its assets (land and buildings) at its revalued balance recorded in 1986, which should be realizable through its future operations.

11 Deferred charges

	<u>Parent company</u>		<u>Consolidated</u>	
	2003	2002	2003	2002
Information technology implementation	8,057	7,751	21,433	20,410
Pre-operating costs	329	330	1,934	1,935
Other deferred expenses	<u>896</u>	<u>896</u>	<u>2,556</u>	<u>1,894</u>
	9,282	8,977	25,923	24,239
Accumulated amortization	<u>(6,762)</u>	<u>(4,987)</u>	<u>(16,956)</u>	<u>(12,191)</u>
	<u>2,520</u>	<u>3,990</u>	<u>8,967</u>	<u>12,048</u>

Fertilizantes Fosfatados S.A. Fosfertil

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Notes to the financial statements

(In thousands of Reais)

12 Financing

Type/purpose	Annual financial charges	Parent company				Consolidated			
		Current		Noncurrent		Current		Noncurrent	
		2003	2002	2003	2002	2003	2002	2003	2002
Import finance - (US\$ 2,605 thousand)	1.71% + exchange rate variation	7,694	7,456	-	-	7,694	10,442	-	-
Banco Itaú S.A. - Pre-export Finance	4.20% + LIBOR + exchange rate variation	-	-	-	-	16,888	1,443	60,753	84,799
For acquisition of fixed assets and investments:									
Banco Nacional de Desenvolvimento Econômico e Social - BNDES Purchase of Ultrafertil S.A.	6.50% + UR IGP-M PRO 484	87,815	59,110	226,399	277,831	87,815	59,110	226,399	277,831
International Finance Corporation (IFC)	3.75% to 3.87% + LIBOR + exchange rate variation	43,910	42,316	82,535	132,499	43,910	42,316	82,535	132,499
BNDES	9.50% to 10.00% + UR TJLP 314	-	-	-	-	6,565	8,116	9,211	14,928
BNDES	3.50% + UMBND 590	-	-	-	-	1,792	2,138	2,805	5,429
BBA	9.00% + UR TJLP 314	-	-	-	-	1,386	-	3,604	-
Banco do Brasil S.A.	14.00%	-	-	-	-	4,541	1,735	14,086	18,452
		<u>139,419</u>	<u>108,882</u>	<u>308,934</u>	<u>410,330</u>	<u>170,591</u>	<u>125,300</u>	<u>399,433</u>	<u>533,938</u>

Fertilizantes Fosfatados S.A. Fosfertil

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Notes to the financial statements

(In thousands of Reais)

Financing matures as follows:

Year	<u>Parent company</u>		<u>Consolidated</u>	
	2003	2002	2003	2002
2004	-	108,266	-	135,043
2005	112,652	108,266	151,191	147,628
2006	107,909	108,266	138,949	143,150
2007	83,558	79,643	98,843	96,594
2008	4,815	5,889	7,633	8,706
2009	<u>-</u>	<u>-</u>	<u>2,817</u>	<u>2,817</u>
	<u>308,934</u>	<u>410,330</u>	<u>399,433</u>	<u>533,938</u>

Loans are guaranteed by liens on Ultrafertil shares, on the acquired assets and on other assets, as well as by bank securities.

13 Provisions for contingencies

The company and its wholly-owned subsidiary are involved in lawsuits related to labor and tax claims which are in several levels. For the lawsuits with a low probability of a favorable outcome - based on the legal advisors' opinion - management established a provision in amounts considered sufficient to cover probable losses arising from these claims.

Fertilizantes Fosfatados S.A. Fosfertil

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Notes to the financial statements

(In thousands of Reais)

	<u>Parent company</u>		<u>Consolidated</u>	
	2003	2002	2003	2002
Labor (i)	16,864	13,065	33,496	29,672
Tax claims:				
Federal:				
IR and CSLL (ii)	10,506	5,629	46,338	29,018
PIS and COFINS (iii)	12,165	9,710	23,236	17,140
SAT (iv)	1,732	1,363	6,276	4,450
Others	3,228	2,537	9,768	8,701
State (v)	<u>268</u>	<u>224</u>	<u>536</u>	<u>454</u>
	<u>44,763</u>	<u>32,528</u>	<u>119,650</u>	<u>89,435</u>

- (i) Provision related to former employees' labor claims.
- (ii) Ordinary lawsuit with preliminary injunction related of deductibility of social contribution in income tax calculation basis and at its own calculation basis (Law 9316/96).
- (iii) Injunction in opposition to introduced method by Law 9718/98, which enlarged the tax calculation basis.
- (iv) Injunction in opposition to the defined criteria of risk degree of labor accident insurance (SAT).
- (v) In State scope, these claims are related with incidence of valued-added tax (ICMS).

14 Pension plans

Since October 2001, the company and its wholly-owned subsidiary Ultrafertil implemented, for the subsidiary's employees that were not included in the PETROBRAS Social Security Foundation - PETROS, a benefit plan intended to supplement the benefits assured and granted by the government's social security scheme. This defined contribution plan is managed by Bradesco Previdência e Seguros S.A. In 2003, the contributions to the Bradesco Previdência e Seguros S.A. amounted to R\$ 1,027, that R\$ 518 refers to the Parent company and R\$ 509 refers to the wholly-owned subsidiary.

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The wholly-owned subsidiary Ultrafertil S.A., through PETROS, maintains a supplemental defined benefit plan for the benefits provided by the Government Social Security, for employees hired before June 1993. PETROS has 1,756 members from the subsidiary, and 1,383 of them are currently receiving retirement or pension supplements. During the year, Ultrafertil contributed to PETROS in the amount of R\$ 2,352 (2002 - R\$ 2,064).

The payroll contribution rate for the Bradesco plan is 2.7% and 2.0%, Parent company and wholly-owned subsidiary, respectively, over affiliated employees wages to this plan, and 12.93% over affiliated employees wages of the wholly-owned subsidiary to the PETROS plan.

Ultrafertil has 1,685 employees, that 373 are active members of PETROS.

During the year, the company recorded R\$ 59 related to the projected actuarial obligation prepared by the independent actuary up to the date of the financial statements.

The net book value of the uncovered actuarial obligation, presented in the balance sheet as of December 31, 2003, is determined as follows:

Net book value of the actuarial obligations totally or partially covered	386,045
Fair value of the plan's assets	<u>(363,674)</u>
Net book value of the uncovered actuarial obligations	22,371
Unrecognized actuarial gains	<u>7,837</u>
Actuarial liability	<u>30,208</u>

The main assumptions adopted by the actuaries are as follows:

	%
Actuarial valuation method:	
Discount rate for net book value of actuarial obligations	6.0 p.a.
Projected return rates of the plan's assets	6.0 p.a.
Projected income rate of active employees salaries	2.0 p.a.
Mortality ratio	GAM-71

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The PETROS plan's assets are basically composed of fixed rate investments (49.77%), variable rate investments (31.27%), real estate (9.08%), loans to participant (6.52%) and other (3.36%).

15 Shareholders' equity

a. Capital

Subscribed and paid-in capital is represented by 106,606,367,116 shares, with no par value, of which 36,080,022,372 are common shares and 70,526,344,744 are preferred shares, where the preferred shares have no voting rights.

The preferred shares are entitled to a dividend per share, which is 10% higher than the dividend per common share, provided that the dividends are paid from earnings derived after the effective date of Law 9457/97. Preferred shares have priority for the return of capital, without premium, if the company were to be liquidated.

b. Treasury shares

On April 30, 2003, the 79th Ordinary and Extraordinary Shareholders General Meeting approved the cancellation of 137,900,000 preferred shares, without reduction of capital.

c. Revaluation reserve

During the year, through reversal to retained earnings, R\$ 3,317 (R\$ 3,317 in 2002) of the balance of this reserve was realized in proportion to the depreciation of the revalued assets. Out of the balance of this reserve at December 31, 2003, R\$ 24,920 correspond to revaluation of land, which can only be reversed to retained earnings upon eventual sale of the revalued land.

As described in CVM Instruction 197/93, tax charges on the revaluation reserve (2003 - R\$ 13,328; 2002 - R\$ 14,456) are recognized in the income statement proportionally to the realization of the revaluation reserve.

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d. Dividends

The shareholders are guaranteed a minimum obligatory dividend of 25% of the net income for the year, after constitution of the legal reserve.

Minimum dividend calculation

Net income for the year	326,573
Legal reserve establishment (limited to 20% of paid-in capital)	(2,318)
Realization of revaluation reserve	<u>3,317</u>
Calculation basis	<u>327,572</u>
Minimum obligatory dividend - 25%	<u>81,893</u>
Adjustment to guarantee minimum obligatory dividend of 25% to common shares	<u>5,500</u>
	<u>87,393</u>

Dividends paid and proposed in 2003

	<u>Per thousand shares</u>		
	Common shares	Preferred shares	Total
Interest on shareholders' equity as part of the minimum obligatory dividend for 2003 (See Note 16)	0.48290	0.53119	54,886
Proposed dividends	0.28600	0.31460	<u>32,507</u>
			<u>87,393</u>

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e. Profit retention reserves

Management will be proposing to the Ordinary General Meeting, in observance of article 196 of the Brazilian Corporation Law, the withholding of the remaining net income for the year in the amount of R\$ 394,439 to attend the capital budget for 2004, as well as the company's working capital, considering the seasonableness of the fertilizer market.

16 Interest on shareholders' equity - Law 9249/95

In accordance with the option provided in Law 9249/95, the company computed interest on shareholders' equity of R\$ 54,886, by using the benchmark interest rate (TJLP) in effect for the year.

Income and social contribution taxes for the year were reduced by approximately R\$ 18,661 (R\$ 15,477 in 2002) as a result of the deduction of the interest expense on shareholders' equity.

17 Employee profit sharing

The employee profit sharing, in compliance with Law 10101 of December 19, 2000, has been calculated in accordance with the terms of the agreement reached with the employees' union.

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18 Other operating expenses, net

	<u>Parent company</u>		<u>Consolidated</u>	
	2003	2002	2003	2002
Provision for contingencies	(11,683)	(7,938)	(26,089)	(23,443)
Contractual penalties	1	-	(122)	1,527
Provision for devaluation of tax credits - ICMS (*)	(5,850)	-	(17,500)	-
Tax credits - PIS	-	-	-	(399)
Others	<u>16</u>	<u>(405)</u>	<u>(1,106)</u>	<u>(2,301)</u>
	<u>(17,516)</u>	<u>(8,343)</u>	<u>(44,817)</u>	<u>(24,616)</u>

(*)Provision constituted to adjust the long-term recoverable taxes - ICMS to its probable realizable value.

19 Non-operating result, net

	<u>Parent company</u>		<u>Consolidated</u>	
	2003	2002	2003	2002
Capital gain on the sale of investments (*)	-	-	-	13,066
Gain (loss) on the sale of fixed assets	146	(238)	396	(1,660)
Adjustment to market value of noncurrent assets (Eletrobrás - Finam-Finor)	743	(252)	2,228	(488)
Others	<u>140</u>	<u>(978)</u>	<u>96</u>	<u>(2,777)</u>
	<u>1,029</u>	<u>(1,468)</u>	<u>2,720</u>	<u>8,141</u>

(*) Related to the sale of investment in MRS Logística S.A., which was sold at beginning of 2002.

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20 Income and social contribution taxes

The reconciliation between the nominal and effective income tax and social contribution can be shown as follows:

	<u>Parent company</u>		<u>Consolidated</u>	
	2003	2002	2003	2002
Income before income and social contribution taxes	<u>367,120</u>	<u>286,614</u>	<u>456,228</u>	<u>358,980</u>
Income and social contribution taxes at the rate of 34%	<u>(124,821)</u>	<u>(97,449)</u>	<u>(155,118)</u>	<u>(122,053)</u>
Reconciliation:				
Equity in earnings	64,961	54,472	-	-
Exclusion of social contribution (difference of the calculation basis)	3,866	2,033	12,364	9,134
Compensation of tax losses	-	2,949	-	2,949
Effect of the exclusion of the interest on shareholders' equity	18,661	15,477	18,661	15,477
Permanent additions/exclusions 7,516)	(3,408)	(5,540)	(5,369)	(
Benefits of income tax	<u>194</u>	<u>554</u>	<u>360</u>	<u>1,283</u>
Income and social contribution taxes	<u>(40,547)</u>	<u>(27,504)</u>	<u>(129,102)</u>	
	<u>(100,726)</u>			
Income and social contribution taxes:				
Current (100,780)	(43,523)	(24,219)	(137,052)	
Deferred	<u>2,976</u>	<u>(3,285)</u>	<u>7,950</u>	<u>54</u>

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(40,547) (27,504) (129,102)
(100,726)

21 Financial instruments

a. General consideration

The company performed swap and forward operations with the objective of hedging itself against exposure in foreign currency. Additionally, temporary cash excesses are applied in line with treasury policies and periodically reevaluated.

Management of these instruments is performed through operating strategies, aiming at marketability, profitability and security. The control policy consists of permanently accompanying the agreed rates versus those in force on the market. The company and its wholly-owned subsidiary do not invest in derivatives or any other risk assets on a speculative basis.

b. Market value

The book values of company's financial instruments reflect their market values. The market values of these financial instruments were obtained through calculating their current value, considering the interest rates practiced on the market for operations of similar terms and risks. In relation to the financing, the characteristics of which are disclosed in Note 12, the book value is equivalent to their market value.

c. Foreign exchange exposure

The company has contracted financial operations with derivatives, aiming to protect its exposure to foreign currencies, arising from the acquisition of raw materials and financing contracts, for the purpose of expansion of its industrial activities.

At December 31, 2003, swap and forward contracts aimed at hedging obligations with suppliers and financing amounted to R\$ 134,229 (2002 - R\$ 159,806) and consolidated

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R\$ 230,351 (2002 - R\$ 202,041), and have variable maturities up till March 14, 2006.

The abovementioned operations, if settled at December 31, 2003, would present losses of R\$ 18,412 (consolidated - R\$ 27,340) and in 2002 losses of R\$ 1,346 (consolidated - R\$ 1,427), which were already considered in the financial statements as of these dates.

The foreign exchange exposure is predominantly indexed to US dollars as follows:

	<u>Parent company</u>		<u>Consolidated</u>	
	2003	2002	2003	2002
Assets:				
Interest earning bank deposits in US\$	3,942	4,968	31,568	39,262
Inventories, net of contracted sales	72,150	66,088	148,600	126,989
Liabilities:				
Loans and financing	117,474	181,025	192,448	277,781
Suppliers	<u>64,976</u>	<u>42,850</u>	<u>177,011</u>	<u>85,023</u>
Foreign exchange exposure - R\$	106,358	152,819	189,291	196,553
Financial instruments (Hedge)	<u>120,402</u>	<u>156,546</u>	<u>209,751</u>	<u>198,628</u>
Foreign exchange exposure, net	<u>14,044</u>	<u>3,727</u>	<u>20,460</u>	<u>2,075</u>

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d. Interest earning bank deposits

Represented by Bank Deposit Certificates (CDB), earning interest at rates applicable to Interbank Deposit Certificates (CDI), and investments in National Treasury Notes in US dollars (NTN-D) and indexed to IGP-M (NTN-C), as follows:

	<u>Parent company</u>		<u>Consolidated</u>	
	2003	2002	2003	2002
CDB	135,260	254,495	487,237	534,421
NTN-C	39,034	-	65,128	-
NTN-D	<u>3,942</u>	<u>4,968</u>	<u>31,568</u>	<u>39,262</u>
	<u>178,236</u>	<u>259,463</u>	<u>583,933</u>	<u>573,683</u>

e. Investments

The wholly-owned subsidiary Ultrafertil S.A. is a private-held company and, therefore, there is no available information on its market value.

22 Insurance coverage

The company and its wholly-owned subsidiary maintain insurance coverage according to the “all risks” modality, including property and operating assets, civil responsibilities and breaks in future profits, in amounts considered to be sufficient to cover eventual risks.

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At December 31, 2003, insurance coverage amounts are as follows:

Modality	Insured amount			
	Parent company		Consolidated	
	2003	2002	2003	2002
Civil responsibilities	5,489	1,900	14,446	5,000
Operating risks	633,592	731,734	1,669,480	2,152,214
Others	18,086	19,687	39,692	50,180

23 Balances and transactions with related parties

	Parent company				Consolidated	
	2003		2002		2003	2002
	Wholly-owned Subsidiary	Indirect shareholders	Wholly-owned Subsidiary	Indirect shareholders	Indirect shareholders	Indirect shareholders
Accounts receivable:						
Trade	1,177	449	51	793	2,910	4,614
Loan of product	197	966	6,837	175	3,228	3,308
Accounts payable:						
Suppliers	722	77	1,055	33	77	45
Other accounts payable	40	5,599	-	4,442	13,788	12,316
Purchases	33,895	-	34,192	-	-	-
Sales	44,583	517,789	10,333	417,811	1,070,555	785,410

The transactions with related parties concentrated in sales of services and products of normal line of production to indirect shareholders, operations are realized at same prices that practiced with same purchase capacity clients.

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(In thousands of Reais)

24 Statement of EBITDA (earnings before interest, taxes, depreciation and amortization)

	<u>Parent company</u>		<u>Consolidated</u>	
	2003	2002	2003	2002
Operating profit	366,091	288,082	453,508	350,839
(+) Depreciation, amortization and depletion	32,135	31,823	82,832	79,577
(+) Financial expenses	80,937	200,340	116,872	271,064
(-) Financial income	35,564	100,126	101,183	180,442
(-) Equity in earnings	<u>191,061</u>	<u>160,211</u>	<u>-</u>	<u>(101)</u>
EBITDA amount	<u>252,538</u>	<u>259,908</u>	<u>552,029</u>	<u>521,139</u>

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FISCAL COUNCIL OPINION

“The Fiscal Council, in use of its legal attributions, at a meeting performed in this date, examined the Annual Management Report and Financial Statements related to the year-ended December 31, 2003.

Based on the performed examination, considering the Independent Auditors’ report of KPMG Auditores Independentes, the councils issued an unqualified opinion regarding the described documents, and informing that they are in conditions to be voted and approved by the shareholders, in the next Ordinary Shareholders’ Meeting”.

São Paulo, February 05, 2004

Hildegard Gutz Horta

Eduardo Grande Bittencourt

José Ignácio Ortuondo Garcia

Luis Bertasi Filho

Wagner Mar

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held Company)

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MÁRIO ALVES BARBOSA NETO
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