

***Fertilizantes Fosfatados S.A.  
Fosfertil and Subsidiaries***

*Consolidated Financial Statements  
for the Years Ended  
December 31, 2007 and 2006 and  
Independent Auditors' Report*

Deloitte Touche Tohmatsu Auditores Independentes

## INDEPENDENT AUDITORS' REPORT

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

1. We have audited the accompanying consolidated balance sheets of Fertilizantes Fosfatados S.A. Fosfertil and subsidiaries ("Fosfertil" or the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, all expressed in United States dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.
2. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
3. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Fertilizantes Fosfatados S.A. Fosfertil and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.
4. As discussed in Note 2 to the consolidated financial statements, in December 2006, the Company announced a proposed corporate reorganization that contemplates the merger of Bunge Fertilizantes S.A., an indirect shareholder of the Company, which is subject to shareholders approval. The proposed reorganization has been suspended, pending the outcome of legal proceedings brought by the Company's shareholders.

February 7, 2008

FERTILIZANTES FOSFATADOS S.A. FOSFERTIL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2007 AND 2006  
(Expressed in thousands of United States dollars)

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<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	448,235	48,810
Trade accounts receivable, net (including related parties, US\$1,030 in 2007 and US\$3,575 in 2006 - Note 3)	30,747	25,980
Inventories (Note 4)	148,871	99,953
Recoverable taxes (Note 5)	11,621	26,878
Deferred income taxes - current (Note 8)	134	669
Other current assets	<u>32,339</u>	<u>11,636</u>
Total current assets	<u>671,947</u>	<u>213,926</u>
PROPERTY, PLANT AND EQUIPMENT, NET (Note 7)	<u>515,543</u>	<u>437,153</u>
<b>OTHER ASSETS</b>		
Trade accounts receivable, net (Note 3)	2,326	4,956
Recoverable taxes, net (Note 5)	44,665	63,764
Prepaid pension asset (Note 13)	25,545	6,369
Deferred income taxes (Note 8)	70,941	37,588
Other noncurrent assets (Note 6)	<u>110,591</u>	<u>127,271</u>
Total other assets	254,068	239,948
TOTAL ASSETS	<u>1,441,558</u>	<u>891,027</u>

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

FERTILIZANTES FOSFATADOS S.A. FOSFERTIL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2007 AND 2006  
(Expressed in thousands of United States dollars)

<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>2007</u>	<u>2006</u>
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt (Note 9)	15,714	63,092
Trade accounts payable (including related parties, US\$70,823 in 2007 and US\$31,068 in 2006)	168,272	69,290
Accrued payroll and wages	33,249	20,061
Income taxes payable	65,983	10,519
Accrual for pension and postretirement benefit obligations (Note 13)	5,978	3,306
Dividends payable	17,937	-
Other current liabilities (including related parties, US\$42,229 in 2007 and US\$8,181 in 2006)	76,098	20,550
Total current liabilities	<u>383,231</u>	<u>186,818</u>
<b>LONG-TERM LIABILITIES</b>		
Long-term debt (Note 9)	10,876	25,493
Accrual for pension and postretirement benefit obligations (Note 13)	37,099	30,840
Accrual for claims and lawsuits (Note 15)	74,436	77,631
Income taxes - FIN 48 (Note 8)	41,029	-
Other long-term liabilities	23,175	14,261
Total long-term liabilities	<u>186,615</u>	<u>148,225</u>
<b>SHAREHOLDERS' EQUITY</b>		
Common shares, no par value; 36,080,022 authorized and outstanding shares and additional paid-in capital	176,375	176,375
Preferred shares, no par value; 70,526,345 authorized and 70,178,545 outstanding shares and additional paid-in capital	355,880	355,880
Legal reserve	64,786	52,063
Treasury stock (at cost)	(3,558)	(3,558)
Retained earnings	173,773	9,864
Accumulated other comprehensive income (loss)	104,456	(34,640)
Total shareholders' equity	<u>871,712</u>	<u>555,984</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u><u>1,441,558</u></u>	<u><u>891,027</u></u>

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

FERTILIZANTES FOSFATADOS S.A. FOSFERTIL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

(Expressed in thousands of United States dollars, except share and per share information)

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	<u>2007</u>	<u>2006</u>
NET SALES (including related parties, US\$740,691 in 2007 and US\$536,431 in 2006)	1,291,995	966,154
COST OF SALES	(909,205)	(766,923)
GROSS PROFIT	<u>382,790</u>	<u>199,231</u>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	(85,370)	(63,608)
OPERATING INCOME	<u>297,420</u>	<u>135,623</u>
NONOPERATING INCOME (EXPENSES)		
Interest income	29,270	12,029
Interest expense	(9,367)	(22,371)
Foreign exchange	17,824	1,853
Other, net	<u>779</u>	<u>(957)</u>
Nonoperating income (expenses), net	38,506	(9,446)
INCOME BEFORE INCOME TAX EXPENSE	<u>335,926</u>	<u>126,177</u>
Income tax expense (Note 7)	(101,093)	(30,900)
NET INCOME	<u>234,833</u>	<u>95,277</u>
NET INCOME PER SHARE - BASIC AND DILUTED (Note 11)		
Common - US\$	2.0731	0.8407
Preferred - US\$	2.2804	0.9233
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (Note 11)	36,080,022	36,080,022
WEIGHTED AVERAGE NUMBER OF PREFERRED SHARES OUTSTANDING (Note 11)	70,178,545	70,343,439

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

FERTILIZANTES FOSFATADOS S.A. FOSFERTIL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

(Expressed in thousands of United States dollars)

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	<u>2007</u>	<u>2006</u>
NET INCOME	234,833	95,277
OTHER COMPREHENSIVE INCOME		
Foreign currency translation adjustment	134,485	48,617
Impact of adoption and amortization of SFAS No. 158 (Note 12)	4,612	(16,376)
COMPREHENSIVE INCOME	<u>373,930</u>	<u>127,518</u>

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

FERTILIZANTES FOSFATADOS S.A. FOSFERTIL

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

(Expressed in thousands of United States dollars)

	Common shares and additional paid-in capital	Preferred shares and additional paid-in capital	Legal reserve	Treasury stock	Retained earnings	Accumulated other comprehensive (loss) income	Total
BALANCES DECEMBER 31, 2005	147,087	298,630	46,757	-	73,869	(66,881)	499,462
Net income	-	-	-	-	95,277	-	95,277
Transfer to capital	29,288	57,250	-	-	(86,538)	-	-
Transfer to legal reserve	-	-	5,306	-	(5,306)	-	-
Dividends	-	-	-	-	(67,438)	-	(67,438)
Repurchase of stock	-	-	-	(3,558)	-	-	(3,558)
Impact of adoption of SFAS No. 158 (Note 12)	-	-	-	-	-	(16,376)	(16,376)
Net foreign currency translation adjustment	-	-	-	-	-	48,617	48,617
BALANCES DECEMBER 31, 2006	176,375	355,880	52,063	(3,558)	9,864	(34,640)	555,984
Net income	-	-	-	-	234,833	-	234,833
Transfer to legal reserve	-	-	12,723	-	(12,723)	-	-
Dividends	-	-	-	-	(56,682)	-	(56,682)
Impact of adoption of FIN 48 (Note 8)	-	-	-	-	(1,520)	-	(1,520)
Amount amortized of SFAS No. 158 (Note 12)	-	-	-	-	-	4,612	4,612
Net foreign currency translation adjustment	-	-	-	-	-	134,485	134,485
BALANCES DECEMBER 31, 2007	176,375	355,880	64,786	(3,558)	173,772	104,457	871,712

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

FERTILIZANTES FOSFATADOS S.A. FOSFERTIL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006  
(Expressed in thousands of United States dollars)

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	234,833	95,277
<b>ADJUSTMENTS TO RECONCILE NET INCOME TO CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Unrealized foreign exchange/monetary variation on debt	(4,272)	(3,553)
Depreciation and amortization	67,559	55,729
Loss on disposal of property, plant and equipment	3,953	1,412
Deferred income taxes	(25,453)	(9,400)
<b>CHANGES IN OPERATING ASSETS AND LIABILITIES</b>		
Marketable securities	-	8,548
Trade accounts receivable	555	3,003
Inventories	(2,498)	64,085
Recoverable taxes	48,303	(12,460)
Other assets	(767)	(7,104)
Trade accounts payable	76,960	(45,793)
Income taxes payable	48,453	(2,766)
Accrued payroll and wages	8,216	(5,985)
Other liabilities	<u>60,864</u>	<u>(12,116)</u>
Net cash provided by operating activities	<u>516,706</u>	<u>128,877</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(59,992)	(28,709)
Net payments on derivatives contracts	-	(4,683)
Judicial deposits (restricted assets)	<u>3,414</u>	<u>(4,175)</u>
Net cash used in investing activities	<u>(56,578)</u>	<u>(37,567)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repurchase of preferred stocks	-	(3,558)
Repayments of short-term debt	(64,534)	(75,983)
Dividends paid to shareholders	<u>(38,745)</u>	<u>(67,438)</u>
Net cash used in financing activities	<u>(103,279)</u>	<u>(146,979)</u>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<u>42,576</u>	<u>8,969</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	399,425	(46,700)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	48,810	95,510
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>448,235</u></u>	<u><u>48,810</u></u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid for:		
Interest	4,527	9,286
Income taxes	39,763	28,986

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

## FERTILIZANTES FOSFATADOS S.A. FOSFERTIL AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

(Expressed in thousands of United States dollars, except share and per share information and unless otherwise stated)

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#### 1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

##### Description of business

Fertilizantes Fosfatados S.A. Fosfertil and subsidiaries (“Fosfertil” or the “Company”) are engaged principally in the production of mineral nutrients, including phosphate, which are used in the production of fertilizers. It also manufactures and sells fertilizer with nitrogen and chemical products and operates its own multiuse port terminal. Fosfertil’s operations are located in Brazil.

##### Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which differ in certain significant respects from Brazilian accounting practices (“Brazilian GAAP”) applied by the Company in the preparation of its statutory financial statements and for other legal and regulatory purposes.

The consolidated financial statements include the accounts of the Company’s majority-owned subsidiary, Ultrafertil S.A. (“Ultrafertil”). Intercompany transactions and balances have been eliminated in consolidation.

##### Use of estimates

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. In the preparation of these consolidated financial statements, estimates and assumptions have been made by management concerning, among others, the selection of useful lives of property, plant and equipment, provisions necessary for the allowance for doubtful accounts receivable, accruals for contingent liabilities, determination of asset retirement obligations, deferred income tax valuation allowances, and the Company’s pension plan obligations. Actual results may vary from those estimates.

##### Translation of foreign currency financial statements

The accompanying financial statements have been translated from Brazilian reais into United States dollars in accordance with the standards set forth in Statement of Financial Accounting Standards - SFAS No. 52, “Foreign Currency Translation”, for the purposes of consolidation and the application of equity method of accounting by the Company’s investors.

The functional currency of Fosfertil and its subsidiaries is the Brazilian real and, as such, amounts included in the statements of income are translated at rates which approximate actual exchange rates at the date of the related transaction. Assets and liabilities are translated at exchange rates in effect as of the date of the balance sheet. The resulting translation adjustments are recorded as a component of accumulated other comprehensive income, a separate component of shareholders' equity.

#### Foreign currency transactions

Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses that are reflected in the consolidated statement of income as foreign exchange.

#### Cash and cash equivalents

Cash and cash equivalents include time deposits and readily marketable securities with original maturity dates of three months or less.

#### Trade accounts receivable

Accounts receivable are stated net of an allowance for doubtful accounts, which is recorded in an amount considered by management to be sufficient to absorb probable future losses related to uncollectible accounts.

#### Derivative financial instruments

Fosfertil enters into various derivative financial instruments to limit exposure to changes in foreign currency fluctuations and interest rates. The Company does not enter into derivative financial instruments for speculative purposes. The Company accounts for derivative financial instruments in accordance with Financial Accounting Standards Board - FASB Statement of Financial Accounting Standard - SFAS No. 133 and 138, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133 and No. 138").

The Company's derivative instruments are recorded at fair value in the balance sheet based on quoted market prices or based on the present value of estimated future cash flows. The Company's derivative financial instruments have not been designated as accounting hedges under SFAS No. 133 and No. 138 and, as such, changes in fair value are recognized currently in income as a part of foreign exchange in the statements of income.

#### Inventories

Inventories are stated at the lower of weighted average cost or market.

#### Recoverable taxes

Recoverable taxes include prepaid and recoverable income and social contribution taxes, as well as value-added taxes paid on the acquisition of raw materials and other services which can be used to offset future similar tax liabilities. A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion of the recoverable taxes will not be realized.

Spare parts

The Company maintains spare parts for its machinery and equipment in quantities deemed sufficient to support operations and maintenance programs. Such quantities are generally in excess of quantities expected to be used or capitalized within one year, given the specialty nature of the parts and their availability. As spare parts are eventually used, they are either capitalized as part of property, plant and equipment and subsequently depreciated over their remaining useful lives, or expensed as part of operating expenses. Based on the nature of these spare parts and historical usage patterns, spare parts destined for eventual capitalization or held in quantities not expected to be utilized within the next year are classified as other noncurrent assets and are subject to impairment analysis along with the Company’s other long-lived assets. A provision for losses was recorded based on management’s analysis of identified obsolete items and excess of inventory.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and amortization. Major renewals and improvements that extend the useful lives of the assets are capitalized, while routine maintenance and repairs are expensed as incurred. Depreciation and amortization is computed using the straight-line method based on the estimated useful lives of assets. Useful lives for property, plant and equipment are as follows:

	<u>Estimated useful lives - years</u>
Buildings	25
Machinery and equipment	5 - 10
Furniture, fixtures and other	4 - 10

Fosfertil capitalizes interest on borrowings during the construction period of major capital projects. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset’s estimated useful life (see Note 7).

Impairment of long-lived assets

Long-lived assets held for use are subject to an impairment assessment if the carrying value is no longer deemed recoverable based upon an analysis of undiscounted expected future cash flows of the asset, or groups of assets for which the related identifiable cash flows are largely independent of other groups of assets. If the undiscounted cash flow is less than the carrying value, then an impairment loss shall be recognized. The amount of the impairment, if any, is the difference between the carrying amount and the fair value of the asset.

#### Environmental, site and restoration costs

Expenditures related to ongoing compliance with environmental regulations are charged to expense as incurred. These ongoing programs are designed to minimize the environmental impact of the Company's activities. Effective January 1, 2003, the Company adopted the provisions of SFAS No. 143, "Accounting for Asset Retirement Obligations", which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs, including those final site restoration and reclamation costs associated with the Company's mining rights and operating facilities. In accordance with SFAS No. 143, these asset retirement obligations are recorded at their present value when incurred, with a corresponding amount capitalized as part of property, plant and equipment. The related asset retirement obligations will be accreted to the estimated future values on the estimated date that such obligations will be paid, while the asset will subsequently be depreciated over the remaining estimated useful life.

#### Income taxes

The Company provides for income taxes using the liability method under which deferred income taxes are recognized for the estimated future tax effects attributable to temporary differences and carryforwards that result from events that have been recognized either in the financial statements or the income tax returns, but not both. The measurement of current and deferred income tax liabilities and assets is based on provisions of enacted tax laws. A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion of the deferred tax assets will not be realized.

#### Revenue recognition

Sales are recognized when revenue is realized or realizable and has been earned. Revenue is recognized when risk and title to the product transfer to the customer, which generally occurs at the time the shipment is made. Gross sales are reduced by discounts related to promotional programs and applicable sales and value-added taxes to arrive at net sales.

#### Comprehensive income

The components of comprehensive income include gains and losses on foreign currency translation adjustments as well as the amortization of gains and losses and prior service costs and credits associated with the Company's pension and postretirement obligations.

### Recent accounting developments

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements”, an amendment of ARB No. 51 (“SFAS No. 160”). SFAS No. 160 requires an entity to clearly identify and present ownership interests in subsidiaries held by parties other than the entity in the consolidated financial statements within the equity section but separate from the entity’s equity. It also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; changes in ownership interest be accounted for similarly, as equity transactions; and when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary and the gain or loss on the deconsolidation of the subsidiary be measured at fair value. This Statement is effective for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, the Company will adopt SFAS No. 160 in fiscal year 2010. The Company will assess the impact of SFAS No. 160 on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS No. 141R”). Under SFAS No. 141R, an entity is required to recognize the assets acquired, liabilities assumed, contractual contingencies and contingent consideration measured at their fair value at the acquisition date. It further requires that acquisition-related costs are to be recognized separately from the acquisition and expensed as incurred. In addition, acquired in-process research and development (“IPR&D”) is capitalized as an intangible asset and amortized over its estimated useful life. The IPR&D is evaluated for impairment and if no alternative future use exists, the asset is expensed. SFAS No. 141R is effective for business combinations for which the acquisition date is after the beginning of the first annual reporting period beginning after December 15, 2008. Company’s management does not expect any relevant impact as a result of this Statement; however, management will assess the impact of adopting SFAS No. 141R.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of SFAS No. 115” (“SFAS No. 159”). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, “Fair Value Measurements”. Company’s management does not expect this guidance to have a significant impact on the financial statements; however, management is currently assessing the impact of adopting SFAS No. 159.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (“SFAS No. 157”), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and requires additional disclosures about fair value measurements. SFAS No. 157 aims to improve the consistency and comparability of fair value measurements by creating a single definition of fair value. The Statement emphasizes that fair value is not entity-specific, but instead is a market-based measurement of an asset or liability. SFAS No. 157 upholds the requirements of previously issued pronouncements concerning fair value measurements and expands the required disclosures. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007; however, earlier application is permitted provided the reporting entity has not yet issued financial statements for that fiscal year. The FASB deferred the effective date of SFAS No. 157 for one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. Company’s management does not expect this guidance to have a significant impact on the financial statements; however, management is currently assessing the impact of adopting SFAS No. 157.

In September 2006, FASB issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans” - an amendment of FASB Statements No. 87, No. 88, No. 106 and No. 132(R) (“SFAS No. 158”). SFAS No. 158 requires a company with publicly-traded equity securities that sponsors postretirement benefit plans to recognize fully in its balance sheet the funded status of a defined benefit postretirement plan as an asset or liability, effective in 2006. It also requires that a company measure its plan assets and obligations as of the end of the company’s fiscal year, effective for years ending after December 15, 2008. Fosfertil adopted the provisions of SFAS No. 158 on December 31, 2006, recording an additional prepaid asset of US\$3,088 associated with its defined benefit pension plan and an additional liability of US\$27,899 associated with its other postretirement benefit plans. The effect of adopting the standard also resulted in an after-tax charge to other comprehensive income of US\$16,376 (see Note 13).

In June 2006, FASB issued Emerging Issues Task Force (“EITF”) 06-03, “How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)”. EITF 06-03 requires that any tax assessed by a governmental authority that is imposed concurrent with or subsequent to a revenue-producing transaction between a seller and a customer should be presented on a gross (included in revenues and costs) or a net (excluded from revenues) basis. In addition, for any such taxes that are reported on a gross basis, a company should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. EITF 06-03 was effective for interim and annual reporting periods beginning after December 15, 2006. The adoption of EITF 06-03 did not have a material effect on the consolidated financial statements.

In September 2006, FASB issued FSP No. AUG AIR-1, “Accounting for Planned Major Maintenance Activities,” which permits the application of three alternative methods of accounting for planned major maintenance activities: the direct expense, built-in-overhaul, and deferral methods. The FSP is effective for the first fiscal year beginning after December 15, 2006.

In July 2006, FASB issued FASB Interpretation (FIN) 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”), which, among other things, requires applying a “more likely than not” threshold to the recognition and derecognition of tax positions. The standard started to be effective for the Company on January 1, 2007. Prior periods will not be restated as a result of the adoption of FIN 48.

On January 1, 2007, the Company adopted the provisions of FIN 48. Among other tax guidances, FIN 48 requires applying a “more likely than not” threshold to the recognition and derecognition of tax positions (see Note 8).

In February 2006, FASB issued SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments” an amendment of FASB Statements No. 133 and No. 140 (“SFAS No. 155”), which is effective for fiscal years beginning after September 15, 2006. SFAS No. 155 was issued to clarify the application of SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“SFAS No. 133”) to beneficial interests in securitized financial assets and to improve the consistency of accounting for similar financial instruments, regardless of the form of the instruments. The adoption of the Statement did not have material impact on the consolidated financial statements.

## 2. PROPOSED CORPORATE REORGANIZATION

In December 2006, Fosfertil announced a proposed corporate reorganization intended to capture synergies and compete better in the domestic and international fertilizer markets. As part of the proposed reorganization, Bunge Fertilizantes S.A. (“Bunge”), a wholly-owned subsidiary of Bunge Ltd., a direct and indirect shareholder of Fosfertil, would become a subsidiary of Fosfertil, and Bunge’s combined direct and indirect ownership in Fosfertil would increase. The reorganization is subject to approval by Fosfertil’s shareholders and other approvals in Brazil. An indirect minority shareholder of Fosfertil filed suit in the Brazilian courts, challenging the proposed reorganization. This suit has subsequently been dismissed. However, the decision of the Justice Court of São Paulo State that suspended the reorganization is still valid.

Fosfertil’s management will seek for legal actions to implement the proposed reorganization and will keep its shareholders and the market informed. The effect of the reorganization will only be reflected in the financial statements after the conclusion of the pending litigation and issuance of required corporate acts.

3. TRADE ACCOUNTS RECEIVABLE

	<u>2007</u>	<u>2006</u>
Current:		
Trade accounts receivable	33,148	25,980
Allowance for doubtful accounts	<u>(2,401)</u>	<u>-</u>
Total	<u>30,747</u>	<u>25,980</u>
Noncurrent:		
Trade accounts receivable	8,813	8,718
Allowance for doubtful accounts	<u>(6,487)</u>	<u>(3,762)</u>
Total	<u>2,326</u>	<u>4,956</u>

4. INVENTORIES

	<u>2007</u>	<u>2006</u>
Raw materials and supplies	29,349	36,711
Imports in transit	15,085	12,854
Finished goods	<u>104,437</u>	<u>50,388</u>
Total	<u>148,871</u>	<u>99,953</u>

5. RECOVERABLE TAXES

	<u>2007</u>	<u>2006</u>
Recoverable taxes (ICMS)	91,625	75,712
Recoverable taxes (PIS and COFINS)	14,284	12,052
Income and social contribution taxes	<u>-</u>	<u>16,252</u>
	105,909	104,016
Less valuation allowance	<u>(49,623)</u>	<u>(13,374)</u>
Total	<u>56,286</u>	<u>90,642</u>
Current	11,621	26,878
Noncurrent	44,665	63,764

At December 31, 2007 and 2006, Fosfertil had recorded a valuation allowance in the amounts of US\$49,623 and US\$13,374, respectively, to reduce the balance of recoverable taxes related to ICMS to an amount that management believes is more likely than not to be realized.

## 6. OTHER NONCURRENT ASSETS

	<u>2007</u>	<u>2006</u>
Spare parts	55,222	79,935
Judicial deposits	44,511	39,988
Other	<u>10,858</u>	<u>7,348</u>
Total	<u>110,591</u>	<u>127,271</u>

## 7. PROPERTY, PLANT AND EQUIPMENT, NET

	<u>2007</u>	<u>2006</u>
Buildings	313,408	256,528
Machinery and equipment	852,376	683,965
Furniture, fixtures and other	<u>62,355</u>	<u>54,881</u>
	1,228,139	995,374
Less accumulated depreciation	<u>(805,881)</u>	<u>(612,871)</u>
Subtotal	422,258	382,503
Land	44,572	22,724
Construction in progress	<u>48,713</u>	<u>31,926</u>
Total	<u>515,543</u>	<u>437,153</u>

The Company capitalized interest on construction in progress in the amounts of US\$1,365 and US\$1,641 for the years ended December 31, 2007 and 2006, respectively. Depreciation expense was US\$67,559 and US\$55,729 for the years ended December 31, 2007 and 2006, respectively.

## 8. INCOME TAXES

On January 1, 2007, Fosfertil adopted the provisions of FIN 48. Among other tax guidances, FIN 48 requires applying a “more likely than not” threshold to the recognition and derecognition of tax positions. As a result of the adoption of FIN 48, the Company reclassified from contingencies the amount of US\$30,105 related to liabilities for unrecognized tax benefits and recorded US\$1,520 of interest over the principal amount in retained earnings. The balance related to FIN 48 as of December 31, 2007 amounts to US\$41,029, which includes the accrued interest and penalties of US\$2,311 recorded during 2007 in the statement of income as income tax expenses.

The activity for the period is as follows:

	<u>Balance as of January 1, 2007</u>	<u>Interest</u>	<u>Loss on translation</u>	<u>Balance as of December 31, 2007</u>
Principal	30,105	-	6,234	36,339
Interest	<u>1,520</u>	<u>2,311</u>	<u>859</u>	<u>4,690</u>
Total	<u>31,625</u>	<u>2,311</u>	<u>7,093</u>	<u>41,029</u>

The components of income tax expense are as follows:

	<u>2007</u>	<u>2006</u>
Current	126,546	40,300
Deferred	<u>(25,453)</u>	<u>(9,400)</u>
Income tax expense	<u>101,093</u>	<u>30,900</u>

The reconciliation of the income tax expense at the composite Brazilian statutory rate to the effective rate is as follows:

	<u>2007</u>	<u>2006</u>
Income before income tax expense	335,926	126,177
Composite statutory income tax rate	<u>34%</u>	<u>34%</u>
Income tax expense at statutory rate	114,215	42,900
Adjustments to derive effective rate:		
Income tax effect of interest on shareholders' equity	(13,608)	(13,052)
Other permanent differences	<u>486</u>	<u>1,052</u>
Income tax expense	<u>101,093</u>	<u>30,900</u>

Brazilian corporations are permitted to determine a tax-deductible notional interest expense associated with shareholders' equity, which can either be paid in cash, in the form of a dividend, or used to increase capital in the statutory records. The amount of any such notional interest expense is generally determined by the product of the Brazilian corporate law shareholders' equity at the beginning of the year, less revaluation reserves, multiplied by the Brazilian long-term interest rate (TJLP), which is the official rate for government long-term loans, limited to the higher of 50% of net income or 50% of retained earnings at the beginning of the year. For financial reporting purposes, interest attributed to shareholders' equity is reflected as a dividend and charged to retained earnings.

The components of deferred income taxes are as follows:

	<u>2007</u>	<u>2006</u>
Deferred income tax assets:		
Accruals and reserves not currently deductible for tax purposes	66,430	27,983
Excess of tax basis over financial statement basis of property, plant and equipment and other	<u>9,544</u>	<u>10,274</u>
Total	<u>75,974</u>	<u>38,257</u>
Deferred income tax liabilities-		
Foreign exchange gains	<u>4,899</u>	<u>1,473</u>

## 9. LONG-TERM DEBT

Long-term debt obligations are summarized below:

	<u>2007</u>	<u>2006</u>
Due in Brazilian currency (real):		
Long-term debt, collateralized by land, property, plant and equipment, interest indexed to IGP-M (a) plus 6.5%, payable through 2007	-	42,753
Long-term debt, interest indexed to TJLP (b) plus 9.0% to 10.0%, payable through 2007	-	466
Long-term debt, interest plus 14.0%, payable through 2009	3,206	3,992
Due in foreign currency (U.S. dollar):		
Long-term debt, interest rates indexed to LIBOR (c) plus 4.2%, payable through 2007	-	4,110
Long-term debt, interest rate of 5.7%, payable through 2009	<u>23,384</u>	<u>37,264</u>
	26,590	88,585
Less current portion	<u>(15,714)</u>	<u>(63,092)</u>
Total	<u>10,876</u>	<u>25,493</u>

(a) IGP-M is a Brazilian inflation index published by Fundação Getúlio Vargas. The annualized rates for the years ended December 31, 2007 and 2006 were 7.8% and 3.8%, respectively.

(b) TJLP is a long-term interest rate reset by the Brazilian government on a quarterly basis. The annualized rates for the years ended December 31, 2007 and 2006 were 6.4% and 6.8%, respectively.

(c) The annualized LIBOR interest rates paid by the Company for the years ended December 31, 2007 and 2006 were 5.1% and 5.4%, respectively.

As of December 31, 2007, certain land, property, plant and equipment having a net carrying value of approximately US\$52,000 have been mortgaged or otherwise encumbered against long-term debt.

A portion of the Company's long-term debt is subject to certain restrictive covenants, which include restrictions as to the payments of dividends, as well as limits on capital expenditures and maintenance of certain debt levels, among others. The Company was in compliance with all such covenants as of December 31, 2007. Furthermore, these covenants have not restricted the Company's ability to conduct its normal business or incur additional debt to fund its working capital or capital expenditure needs.

Principal maturities of long-term debt as of December 31, 2007 are as follows:

2008	15,714
2009	<u>10,876</u>
Total	<u>26,590</u>

## 10. FINANCIAL INSTRUMENTS

### Risk management

Fosfertil, as a result of its operating and financing activities, is exposed to changes in Brazilian interest rates and foreign currency exchange rates, which may affect its results of operations, cash flows and financial position. Fosfertil uses derivative financial instruments for the purpose of minimizing the risks and/or costs associated with fluctuations in foreign exchange rates. While these hedging instruments are subject to fluctuations in value, such fluctuations are generally offset by the value of the underlying exposures being hedged. The counterparties to these contractual arrangements are a small group of major financial institutions with which Fosfertil also has other financial relationships. As such, management does not believe that the credit risk arising from these contracts is significant and Fosfertil does not anticipate any significant losses. The net cash requirements arising from risk management activities are not expected to be material. Fosfertil is not a party to leveraged derivatives.

### Foreign currency risk management

Fosfertil enters into foreign currency exchange swap and forward contracts to hedge foreign currency exposures. Generally, the Company hedges only the net exposure of assets and liabilities denominated in the same currency. The related derivative contracts are not designated as accounting hedges under SFAS No. 133. The fair value gains or losses from these foreign currency derivatives are recognized directly in earnings, and generally offset foreign exchange gains or losses, which are recorded as other assets or liabilities according to the maturity dates.

As of December 31, 2007 and 2006, Fosfertil had cross-currency swaps outstanding with notional principal amounts of US\$15,209 and US\$19,424 and unrealized mark-to-market losses of US\$20,630 and US\$11,875, respectively, which were recognized as part of other liabilities in the consolidated balance sheets. Maturities of these instruments were between 8 and 14 months.

### Fair value of financial instruments

The carrying amount of cash and cash equivalents, trade accounts receivable and trade accounts payable approximates the fair value because of the short maturity of those instruments. The carrying value of debt approximates fair value and was calculated based on interest rates currently available to Fosfertil for similar borrowings.

## 11. SHAREHOLDERS' EQUITY

### Capital structure

The Company's capital structure is composed of common and preferred shares. No additional share of either class of security was authorized, issued or retired during the years ended December 31, 2007 and 2006. During 2006, shareholders approved increase to the Company's capital stock of US\$86,538 through the capitalization of a portion of unappropriated retained earnings. This is an act permitted by Brazilian corporate law.

### Security rights

The holders of the Company's common shares have the right to vote at shareholders meetings, while holders of the Company's preferred shares have no voting rights. Holders of the Company's preferred shares have priority in the return of their paid-in capital in the event of liquidation. Both common and preferred shares are entitled to a mandatory noncumulative dividend of 25% of consolidated net income, as determined in accordance with Brazilian corporate law. In the event that the mandatory dividend is not paid for three consecutive years, preferred shareholders acquire voting rights until payment of such dividends is made. The preferred shares are also entitled to a dividend per share which is 10% higher than the dividend per common stock.

### Legal reserve

As per Brazilian corporate law, 5% of statutory net income is allocated to a legal reserve of up to 20% of total statutory paid-in capital.

### Treasury stock

In May 2006, the Company's Board of Directors authorized the Preferred Stock Repurchase Plan, which provided for reacquisition of up to 2,300,000 of the Company's preferred stock. During 2006, 347,800 shares of preferred stock were repurchased at a total cost of US\$3,558. As of December 31, 2007, these shares remained in treasury.

In July 2007, the Company's Board of Directors authorized the Preferred Stock Repurchase Plan, which provided for reacquisition of up to 1,900,000 of the Company's preferred stock. This authorization will expire in July 2008.

### Dividends

Aggregate dividends declared by the Company were as follows:

	<u>2007</u>	<u>2006</u>
Dividends - common shares	18,054	21,479
Dividends - preferred shares	<u>38,628</u>	<u>45,959</u>
Total	<u>56,682</u>	<u>67,438</u>

### Earnings per share

In accordance with SFAS No. 128, "Earnings per Share", the following tables reconcile net income available to common and preferred shareholders and weighted average common and preferred shares outstanding to the amounts used to calculate basic and diluted income per share for each of the years ended December 31, 2007 and 2006.

	2007		
	<u>Common</u>	<u>Preferred</u>	<u>Total</u>
Basic and diluted numerator:			
Actual dividends declared	18,054	38,628	56,682
Basic allocated undistributed income	<u>56,743</u>	<u>121,408</u>	<u>178,151</u>
Allocated net income available to common and preferred shareholders	<u>74,797</u>	<u>160,036</u>	<u>234,833</u>
Basic and diluted denominator:			
Weighted average shares outstanding	<u>36,080,022</u>	<u>70,178,545</u>	
Earnings per share - basic and diluted	<u>2.0731</u>	<u>2.2804</u>	
	2006		
	<u>Common</u>	<u>Preferred</u>	<u>Total</u>
Basic and diluted numerator:			
Actual dividends declared	21,479	45,959	67,438
Basic allocated undistributed income	<u>8,852</u>	<u>18,987</u>	<u>27,839</u>
Allocated net income available to common and preferred shareholders	<u>30,331</u>	<u>64,946</u>	<u>95,277</u>
Basic and diluted denominator:			
Weighted average shares outstanding	<u>36,080,022</u>	<u>70,343,439</u>	
Earnings per share - basic and diluted	<u>0.8407</u>	<u>0.9233</u>	

The Company calculates earnings per share on common and preferred shares using the “two-class method”. Effective January 1, 1997, preferred shareholders are entitled to receive per share dividends at least 10% greater than the per share dividends paid to common shareholders. Undistributed earnings, therefore, have been allocated to common and preferred shareholders on a 100 to 110 basis, respectively, based upon the weighted average number of shares outstanding during the period.

## 12. EMPLOYEE BENEFIT PLANS

The Company provides certain defined pension and postretirement benefits to its employees through plans sponsored and maintained by its subsidiaries.

### Employee defined benefit pension plan

Ultrafertil sponsors a noncontributory defined benefit pension plan administered by the Fundação Petrobras de Seguridade Social (“Petros”) covering 1,720 active and 1,439 retired employees of Ultrafertil. Beginning January 1, 2002, the Company began accounting for the related pension benefits associated with this plan in accordance with SFAS No. 87, “Employers Accounting for Pensions”, as a result of its withdrawal from the previous Petros multiemployer plan. The plan provides benefits based primarily on participant’s salary and length of service. The funding policy for the plan is generally determined in accordance with statutory funding requirements.

## Postretirement healthcare and other benefits

The Company and its subsidiaries also have plans that provide certain postretirement healthcare benefits to eligible retirees. In general, such benefits require minimum retiree contributions.

The following table summarizes information related to the Company's defined benefit pension and postretirement benefit plans as of and for the years ended December 31:

	2007		2006	
	Pension benefits	Other postretirement benefits	Pension benefits	Other Postretirement benefits
Change in projected benefit obligation:				
Benefit obligation at beginning of year	243,025	33,927	222,827	19,364
Service cost	1,399	2,325	1,425	1,353
Interest cost	27,810	3,791	26,239	2,239
Actuarial (gain) loss	11,411	(2,854)	(13,570)	3,372
Benefits paid	(17,560)	(1,366)	(14,807)	(3,451)
Plan amendments	-	-	-	8,998
Foreign currency translation adjustment	<u>52,612</u>	<u>7,213</u>	<u>20,911</u>	<u>2,052</u>
Benefit obligation at end of year	<u>318,697</u>	<u>43,036</u>	<u>243,025</u>	<u>33,927</u>
Change in plan assets:				
Fair value of plans assets at beginning of year	249,175	-	212,903	-
Actual return on plan assets	54,812	-	28,492	-
Contributions received	2,249	-	2,128	-
Benefits paid	(17,560)	-	(14,807)	-
Foreign currency translation adjustment	<u>55,525</u>	<u>-</u>	<u>20,459</u>	<u>-</u>
Fair value of plans assets at end of year	<u>344,201</u>	<u>-</u>	<u>249,175</u>	<u>-</u>
Funded status	<u>(25,504)</u>	<u>43,036</u>	<u>(6,150)</u>	<u>33,927</u>
Amount recognized in consolidated balance sheet (asset) liability	<u>(25,504)</u>	<u>43,036</u>	<u>(6,150)</u>	<u>33,927</u>
Noncurrent assets	(25,545)	-	(6,369)	-
Current liabilities	29	5,949	-	3,306
Noncurrent liabilities	12	37,087	219	30,621

The measurement date for all plans is December 31 for all years presented.

The following table summarizes information relating to aggregated pension plans with an accumulated benefit obligation in excess of plan assets:

	<u>2007</u>	<u>2006</u>
Accumulated benefit obligation	328,962	235,912
Projected benefit obligation	318,697	243,025
Fair value of plan assets	344,201	249,175

The following table summarizes the components of net periodic benefit costs:

	<u>2007</u>		<u>2006</u>	
	<u>Pension benefits</u>	<u>Other postretirement benefits</u>	<u>Pension benefits</u>	<u>Other postretirement benefits</u>
Service cost, net of participant contributions	658	2,557	636	1,353
Interest cost	30,584	4,169	26,239	2,239
Expected return on plan assets	(40,694)	-	(34,736)	-
Amortization of prior service cost	-	1,525	-	667
Amortization of net (gain) loss	<u>(3)</u>	<u>384</u>	<u>-</u>	<u>99</u>
Total net periodic benefit expense (benefit)	<u>(9,455)</u>	<u>8,635</u>	<u>(7,861)</u>	<u>4,358</u>

The weighted average assumptions used in determining the actuarial present value of the projected benefit obligations under the defined benefit plans were as follows:

	<u>%</u>	
	<u>2007</u>	<u>2006</u>
Discount rate	10.2	10.8
Increase in future compensation levels	6.1	6.6
Inflation	4.0	4.5

The weighted average assumptions used in determining the net periodic benefit cost under the defined benefit plans were as follows:

	<u>%</u>	
	<u>2007</u>	<u>2006</u>
Discount rate	10.8	11.3
Expected long-term rate of return on plan assets	13.9	15.6
Increase in future compensation levels	6.6	7.1
Inflation	4.5	5.0

The expected long-term rate of return on assets is based in consultation with the plan's investment advisors and actuaries. These rates are intended to reflect the average rates of return expected to be earned on the funds invested or to be invested to provide required plan benefits. The plan is assumed to continue in effect as long as assets are expected to be invested. In estimating the expected long-term rate of return on assets, appropriate consideration is given to historical performance for the major asset classes held or anticipated to be held by the plan and to current forecasts of future rates of return for those asset classes, considering such factors as projected long-term inflation rates, future interest yield curves and other economic projection data available in the market. Cash flow and expenses are taken into consideration to the extent that the expected returns would be affected by them. The pension plan's weighted-average actual asset allocations at the end of the plan year for 2007 and 2006, by category, are as follows:

	%	
	<u>2007</u>	<u>2006</u>
Fixed income investments	58.2	45.0
Variable rate investments	28.7	40.8
Real estate	5.9	6.7
Loans and other	7.2	7.5

The plan's investment policies and strategies are aimed to reduce investment risk through diversification, considering such factors as the liquidity needs and funded status of plan liabilities, types and availability of financial instruments in the local market, general economic conditions and forecasts as well as the requirements under local pension plan law. Assets are sufficiently diversified to maintain a reasonable level of risk without imprudently sacrificing return. Specific investments within asset categories are based on analyses of risk and return of the portfolio as a whole.

At December 31, 2007 and 2006, for measurement purposes, an annual rate of increase of 7.12% and 7.64%, respectively, in the "per capita" costs of covered healthcare benefits was assumed. A one percentage point change in the assumed health care cost trend rates would have had the following effects at December 31, 2007:

	<u>One percentage point increase</u>	<u>One percentage point decrease</u>
Effect on total service and interest cost components	1,036	(765)
Effect on postretirement benefit obligation	5,716	(4,358)

Fosfertil expects to contribute approximately US\$1,287 to its defined benefit pension plan in 2008.

The following benefit payments, which reflect future service as appropriate, are expected to be made:

	Pension benefits	Other postretirement benefits
2008	22,078	5,749
2009	22,953	1,573
2010	23,985	2,328
2011	25,074	3,031
2012	26,295	4,021
2013-2017	152,687	22,766

The following table summarizes the amounts recorded in accumulated other comprehensive income at December 31, 2007:

	2007	
	Pension benefits	Other postretirement benefits
Net actuarial loss (gain)	(10,803)	5,124
Prior service cost	<u>-</u>	<u>23,503</u>
Total net periodic benefit cost	<u>(10,803)</u>	<u>28,627</u>
Income taxes effect	<u>3,673</u>	<u>(9,733)</u>
Total net periodic benefit cost, net of taxes	<u>(7,130)</u>	<u>18,894</u>

The Company estimates that approximately US\$1,599 of net gains and losses and prior service cost will be recognized as a component of net periodic benefit costs in 2008.

#### Employee defined contribution plan

In October 2001, Fosfertil and Ultrafertil implemented defined contribution plans that cover substantially all employees, except the ones already included in Petros. In 2007 and 2006, the Company made combined contributions to the plans of approximately US\$543 and US\$636, respectively.

### 13. RELATED-PARTY TRANSACTIONS AND BALANCES

The Company sells phosphate and nitrogenous materials principally to the fertilizer industry in Brazil. Many of the Company's shareholders are engaged in this industry and buy a majority of the Company's production. The Company recorded net sales of US\$740,891 and US\$536,431 for the years ended December 31, 2007 and 2006, respectively, to its shareholders.

Accounts payable with related parties refers to acquisition of raw material. Other current liabilities including amounts due to shareholders were US\$42,229 and US\$8,181 as of December 31, 2007 and 2006, respectively, related to advances for future purchases of the Company's products.

#### 14. COMMITMENTS AND CONTINGENCIES

Fosfertil is a party to a number of claims and lawsuits arising out of the normal course of business with respect to commercial matters, including various tax and labor claims. Accruals for claims and lawsuits of US\$74,436 and US\$77,631 as of December 31, 2007 and 2006, respectively, are summarized as follows:

	<u>2007</u>	<u>2006</u>
Labor matters	33,923	26,072
Disputed taxes	26,649	41,092
Civil	<u>13,864</u>	<u>10,467</u>
Total	<u>74,436</u>	<u>77,631</u>

##### Labor matters

The Company is a party to various labor claims made by its former employees, which are in various stages of litigation. Based on the advice of its legal counsel, the Company has accrued amounts representing management's estimate of probable losses related to these claims.

##### Disputed taxes

The Company has filed injunctions disputing certain aspects of the tax legislation related to income and social contribution taxes whose balance recorded as of December 31, 2006 was reclassified in January 2007 to "Income taxes - FIN 48".

In December 2007, the balance refers basically to filed injunctions disputing changes to the legislation and assessments. Such taxes have been accrued in accordance with applicable legislation and based on the advice of its legal counsel and tax advisors.

##### Civil

The Company is also party to a number of civil claims for which provisions have been recorded representing management's best estimate of probable losses, based on the advice of its legal counsel.

The Company recorded US\$26,149 and US\$11,596 of expense for contingencies during the years ended December 31, 2007 and 2006, respectively.

After taking into account liabilities recorded for all foregoing matters, management believes that the ultimate resolution of such matters will not have a material adverse effect on the financial condition, results of operations or liquidity of the Company.