

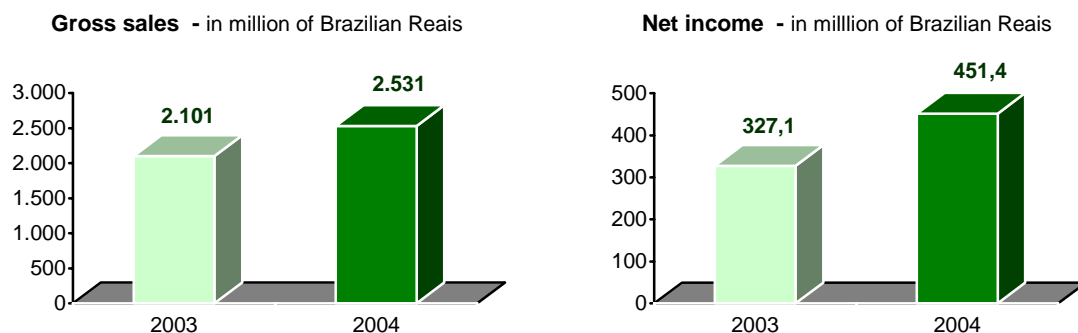
TO THE SHAREHOLDERS

Fosfertil's performance during 2004 was marked by important production records, innovations in its structure and operations, and for starting the investment plans approved in 2003. Thus, the Company follows and anticipates the developments of the Brazilian agriculture, being the main fertilizer supplier of inputs for in the country.

Company's image was strengthened from adopting nick name – Fosfertil – as part of its new corporate identity, for which a modern logo was developed. The organizational structure was improved, with the creation of new directors and managers' roles, and the creation of a Corporate Center in São Paulo – initiatives aimed to keep track of a new dynamic. The e-clients portal was created in internet, for the same purpose, which provided better performance and quality in attending orders, loading, invoices and other information.

The project to extend production of phosphates to fertilizer blenders, approved at the end of 2003, was implemented at the Uberaba (MG), Catalão (GO) and Tapira (MG) sites, and is expected to be concluded during 2005. With this growth, Brazil will become less dependent on importing these supplies, which are fundamental to the continued expansion of the agricultural production in the country.

Consolidated gross sales reached R\$ 2,531 billion during the year, representing growth of 20.5% compared to 2003. Consolidated net income amounted to R\$ 451.4 million (R\$ 327.1 million in 2003), representing 20.1% of consolidated net sales.



Given the quarterly results and the strong tradition of good remuneration of its shareholders, Fosfertil's shares increased, in value, by 42.8% during the year, whilst Ibovespa increased

17.8%. Internal controls were evaluated to comply with the rules of the Sarbanes-Oxley law, which not only considers the requirements of North American legislation, but also offers even greater transparency to all of Company's shareholders. Fosfertil's shares continued to receive important indications by professionals from the capitals market.

The economy and the agribusiness sector

During 2004, the Brazilian economy reported favorable performance, with growth in GDP (Gross Domestic Product) above 5%. There were new records for exports – which amounted to approximately US\$ 100 billion – and for the trade surplus. The agriculture and stock raising sector again played an important role in country's economy, since this sector alone was responsible for trade balance surplus in excess of US\$ 30 billion.

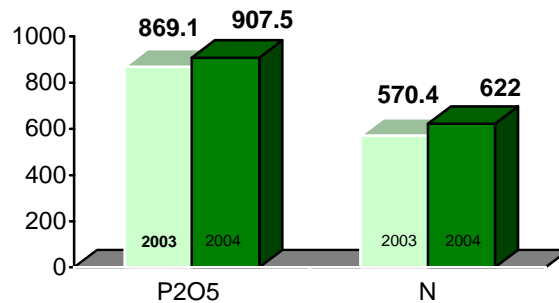
These results were accompanied by a reduction in the debt/GDP ratio, a primary fiscal surplus in excess of that agreed with the IMF and investment levels above those initially forecasted. Unfortunately, the fear of inflationary pressures given the considerable increase in public spending, as well as the increase in available credit in Brazil, resulted in the basic interest rate being kept at a high level, resulting the local currency increasing its value, and reducing profitability from exports.

The investments to modernize agriculture and stock raising, made prior to 2004, have resulted in Brazil becoming an increasingly significant participant in meeting the growing international demand for consumption of foods and primary products. Consequently, export volumes for 2003 were surpassed, not only for soybeans, but also for cotton, meats (cattle and poultry), pulp and paper, coffee and sugar. In addition, products aimed mainly at the domestic market also reported good performance, particularly wheat.

Production and markets

In 2004, Fosfertil's consolidated production reached 1,529.5 thousand metric tons of nutrients for fertilizers (1,439.5 thousand in 2003), being 907.5 thousand metric tons of P₂O₅ and 622.0 thousand metric tons of nitrogenous products.

Nutrients production - in thousand of metric tons



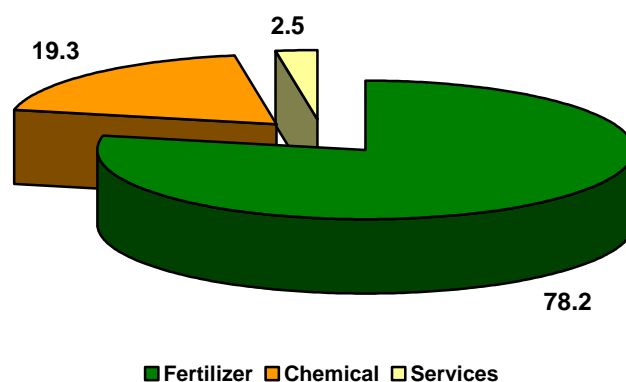
Fosfertil, the largest supplier of components for fertilizer blenders in Brazil, was, during 2004, responsible for 24.13% of sales of phosphated nutrients and 23.59% of nitrogenated nutrients for the areas in which it operates: Central-West and South-East Brazil. The investments, which started in 2004, will enable an increase of 20% in the supply of phosphated products, reaching, as from 2006, a total of 2.02 million metric tons per year. As a result, the Company will follow the growth in Brazilian agriculture and stock raising, and consequently, reducing the dependence on imports.

In the chemical sector, the Company continued to be an important supplier for the domestic industry. It is worth highlighting the sales records reported on the Brazilian and overseas markets for industrial ammonium nitrates Ultraprill[®] and Ultraprill[®] Plus, with an expansion in the market for this product reported by Central American and the Caribbean.

Other sales records on the domestic market were achieved for nitric acid, stock raising urea - Ultrapec[®] super fine, sulfuric acid, carbonic gas, phosphoric acid and granulated TSP.

In the service area, the port terminal in Santos (SP), which meets Company's import requirements and those of third parties, transported 2.4 million tons of products during the year.

Source of revenues by market - in %



Investments

The investment program to increase production, approved in 2003, has been implemented in Fosfertil's mining areas and chemical complexes. Conclusion of this program, anticipated for the end of 2005, will result in an increase of 18.5% in the capacity for concentrated phosphates industrialization, reaching 3.2 million metric tons per annum, an increase of 163 thousand metric tons per year in Catalão and 342 thousand metric tons per year in Tapira, as from 2006.

The industrial facility of Uberaba (MG) will then have the capacity for annual production of 676 thousand metric tons of phosphoric acid (increase of 180 thousand metric tons per year) and 1.9 million metric tons per year of sulfuric acid (a further 153 thousand metric tons per year). The investments in the site also include a solubilizing unit of 350 thousand metric tons per year of TSP (triple super-phosphate) and another for granulating MAP (mono-ammonium phosphate), increasing the offer of this product by 350 thousand metric tons per year.

Other projects, of same importance, in the phosphates and nitrogen areas, are being evaluated, within Fosfertil's multi-year investment plan.

Logistics and IT

At the start of 2004, the ELOS – Excellence in Logistics for Operations and Supplies – project was launched, which enabled inventory levels to be reduced and increased the efficiency for purchase of materials and services.

In the IT area, the Information Technology Strategic Planning was introduced, to define the architecture, organization, systems, support and IT technology, in accordance with Company's business model, its needs and vision for the future.

Environment, quality, security and occupational health

The Integrated Management System (SIG), updated in 2003, has enabled increasing effectiveness in the management of initiatives and processes aimed at quality, health, security and the environment. During the year, a total amount of R\$ 15.6 million was invested in the

environment, security and occupational health, with focus on improving security for employees and the neighboring communities and environmental preservation.

As a result, in 2004, two more of Fosfertil's sites received ISO 14001 certificates: the Tapira Mining Complex (MG) and the Cubatão Industrial Complex (SP). The Tapira certificate covered all of the sites processes, from mining to delivering the concentrated phosphate – ultra-fine and conventional – in Uberaba. The certificate for Cubatão also covered all of the process, from receiving raw materials to dispatching products. At these units and at the Araucária unit (PR), which received the certificate in 2003, the process involved new forms of making use of materials and managing residues.

During the year, the quality certificates ISO 9001/2000 at all of the units were renewed. The Araucária (PR) and Piaçagüera (SP) complexes also received certificates for Own Service for Inspecting Equipment (SPIE).

The port terminal concluded the implementation of a system to protect ships and port facilities, and received the "Declaration for Compliance" with the requirements from the ISPS Code, an international code that regulates the rules for the sector.

In the industrial security area, Fosfertil was one of the leaders in the process for creating the Mutual Assistance Plan (PAM) for industries from the Araucária area. For this process, the Company used its extensive know-how developed at its units in Baixada Santista, where, for five years, they have successfully developed a security training program and simulations for evacuating the area together with neighbors living near its units.

The reforestation program at the mining areas in Tapira (MG) and Catalão (GO) continued to be implemented. The small forest located in the ecological park within the Araucária Industrial Complex, even enabled seedlings to be donated to the Environmental Secretary in Curitiba.

There was important progress in the work to monitor and research the fauna that inhabits the regions near Company's units. The program, which started in 1997, has contributed to assure the presence of species such as the "guará" bird, at the Cubatão and Santos mangals, and the study of birds that are specific of the areas close to Uberaba, Tapira and Catalão.

During the year, more than 4 thousand visitors were received at Fosfertil's units, providing continuity to its open door policy with the community.

Human Resources

Fosfertil improved its Results and Profits Participation Program (PLR), increasing the distribution performed. It is estimated that, as a result of the performance reported during 2004, a total of R\$ 34.4 million will be distributed, which includes amounts paid and to be paid during 2005.

During the year, a total of 177 thousand hours of training were provided for employees, as part of the Company's policy to offer development opportunities for staff and professionals, besides the salaries and benefits offered, which are compatible with market trends.

New instruments for dialogues with the internal public were developed, including *HR with You*, e-mail available for everybody, the Employee manual, providing information on Fosfertil's work philosophy, and the on-line stations – present at all of the units, providing general access to intranet and internet. Ideas can now be sent to management and directors, in a more practical and quicker way, through *Individual Suggestions for Improvements (SIM)*.

During the year, the Life and Health Quality Program - Qualifertil, aimed at employees and their families, covered topics such as healthy eating, voluntary work, motivation, humor and health, human relations and self-esteem, stress and family relationships. The majority of these topics, presented in lectures and practical activities at the work place, were selected based on votes by its employees.

The Fosfertil Olympic Games I were held in Araxá (MG), to encourage sports and integration between the business units, and involved the participation of more than 550 employees.

Social responsibility

Fosfertil's Social Responsibility Program, which focuses on education for children and adolescents, achieved significant results during the year. The projects implemented in partnership with the City Authority, included the inauguration of "Centro de Convivência do Pequeno Aprendiz", in Catalão (GO), and the "Maria Bittar de Rezende" Educational Complex, in

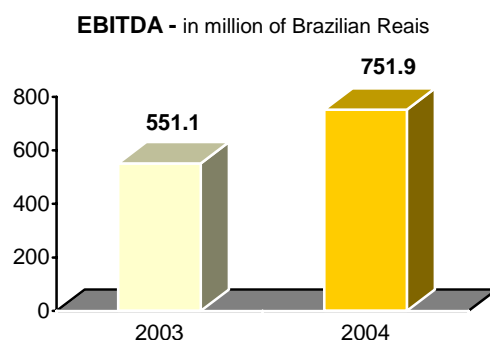
Tapira (MG), as well as the start of the construction of the children's house in Tindiquera, in Araucária (PR).

At Baixada Santista (SP), the Company supported the social work encouraged by the Salvation Army, at the Community Center in Vila dos Pescadores. In Uberaba (MG), it developed an educational inclusion project at the school "Pingo de Mel" and sponsored the "Hospital Classes" program, for the Organization of Friends in support of Infancy and Health, which provides psychological and educational assistance to children with cancer, leukemia and other illnesses.

Financial performance

Fosfertil continued to receive favorable evaluations from the various rankings aimed at business performance and behavior on the capitals market. It received several regional awards for the areas in which it operates, as well as the *Top of Agrobusiness* awarded by the Institute for Studies and Quality Research (IQ), and the trophy *The largest mines*, granted by the Industry Federation for the State of Minas Gerais (FIEMG) and the newspaper Estado de Minas. For the sixth time, it won the trophy *Mining Sector leaders – Fertilizer sector*, for the VI Business Performance Mining Awards, for its results reported in 2003.

The consolidated net income for the year reached R\$ 451.4 million, representing 57.1% of shareholders' equity at the start of the year (R\$ 790.0 million). The EBITDA was R\$ 751.9 million (R\$ 551.1 million in 2003), equivalent to 33.5% of consolidated net sales.



At the end of the year, shareholders' equity reached R\$ 955.6 million, equivalent to R\$ 8.96 per lot of thousand shares.

A total of R\$ 295.3 million was paid in taxes and contributions to the various government levels by the Fosfertil companies (R\$ 274.5 million in 2003). During the year, the Company incurred a total of R\$ 163.3 million in payments to its employees for legal and voluntary benefits.

Shareholders

Fosfertil's shares were available on all of Bovespa's exchanges, totaling a movement of 18,017 million lots of thousand shares negotiated during the year. Consistent with its historic practice of providing a good return to its shareholders, Fosfertil will distribute a total R\$ 290.5 million in dividends and interest on own capital, of which R\$ 136 million was paid during 2004 and R\$ 154.5 million is being proposed for this year.

In compliance with CVM instruction 381/03, management of the Company and its wholly own subsidiary inform that they did not contract services from its independent auditors other than those that refer to the audit of its financial statements.

Prospects

With respect to market forecasts for agribusiness, Fosfertil's solid position as a domestic supplier and its competitive position, leads management to believe that, with effective management of its operations, in 2005 it will continue to maintain the favorable performance reported in previous years.

Despite aspects related to the valuation of the Brazilian real, the decrease in soybean prices and phyto-sanitary problems faced by the sector ("ferrugem" and other problems), which have had a negative impact on producers' income, resulting in a decrease in the consumption of fertilizers and other supplies, the investments in equipment and facilities by rural producers in recent years, as well as the technology that has been developed, guarantee continued growth in production and exports for 2005.

It is anticipated that new records will be achieved for grain, sugar cane harvests and other agricultural products, as well as for meats.

On the chemical market, given the probable growth in the domestic industry, an increased demand for Fosfertil's products is anticipated, already evident this year, from the record sales of acids, nitrates and urea. Sectors that are reporting full growth, such as mining, should drive sales of ammonium nitrates and wood sheets, and products such as technical urea.

Acknowledgements

We would like to thank our shareholders for their continued support and trust, our employees for their skills and dedication, our clients for their preference and our suppliers and other partners for their collaboration.

Uberaba, March 2nd, 2005.



Fertilizantes Fosfatados S.A. - Fosfertil

(Public-held Company)

CNPJ: 19.443.985/0001-58

**2004
FINANCIAL-ECONOMIC DATA**

**2004
ANNUAL COMPLETE
FINANCIAL STATEMENTS**



Fertilizantes Fosfatados S.A. - Fosfertil Public-held Company

- *Financial statements as of December 31, 2004 and 2003*
 - *Fiscal Council Opinion*
 - *Management and Council Board*
-
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Fertilizantes Fosfatados S.A. Fosfertil
(Public-held company)

Financial statements
December 31, 2004 and 2003

(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

December 31, 2004 and 2003

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Independent auditors' report

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

We have examined the balance sheets of Fertilizantes Fosfatados S.A. Fosfertil and the consolidated balance sheets of the Company and its wholly-owned subsidiary as of December 31, 2004 and 2003 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.

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 wholly-owned 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 wholly-owned subsidiary, as well as the presentation of the financial statements taken as a whole.

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 wholly-owned subsidiary as of December 31, 2004 and 2003, 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.

Our examinations were performed with the objective of expressing an opinion on the financial statements taken as a whole. The statements of cash flows and added value are supplementary to the aforementioned financial statements, and have been included to facilitate additional analysis. This supplementary information was subject to the same audit procedures as applied to the aforementioned financial statements and, in our opinion, are presented fairly, in all material respects, in relation to the financial statements taken as a whole.

January 26, 2005

KPMG Auditores Independentes
CRC SP014428/O-6-F-MG

Adelino Dias Pinho
Accountant CRC SP097869/O-6-S-MG

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Balance sheets

December 31, 2004 and 2003

(In thousands of Reais)

Assets	Parent Company		Consolidated		Liabilities	Parent Company		Consolidated	
	2004	2003	2004	2003		2004	2003	2004	2003
Current assets					Current liabilities				
Cash and cash equivalents	1.854	580	3.297	3.212	Financing	128.607	128.243	163.614	159.415
Interest earning bank deposits	225.109	178.236	573.148	583.933	Domestic suppliers	33.063	15.545	75.345	61.403
Trade accounts receivable	14.003	10.684	86.504	59.317	Foreign suppliers	32.149	64.976	70.646	170.752
Inventories	216.599	129.347	431.073	279.368	Wholly-owned subsidiary	1.485	722	-	-
Recoverable taxes	13.572	238	19.995	1.727	Advances from customers	25.027	8.799	52.979	22.578
Dividends receivable	200.000	240.000	-	-	Dividends	154.598	32.520	154.598	32.520
Programmed maintenance prepaid costs	-	8.905	-	37.894	Taxes payable	2.306	1.533	5.022	4.272
Deferred income and social contribution taxes	2.967	-	16.763	-	Social security charges payable	1.099	2.759	4.040	8.632
Prepaid expenses	2.293	1.370	5.644	3.713	Employee profit sharing	8.489	6.937	28.599	22.254
Other credits	5.109	2.999	13.535	7.624	Accrued vacation pay and social charges	4.303	4.106	18.302	16.285
	<u>681.506</u>	<u>572.359</u>	<u>1.149.959</u>	<u>976.788</u>	Provision for income tax and social contribution	26.577	6.414	100.235	39.215
					Provision for programmed maintenance	8.727	-	49.305	-
Noncurrent assets					Other liabilities	17.361	16.797	33.255	22.600
Trade accounts receivable	350	507	368	684		<u>443.791</u>	<u>289.351</u>	<u>755.940</u>	<u>559.926</u>
Judicial deposits	32.557	30.092	55.205	48.726	Noncurrent liabilities				
Deferred income and social contribution taxes	15.561	13.403	50.442	41.971	Financing	330.442	303.445	379.698	393.944
Tax credits - PIS	14.647	13.540	14.647	13.540	Provision for contingencies	55.649	44.763	157.646	119.650
Recoverable taxes - ICMS	27.602	19.460	75.731	56.007	Provision for programmed maintenance	3.337	-	11.916	-
Programmed maintenance prepaid costs	-	1.541	-	23.126	Pension fund provisions	-	-	30.032	30.208
Other credits	5.580	4.103	8.561	7.470	Other liabilities	9.113	5.489	9.113	5.489
	<u>96.297</u>	<u>82.646</u>	<u>204.954</u>	<u>191.524</u>		<u>398.541</u>	<u>353.697</u>	<u>588.405</u>	<u>549.291</u>
Permanent assets					Deferred income - Negative goodwill on investment in wholly-owned subsidiary				
Investments						<u>-</u>	<u>-</u>	<u>37.792</u>	<u>37.792</u>
Wholly-owned subsidiary	519.057	463.321	-	-	Shareholders' equity				
Other investments	10	10	551	280	Paid-in capital	276.122	276.122	276.122	276.122
Property, plant and equipment	499.775	312.146	971.170	758.441	Capital reserve	49	49	49	49
Deferred charges	1.331	2.520	5.388	8.967	Revaluation reserve	60.797	64.120	60.797	64.120
	<u>1.020.173</u>	<u>777.997</u>	<u>977.109</u>	<u>767.688</u>	Profit reserves	618.676	449.663	612.917	448.700
						<u>955.644</u>	<u>789.954</u>	<u>949.885</u>	<u>788.991</u>
	<u>1.797.976</u>	<u>1.433.002</u>	<u>2.332.022</u>	<u>1.936.000</u>		<u>1.797.976</u>	<u>1.433.002</u>	<u>2.332.022</u>	<u>1.936.000</u>

See the accompanying notes to the financial statements.

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

Statements of income

Years ended December 31, 2004 and 2003

(In thousands of Reals)

	<u>Parent Company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
Gross sales and services rendered	988.426	861.102	2.531.417	2.101.061
Sales deductions	<u>(83.696)</u>	<u>(83.660)</u>	<u>(285.642)</u>	<u>(232.145)</u>
Net sales and services rendered	904.730	777.442	2.245.775	1.868.916
Cost of sales and services rendered	<u>(531.739)</u>	<u>(511.664)</u>	<u>(1.319.557)</u>	<u>(1.265.591)</u>
Gross profit	372.991	265.778	926.218	603.325
Operating income (expenses)	(3.155)	(3.353)	(8.686)	(7.198)
Selling	(1.639)	(1.132)	(2.842)	(1.984)
General and administrative	(19.811)	(15.655)	(46.716)	(39.943)
Boards' and Directors' fees	(10.173)	(6.712)	(34.407)	(20.995)
Administrative	(30.913)	(44.475)	(33.266)	(14.791)
Employee profit sharing	(40.165)	(19.421)	(167.505)	(64.906)
Financial result, net	255.464	191.061	-	-
Other operating expenses, net	149.608	100.313	(293.422)	(149.817)
Equity in earnings of wholly-owned subsidiary	522.599	366.091	632.796	453.508
Operating profit	(705)	1.029	(978)	2.720
Non-operating result, net	521.894	367.120	631.818	456.228
Income before income and social contribution taxes	(70.827)	(43.523)	(205.656)	(137.052)
Income and social contribution taxes	5.124	2.976	25.233	7.950
Current	456.191	326.573	451.395	327.126
Deferred	-	-	-	-
Net Income for the year	<u>4,28</u>	<u>3,06</u>	<u>451,395</u>	<u>327,126</u>
Net income per thousand shares at the end of the year - R\$	<u>4,28</u>	<u>3,06</u>	<u>451,395</u>	<u>327,126</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, 2004 and 2003

(In thousand of Reais)

Parent Company	Paid-in capital	Capital reserve	Revaluation reserve	Profit reserves			Retained earnings	Total
		Tax incentives		Legal	Treasury shares	Profit retention		
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)
Proposed dividends	-	-	-	-	-	-	(32.507)	(32.507)
Profit retention reserves	-	-	-	-	-	240.179	(240.179)	-
At December 31, 2003	276.122	49	64.120	55.224	-	394.439	-	789.954
Realization of revaluation reserve	-	-	(3.323)	-	-	-	3.323	-
Dividends	-	-	-	-	-	(70.003)	-	(70.003)
Net Income for the year	-	-	-	-	-	-	456.191	456.191
Distributions:								
Interest on shareholders' equity - Law 9249/95 (to be considered as minimum obliged dividend of 2004 "ad-referendum" of the Supervisory Board Meeting)	-	-	-	-	-	-	(65.922)	(65.922)
Proposed dividends	-	-	-	-	-	(105.619)	(48.957)	(154.576)
Profit retention reserves	-	-	-	-	-	344.635	(344.635)	-
At December 31, 2004	<u>276.122</u>	<u>49</u>	<u>60.797</u>	<u>55.224</u>	<u>-</u>	<u>563.452</u>	<u>-</u>	<u>955.644</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, 2004 and 2003

(In thousands of Reais)

	Parent Company		Consolidated	
	2004	2003	2004	2003
Source of funds				
Operations				
Net income for the year	456.191	326.573	451.395	327.126
Items not affecting working capital				
Depreciation, amortization and depletion	34.244	32.135	85.822	82.832
Residual value of permanent asset disposals	826	45	1.528	192
Provision for adjustment of market value	216	(743)	602	(2.228)
Provisions for contingencies	10.589	11.683	32.349	26.089
Deferred income taxes and social contribution	(2.158)	(2.976)	(8.471)	(7.950)
Equity in earnings of wholly-owned subsidiary	(255.464)	(191.061)	-	-
Monetary variation on noncurrent liabilities	9.976	1.685	11.596	(13.713)
Resources from operations	254.420	177.341	574.821	412.348
Related and third parties				
Increase in noncurrent liabilities	136.440	6.042	149.427	18.065
Dividends received from wholly-owned subsidiary	200.000	294.946	-	-
	336.440	300.988	149.427	18.065
Total resources provided	590.860	478.329	724.248	430.413
Application of funds				
Permanent assets:				
Investments	272	35	272	-
Property, plant and equipment	220.862	22.313	295.294	82.568
Deferred charges	648	306	1.207	312
Transfer from noncurrent to current liabilities	112.161	108.571	148.168	134.672
Decrease of negative goodwill on investment in wholly-owned subsidiary and minority interest	-	-	-	35
Dividends and interest on shareholders' equity	290.501	87.393	290.501	87.393
Increase in noncurrent assets	11.709	26.128	11.649	58.497
Total resources used	636.153	244.746	747.091	363.477
(Decrease) increase in working capital	(45.293)	233.583	(22.843)	66.936
Changes in working capital				
Current assets				
At the end of the year	681.506	572.359	1.149.959	976.788
At the beginning of the year	572.359	438.030	976.788	901.955
	109.147	134.329	173.171	74.833
Current liabilities				
At the end of the year	443.791	289.351	755.940	559.926
At the beginning of the year	289.351	388.605	559.926	552.029
	154.440	(99.254)	196.014	7.897
(Decrease) increase in working capital	(45.293)	233.583	(22.843)	66.936

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, 2004 and 2003

(In thousands of Reais)

1 Operations

Fertilizantes Fosfatados S.A. Fosfertil'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, and 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 derived from the Brazilian Corporation Law 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.

Revenue from the sale of goods is recognized in the statement of income when the risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognized in the statement of income in proportion to the stage of completion of the service. Revenue is not recognized if there are significant uncertainties as to its realization.

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.

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Notes to the financial statements

(In thousands of Reais)

c. Accounting estimates

The preparation of the financial statements requires that management uses its judgment in determining and recording accounting estimates. Significant assets and liabilities subject to these estimates and assumptions include the residual value of property, plant and equipment, provision for doubtful accounts, inventories, deferred tax assets, provision for contingencies, valuation of derivative instruments, and assets and liabilities related to employees' benefits. The settlement of transactions involving these estimates may result in significantly different amounts due to the lack of precision inherent to the process of their determination. The company reviews the estimates and assumptions at least once a year.

d. Current and noncurrent assets

Interest earning bank deposits

Interest earning bank deposits are recorded at cost plus income accrued up to the balance sheet date.

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.

Other current and noncurrent assets

Presented at the net realizable amount.

e. 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.

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Notes to the financial statements

(In thousands of Reais)

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 described in Note 12, and 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.

f. 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.

g. Provisions

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

h. Income and social contribution taxes

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

i. Pension plan and benefits to employees

The sponsorship costs of the pension plan and eventual deficits (surpluses) of the plan are recorded in compliance with NPC 26 of the Brazilian Institute of Independent Auditors (IBRACON).

j. Reclassifications

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

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Notes to the financial statements

(In thousands of Reais)

k. Change of accounting policy

For the year ended December 31, 2004, Management decided to change the accounting criteria to record for programmed maintenance costs of its production facilities.

In the prior criteria, these costs were deferred and amortized until the next programmed maintenance. The new criteria considers recording a provision for programmed maintenance costs, taking into consideration that the estimate costs start to be provisioned in the subsequent month to the last stoppage.

The effect of this change was recorded as "other operating expenses", in the amount of R\$ 22,346 (consolidated - R\$ 107,678), with respective tax effect of R\$ 7,598 (consolidated - R\$ 36,611). This tax credit was recorded as "income and social contribution taxes" in the statement of income for year ended in December 31, 2004.

The summarized "pro forma" adjusted position of the balance sheet is demonstrated below, as if this change was performed at December 31, 2003, and it is presented for a better understanding of Company's financial statements:

	Consolidated		
	Accounting position at 12/31/2003	Adjustments for comparison purposes	Adjusted "pro forma" position
Asset			
Current	976,788	(26,373)	950,415
Noncurrent assets	191,524	(18,454)	173,070
Permanent assets	<u>767,688</u>	<u>-</u>	<u>767,688</u>
	<u>1,936,000</u>	<u>(44,827)</u>	<u>1,891,173</u>
Liability			
Current	559,926	29,332	589,258
Noncurrent liabilities	549,291	13,741	563,032
Deferred income - Negative goodwill on investment in wholly-owned subsidiary	37,792	-	37,792
Shareholders' equity	<u>788,991</u>	<u>(87,900)</u>	<u>701,091</u>
	<u>1,936,000</u>	<u>(44,827)</u>	<u>1,891,173</u>

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Notes to the financial statements

(In thousands of Reais)

l. Supplementary information

For the objective to improve disclosed information to the market, Company is presenting, as supplementary information, the statements of cash flows and the statements of added value.

(i) Statements of cash flows

The Company is presenting the statements of cash flows prepared in accordance with NPC 20 - Statement of Cash Flows, issued by IBRACON (Brazilian Institute of Independent Auditors), considering the main operations that influenced its cash and cash equivalents and its interest earning bank deposits - see Annex I.

(ii) Statements of added value

The Company is presenting the statements of added value, prepared in accordance with the guidance opinions 15/87 and 24/92 and Circular-Notice 01/00 of Brazilian Securities Exchange Commission (CVM), which have the objective of demonstrating the value of the wealth generated by the Company and its distribution among the elements that contributed to its generation - see Annex II.

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.

	Interest percentage	
	2004	2003
Ultrafertil S.A.	100.00	100.00
UF Distribuidora de Combustíveis Ltda.	99.00	99.00

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Notes to the financial statements

(In thousands of Reais)

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.

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

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

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>	
	2004	2003	2004	2003
Parent Company	456,191	326,573	955,644	789,954
Elimination of income earned by the Parent Company in transactions with the wholly-owned subsidiary, net of tax	(4,796)	<u>553</u>	(5,759)	(963)
Consolidated	<u>451,395</u>	<u>327,126</u>	<u>949,885</u>	<u>788,991</u>

4 Interest earning bank deposits

Performed in financial institutions indicated by specialized rating companies. For further information, see Note 23 d.

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Notes to the financial statements

(In thousands of Reais)

5 Trade accounts receivable

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
Current:				
Customers	14,000	9,507	86,504	59,317
Wholly-owned subsidiary	<u>3</u>	<u>1,177</u>	<u>-</u>	<u>-</u>
	<u>14,003</u>	<u>10,684</u>	<u>86,504</u>	<u>59,317</u>
Long-term:				
Customers	5,667	5,804	8,355	8,599
Provision for doubtful accounts	<u>(5,317)</u>	<u>(5,297)</u>	<u>(7,987)</u>	<u>(7,915)</u>
	<u>350</u>	<u>507</u>	<u>368</u>	<u>684</u>

6 Inventories

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
Finished goods	109,212	52,795	198,778	97,278
Raw material	43,840	15,240	53,299	27,184
Auxiliary materials	5,659	6,427	34,465	35,190
Maintenance materials and others	55,036	42,090	140,815	100,111
Imports in transit	<u>2,852</u>	<u>12,795</u>	<u>3,716</u>	<u>19,605</u>
	<u>216,599</u>	<u>129,347</u>	<u>431,073</u>	<u>279,368</u>

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Notes to the financial statements

(In thousands of Reais)

7 Judicial deposits

The Company maintains amounts of judicial deposits, which are in several levels, expecting for definitive decision of the corresponding lawsuits.

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
Labor and civil	10,463	8,957	17,094	14,248
Tax claims:				
IR and CSLL	-	-	3,127	3,127
PIS and COFINS	12,261	12,171	12,274	12,184
SAT	1,874	1,766	8,796	6,688
Other taxes	4,558	3,797	10,513	9,078
State	<u>3,401</u>	<u>3,401</u>	<u>3,401</u>	<u>3,401</u>
	<u>32,557</u>	<u>30,092</u>	<u>55,205</u>	<u>48,726</u>

8 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>	
	2004	2003	2004	2003
Current:				
Provision for programmed maintenance	<u>2,967</u>	<u>-</u>	<u>16,763</u>	<u>-</u>
	<u>2,967</u>	<u>-</u>	<u>16,763</u>	<u>-</u>

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>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Noncurrent assets:				
Provision for contingencies of tax claims, labor and civil	10,904	11,850	25,632	27,724
Provision for losses with Eletrobrás notes	953	877	2,749	2,529
Provision for pension plans				
CVM Deliberation 371/00	-	-	10,211	10,271
Provision for realization discount of credit balance of ICMS	2,461	-	6,989	-
Provision for programmed maintenance	1,136	-	4,053	
Other provisions	107	676	808	1,431
Tax losses carry forward	<u>-</u>	<u>-</u>	<u>-</u>	<u>16</u>
	<u>15,561</u>	<u>13,403</u>	<u>50,442</u>	<u>41,971</u>

9 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, 2004, is R\$ 14,647 and as of December 31, 2003 was R\$ 13,540.

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Notes to the financial statements

(In thousands of Reais)

10 Investment in wholly-owned subsidiary

	Parent Company	
	2004	2003
Financial information of wholly-owned subsidiary		
Percentage holding	100%	100%
Paid-in capital	397,137	397,137
Shareholders' equity	562,836	504,225
Net income for the year	258,611	190,917
Unearned income on intercompany transactions	5,986	2,840
Movement of the investment account		
At the beginning of the year	501,113	604,990
Equity in earnings	255,464	191,061
Purchase of wholly-owned subsidiary's shares	-	8
Other investments - gain of capital adjustment	272	-
Dividends	(200,000)	(294,946)
At the end of the year	556,849	501,113
Negative goodwill to be amortized	(37,792)	(37,792)
	<u>519,057</u>	<u>463,321</u>

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".

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Notes to the financial statements

(In thousands of Reais)

11 Balances and transactions with related parties

	Parent company				Consolidated	
	2004		2003		2004	2003
	Wholly-owned Subsidiary	Indirect shareholders	Wholly-owned Subsidiary	Indirect shareholders	Indirect shareholders	Indirect shareholders
Current assets:						
Trade receivable	3	551	1,177	449	3,941	2,910
Inventories - loan of product	1,739	397	197	966	404	3,228
Other credits	98	-	-	-	-	-
Current Liabilities:						
Domestic suppliers	1,485	755	722	77	763	77
Other liabilities	35	20,479	40	5,599	39,164	13,788
Purchases	36,214	-	33,895	-	-	-
Sales	40,377	591,515	44,583	517,789	1,286,430	1,070,555
Financial expenses	-	648	-	-	648	-

The transactions with related parties are concentrated in sales of services and products of normal line of production to indirect shareholders. These operations are performed at same prices that are used with same purchase capacity customers.

The Company and its wholly-owned subsidiary entered into financing export operations in the amount of US\$ 65 millions, which are based in export receivables acquired in the market. Products from related parties were acquired to perform the export, which had the first shipment in September, 2004. The difference between the purchase and sale of these products, are related to the performance of the financing, and it amounted to R\$ 648, classified as financial expense.

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Notes to the financial statements

(In thousands of Reais)

12 Property, plant and equipment

	Parent Company				Depreciation and depletion annual rate (p.a.) %
	2004		2003		
	Cost	Depreciation and depletion	Net	Net	
Buildings and improvements	339,236	(206,381)	132,855	145,300	4
Equipments and facilities	423,910	(350,696)	73,214	78,886	4 to 25 (i)
Mineral rights	10,656	(1,854)	8,802	8,869	(ii)
Vehicles	38,951	(27,123)	11,828	10,111	25
Computer equipment	2,285	(1,437)	848	971	20
Other	4,062	(3,387)	675	825	10
	819,100	(590,878)	228,222	244,962	
Cost of non-depreciated items:					
Land			53,804	53,837	
Rights and concessions			504	505	
Work in progress			51,704	12,836	
Advances to suppliers			165,541	6	
			499,775	312,146	
	Consolidated				Depreciation and depletion annual rate (p.a.) %
	2004		2003		
	Cost	Depreciation and depletion	Net	Net	
Buildings and improvements	596,130	(325,230)	270,900	286,889	4
Equipments and facilities	1,238,288	(947,613)	290,675	297,131	4 to 25 (i)
Mineral rights	16,501	(3,272)	13,229	13,376	(ii)
Vehicles	46,113	(33,237)	12,876	10,769	25
Computer equipment	18,647	(11,660)	6,987	9,033	20
Other	9,265	(7,656)	1,609	1,584	10
	1,924,944	(1,328,668)	596,276	618,782	
Cost of non-depreciated items:					
Land			64,498	60,867	
Rights and concessions			522	521	
Spare parts			33,170	30,771	
Work in progress			104,066	45,724	
Advances to suppliers			172,638	1,776	
			971,170	758,441	

(i) Average rate of 9.10%

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

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(Public-held company)

Notes to the financial statements

(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.

The work in progress and the advances to suppliers balances are mainly related to Company's expansion activities in the plants of Uberaba - MG and Tapira - MG, and to the wholly-owned subsidiary - Ultrafertil plant in Catalão - GO.

13 Deferred charges

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
Information technology implementation	8,057	8,057	21,435	21,433
Pre-operating costs	329	329	1,934	1,934
Other deferred expenses	<u>1,546</u>	<u>896</u>	<u>3,764</u>	<u>2,556</u>
	9,932	9,282	27,133	25,923
Accumulated amortization	<u>(8,601)</u>	<u>(6,762)</u>	<u>(21,745)</u>	<u>(16,956)</u>
	<u>1,331</u>	<u>2,520</u>	<u>5,388</u>	<u>8,967</u>

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Notes to the financial statements

(In thousands of Reais)

14 Financing

Type/purpose	Annual financial charges	Parent company				Consolidated			
		Current		Noncurrent		Current		Noncurrent	
		2004	2003	2004	2003	2004	2003	2004	2003
Working capital:									
Import finance (US\$ 2,605 thousand)	1.71% + exchange rate variation	-	7,694	-	-	-	7,694	-	-
Banco Itaú S.A. "Pre-Export Finance"	4.20% + LIBOR + exchange rate variation	-	-	-	-	22,180	16,888	31,853	60,753
Banco Santander "Pre-Export Finance"	5.65% + exchange rate variation	762	-	39,816	-	762	-	39,816	-
Banco Boston "Pre-Export Finance"	5.65% + exchange rate variation	1,925	-	79,632	-	1,925	-	79,632	-
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	95,930	87,815	168,966	226,399	95,930	87,815	168,967	226,399
International Finance Corporation (IFC)	3.75% to 3.87% + LIBOR + exchange rate variation	29,990	32,734	42,028	77,046	29,990	32,734	42,028	77,046
BNDES	9.50% to 10.00% + URTJLP 314	-	-	-	-	6,780	6,565	2,808	9,211
BNDES	3.50% + UMBND 590	-	-	-	-	1,668	1,792	966	2,805
Banco do Brasil S.A.	14.00%	-	-	-	-	2,948	4,541	11,269	14,086
BBA	9.00% + URTJLP	-	-	-	-	1,431	1,386	2,359	3,644
		<u>128,607</u>	<u>128,243</u>	<u>330,442</u>	<u>303,445</u>	<u>163,614</u>	<u>159,415</u>	<u>379,698</u>	<u>393,944</u>

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(Public-held company)

Notes to the financial statements

(In thousands of Reais)

Financing matures as follows:

Year	Parent company	Consolidated
2006	137,279	166,523
2007	128,067	142,445
2008	40,448	43,265
2009	24,648	27,465
	<u>330,442</u>	<u>379,698</u>

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

The financial covenants of the agreements with Itaú, Santander, Boston and IFC (International Finance Corporation) are calculated based on the consolidated financial statements and are in compliance.

15 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>	
	2004	2003	2004	2003
Labor (i)	19,032	16,864	42,090	33,496
Tax claims:				
Federal:				
IR and CSLL (ii)	18,504	10,506	70,429	46,338
PIS and COFINS (iii)	12,261	12,165	24,794	23,236
SAT (iv)	1,750	1,732	6,800	6,276
Others	4,270	3,228	12,942	9,768
State (v)				
	<u>282</u>	<u>268</u>	<u>591</u>	<u>536</u>
	<u>55,649</u>	<u>44,763</u>	<u>157,646</u>	<u>119,65</u>

- (i) Provision related to former employees' labor and civil 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) and declaratory action related to extinguish balance sheet monetary correction.
- (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 the State level, these claims are related to the incidence of valued-added tax - ICMS.

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Notes to the financial statements

(In thousands of Reais)

16 Pension plans

By intermediation of PETROBRAS Social Security Foundation - PETROS, the wholly-owned subsidiary Ultrafertil maintains a supplemental defined benefit plan for the benefits provided by the Government Social Security, for employees hired before June 1993. This plan has 1,738 members from the subsidiary, and 1,380 of them are currently receiving retirement or pension supplements. During the year, Ultrafertil contributed to PETROS in the amount of R\$ 2,584 (2003 - R\$ 2,352).

Since October 2001, company and its wholly-owned subsidiary Ultrafertil implemented a supplemental defined contribution plan for the benefits provided by official social security. This plan is managed by Bradesco Previdência e Seguros S.A. In 2004, the contributions to the Bradesco Previdência e Seguros S.A. amounted to R\$ 1,301, that R\$ 579 refers to the Parent company and R\$ 722 to the wholly-owned subsidiary. In wholly-owned subsidiary, this plan just includes the non attended employees by PETROS plan.

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 1,802 employees, that 358 are active members of PETROS.

During the year, the wholly-owned subsidiary recorded R\$ 35 in the statements of income, 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, 2004, is summarized below:

Net book value of the actuarial obligations	434,644
Fair value of the plan's assets	(413,975)
Net book value of the uncovered actuarial obligations	<u>20,669</u>
Unrecognized actuarial gains	<u>9,363</u>
Actuarial liability	<u><u>30,032</u></u>

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(Public-held company)

Notes to the financial statements

(In thousands of Reais)

The main assumptions adopted by the actuaries are presented below:

Actuarial valuation method:	Nominal rates
Discount rate	11.30% p.a.
Projected return rate of the plan's assets	13.81% p.a.
Projected increase rate of employees salaries - until 47 years old	7.10% p.a.
Projected increase rate of employees salaries - after 48 years old	5.00% p.a.
Mortality ratio	GAM-71

Considered 5.00% p.a. of future projected inflation rate.

The PETROS plan's assets are basically made of fixed rate investments (45.83%), variable rate investments (37.97%), real estate (7.14%), loans to participant (6.54%) and other (2.52%).

17 Shareholders' equity - Parent company

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.

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Notes to the financial statements

(In thousands of Reais)

c. Revaluation reserve

During the year, through reversal to retained earnings, R\$ 3,323 (R\$ 3,317 in 2003) 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, 2004, R\$ 24,913 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 (2004 - R\$ 12,200; 2003 - R\$ 13,328) are recognized in the statements of income proportionally to the realization of the revaluation reserve.

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	456,191
Realization of revaluation reserve	<u>3,323</u>
Calculation basis	<u>459,514</u>
Minimum obligatory dividend - 25%	<u>114,879</u>

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Dividends paid and proposed in 2004

	<u>Per thousand shares</u>		
	Common shares	Preferred shares	Total
Dividends paid through retention profit reserve	<u>0.6159</u>	<u>0.67749</u>	<u>70,003</u>
Interest on shareholders' equity as part of the minimum obligatory dividend for 2004 (See Note 18)	<u>0.58</u>	<u>0.658</u>	<u>65,922</u>
Proposed dividends:			
Addition to the minimum obligatory dividends for 2004	0.43	0.473	48,957
Distribution through profit retention reserve	<u>0.93</u>	<u>1.023</u>	<u>105,619</u>
	1.36	1.496	<u>154,576</u>
			<u>290,501</u>

e. Profit retention reserves

Management will be proposing to the Ordinary General Meeting the increase of Company's capital from R\$ 276,122 to R\$ 540,000, without new shares issued, by transfer of part of the profit retention reserve value, in the amount of R\$ 263,878. In observance to article 196 of the Brazilian Corporation Law, it also will be proposing the withholding of the remaining net Income for the year, in the amount of R\$ 299,574, to attend the capital budget for 2005, as well as the Company's working capital, considering the seasonableness of the fertilizer market.

18 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\$ 65,922 (2003 - 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\$ 22,414 (R\$ 18,661 in 2003) as a result of the deduction of the interest expense on shareholders' equity.

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Notes to the financial statements

(In thousands of Reais)

19 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.

20 Financial result, net

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
Financial income:				
Interest earning bank deposits	43,061	26,720	75,058	86,575
Positive exchange rate variation	1,645	3,131	2,563	6,138
Interest	756	1,122	2,520	2,644
Others	<u>2,624</u>	<u>3,823</u>	<u>3,045</u>	<u>5,058</u>
	48,086	34,796	83,186	100,415
Financial expenses:				
Interest	(29,138)	(27,863)	(37,512)	(38,032)
Negative monetary variation	(32,908)	(28,070)	(33,360)	(28,183)
Negative exchange rate variation	(10,658)	(15,593)	(22,984)	(25,437)
Others	<u>(6,295)</u>	<u>(7,745)</u>	<u>(22,596)</u>	<u>(23,554)</u>
	<u>(78,999)</u>	<u>(79,271)</u>	<u>(116,452)</u>	
	<u>(115,206)</u>			
Financial result, net	<u>(30,913)</u>	<u>(44,475)</u>	<u>(33,266)</u>	<u>(14,791)</u>

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(In thousands of Reais)

21 Other operating expenses, net

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
Provision for contingencies	(10,589)	(11,683)	(32,349)	(26,089)
Anticipation of programmed maintenance prepaid costs amortization (i)	(3,222)	-	(3,222)	-
Provision for realization of credit balance of ICMS (ii)	(2,073)	(5,850)	(4,741)	(17,500)
Cost of unscheduled stoppage	(1,674)	(1,892)	(19,158)	(20,076)
Effect of change in the accounting policy of programmed maintenance costs (See Note 2 l)	(22,346)	-	(107,678)	-
Others	(261)	4	(357)	(1,241)
	<u>(40,165)</u>	<u>(19,421)</u>	<u>(167,505)</u>	<u>(64,906)</u>

(i) Programmed maintenance prepaid costs of two plants initially projected to occur in 2005, which were anticipated for 2004.

(ii) Provision aiming to adjust the value of ICMS stated in the long-term to its probable recoverable value.

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22 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>	
	2004	2003	2004	2003
Income before income and social contribution taxes	<u>521,894</u>	<u>367,120</u>	<u>631,818</u>	<u>456,228</u>
Income and social contribution taxes at the rate of 34%	(177,444) (155,118)	(124,821)	(214,818)	
Reconciliation:				
Equity in earnings	86,858	64,961	-	-
Exclusion of social contribution (difference in the calculation basis)	6,333	3,866	18,991	12,364
Effect of the exclusion of the interest on shareholders' equity	22,414	18,661	22,414	18,661
Permanent additions/exclusions 5,369)	(3,941)	(3,408)	(7,264)	(
Benefits of income tax	<u>77</u>	<u>194</u>	<u>254</u>	<u>360</u>
Income and social contribution taxes	<u>(65,703)</u> <u>(129,102)</u>	<u>(40,547)</u>	<u>(180,423)</u>	
Income and social contribution taxes				
Current (137,052)	(70,827)	(43,523)	(205,656)	
Deferred	<u>5,124</u>	<u>2,976</u>	<u>25,233</u>	<u>7,950</u>
	<u>(65,703)</u> <u>(129,102)</u>	<u>(40,547)</u>	<u>(180,423)</u>	

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23 Financial instruments

a. General consideration

The company and its wholly-owned subsidiary 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 company and its wholly-owned subsidiary's financial instruments market value does not differ significantly to its accounting values, due to they were negotiated and recorded by rates and conditions practiced by the market for operations with similar nature, risk and terms. In relation to the financing, the characteristics of which are disclosed in Note 14, the book value is equivalent to their market value.

c. Foreign exchange exposure

The company and its wholly-owned subsidiary 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, 2004, swap and forward contracts aimed at hedging obligations with suppliers and financing amounted to R\$ 133,709 (2003 - R\$ 134,229) and consolidated R\$ 144,690 (2003 - R\$ 230,351), and have various maturities up till February 5th, 2009.

The abovementioned operations, if settled at December 31, 2004, would present losses of R\$ 20,693 (consolidated - R\$ 25,420) and in 2003 losses of R\$ 18,412 (consolidated - R\$ 27,340), which were already considered in the financial statements as of these dates.

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(In thousands of Reais)

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

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
Assets:				
Interest earning bank deposits in US\$	2,781	3,942	24,247	31,568
Inventories, net of contracted sales	125,291	72,150	233,170	148,600
Liabilities:				
Loans and financing	194,153	117,474	250,820	192,448
Suppliers	<u>32,149</u>	<u>64,976</u>	<u>70,646</u>	<u>177,011</u>
Foreign exchange exposure	<u>98,230</u>	<u>106,358</u>	<u>64,049</u>	<u>189,291</u>

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) and Rural Propriety Certified in US dollars (CPR), as follows:

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
CDB	141,005	135,260	419,739	487,237
NTN-C	81,323	39,034	129,162	65,128
NTN-D	-	3,942	21,466	31,568
CPR	<u>2,781</u>	<u>-</u>	<u>2,781</u>	<u>-</u>
	<u>225,109</u>	<u>178,236</u>	<u>573,148</u>	<u>583,933</u>

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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.

24 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.

At December 31, 2004, insurance coverage amounts are as follows:

Modality	Parent company	Consolidated
Civil responsibilities	5,037	13,272
Operating risks	633,592	1,669,480
Others	<u>41,236</u>	<u>56,626</u>
	<u>679,865</u>	<u>1,739,378</u>

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

The company uses the EBITDA as an economic and financial performance index. This index is not included in Brazilian accounting rules. The company uses the EBITDA due to the fact that it is a standard financial measurement and frequently used by the financial community. The index can not be analyzed in an isolated item, and must be evaluated jointly with operational profit and net income for the year, which were calculated in accordance with accounting practices derived from the Brazilian Corporation Law.

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(In thousands of Reais)

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
Net sales and services rendered	904,730	777,442	2,245,775	1,868,916
Operating profit	522,599	366,091	632,796	453,508
(+) Depreciation, amortization and depletion	34,244	32,135	85,822	82,832
(+) Financial expenses	78,999	79,271	116,452	115,206
(-) Financial income	48,086	34,796	83,186	100,415
(-) Equity in earnings	<u>255,464</u>	<u>191,061</u>	<u>-</u>	<u>-</u>
EBITDA amount	<u>332,292</u>	<u>251,640</u>	<u>751,884</u>	<u>551,131</u>
% EBITDA over net sales	36.73%	32.37%	33.48%	29.49%

Fertilizantes Fosfatados S.A. Fosfertil

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Statements of cash flows - Indirect method

	Parent Company		Consolidated	
	2004	2003	2004	2003
Cash flows from operating activities				
Net income (loss) for the year	456,191	326,573	451,395	327,126
Adjustments to reconcile net income to net cash from operating activities:				
Depreciation and amortization	34,244	32,135	85,822	82,832
Result on sale of fixed assets	(965)	(146)	(1,754)	(396)
Equity in earnings of wholly-owned subsidiary	(255,464)	(191,061)	-	-
Monetary and exchange rate variation and interest	44,452	24,771	47,921	17,215
Dividends received from subsidiary	240,000	93,069	-	-
Changes in assets and liabilities				
(Increase) decrease in trade accounts receivable	(13,748)	(2,307)	(32,166)	(26,347)
(Increase) decrease in inventories	(87,252)	(11,079)	(151,705)	(38,353)
(Increase) decrease in other accounts receivable	(13,651)	(29,847)	(13,430)	(68,675)
Increase (decrease) in suppliers	(15,309)	25,953	(86,164)	102,382
Increase (decrease) in other accounts payable and provisions	27,144	18,682	90,586	32,691
Increase (decrease) in income and social contribution taxes	20,163	5,866	61,020	12,120
Increase (decrease) in other liabilities	17,847	16,492	50,396	37,426
Net cash provided by operating activities	453,652	309,101	501,921	478,021
Cash flows from investment activities				
Purchases of permanent assets	(221,782)	(22,654)	(296,773)	(82,880)
Proceeds from sale of fixed assets	1,791	191	3,282	587
Net cash used in investment activities	(219,991)	(22,463)	(293,491)	(82,293)
Cash flows from financing activities				
Dividends and interest on shareholders' equity paid	(168,431)	(256,522)	(168,431)	(256,522)
Proceeds from loans	130,427	23,447	130,427	35,134
Principal payments on loans	(119,796)	(104,779)	(145,704)	(124,683)
Interest paid on loans	(27,714)	(29,718)	(35,422)	(39,524)
Net cash used in financing activities	(185,514)	(367,572)	(219,130)	(385,595)
Increase (decrease) in cash and cash equivalents	48,147	(80,934)	(10,700)	10,133
At beginning of year	178,816	259,750	587,145	577,012
At end of year	226,963	178,816	576,445	587,145
Increase (decrease) in cash and cash equivalents	48,147	(80,934)	(10,700)	10,133

Fertilizantes Fosfatados S.A. Fosfertil

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Statements of added value

	Parent Company		Consolidated	
	2004	2003	2004	2003
Revenues				
Gross sales and services rendered	988,426	861,102	2,531,417	2,101,061
Provision for doubtful accounts	(20)	(208)	(131)	(499)
Non-operating result	(1,238)	147	(1,298)	516
	<u>987,168</u>	<u>861,041</u>	<u>2,529,988</u>	<u>2,101,078</u>
Inputs acquired from third parties				
Raw materials consumed	269,962	226,917	511,167	409,258
Cost of sales and services rendered	146,148	150,667	507,705	479,562
Material, power, third party services and others	155,657	131,842	467,568	370,245
Loss/recovery on asset values	216	743	602	(742)
	<u>571,983</u>	<u>510,169</u>	<u>1,487,042</u>	<u>1,258,323</u>
Gross added value	415,185	350,872	1,042,946	842,755
Retentions				
Depreciation, depletion and amortization	34,244	32,135	85,822	82,832
Added value produced by the Company	380,941	318,737	957,124	759,923
Transferred added value				
Equity in earnings	255,464	191,061	-	-
Financial income	48,086	35,564	83,186	101,183
	<u>303,550</u>	<u>226,625</u>	<u>83,186</u>	<u>101,183</u>
Added value to be distributed	684,491	545,362	1,040,310	861,106
Distribution of added value				
Payroll and related charges	48,235	40,087	163,328	131,353
Taxes and contributions	98,077	94,402	295,326	274,477
Interest and rents	81,988	84,300	130,261	128,150
Interest on equity and dividends	65,922	87,393	65,922	87,393
Retained earnings	390,269	239,180	385,473	239,733
	<u>684,491</u>	<u>545,362</u>	<u>1,040,310</u>	<u>861,106</u>



Fertilizantes Fosfatados S.A. - Fosfertil

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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, 2005.

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, March 08, 2006

Hildegard Gutz Horta

Maurício Jonas de Oliveira

Wagner Mar

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held Company)

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