

FOSFERTIL
Management's Report 2005

Dear Shareholders,

The Brazilian agricultural business, although affected by climatic, phyto-sanitary and foreign exchange problems which had an adverse effect on its profitability, confirmed, in 2005, its strength and competence and contributed to increase exports, as well as it was responsible for almost 90% of the country's record balance of trade surplus. Fosfertil continued its important contribution to such performance reported by the Brazilian agriculture and cattle breeding sector, which has been achieving annual records in terms of production and foreign sales.

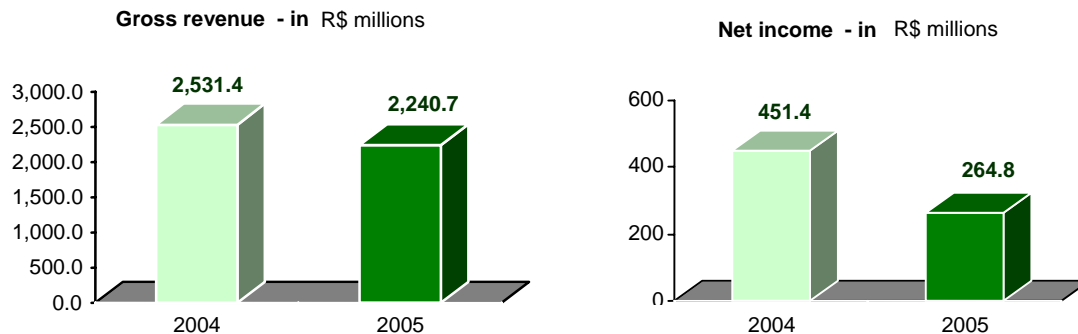
However, the difficult situation faced by the grain sector, particularly by the soybean and corn producers, resulted in an overall reduction of approximately 13% in fertilizer consumption in Brazil. Fosfertil, competing against imported products, managed to maintain consistent sales' levels.

For the market for fertilizer and chemical operations, the company reported an increase of 1.9% for sales of phosphate and nitrogen compound nutrients, compared to the 2004 sales.

The decrease in consumption of fertilizers in Brazil, whose sector is still dependent on imported raw materials, was also felt by Company's port operation, which supports its own demand and demand from third parties, and reported a decrease of 7.5% in cargo movements compared to the previous year.

Fosfertil's consolidated gross sales reached R\$ 2.2 billion during the year, representing a decrease of 11.5% compared to 2004, as a result of the devaluation of the US dollar against the Brazilian Real.

Consolidated net income of R\$ 264.8 million (R\$ 451.4 million in 2004) was also affected by the fluctuations in the US dollar rate, which had a negative impact on gross sales and a positive impact on financial results, from the overall increase of costs in Brazil and from a smaller variation in the IGP-M, the index used to update financing contracted to purchase the wholly-owned subsidiary Ultrafertil S.A.



The economy and the agriculture and cattle breeding sector

The year started with high expectations and forecasts of growth in the economy of approximately 5%, similar to 2004. However, the deceleration of the economy as from April resulted in the GDP closing the year with an increase of only 2.3%, significantly lower compared to other Latin American countries.

The country's other macro-economic information presented more favorable results, with new records for exports and for balance of trade surplus, which increased reserves and investments of foreign funds, resulting in the country's risk level being the lowest in the last years. However, a restrictive monetary policy continued to be implemented, focused on combating inflation within an environment that did not introduce cuts in public spending, which resulted in extremely high interest rates being maintained compared to average rates on the international market. This factor, together with the valuation of the Brazilian currency and the record of tax collection, interrupted the growth in the economy and reduced profitability for the majority of the exporting sectors, which included the agriculture sector.

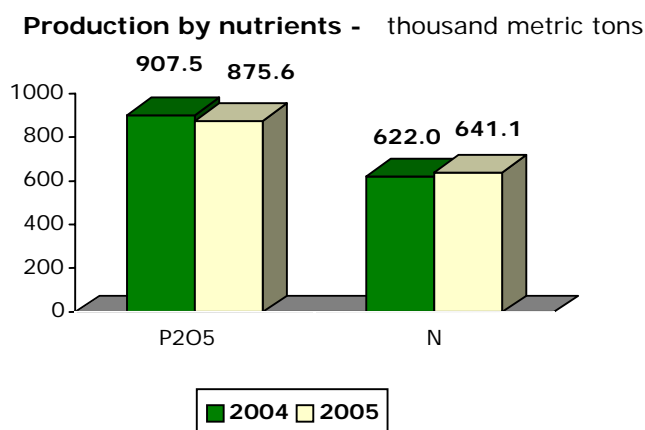
The agricultural sector, as a whole, was impacted not only by the negative effects of the drought in the South of Brazil, but also by the "rust" disease in soybean plantation and the decrease in income earned by producers due to the US dollar/Brazilian real exchange rate. As a result, grain production decreased from 120.4 million tons in 2004 to 113.7 million in 2005 (this reduction occurred mainly in the soybean, corn, wheat, rice, bean and cotton plantations). This decrease was partially compensated by the sectors benefiting from favorable domestic and foreign factors, such as sugar cane and coffee plantations.

The cattle breeding sector, despite the scare from foot and mouth disease during the second semester of 2005, reported record exports for pork, poultry and beef.

Production and market

Fosfertil, as the main Brazilian supplier of phosphated and nitrogenated nutrients for the fertilizer mixer market, was significantly affected by the global agro-business scenario in 2005.

Consolidated production of nutrients for the fertilizer and chemical markets reached 1,516.7 thousand metric tons (0.8% lower than in 2004), being 875.6 thousand tons of phosphated (P_2O_5) nutrients and 641.1 thousand tons of nitrogen compound (N) nutrients. There was a slight decrease in phosphated nutrients (3.5%) and an increase of more than 3.1% for nitrogenated products.

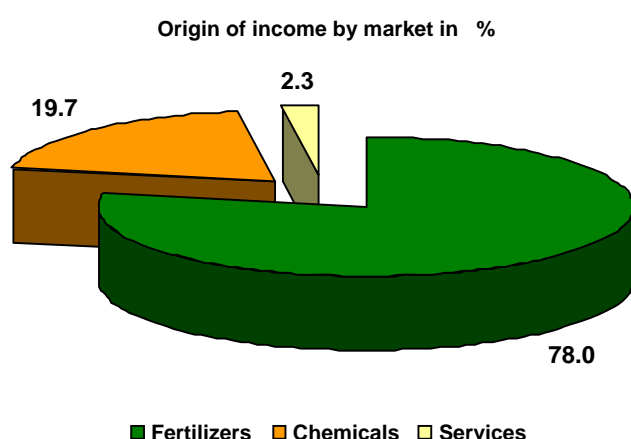


The company retained its leadership position in the sector, being responsible for 30.20% of sales of phosphated nutrients and 27.02% of nitrogen compound nutrients in the regions where it operates: the Central West and Southeast of Brazil. The forecast for 2006 is that, after concluding the expansion project in the Central Western region, the company's production of nutrients will exceed 1.7 million metric tons, extending the national industry's participation in the supply of raw materials to fertilizer mixers.

The company's chemical segment, responsible for producing and selling acids and other raw materials, reported growth of 2.5% in sales volumes with important results reported for the low density ammonium nitrates Ultraprill[®] and Ultraprill Plus[®],

products used by the explosives industry, mainly in the mining and civil construction sectors, meeting demand on the domestic market and demand by clients from other South American countries.

The maritime terminal in Santos (SP), which focuses mainly on receiving the raw materials used by the company and other companies in the sector, was affected by the crisis in the agricultural and cattle breeding sector, and moved only 2.2 million metric tons of products during the year, compared to 2.4 million in 2004.



Investments

During 2005, the project to expand the mining and chemical complexes in Minas Gerais and Goiás started its pre-operational and testing phase. The purpose of this expansion is to enlarge the production of phosphated nutrients and to improve the performance on these markets. As a result, as from 2006, the capacity to treat and improve concentrated phosphates at the units in Tapira (MG) and Catalão (GO), will increase to 3,2 million tons, 18,5% higher than 2004. The expansions at the Uberaba (MG) unit will also be ready, which will increase production of phosphoric acid and sulfuric acid, as well as, the units for producing soluble triple super phosphate (TSP) and graining mono-ammonium phosphate (MAP). This represents an increase of 29% or 180 thousand/tons of P_2O_5 in phosphoric acid, in the nutrients offered by the company.

Fosfertil's enterprising vocation and the potential for growth in the fertilizer market encourage the company to continually undertake studies aimed to expand its activities. One of the alternatives being considered is to increase production of phosphates at the

Uberaba Industrial Complex. At the same time, the company is finalizing its studies aimed at developing the Salitre mine, in the Patrocínio region (MG), where the company has a unit for geological research.

At the same time, the growing demand for nitrogenous products in the Brazilian agricultural business highlights the need to invest in this segment. Thus, Fosfertil is considering new investment opportunities, analyzing the viability of constructing a new nitrogenous production unit, using natural gas as a raw material. As a result, it is contacting suppliers of natural gas to negotiate the conditions to supply gas to make this investment viable. Once completed, this new unit will contribute to reducing the country's dependence on imported nitrogen supplies, which as of today represent 60% of its consumption.

Environment, Quality and Employment Safety

During the year, Fosfertil's industrial complexes in Catalão (GO) and Piaçaguera (Cubatão-SP) received environmental certificates ISO 14001, which had already been awarded to the complexes in Tapira (MG), Cubatão (SP) and Araucária (PR).

In 2005, the company invested R\$ 16.3 million in environmental protection and employment safety programs, as well as encouraging its employees and suppliers in work aimed to prevent, identify and correct aspects that could eventually harm the environment.

With respect to quality management, in 2005, all of the Company's units again received ISO 9001 certificates. In addition, significant advances were made in the work towards obtaining the OHSAS 18001 certification (aimed at employee safety and health), with recommendation that the Araucária complex (PR) receive the certificate.

Fosfertil constantly encourages the formation of Teams to Improve Quality (EMQs). These are groups that meet spontaneously to develop and implement projects to improve processes and products. In 2005, 41 projects were developed and implemented by teams for this purpose.

The program for Individual Suggestions for Improvements (SIM), whereby, each individual employee can send suggestions to the company, expressing his or her ideas

in a practical, simple and quick manner, received 424 individual suggestions, with 107 of them were implemented by the company.

Seeking to identify opportunities to improve results, an extensive diagnosis of the security, environmental and health processes at all of Fosfertil's units was undertaken during 2005 by a specialized consultant. This diagnosis resulted in an action plan, implemented as from 2006, with the goal set for the company to achieve standards equivalent to the best references in the sector within a period between three and five years.

Fosfertil continued to support the development of the "avifauna" studies, both at Baixada Santista and at Cerrado, the regions close to the Company's units, This work, through creating bio-indicators, enables the eco-systems at these regions to be examined, These investigations were undertaken by specialist biologists and enabled the company to evaluate the habitat of its inhabitants, and it was then able to support or implement preventive actions that collaborate towards the preservation of these species,

Human Resources

At the end of the year, the company had a total of 3,009 employees at its different units and offices.

The professional development of its team involved 211 thousand hours of training, providing continued individual development and improvement, in terms of performance, as well as technical and behavioral training, during the year, where emphasis was given to internal recruitment. It involved opening new opportunities for growth through a dynamic internal selection policy and the *People, Succession and Development program*, which enabled the profile and potential of its professionals to be better identified for purposes of planning development actions.

In addition, the actions aimed at promoting quality of life gained strength in 2005, with the introduction of the labor gym within the employment environment and the units' facilities and the *Cantinho Qualifertil*, an area with a library, cafeteria, games room, TV and massage for employees.

In 2005, Fosfertil published its Ethics Code, a document in which the company and its employees confirm their commitment to the values and basis for conducting business

and its relationship with suppliers, clients, the Government, the environment and the community.

The year was also important in the social sphere. The company investigated which of its employees already work or is interested in working voluntarily in the community, This was followed by meetings organized at all of company's units to provide more information and to clarify doubts raised by its employees with respect to voluntary work.

Social Responsibility

The project, *Fertilizar Program* gained ground in 2005, which involved the relationship between the company and the community. This program was introduced in the cities where the company is located, and included actions executed in partnership with non-government organizations or public organs, and in 2005, the program provided educational support to 2,100 children and adolescents. As a result, during the year Fosfertil invested R\$ 1.14 million, using funds directly available and also via tax incentives.

As part of the activities undertaken by the *Fertilizar Program*, the Tindiquera children's house was inaugurated in Araucária (PR), offering daily activities for extra school lessons, food, leisure and culture for 220 students aged between 7 and 17. The project, which was the initiative of the local authority, was constructed and equipped using financial support from Fosfertil, through contributions to the Infant and Adolescent Municipal Fund.

Fosfertil's relationship with the community and its employees, and its environmental activities, were once again recognized by the *Guia Exame de Boa Cidadania Corporativa*. The Company was cited for adopting the following practices: Values and Transparency – from the publication of its annual report and distribution of its Ethics Code; Environment - for its program to monitor "avifauna" undertaken at Baixada Santista (SP), Catalão (GO), Araucária (PR), Uberaba, Tapira and Patos de Minas (MG); and the Community - for its *Fertilizar Program*.

Another important event was the fact that Fosfertil was recognized by Fundação Abrinq, as "Empresa Amiga da Criança" (Company, friend of children") after analyzing the social project developed by the Company.

In the cultural area, Fosfertil continued to support initiatives to encourage ecological awareness and valuing culture in the regions where the Company operates. Thus, based on laws that encourage culture, the Company sponsored the publication of several books including *Magia do Cerrado*, *Catalão – Festas e Tradições* and *Arara Azul*.

Financial performance

The Company's results were considered as good by financial analysts, in a year that was particularly difficult for the agricultural sector, as a result of the draught, the phyto-sanitary problems and the exchange valuation.

Fosfertil received several awards for its performance during the year. These included the *Destaque Companhias Abertas*, organized by Agência Estado e Econômica, which, for the third time, included Fosfertil among the ten best companies with shares on the stock exchange in Brazil. Other important awards included *Prêmio Minas Desempenho Empresarial*, granted by the magazine *Mercado Comum*; *Top de Agronegócio*, held by the Institute for Quality Studies and Research; and *Melhores do Agronegócio*, promoted by the magazine "Globo Rural", for the chemical fertilizer category.

Consolidated net financial results (expenses) decreased from R\$ 33.3 million in 2004 to R\$ 23.7 million in 2005. Consolidated net income reached R\$ 264.8 million, representing a return of 27.9% on shareholders' equity of R\$ 949.9 million at the beginning of the year. The EBITDA reached R\$ 471.0 million (R\$ 751.9 million in 2004), equivalent to 23.3% (33.5% in 2004) on consolidated net sales.

At the end of the year, consolidated shareholders' equity was R\$ 1,065.0 million, corresponding to equity value per thousand shares of R\$ 9.99.

Total taxes paid by Fosfertil during the year, to various government levels, amounted to R\$ 163.0 million (R\$ 295.3 million in 2004), Payments to its employees, including salaries and legal and voluntary benefits amounted to R\$ 187.9 million (R\$ 163.3 million in 2004).

Shareholders

The company continued with its traditional policy to remunerate shareholders, with a total distribution of R\$ 149.7 million as dividends and interest on own capital, where R\$ 87.2 million was paid during 2005, and R\$ 62.5 million to be paid in 2006.

As a result of its tradition of providing its shareholders with a good return and adequate management of its operations and funds, Fosfertil continued to be widely accepted on the market and its shares were offered on all of Bovespa's stock exchanges daily trades, involving the negotiation of 12,362 million lots of shares during the year.

The company continued to improve its corporate governance, introducing controls and systems that meet requirements of national and international investors and the requirements stated in the Sarbanes–Oxley law.

In compliance with CVM requirements, Management confirms that the company and its wholly-owned subsidiary did not contract any other services from its independent auditors during the year.

Prospects

Even after a particularly difficult year for the agro-business sector, new records were achieved in 2005 by the Brazilian agricultural sector, both in sugar cane production and particularly in exports of meat and coffee, demonstrating the dynamism, competitiveness and diversification of this sector in Brazil.

The growth of these sector provide hope that 2006 will be a more favorable year, despite the de-capitalization of a significant part of rural producers and the drought at the start of the new year – which affected Paraná and the Central Western region.

The expectation is that grain crops will recover in part, allied with continued growth in the production and export of alcohol, sugar and coffee. As a result, it is anticipated that overall consumption of fertilizers in 2006 will recover.

Fosfertil, as the leader in the supply of these products, will be in an even stronger position to accompany the developments in this market, as a result of the expansions made to its mining complexes in Catalão (GO) and Tapira (MG) and as a result of its industrial complex in Uberaba (MG) becoming fully operational, thus enabling it to meet the demand for phosphate products.

On the market for chemical products in which Fosfertil operates, the tendency is towards continued growth in demand, particularly from the expansion of investments and production in the petro-chemical and mining sectors and the sector for wood resins for construction, which uses the products nitric acid, ammonium nitrate and technical urea, respectively, in their processes.

Acknowledgements

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

Uberaba, March 8th, 2006.

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

Financial statements
December 31, 2005 and 2004

(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, 2005 and 2004

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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 wholly-owned subsidiary as of December 31, 2005 and 2004, 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 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.
- 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 wholly-owned subsidiary as of December 31, 2005 and 2004, 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.

- 4 Our examinations were performed with the objective of expressing an opinion on the financial statements taken as a whole. The statements of added value and cash flows are supplementary information 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 20, 2006

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, 2005 and 2004

(In thousands of Reais)

	Parent Company		Consolidated			Parent Company		Consolidated	
	2005	2004	2005	2004		2005	2004	2005	2004
Assets					Liabilities				
Current assets					Current liabilities				
Cash and cash equivalents	1,106	1,854	4,481	3,297	Financing	142,914	128,607	170,441	163,614
Interest earning bank deposits	108,236	225,109	237,673	573,148	Suppliers	118,826	66,697	245,906	145,991
Trade accounts receivable	13,057	14,003	62,076	86,504	Advances from customers	10,371	25,027	24,009	52,979
Inventories	258,578	216,599	523,993	431,073	Dividends	62,542	154,598	62,542	154,598
Recoverable taxes	44,393	11,810	52,652	17,085	Taxes payable	2,749	2,306	12,972	5,022
Dividends receivable	152,829	200,000	-	-	Employee profit sharing	6,510	8,489	29,940	28,599
Deferred income and social contribution taxes	6,750	2,967	22,272	16,763	Provision for income tax and social contribution	-	26,577	28,506	100,235
Prepaid expenses	2,395	2,293	5,399	5,644	Deferred income and social contribution taxes	1,660	-	2,016	-
Other credits	5,219	5,109	17,192	13,535	Provision for programmed maintenance	15,896	8,727	53,437	49,305
	<u>592,563</u>	<u>679,744</u>	<u>925,738</u>	<u>1,147,049</u>	Other liabilities	20,934	22,763	60,338	55,597
						<u>382,402</u>	<u>443,791</u>	<u>690,107</u>	<u>755,940</u>
Noncurrent assets					Noncurrent liabilities				
Trade accounts receivable	1,662	350	5,907	368	Financing	180,882	330,442	199,678	379,698
Judicial deposits	33,931	32,557	76,413	55,205	Provision for contingencies	63,956	55,649	170,726	157,646
Deferred income and social contribution taxes	24,852	15,561	62,946	50,442	Provision for programmed maintenance	611	3,337	21,668	11,916
Recoverable taxes	70,920	44,011	114,039	93,288	Provision for pension plans and post-retirement benefits	3,889	-	35,075	30,032
Other credits	6,352	5,580	6,677	8,561	Deferred income and social contribution taxes	4,414	-	4,840	-
	<u>137,717</u>	<u>98,059</u>	<u>265,982</u>	<u>207,864</u>	Other liabilities	14,805	9,113	17,003	9,113
						<u>268,557</u>	<u>398,541</u>	<u>448,990</u>	<u>588,405</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	428,066	519,057	-	-	Shareholders' equity				
Other investments	10	10	553	551	Paid-in capital	540,000	276,122	540,000	276,122
Property, plant and equipment	558,703	499,775	1,041,607	971,170	Capital reserve	49	49	49	49
Deferred charges	1,385	1,331	8,029	5,388	Revaluation reserve	57,480	60,797	57,480	60,797
	<u>988,164</u>	<u>1,020,173</u>	<u>1,050,189</u>	<u>977,109</u>	Profit reserves	469,956	618,676	467,491	612,917
						<u>1,067,485</u>	<u>955,644</u>	<u>1,065,020</u>	<u>949,885</u>
	<u>1,718,444</u>	<u>1,797,976</u>	<u>2,241,909</u>	<u>2,332,022</u>		<u>1,718,444</u>	<u>1,797,976</u>	<u>2,241,909</u>	<u>2,332,022</u>

See the accompanying notes to the financial statements.

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Statements of income

Years ended December 31, 2005 and 2004

(In thousands of Reais)

	Parent Company		Consolidated	
	2005	2004	2005	2004
Gross sales and services rendered	754,166	988,426	2,240,738	2,531,417
Sales deductions	<u>(33,483)</u>	<u>(83,696)</u>	<u>(215,516)</u>	<u>(285,642)</u>
Net sales and services rendered	720,683	904,730	2,025,222	2,245,775
Cost of sales and services rendered	<u>(585,433)</u>	<u>(531,739)</u>	<u>(1,471,856)</u>	<u>(1,319,557)</u>
Gross profit	<u>135,250</u>	<u>372,991</u>	<u>553,366</u>	<u>926,218</u>
Operating income (expenses)				
Selling	(3,215)	(3,155)	(9,681)	(8,686)
General and administrative:				
Boards' and Directors' fees	(875)	(1,639)	(3,460)	(2,842)
Administrative	(28,588)	(19,811)	(59,051)	(46,716)
Employee profit sharing	(8,230)	(10,173)	(36,065)	(34,407)
Financial result, net	(31,805)	(30,913)	(23,713)	(33,266)
Other operating expenses, net	(38,398)	(40,165)	(60,084)	(167,505)
Equity in earnings of wholly-owned subsidiary	<u>233,428</u>	<u>255,464</u>	<u>-</u>	<u>-</u>
	<u>122,317</u>	<u>149,608</u>	<u>(192,054)</u>	<u>(293,422)</u>
Operating profit	257,567	522,599	361,312	632,796
Non-operating result, net	<u>(475)</u>	<u>(705)</u>	<u>(1,735)</u>	<u>(978)</u>
Income before income and social contribution taxes	257,092	521,894	359,577	631,818
Income and social contribution taxes				
Current	(2,563)	(70,827)	(105,909)	(205,656)
Deferred	<u>7,000</u>	<u>5,124</u>	<u>11,155</u>	<u>25,233</u>
Net income for the year	<u>261,529</u>	<u>456,191</u>	<u>264,823</u>	<u>451,395</u>
Net income per thousand shares at the end of the year - R\$	<u>2.45</u>	<u>4.28</u>		

See the accompanying notes to the financial statements.

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Statements of changes in shareholders' equity - Parent Company

Years ended December 31, 2005 and 2004

(In thousand of Reais)

	Paid-in capital	Capital reserve	Revaluation reserve	Profit reserves		Retained earnings	Total
		Tax incentives		Legal	Profit retention		
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	276,122	49	60,797	55,224	563,452	-	955,644
Capital increase from capitalization of reserves	263,878	-	-	-	(263,878)	-	-
Realization of revaluation reserve	-	-	(3,317)	-	-	3,317	-
Net income for the year	-	-	-	-	-	261,529	261,529
Distributions:							
Legal reserve	-	-	-	13,076	-	(13,076)	-
Interest on shareholders' equity - Law 9249/95 (to be considered as minimum obliged dividend of 2005 "ad-referendum" of the Supervisory Board Meeting)	-	-	-	-	-	(87,176)	(87,176)
Proposed dividends	-	-	-	-	(62,512)	-	(62,512)
Profit retention reserves	-	-	-	-	164,594	(164,594)	-
At December 31, 2005	<u>540,000</u>	<u>49</u>	<u>57,480</u>	<u>68,300</u>	<u>401,656</u>	<u>-</u>	<u>1,067,485</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, 2005 and 2004

(In thousands of Reais)

	Parent Company		Consolidated	
	2005	2004	2005	2004
Source of funds				
Operations				
Net income for the year	261,529	456,191	264,823	451,395
Items not affecting working capital				
Depreciation, amortization and depletion	34,602	34,244	85,997	85,822
Residual value of permanent asset disposals	1,439	826	1,816	1,528
Provision for adjustment of market value	299	216	1,070	602
Provisions for contingencies	7,927	10,589	7,369	32,349
Deferred income taxes and social contribution	(4,877)	(2,158)	(7,664)	(8,471)
Equity in earnings of wholly-owned subsidiary	(233,428)	(255,464)	-	-
Monetary variation of noncurrent liabilities	(9,703)	9,976	(6,078)	11,596
Resources from operations	57,788	254,420	347,333	574,821
From third parties				
Increase in noncurrent liabilities	4,680	136,440	19,474	149,427
Dividends received from wholly-owned subsidiary	324,419	200,000	-	-
	<u>329,099</u>	<u>336,440</u>	<u>19,474</u>	<u>149,427</u>
Total resources provided	386,887	590,860	366,807	724,248
Application of funds				
Permanent assets:				
Investments	-	272	-	272
Property, plant and equipment	94,433	220,862	155,968	295,294
Deferred charges	590	648	4,923	1,207
Transfer from noncurrent to current liabilities	137,302	112,161	165,022	148,168
Dividends and interest on shareholders' equity	149,688	290,501	149,688	290,501
Increase in noncurrent assets	30,666	13,471	46,684	14,559
Total resources used	412,679	637,915	522,285	750,001
Decrease in working capital	(25,792)	(47,055)	(155,478)	(25,753)
Changes in working capital				
Current assets				
At the end of the year	592,563	679,744	925,738	1,147,049
At the beginning of the year	679,744	572,359	1,147,049	976,788
	<u>(87,181)</u>	<u>107,385</u>	<u>(221,311)</u>	<u>170,261</u>
Current liabilities				
At the end of the year	382,402	443,791	690,107	755,940
At the beginning of the year	443,791	289,351	755,940	559,926
	<u>(61,389)</u>	<u>154,440</u>	<u>(65,833)</u>	<u>196,014</u>
Decrease in working capital	(25,792)	(47,055)	(155,478)	(25,753)

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, 2005 and 2004

(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.

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Notes to the financial statements

(In thousands of Reais)

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.

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 and liabilities, 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 each quarter.

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 of acquisition or production cost that does not exceed its market value.

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Notes to the financial statements

(In thousands of Reais)

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.

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.

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Notes to the financial statements

(In thousands of Reais)

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 post-retirement benefits to employees

The sponsorship costs of the pension plan and postretirement benefits 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, deemed as not relevant, from prior year financial statements have been reclassified to conform with the current year financial statements presentation.

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 the year ended in December 31, 2004.

l. Supplementary information

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

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Notes to the financial statements

(In thousands of Reais)

(i) Statements of cash flows

The statements of cash flows were 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 statements of added value were prepared in accordance with the Guidance Opinions 15/87 and 24/92 and Circular-Notice 01/00 of Brazilian Securities Exchange Commission (CVM). The used template is proposed by NBCT 3.7 of Federal Accounting Council (CFC), which has the objective of demonstrating the value of the wealth generated by the Company and its distribution among employees, govern external funds and shareholders - 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., which consolidate the accounts of its subsidiary UF Distribuidora de Combustíveis Ltda.

	Interest percentage	
	2005	2004
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 assets and liabilities 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>	
	2005	2004	2005	2004
Parent company	261,529	456,191	1,067,485	955,644
Elimination of income earned (to be earned) by the Parent company in transactions with the wholly-owned subsidiary, net of tax	<u>3,294</u>	<u>(4,796)</u>	<u>(2,465)</u>	<u>(5,759)</u>
Consolidated	<u>264,823</u>	<u>451,395</u>	<u>1,065,020</u>	<u>949,885</u>

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Notes to the financial statements

(In thousands of Reais)

4 Interest earning bank deposits

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

5 Trade accounts receivable

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current:				
Customers	13,043	14,000	62,076	86,504
Wholly-owned subsidiary	<u>14</u>	<u>3</u>	<u>-</u>	<u>-</u>
	<u>13,057</u>	<u>14,003</u>	<u>62,076</u>	<u>86,504</u>
Long-term:				
Customers	6,979	5,667	13,842	8,355
Provision for doubtful accounts	<u>(5,317)</u>	<u>(5,317)</u>	<u>(7,935)</u>	<u>(7,987)</u>
	<u>1,662</u>	<u>350</u>	<u>5,907</u>	<u>368</u>

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Notes to the financial statements

(In thousands of Reais)

6 Inventories

	<u>Parent company</u>		<u>Consolidated</u>	
	2005	2004	2005	2004
Finished goods	128,997	109,212	227,674	198,778
Raw material	21,402	43,840	34,483	53,299
Auxiliary materials	9,235	5,659	38,107	34,465
Maintenance materials and others	68,473	55,036	178,287	140,815
Imports in transit	<u>30,471</u>	<u>2,852</u>	<u>45,442</u>	<u>3,716</u>
	<u>258,578</u>	<u>216,599</u>	<u>523,993</u>	<u>431,073</u>

7 Recoverable taxes

	<u>Parent company</u>		<u>Consolidated</u>	
	2005	2004	2005	2004
Current:				
PIS and COFINS non-cumulative (i)	21,086	11,810	27,190	15,224
Advances of income and social contribution taxes	11,406	-	11,417	9
IRRF - Withholding tax on interest earning bank deposits	3,905	-	3,905	-
Withholding tax on interest on shareholders' equity	7,200	-	7,200	-
ICMS (ii)	-	-	1,813	1,453
Others	<u>796</u>	<u>-</u>	<u>1,127</u>	<u>399</u>
	<u>44,393</u>	<u>11,810</u>	<u>52,652</u>	<u>17,085</u>
Noncurrent:				
PIS and COFINS non-cumulative (i)	9,389	1,762	11,685	2,910
ICMS (ii)	46,884	27,602	87,707	75,731
Tax credits - PIS (iii)	<u>14,647</u>	<u>14,647</u>	<u>14,647</u>	<u>14,647</u>
	<u>70,920</u>	<u>44,011</u>	<u>114,039</u>	<u>93,288</u>

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Notes to the financial statements

(In thousands of Reais)

- (i) PIS and COFINS credits non-cumulative for compensation purposes.
- (ii) Amount of ICMS credits originated from acquisition of materials that were incorporated into permanent assets.
- (iii) PIS credits related to over payment of PIS with lawsuit for unconstitutionality of Laws 2445/88 and 2449/88 declared by Federal Supreme Court (STF), which effects were discontinued by Federal Senate Resolution 49/95.

8 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>	
	2005	2004	2005	2004
Labor and civil	11,620	10,463	17,741	17,094
Tax claims:				
IR and CSLL	-	-	3,127	3,127
PIS and COFINS	12,261	12,261	25,406	12,274
SAT	2,011	1,874	14,111	8,796
Other taxes	4,205	4,558	10,634	10,513
State	<u>3,834</u>	<u>3,401</u>	<u>5,394</u>	<u>3,401</u>
	<u>33,931</u>	<u>32,557</u>	<u>76,413</u>	<u>55,205</u>

Fertilizantes Fosfatados S.A. Fosfertil

(Public-held company)

Notes to the financial statements

(In thousands of Reais)

10 Investment in wholly-owned subsidiary

	<u>Parent company</u>	
	2005	2004
Information of wholly-owned subsidiary – Ultrafertil S.A.		
Percentage holding	100%	100%
Paid-in capital	397,137	397,137
Shareholders' equity	469,691	562,836
Net income for the year	231,273	258,611
Unearned income on intercompany transactions	3,833	5,987
Movement of the investment account		
At the beginning of the year	556,849	501,113
Equity in earnings	233,427	255,464
Other investments - gain of capital adjustment	-	272
Dividends	<u>(324,418)</u>	<u>(200,000)</u>
At the end of the year	465,858	556,849
Negative goodwill to be amortized	<u>(37,792)</u>	<u>(37,792)</u>
	<u>428,066</u>	<u>519,057</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	
	2005		2004		2005	2004
	Wholly-owned Subsidiary	Indirect shareholders	Wholly-owned Subsidiary	Indirect shareholders	Indirect shareholders	Indirect shareholders
Current assets:						
Trade receivables	14	953	3	551	4,236	3,941
Inventories - loan of products	170	3,300	1,739	397	4,764	404
Other credits	<u>9</u>	<u>-</u>	<u>98</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>193</u>	<u>4,253</u>	<u>1,840</u>	<u>948</u>	<u>9,000</u>	<u>4,345</u>
Current Liabilities:						
Domestic suppliers	3,201	215	1,485	755	312	763
Other liabilities	<u>-</u>	<u>9,198</u>	<u>35</u>	<u>20,479</u>	<u>16,837</u>	<u>39,164</u>
	<u>3,201</u>	<u>9,413</u>	<u>1,520</u>	<u>21,234</u>	<u>17,149</u>	<u>39,927</u>
Purchases	1,176	-	36,214	-	-	-
Sales	50,145	460,146	40,377	591,515	1,108,031	1,286,430
Interest income	249	-	386	-	-	-
Interest expenses	(4,216)	-	(766)	-	-	-
Financial expenses	-	(632)	-	(620)	(1,084)	(1,411)

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 equivalent amount of US\$ 58 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 is classified as financial expenses.

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.) %
	2005		2004		
	Cost	Depreciation and depletion	Net	Net	
Buildings and improvements	358,081	(219,922)	138,159	132,855	4
Equipments and facilities	488,417	(361,313)	127,104	73,214	4 to 25 (i)
Mineral rights	10,656	(1,913)	8,743	8,802	(ii)
Vehicles	45,976	(31,176)	14,800	11,828	20 and 25
Computer equipment	3,517	(1,365)	2,152	848	20
Other	5,326	(3,863)	1,463	675	10
	911,973	(619,552)	292,421	228,222	
Cost of non-depreciated items					
Land			53,804	53,804	
Rights and concessions			504	504	
Work in progress			200,411	51,704	
Advances to suppliers			11,563	165,541	
			558,703	499,775	
	Consolidated				Depreciation and depletion annual rate (p.a.) %
	2005		2004		
	Cost	Depreciation and depletion	Net	Net	
Buildings and improvements	623,157	(348,580)	274,577	270,900	4
Equipments and facilities	1,354,552	(994,849)	359,703	290,675	4 to 25 (i)
Mineral rights	16,501	(3,409)	13,092	13,229	(ii)
Vehicles	53,741	(37,617)	16,124	12,876	20 and 25
Computer equipment	19,288	(10,279)	9,009	6,987	20
Other	11,617	(8,583)	3,034	1,609	10
	2,078,856	(1,403,317)	675,539	596,276	
Cost of non-depreciated items					
Land			64,498	64,498	
Rights and concessions			522	522	
Spare parts			33,646	33,170	
Work in progress			239,542	104,066	
Advances to suppliers			27,860	172,638	
			1,041,607	971,170	

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(Public-held company)

Notes to the financial statements

(In thousands of Reais)

- (i) Average rate of 9.57% (consolidated - 8.90%)
- (ii) Depletion is calculated based on production compared to the mineral rights balance.

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, Tapira - MG, and to the wholly-owned subsidiary - Ultrafertil plant in Catalão - GO.

13 Deferred charges

	<u>Parent company</u>		<u>Consolidated</u>	
	2005	2004	2005	2004
Information technology implementation	1,849	8,057	12,125	21,435
Pre-operating costs	329	329	1,934	1,934
Other deferred expenses	<u>1,094</u>	<u>1,546</u>	<u>5,669</u>	<u>3,764</u>
	3,272	9,932	19,728	27,133
Accumulated amortization	<u>(1,887)</u>	<u>(8,601)</u>	<u>(11,699)</u>	<u>(21,745)</u>
	<u>1,385</u>	<u>1,331</u>	<u>8,029</u>	<u>5,388</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	
		2005	2004	2005	2004	2005	2004	2005	2004
Working capital:									
Banco Itaú S.A. "Pre-Export Finance"	4.20% + LIBOR + exchange rate variation	-	-	-	-	19,380	22,180	9,363	31,853
Banco Santander "Pre-Export Finance"	5.65% + exchange rate variation	700	762	35,110	39,816	700	762	35,110	39,816
Banco Boston "Pre-Export Finance"	5.65% + exchange rate variation	21,771	1,925	50,158	79,632	21,771	1,925	50,158	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	94,223	95,930	83,910	168,966	94,223	95,930	83,910	168,967
International Finance Corporation (IFC)	3.75% to 3.87% + LIBOR + exchange rate variation	26,220	29,990	11,704	42,028	26,220	29,990	11,704	42,028
BNDES	9.50% to 10.00% + URTJLP 314	-	-	-	-	2,921	6,780	-	2,808
BNDES	3.50% + UMBND 590	-	-	-	-	827	1,668	-	966
Banco do Brasil S.A.	14.00%	-	-	-	-	2,922	2,948	8,455	11,269
BBA	9.00% + URTJLP	-	-	-	-	1,477	1,431	978	2,359
		<u>142,914</u>	<u>128,607</u>	<u>180,882</u>	<u>330,442</u>	<u>170,441</u>	<u>163,614</u>	<u>199,678</u>	<u>379,698</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
2007	121,528	134,688
2008	37,619	40,437
2009	<u>21,735</u>	<u>24,553</u>
	<u>180,882</u>	<u>199,678</u>

Loans are guaranteed by liens on Ultrafertil shares, bank securities, promissory notes and mortgage on own acquired assets.

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

15 Suppliers

	Parent company		Consolidated	
	2005	2004	2005	2004
Suppliers:				
Domestic Suppliers:				
Wholly-owned subsidiary	3,201	1,485	-	-
Third parties	<u>44,296</u>	<u>33,063</u>	<u>91,083</u>	<u>75,345</u>
	<u>47,497</u>	<u>34,548</u>	<u>91,083</u>	<u>75,345</u>
Foreign suppliers:				
Subject to import drafts				
Third parties	<u>71,329</u>	<u>32,149</u>	<u>154,823</u>	<u>70,646</u>
	<u>118,826</u>	<u>66,697</u>	<u>245,906</u>	<u>145,991</u>

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(In thousands of Reais)

The company and its wholly-owned subsidiary import raw materials and other inputs from determined suppliers, which perform “import draft” transactions. In these transactions the suppliers negotiate their receivables with financial institutions, in order to collect in advance their sales to the company and its wholly-owned subsidiary, who ultimately turn out to be debtors to the financial institution. The average terms for these operations are 180 days.

16 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. Management established provisions in amounts considered sufficient to cover probable losses arising from these claims for the lawsuits with a low probability of a favorable outcome based on the legal advisors’ opinion.

	<u>Parent company</u>		<u>Consolidated</u>	
	2005	2004	2005	2004
Labor and civil	24,430	19,032	47,127	42,090
Tax claims:				
Federal:				
IR and CSLL (i)	20,623	18,054	79,383	70,429
PIS and COFINS (ii)	12,261	12,261	25,406	24,794
SAT (iii)	2,643	1,750	13,617	6,800
Others	3,665	4,270	4,487	12,942
State (iv)	<u>334</u>	<u>282</u>	<u>706</u>	<u>591</u>
	<u>63,956</u>	<u>55,649</u>	<u>170,726</u>	<u>157,646</u>

- (i) Ordinary lawsuit with preliminary injunction related to the deductibility of social contribution in income tax calculation basis and at its own calculation basis (Law 9316/96) and declaratory action related to the extinguishment of balance sheet monetary correction.
- (ii) Injunction in opposition to introduced method by Law 9718/98, which enlarged the tax calculation basis.

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Notes to the financial statements

(In thousands of Reais)

- (iii) Injunction in opposition to the defined criteria of risk degree of labor accident insurance - SAT.
- (iv) In the State level, these claims are related to the incidence of valued-added tax - ICMS.

17 Pension plans and post-retirement benefits

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 1,733 members from the subsidiary, where 1,389 of them are currently receiving retirement or pension supplements. During the year, Ultrafertil contributed to PETROS in the amount of R\$ 2,754 (2004 - R\$ 2,584).

Since October 2001, the company and its wholly-owned subsidiary Ultrafertil implemented a supplemental defined contribution plan for the benefits provided by the official social security. This plan is managed by Bradesco Previdência e Seguros S.A. In 2005, the contributions to the Bradesco Previdência e Seguros S.A. amounted to R\$ 1,881, where R\$ 501 refers to the Parent company and R\$ 1,380 to the wholly-owned subsidiary. In the 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 the 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, where 344 are active members of PETROS.

For part of the retired employees, who are eligible, the company and its wholly-owned subsidiary offer benefits related to medical assistance.

During the year, the company and its wholly-owned subsidiary recorded R\$ 5,296 in the statements of income, related to the projected actuarial obligation, prepared by its independent actuary, up to the date of the financial statements.

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The net book value of the uncovered actuarial obligation, presented in the balance sheet as of December 31, 2005, is summarized below:

	<u>Parent company</u>	<u>Consolidated</u>
Actuarial obligation net present value	14,279	566,462
Plan assets fair value	<u>(442)</u>	<u>(498,342)</u>
Uncovered actuarial obligation net present value	13,837	68,120
Unrecognized actuarial losses	(2,584)	(11,522)
Unrecognized past service cost	<u>(7,364)</u>	<u>(21,523)</u>
Net liability in the balance sheet	<u>3,889</u>	<u>35,075</u>

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	15.59% p.a.
Future projected inflation rate	5.00% 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.
Projected increase of medical costs	8.15% p.a.
Mortality ratio	AT-2000

The PETROS plan's assets are basically made of fixed rate investments (35.2%), variable rate investments (47.6%), real estate (7.4%), loans to participant (7.9%) and other (1.9%).

The amounts recorded by the company and its wholly-owned subsidiary were calculated by independent actuary, and its actuarial report is dated on January 17, 2006.

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18 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.

On April 4th, 2005, the 82nd Ordinary and Extraordinary Shareholders General Meeting approved the capital increase in amount of R\$ 263,878, from R\$ 276,122 to R\$ 540,000, without new shares issued through the transfer of profit retention reserves.

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 is to be liquidated.

b. Revaluation reserve

During the year, through reversal of retained earnings, the balance of this reserve was realized in the proportion to the depreciation of the revalued assets. Out of the balance of this reserve, R\$ 24,913 correspond to revaluation of land, which can only be reversed to retained earnings upon the 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.

c. Dividends

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

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Minimum dividend calculation

Net income for the year	261,529
Legal reserve constitution	(13,076)
Realization of revaluation reserve	<u>3,317</u>
Calculation basis	<u>251,770</u>
Minimum obligatory dividend - 25%	<u>62,943</u>

Dividends paid and proposed in 2005

	Per thousand shares		Total
	Common shares	Preferred shares	
Interest on shareholders' equity as part of the minimum obligatory dividend for 2005 (See Note 19)	0.767	0.8437	87,176
Proposed dividends:			
Distribution through profit retention reserve	0.55	0.605	<u>62,512</u>
			<u>149,688</u>

d. Profit retention reserves

Management will be proposing, to the Ordinary General Meeting, the increase of company's capital from R\$ 540,000 to R\$ 720,000, without new shares issued through the transfer of part of profit retention reserves, in the amount of R\$ 180,000. In observance to article 196 of the Brazilian Corporation Law, it will also be proposing the withholding of the remaining net income for the year, in the amount of R\$ 221,656, to attend the capital budget for 2006, as well as the company's working capital, considering the seasonableness of the fertilizer market.

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19 Interest on shareholders' equity - Law 9249/95

In accordance with the option provided in Law 9249/95, the company and its wholly-owned subsidiary computed interest on shareholders' equity of R\$ 87,176 (2004 - R\$ 65,922) and R\$ 48,000, respectively, 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\$ 13,320 in the Parent company (2004 - R\$ 22,414) and R\$ 16,320 in the wholly-owned subsidiary Ultrafertil S.A., as a result of the deduction of these taxes by the interest on shareholders' equity credited to its shareholders.

20 Financial result, net

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Financial income				
Interest earning bank deposits	6,267	43,061	21,377	75,058
Exchange rate variation	64	1,645	160	2,563
Interest	480	756	1,900	2,520
Others	<u>3,326</u>	<u>2,624</u>	<u>4,520</u>	<u>3,045</u>
	<u>10,137</u>	<u>48,086</u>	<u>27,957</u>	<u>83,186</u>
Financial expenses				
Interest	(23,246)	(29,138)	(29,132)	(37,512)
Negative monetary variation	(4,352)	(32,908)	(4,377)	(33,360)
Exchange rate variation	3,180	(10,658)	11,171	(22,984)
Others	<u>(17,524)</u>	<u>(6,295)</u>	<u>(29,332)</u>	<u>(22,596)</u>
	<u>(41,942)</u>	<u>(78,999)</u>	<u>(51,670)</u>	<u>(116,452)</u>
Financial result, net	<u>(31,805)</u>	<u>(30,913)</u>	<u>(23,713)</u>	<u>(33,266)</u>

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21 Other operating expenses, net

	<u>Parent company</u>		<u>Consolidated</u>	
	2005	2004	2005	2004
Provision for contingencies	(7,927)	(10,589)	(6,824)	(32,349)
Anticipation of programmed maintenance prepaid costs amortization (i)	-	(3,222)	-	(3,222)
Provision for realization of credit balance of ICMS (ii)	(12,994)	(2,073)	(15,898)	(4,741)
Cost of unscheduled stoppage	(10,413)	(1,674)	(26,782)	(19,158)
Effect of change in the accounting policy of programmed maintenance costs (See Note 2 l)	-	(22,346)	-	(107,678)
Pension plans and postretirement benefits	(3,889)	-	(5,296)	(35)
Others	(3,175)	(261)	(5,284)	(322)
	<u>(38,398)</u>	<u>(40,165)</u>	<u>(60,084)</u>	<u>(167,505)</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>	
	2005	2004	2005	2004
Income before income and social contribution taxes	<u>257,092</u>	<u>521,894</u>	<u>359,577</u>	<u>631,818</u>
Income and social contribution taxes at the rate of 34%	(87,411)	(177,444)	(122,255)	(214,818)
Reconciliation:				
Equity in earnings	79,366	86,858	-	-
Exclusion of social contribution (difference in the calculation basis)	-	6,333	-	18,991
Effect of the exclusion of the interest on shareholders' equity	13,320	22,414	29,640	22,414
Permanent additions/exclusions	(883)	(3,941)	(2,367)	(7,264)
Benefits of income tax	<u>45</u>	<u>77</u>	<u>228</u>	<u>254</u>
Income and social contribution taxes	<u>4,437</u>	<u>(65,703)</u>	<u>(94,754)</u>	<u>(180,423)</u>
Income and social contribution taxes				
Current	(2,563)	(70,827)	(105,909)	(205,656)
Deferred	<u>7,000</u>	<u>5,124</u>	<u>11,155</u>	<u>25,233</u>
	<u>4,437</u>	<u>(65,703)</u>	<u>(94,754)</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 which were periodically revalued.

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 and its wholly-owned subsidiary'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 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, 2005, swap and forward contracts aimed at hedging obligations with suppliers and financing, adjusted at market values, amounted to R\$ 76,459 (2004 - R\$ 130,103) and consolidated R\$ 76,459 (2004 - R\$ 140,907), and have various maturities up till February 5th, 2009.

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The abovementioned operations, if settled at December 31, 2005, would present losses of R\$ 23,285 (consolidated - R\$ 23,285) and in 2004 losses of R\$ 2,281 (consolidated - R\$ 1,920), 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>	
	2005	2004	2005	2004
Assets:				
Interest earning bank deposits in US\$	-	2,781	18,593	24,247
Inventories, net of contracted sales	166,572	125,291	306,914	233,170
Liabilities:				
Loans and financing	145,663	194,153	175,233	250,820
Suppliers	<u>71,329</u>	<u>32,149</u>	<u>154,823</u>	<u>70,646</u>
Foreign exchange exposure	<u>(50,420)</u>	<u>(98,230)</u>	<u>(4,549)</u>	<u>64,049</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:

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	<u>Parent company</u>		<u>Consolidated</u>	
	2005	2004	2005	2004
CDB	98,227	141,005	209,071	419,739
NTN-C	10,009	81,323	10,009	129,162
NTN-D	-	-	18,593	21,466
CPR	<u>-</u>	<u>2,781</u>	<u>-</u>	<u>2,781</u>
	<u>108,236</u>	<u>225,109</u>	<u>237,673</u>	<u>573,148</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.

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, 2005, insurance coverage amounts are as follows:

Modality	Parent company	Consolidated
Civil responsibilities (i)	23,407	23,407
Operating risks/ material damages	1,205	3,123
Break in future profits	<u>460</u>	<u>1,162</u>
	<u>25,072</u>	<u>27,692</u>

(i) The insurance covers the Parent company as well as its wholly-owned subsidiary Ultrafertil S.A.

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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.

	<u>Parent company</u>		<u>Consolidated</u>	
	2005	2004	2005	2004
Net sales and services rendered	720,683	904,730	2,025,222	2,245,775
Operating profit	257,567	522,599	361,312	632,796
(+) Depreciation, amortization and depletion	34,602	34,244	85,997	85,822
(+) Financial expenses	41,942	78,999	51,670	116,452
(-) Financial income	10,137	48,086	27,957	83,186
(-) Equity in earnings	<u>233,428</u>	<u>255,464</u>	-	-
EBITDA amount	<u>90,546</u>	<u>332,292</u>	<u>471,022</u>	<u>751,884</u>
% EBITDA over net sales	12.56%	36.73%	23.26%	33.48%

Fertilizantes Fosfatados S.A. Fosfertil

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Statements of cash flows - Indirect method

	Parent Company		Consolidated	
	2005	2004	2005	2004
Cash flows from operating activities				
Net income for the year	261,529	456,191	264,823	451,395
Adjustments to reconcile net income to net cash from operating activities:				
Depreciation and amortization	34,602	34,244	85,997	85,822
Result on sale of fixed assets	132	(965)	87	(1,754)
Equity in earnings of wholly-owned subsidiary	(233,428)	(255,464)	-	-
Monetary and exchange rate variation and interest	1,673	44,452	1,703	47,921
Dividends received from subsidiary	371,590	240,000	-	-
Changes in assets and liabilities				
Increase in trade accounts receivable	(31,637)	(13,748)	(11,139)	(32,166)
Increase in inventories	(41,979)	(87,252)	(92,920)	(151,705)
Increase in other accounts receivable	(43,653)	(13,651)	(67,129)	(13,430)
Increase (decrease) in suppliers	52,129	(15,309)	99,915	(86,164)
Increase (decrease) in other accounts payable and provisions	(10,854)	27,144	(10,994)	90,586
Increase (decrease) in income and social contribution taxes	(26,577)	20,163	(71,729)	61,020
Increase in other liabilities	21,236	17,847	42,895	50,396
Net cash provided by operating activities	354,763	453,652	241,509	501,921
Cash flows from investment activities				
Purchase of permanent assets	(95,023)	(221,782)	(160,891)	(296,773)
Proceeds from sale of fixed assets	1,307	1,791	1,729	3,282
Net cash used in investment activities	(93,716)	(219,991)	(159,162)	(293,491)
Cash flows from financing activities				
Dividends and interest on shareholders' equity paid	(241,755)	(168,431)	(241,755)	(168,431)
Proceeds from loans	95,000	130,427	95,000	130,427
Principal payments on loans	(212,197)	(119,796)	(244,521)	(145,704)
Interest paid on loans	(19,716)	(27,714)	(25,362)	(35,422)
Net cash used in financing activities	(378,668)	(185,514)	(416,638)	(219,130)
Changes in cash and cash equivalents	(117,621)	48,147	(334,291)	(10,700)
(Decrease) increase in cash and cash equivalents				
At beginning of year	226,963	178,816	576,445	587,145
At end of year	109,342	226,963	242,154	576,445
Changes in cash and cash equivalents	(117,621)	48,147	(334,291)	(10,700)

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Statements of added value

	Parent Company		Consolidated	
	2005	2004	2005	2004
Revenues:				
Gross sales and services rendered	754,166	988,426	2,240,738	2,531,417
Provision for doubtful accounts	-	(20)	-	(131)
Non-operating result	(177)	(1,238)	(666)	(1,298)
	<u>753,989</u>	<u>987,168</u>	<u>2,240,072</u>	<u>2,529,988</u>
Inputs acquired from third parties				
Raw materials consumed	256,294	269,962	555,789	511,167
Cost of sales and services rendered	191,911	146,148	556,333	507,705
Material, power, third party services and others	135,043	155,657	383,860	467,568
Loss/recovery on asset values	298	216	1,069	602
	<u>583,546</u>	<u>571,983</u>	<u>1,497,051</u>	<u>1,487,042</u>
Gross added value	170,443	415,185	743,021	1,042,946
Retentions				
Depreciation, amortization and depletion	34,602	34,244	85,997	85,822
Added value produced by the Company	135,841	380,941	657,024	957,124
Transferred added value				
Equity in earnings	233,428	255,464	-	-
Financial income	10,137	48,086	27,957	83,186
	<u>243,565</u>	<u>303,550</u>	<u>27,957</u>	<u>83,186</u>
Added value to be distributed	379,406	684,491	684,981	1,040,310
Distribution of added value				
Payroll and related charges	51,839	48,235	187,926	163,328
Taxes and contributions	20,174	98,077	163,041	295,326
Interest and rents	45,864	81,988	69,191	130,261
Interest on equity and dividends	149,688	65,922	149,688	65,922
Retained earnings	111,841	390,269	115,135	385,473
	<u>379,406</u>	<u>684,491</u>	<u>684,981</u>	<u>1,040,310</u>