

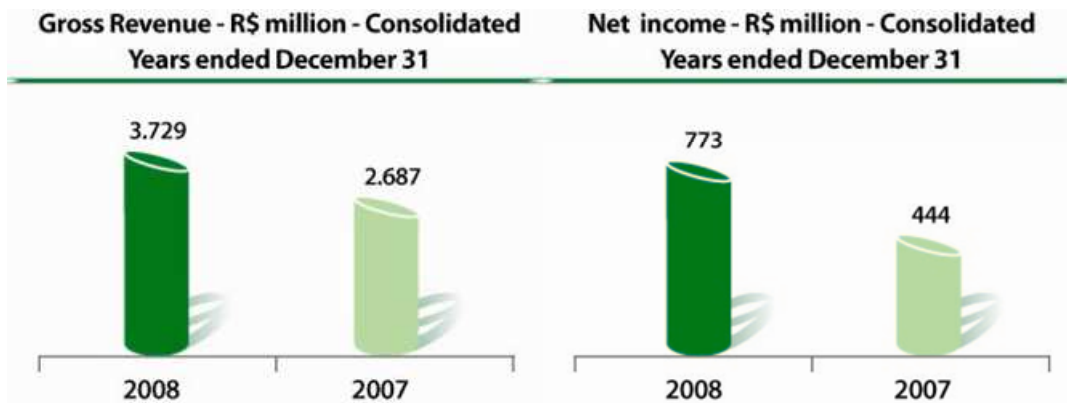
## Management Report - 2008

We submit to the appreciation of our shareholders, customers, suppliers and capital market the Management Report and Consolidated Financial Statements of **Fosfertil** ("Fertilizantes Fosfatados S.A. – Fosfertil" and subsidiaries) for the year ended December 31, 2008, accompanied by the Independent Auditors' Report and the Fiscal Council's Report.

In the year of its fiftieth anniversary, Fosfertil reported the highest net revenue in its history, R\$ 3.4 billion, growing 42 percent over the prior year. The company is the main Brazilian supplier of raw materials for fertilizers and has eight units – between industrial and mining complexes and one marine terminal located in the states of Minas Gerais, Goiás, Paraná, and São Paulo – and it continues to invest in excellence of its processes and increase in its production capacity.



Fosfertil works with a focus on reducing in an efficient manner the dependence of the fertilizer market on imports, accompanying the growing demand of Brazilian agriculture. As an integral part of its business model, the Company seeks sustainability with responsible social and environmental action, which is an essential factor to provide continuity for results and positive acceptance by society and the market.



Growth in Fosfertil's revenues in 2008 followed international prices for fertilizers, derived from the strong increases in oil and agricultural commodity prices. Since Brazil imports a significant portion of these inputs, price quotations are determined by the international market.

Net income reached R\$ 773 million, 74 percent above the amount for 2007 (R\$ 444 million). This occurred due to product price increases, aligned with cost reductions and improvements in processes and technologies achieved during the year.

Once the initial impact of the financial crisis that hit the market with the greatest intensity in September 2008 has passed, Fosfertil believes that Brazilian agribusiness will maintain its trajectory of growth and, therefore, continues to develop and execute its projects for industrial expansion and the opening of new mining areas. Investing in expansion is the way for Brazil to reduce dependence on supply from international sources of raw materials for fertilizers, since consumption of the primary nutrients (NPK – nitrogen, phosphorus, and potassium) is today supplied by imports of around 70 percent of this volume.

## OVERVIEW

### Agribusiness grows more than the economy

Brazil's GDP grew 5.1% in 2008, stimulated by the excellent performance of the first nine months of the year and with a significant contribution from the agriculture industry, the GDP of which expanded 6.3 percent. During the last quarter, however, the country began to feel the impacts of the economic crisis that began in the United States and which rapidly spread to the rest of the countries in the world and seriously affected the segments most dependent on credit.

The agricultural market remained strong until October when the reversal was initiated with a drop in prices and demand for commodities, associated with climatic problems and greater difficulties in relation to credit. Even so, records

were attained in production of grains - over 144 million tons, especially for wheat production, which grew by more than 40 percent- and sugarcane, with 570 million tons, in addition to the positive performance of products such as coffee, with 46 million sacks harvested. Approximately 90 percent of production was obtained from the Southern, Southeastern, and Central-Western regions of the country, areas where Fosfertil operates.

Farm income for 2008 was estimated by the Ministry of Agriculture, Cattle Raising and Supply to be R\$ 163.4 billion, 15.4% higher than in the prior year, due to higher production and better prices. Agribusiness exports reached US\$ 71.9 billion, the highest amount in the country's history, with growth of 23 percent over 2007. This resulted in a US\$ 60 billion trade surplus for the sector, which allowed offset of the US\$ 35.2 billion deficit from other products and guaranteed the final balance of US\$ 24.7 billion for the country.

### **Expansion in the fertilizer industry**

The world market for fertilizers operates like other commodity markets, fluctuating in accordance with supply and demand. In Brazil, approximately 70 percent of demand for fertilizers (NPK) was met by imported products in 2008, which clearly characterizes the Brazilian market as a price taker. As a result of this commercial profile and supply conditions, prices quoted in Brazil follow the world market.

The first nine months of 2008 were marked by increases in international prices for fertilizers. This shift occurred at a time when world demand for food grew considerably and there was also an increase in demand for grains to produce biofuels.

Other factors contributed to this situation: increases in export quotas in important fertilizer producing countries such as China and Russia; a reduction in supply from producing countries with operational and environmental problems; increases in subsidies for purchase of fertilizers (in India and China); and strong growth in demand for biofuels in the USA in the period.

Prices for fertilizers already pointed to reductions at the end of 2008 due to the world financial crisis and fears of an economic recession. With the worsening of the economic situation and deceleration in demand, these months have been marked by a decrease and settling down of prices.

Contradicting the trend of recent years, in 2008 there was no growth in the fertilizer consumption. According to data from the National Association for Promoting Fertilizers (Anda), there was an annual drop of 8.9 percent in product deliveries to final consumers, especially due to the retraction in sales in the last quarter.

This reduction in 2008 should be considered conjunctural, that is, the need for the country to increase domestic supply of fertilizer inputs continues to exist.

The continuity of growth in agricultural productivity required for Brazil to keep its position as a large global supplier of food depends on intensive use of fertilizers, raw materials for which are widely sought by different countries.

Even though Brazil is the fourth largest market in the world for fertilizers, it represents only 2 percent of production and 6 percent of global consumption. Although the crisis has reduced pressure and the dispute for supply, the situation will quickly become more difficult because large producers such as China are also the main consumers and, thus, seek to reserve their production capacity for domestic consumption.

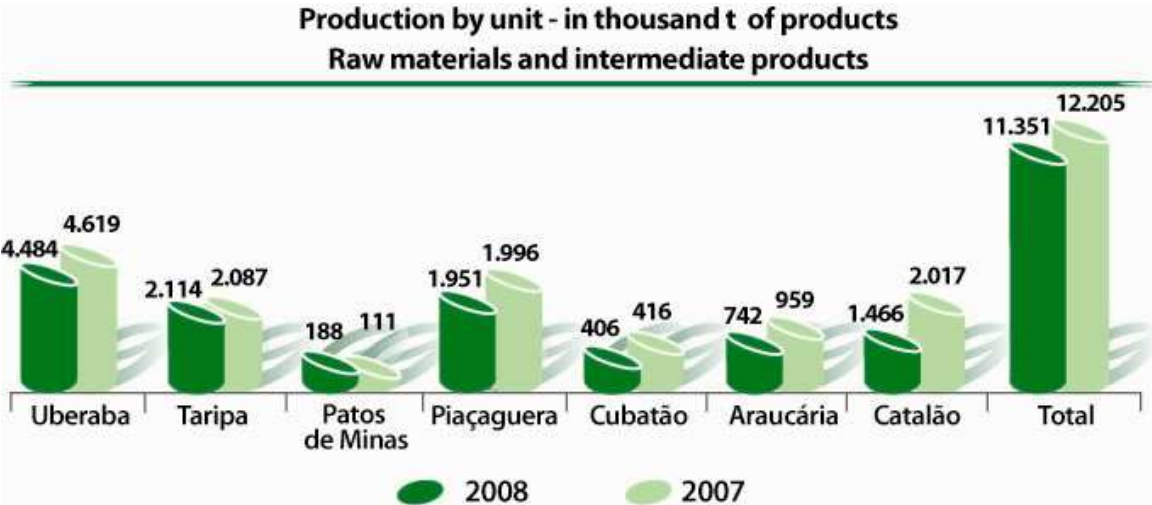
It is, therefore, fundamental that Brazil creates conditions to stimulate expansion of domestic production, especially in the phosphates segment, for which it has the mineral reserves and technology, and in the nitrogenous segment, as long as it is able to obtain natural gas at competitive prices.

Another issue to be observed is the lack of equal tax treatment between the products produced in Brazil and imported products. The product from abroad is taxed at a zero rate and is not subject to the levy of the state value-added tax (ICMS), unlike the domestic product which pays ICMS on interstate transactions at rates that reach 8.4 percent.

As the main Brazilian producer in the industry, Fosfertil continues its projects for expansion with the expectation that these distortions will be corrected.

**PRODUCTION AND SALES**

Total production of Fosfertil, the business of which is focused on supplying demand for nitrogenous and phosphate raw materials for fertilizers, reached 11.3 million tons in 2008, a reduction of 7 percent in relation to 2007.





## **PROCESS IMPROVEMENT**

Working without waste, seeking productivity gains, quality and the motivation of personnel are part of the Fosfertil culture which is perfected year by year. As part of its efforts to improve processes, the company applies the Japanese *Kaizen* concept (change for the better).

As part of this methodology, a multidisciplinary team meets once a week to analyze a specific issue. The teams concentrate their attention on proposals raised for the solution of a problem, which is generally achieved through simple creative actions.

*Kaizen* brings important practical results for the company. A total of 102 events that generated 24,431 ideas, 3,196 actions to improve processes, 2,113 actions for safety, 2,280 practical actions for quality (5S) and 222 actions for the environment were held. The total saved through optimization, gains, or elimination of losses as a result of *Kaizen* in that period reached R\$ 42 million.

Among the benefits brought to the operating area we can cite: a reduction in internal transfer costs for mined rock, optimization of steam usage, specific reduction in consumption of electricity, and increase in productivity of industrial plants.

There were also improvements in administrative processes, including a gain of 70 percent in the average time for registering materials and a 33 percent reduction in the number of documents and consequent reduction in paper consumption.

A total of 1,067 persons participated in *Kaizen* events in 2008. For the purpose of adjusting to the new scenario resulting from the world financial crisis, in 2009 the program will have an even greater focus on fixed and variable operational costs reduction.

## **Environmental Performance**

Fosfertil will continue with its ongoing commitment to sustainability through initiatives focused on protecting the environment and measures that allow better use of nature's inputs, especially water and energy.

The R\$ 45 million investment in the Piaçaguera Industrial Complex in Cubatão (SP) is underway, bringing environmental improvements through substitution of equipment and optimization of processes for treatment and cooling of water, among other items.

Fosfertil received at the end of the year approval from the Convention-Situation of the United Nations for Climate Change (UNFCCC) for its project to reduce nitrous oxide gas emissions (N<sub>2</sub>O) at the Piaçaguera complex in

Cubatão by up to 80 percent. This will allow the company to market over 687 thousand carbon credits (CERs) up to 2012, as foreseen in the Mechanism for Clean Development (MDL) of the Kyoto Protocol, one of the ways of reducing emissions of gases that cause the greenhouse effect.

The difference between the annual cost and the value of the CERs sold will be invested in new environmental improvements at Fosfertil units and in social projects for the community in Cubatão (SP). A similar project for the nitric acid plant at the Cubatão industrial complex has already been approved by the Brazilian government and is in the final stages of analysis at the UN.

In order to monitor the environment and prevent possible impacts on its activities, Fosfertil carries out studies of bird populations that inhabit areas surrounding its production units, especially in the Santista coastal plain and the Minas Gerais and Goiás savannah regions. A work to identify and monitor fish (of the region) in rivers, lakes, and streams close to the Tapira (MG), Uberaba (MG), and Catalão (GO) units was added to these studies in 2008.

## **ECOLOGICAL AWARENESS**

Fosfertil assists the community of municipalities in which it operates to raise growing environmental awareness. Programs developed especially for elementary school teachers and students include information on preservation of river bank forests, protection of watershed areas, trash collection, and other aspects in which the population has an important role to perform.

As part of this same focus, Fosfertil sponsored the "Água, Cidadania e Cultura" Project that presented 35 educational trainer workshops in Uberaba, Patos de Minas, Patrocínio, Araxá (MG), and Catalão (GO) to 270 teachers who took part, in addition to distributing over 6,200 educational material kits to 2,800 public schools in these regions.

The "*Planeta Água*" environmental education project, which received 200 children daily in tents placed in strategic locations, was developed in Uberaba, Patrocínio, and Cubatão. These projects received the support of the Ministry of Culture.

## **LIVE SAFELY**

The safety and health of workers are integral parts of all operating processes at Fosfertil, this is well founded in the System for Safety Management, which aims at achieving the best international standards in the segment.

Among the tools used to spread this culture, Fosfertil sponsors an ongoing training program and in-house dialog with all levels to endow teams with a better understanding, cooperation, and partnership to manage issues related to health and safety through a process of preventive action.

Significant benchmarks have been achieved as a consequence of this work, such as 1,000 days without accidents requiring a leave of absence for company employees at the Mineroquímico Complex in Catalão (GO), commemorated around the middle of 2008. The Tapira and Patos de Minas units, both in MG, also ended 2008 without accidents requiring a leave of absence (staff and third parties).

Fosfertil holds annual simulations with residents of communities close to its chemical units, with the participation of the Civilian Defense, Fire Department and Military Police. The population is invited to visit units, get to know the company's products and its activities in favor of the environment, as well as to share in the safety routine, receiving instructions on how to act in the case of a possible emergency situation.

A specific program is developed for security in relation to transport and product distribution, which includes registration, raising awareness, and training of drivers in partnership with companies that provide highway transport services for dangerous cargos. As part of this work, *Fosfertil – Best Transport Company of the Year Award*, which recognizes performance and strengthens the company connection with its partners in this segment, was once again awarded in 2008.

## **QUALITY MANAGEMENT**

All units of Fosfertil maintained certifications for their Quality Management (ISO 9001) and Environmental (ISO 14001) systems in 2008. The Integrated Management System (SIG) that is part of the activities related to safety, health, the environment, and quality was improved by upgrading the information system for control of documents.

## **HUMAN RESOURCES**

Fosfertil ended the year with 2,839 employees in its eight units, including mining activities, chemical processes, administration, sales, technical staff, and support. The Profit Sharing Plan (PLR) generated a total of R\$ 46.4 million for employees in addition to their salaries and benefits.

A total of 94.4 thousand hours were dedicated to training (77 percent more than in 2007), which involved total investment of R\$ 1.7 million. This provided continuity in relation to personal improvement and increased productivity objectives, which are permanent elements of Fosfertil's business policy. In addition to in-person training, on-line courses were also implemented and various options were made available for employee self-development.

With respect to the quality of life of individuals, Fosfertil maintains a "Cantinho Qualifertil" at all its units, which is a place intended to provide employees moments of rest, leisure, and interaction with a library, game room, and TV.

The company annually recruits recent graduates from a broad range of course backgrounds to participate in its Trainee Program that lasts for one year and permits access to all areas of Fosfertil's business with training at all units.

## **FERTILIZE**

At the end of 2008, Fosfertil earmarked R\$ 1.96 million for the Municipal Funds for Infancy and Adolescence (FIA) of Araucária (PR), Catalão (GO), Araxá, Patos de Minas, Patrocínio, Tapira, Uberaba (MG), Cubatão, Santos, and São Paulo (SP). Municipal Councils in these cities allocate a portion of amounts donated to projects supported by the "Fertilizar" Program created by Fosfertil for the purpose of promoting education for children and adolescents.

Fertilizar currently benefits more than two thousand students per day in five communities where there are production units of Fosfertil: Catalão, Uberaba, Cubatão, Araucária, and Tapira, in conjunction with non-governmental entities and/or public bodies.

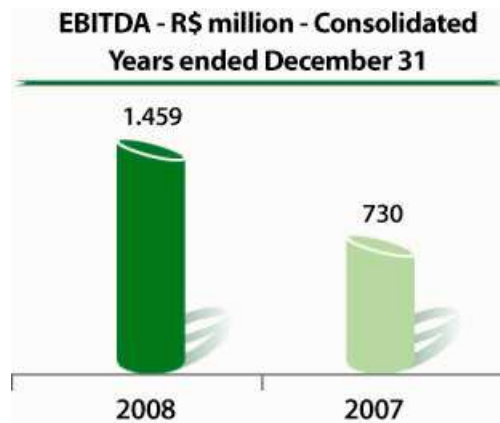
As part of this program in 2008, the 150 families that resided in Jardim São Marcos (formerly a public housing project that existed in an industrial district of Cubatão, SP) received support from Fosfertil for their move to a new residential unit in the city called Jardim Real and where they take part in a social project that promotes citizenship and creates new perspectives for life in this community.

## **FINANCIAL PERFORMANCE**

The first three quarters of 2008 were marked by the continued upward movement in commodity market prices, among which are included fertilizer inputs. There was a reversal in this trend beginning in September and yearend was reached with a drop in fertilizer and related input prices.

Following the international scenario in relation to prices for its products, Fosfertil's net revenues grew 41 percent, reaching R\$ 3.4 billion. Net income was R\$ 773 million, also driven by cost reductions and increased efficiency resulting from improvements in industrial and administrative processes.

EBITDA was R\$ 1.5 billion, almost double the amount from the prior year (R\$ 730 million) and represented 41 percent of net revenues.



(\*) EBITDA is defined by the company as net income plus net financial income (expenses), depreciation, amortization, and depletion, nonoperating income (expenses), and income tax and social contribution. This figure is not foreseen under Brazilian accounting standards. Therefore, it was not reviewed by the independent auditor and it does not represent cash flow for the years presented and should not be considered as an alternative to net income as an indicator of operating performance or to cash flow, or even as an indicator of liquidity.

The Consolidated Equity at the fiscal year end was R\$ 1.9 billion, increasing 33.5% in relation to the total at the end of 2007, corresponding to an Equity Value per share of R\$ 4.53.

During the year, Fosfertil paid into public vaults of the three levels of government a total amount of R\$ 530.2 million in taxes (R\$ 305.2 million in 2007). Payments to employees, including salaries and voluntary and legal benefits reached R\$ 214.2 million, compared to R\$ 186.0 million in the prior year.

The company calculated and recognized in the fiscal year 2008 income statements the effects of Law 11638/07 and Provisional Act 449/08 for alignment with international accounting standards.

## **CAPITAL MARKET AND RETURN TO SHAREHOLDER**

The preferred shares of Fosfertil were traded in all trading sessions of the São Paulo Stock Exchange (Bovespa) during the year, reaching a daily average of 309 trades and 260.000 preferred shares traded, representing a growth of 443% in the number of trades and 214% in the number of shares traded as compared to 2007.

The shareholder base increased approximately 80%, reaching 3.104 shareholders at the end of 2008, against 1.691 at the end of 2007.

The cumulative performance of Fosfertil's preferred shares was 9% higher than the IBOVESPA index in 2008.

## **RELATIONSHIP WITH INDEPENDENT AUDITORS**

Audit services for the local and international (USGAAP) financial statements and internal controls, including compliance with the Sarbanes-Oxley Law, were carried out by Deloitte Touche Tohmatsu – Auditores Independentes. In accordance with rules of the Brazilian Securities and Exchange Commission (CVM), the Company did not engage its auditors to perform services other than auditing.

## **INVESTMENTS**

Even considering the new economic conditions and scenarios foreseen for 2009, the company believes that it is in a position where it is safe to continue with investments needed to support its growth and take advantage of opportunities to participate in the growing market for agriculture.

When the company's main investment project, the Salitre Project, is completely implemented, a new complex for mining phosphate rock will have been opened near the city of Patrocínio (MG) and a new chemical complex will have been constructed. The initial phase of this project was announced in 2008 and the conclusion of studies is expected to occur during 2009, at which time it will be submitted for approval by management.

The investment foreseen is of the order of R\$ 2 billion and its objective will be to expand the supply of phosphorus in the domestic market. Once in operation, the new phosphate rock mine will have the capacity to produce 2 million tons per year and the industrial unit will focus on producing high concentrate phosphates: sulfuric acid, phosphoric acid, and MAP, DAP, and TSP fertilizers.

Added to investments underway, this project will practically double production capacity, increasing the supply of Brazilian phosphate rock by 34 percent and phosphoric acid by 60 percent. Once the expansion project is operating, Fosfertil will be able to substitute by national production approximately 15 percent of the share of imports in the phosphate segment.

In order to support development of basic engineering studies and environmental licensing for the Salitre Project, Fosfertil opened new offices in Belo Horizonte and Patrocínio (MG) in 2008.

The project to increase the production of phosphates in Uberaba (MG) is in progress and involves R\$ 462 million that will be invested up to 2010. With this investment, the manufacture of high concentrate phosphate products used to formulate fertilizers will be increased by 27 percent. The project involves an increase of 230 thousand tons/year in production capacity for phosphoric acid and 481 thousand tons/year of sulfuric acid. The investment will also allow the complex to generate 5.3 MW of electricity, leading to self-sufficiency for the project.

Investments in technological modernization and environmental improvements also continue at the industrial complexes on the Santista (SP) coastal plain. The carbamate condenser began operating at the urea plant in Araucária (PR) in 2008, which represents an important technological modernization with gains for the environment and productivity.

## **OUTLOOK**

Despite the global crisis, the shortage of resources to finance Brazilian agriculture, and estimates for new reductions in projections for the 2008/2009 harvest, the market for fertilizers got off to a good start this year and perspectives for 2009 demonstrate potential.

January deliveries (1.34 million tons, compared to 977 thousand in December 2008) exceeded expectations at a strong pace, which is leading to a reduction in inventories. With fertilizer prices stabilizing at lower levels, farmers have started to reinstate input purchases. Demand has been strengthened by winter plantings of corn and wheat, the main crops for this season.

There are also indications that purchases for the next soybean crop planting are being made in advance. The recent recovery in the profitability of Brazilian farmers has stimulated the setting of prices for soybean exports.

Accordingly, Brazilian agribusiness once again shows signs of recovery, demonstrating a competitiveness that makes it stand out on the world scene. Notwithstanding, there are still critical factors that reduce this potential for growth and which should be included in the country's agenda for the next several years.

The main point is the availability of credit, which began to be felt with greater intensity at the end of 2008 as a result of the international financial situation. Increasing the supply of credit to farmers under accessible conditions that meet the specific needs of the sector is essential to keeping the activity dynamic.

The same is true with respect to access to farm insurance. The profitability of agriculture depends on climatic conditions and price quotations for products in the international market, which are not always the same at planting and harvest times. A producer needs to have confidence to develop his activities with guarantees for price and income. Guaranteeing a minimum price for the next harvest is one way to avoid financially compromising farmers in the case of a possible trend of falling prices.

Another crucial issue is infrastructure. In order for agribusiness to move forward, the country needs to unblock its logistical knots by investing in

production of electricity and transport: more modern and safer highways, a larger and more efficient rail network, and ports with more efficient services and better access, among others.

In the specific case of the fertilizer industry, a tax reform that brings equality between imported and domestic products has been sought for years. An imported product is taxed at a zero rate and is not subject to the levy of the state value added tax (ICMS), unlike a domestic product which pays ICMS on interstate transactions at rates that reach 8.4 percent.

As a traditional supplier of inputs for fertilizers in Brazil, Fosfertil hopes to achieve a favorable performance in 2009. The effects of the international crisis are being combated through a program of adjustments in costs and expenses that should maintain the competitiveness and investment capacity of the company, which is committed to expanding production to meet the demands of Brazilian agribusiness.

## **ACKNOWLEDGEMENTS**

Fosfertil is dedicated to making the country less vulnerable to dependence on foreign fertilizers and seeks to guarantee the necessary security for the supply of raw materials through its investments. With this, the company expects to contribute to reducing imports and generating jobs for Brazilians, historic commitments of an industry to the development of the country.

The management of Fosfertil thanks shareholders for their confidence and support, our employees for their commitment, dedication, and professionalism, our customers for their preference, and suppliers and other partners for their continued collaboration.

*Uberaba, March 4, 2009*

## **The Management**

*(Convenience Translation into English from  
the Original Previously Issued in Portuguese)*

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

*Financial Statements for the Years Ended  
December 31, 2008 and 2007 and  
Independent Auditors' Report*

Deloitte Touche Tohmatsu Auditores Independentes

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITORS' REPORT

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

1. We have audited the accompanying individual and consolidated balance sheets of Fertilizantes Fosfatados S.A. Fosfertil ("Fosfertil" or the "Company") and subsidiaries as of December 31, 2008 and 2007, and the related statements of income, changes in shareholders' equity (Company), cash flows, and value added for the years then ended, all expressed in Brazilian reais and prepared under the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements.
2. Our audits were conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company and its subsidiaries; (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed; and (c) evaluating the significant accounting practices and estimates adopted by the Company's Management and its subsidiaries, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the financial positions of Fertilizantes Fosfatados S.A. Fosfertil and subsidiaries as of December 31, 2008 and 2007, and the results of their operations, the changes in their shareholders' equity, their cash flows, and the values added in operations for the years then ended, in conformity with Brazilian accounting practices.
4. As mentioned in note 4.i), in view of the changes in Brazilian accounting practices in 2008, the financial statements for the prior year, presented for comparative purposes, have been adjusted and are being restated as set forth in NPC 12 - "Accounting Policies, Changes in Accounting Estimates and Errors".

Deloitte Touche Tohmatsu

5. As mentioned in note 2 to the financial statements, in December 2006 the Company announced a proposal for the merger of shares of its indirect shareholder Bunge Fertilizantes S.A.. The proposed restructuring is suspended due to a court decision.
6. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, February 5, 2009

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes

Nourival C. Pedroso Filho  
Engagement Partner

(Convenience Translation into English from the Original Previously Issued in Portuguese)

**FERTILIZANTES FOSFATADOS S.A. FOSFERTIL AND SUBSIDIARIES**

BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007

(In thousands of Brazilian reais - R\$)

ASSETS	Note	Company		Consolidated		LIABILITIES AND SHAREHOLDERS' EQUITY	Note	Company		Consolidated	
		2008	2007	2008	2007			2008	2007	2008	2007
<b>CURRENT ASSETS</b>						<b>CURRENT LIABILITIES</b>					
Cash and cash equivalents		197	643	1,372	1,866	Financing	16	22,203	24,990	25,039	27,855
Short-term investments	6	752,688	464,547	1,340,338	792,094	Trade accounts payable	17	889,133	120,369	1,363,326	298,060
Trade accounts receivable	7	6,948	10,827	72,576	54,463	Advances from customers		175,114	65,880	340,945	103,460
Inventories	8	945,933	136,491	1,302,272	275,771	Dividends	20	113	183,403	113	183,403
Recoverable taxes	9	12,937	13,224	17,550	20,584	Taxes payable		3,509	2,293	8,552	5,635
Dividends receivable	12	238,909	129,172	-	-	Accrued vacation and payroll taxes		5,617	4,788	25,116	22,503
Deferred income tax and social contribution	11	59,233	5,658	120,070	9,606	Profit sharing		9,737	8,287	31,543	32,290
Prepaid expenses		4,475	2,936	11,029	8,592	Income tax and social contribution		194,317	62,522	275,119	116,876
Other receivables		14,807	6,257	27,471	20,730	Deferred income tax and social contribution	11	5,571	5,666	6,723	7,613
Total current assets		<u>2,036,127</u>	<u>769,755</u>	<u>2,892,678</u>	<u>1,183,706</u>	Other payables		<u>10,228</u>	<u>15,509</u>	<u>22,673</u>	<u>29,742</u>
						Total current liabilities		<u>1,315,542</u>	<u>493,707</u>	<u>2,099,149</u>	<u>827,437</u>
<b>NONCURRENT ASSETS</b>						<b>NONCURRENT LIABILITIES</b>					
Long-term assets:						Long-term liabilities:					
Trade accounts receivable	7	5,113	2,656	6,221	4,120	Financing	16	-	16,448	-	19,265
Inventories	8	19,047	44,478	49,189	113,698	Reserve for contingencies	18	69,310	54,225	190,855	161,627
Excrow deposits	10	8,220	10,287	33,563	35,946	Provision for pension plan and employee post-employment benefits	19	10,901	7,785	46,680	31,074
Deferred income tax and social contribution	11	55,962	57,485	125,769	108,063	Deferred income tax and social contribution	11	102	-	9,136	1,065
Recoverable taxes	9	42,168	19,775	104,701	79,115	Net adjustment to swap transactions	25	-	28,659	-	28,659
Advances to third parties		12,104	12,902	15,539	16,729	Other payables		1,380	281	6,654	3,225
Other receivables		605	352	2,947	2,977	Negative goodwill on investment in wholly-owned subsidiary	12	-	-	37,792	37,792
Total long-term assets		<u>143,219</u>	<u>147,935</u>	<u>337,929</u>	<u>360,648</u>	Total noncurrent liabilities		<u>81,693</u>	<u>107,398</u>	<u>291,117</u>	<u>282,707</u>
Investments:						<b>SHAREHOLDERS' EQUITY</b>					
In wholly-owned subsidiary	12	610,313	639,679	-	-	Capital	20	810,000	720,000	810,000	720,000
Other investments		337	10	467	553	Capital reserve		49	49	49	49
Property, plant and equipment	14	525,346	475,714	1,059,702	979,788	Revaluation reserve		47,529	50,846	47,529	50,846
Intangible assets	15	11,589	11,925	17,493	18,671	Profit reserves		<u>1,072,118</u>	<u>674,501</u>	<u>1,060,425</u>	<u>667,420</u>
Deferred charges		-	1,483	-	5,093	Total shareholders' equity		<u>1,929,696</u>	<u>1,445,396</u>	<u>1,918,003</u>	<u>1,438,315</u>
Total noncurrent assets		<u>1,290,804</u>	<u>1,276,746</u>	<u>1,415,591</u>	<u>1,364,753</u>	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
								<u>3,326,931</u>	<u>2,046,501</u>	<u>4,308,269</u>	<u>2,548,459</u>
<b>TOTAL ASSETS</b>		<u>3,326,931</u>	<u>2,046,501</u>	<u>4,308,269</u>	<u>2,548,459</u>						

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

**FERTILIZANTES FOSFATADOS S.A. FOSFERTIL AND SUBSIDIARIES**

**STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**  
(In thousands of Brazilian reais - R\$, except earnings per share)

	Note	Company		Consolidated	
		2008	2007	2008	2007
GROSS REVENUE FROM SALES AND SERVICES		1,849,573	1,156,935	3,729,387	2,686,888
Sales and services deductions		(69,036)	(61,384)	(299,915)	(265,321)
NET REVENUE FROM SALES AND SERVICES		1,780,537	1,095,551	3,429,472	2,421,567
Cost of sales and services		(796,297)	(694,879)	(1,936,868)	(1,654,224)
GROSS PROFIT		984,240	400,672	1,492,604	767,343
OPERATING (EXPENSES) INCOME					
Sales		(3,315)	(2,772)	(11,183)	(10,129)
General and administrative:					
Boards' and Directors' fees		(1,188)	(1,078)	(2,568)	(2,421)
Administrative		(23,577)	(21,639)	(59,339)	(53,674)
Other operating expenses, net	23	(57,102)	(53,444)	(153,281)	(131,441)
Equity in subsidiary	12	209,543	189,495		
		124,361	110,562	(226,371)	(197,665)
INCOME FROM OPERATIONS BEFORE FINANCIAL INCOME (EXPENSES)		1,108,601	511,234	1,266,233	569,678
Financial results, net	22	(85,945)	36,447	(139,117)	64,537
INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		1,022,656	547,681	1,127,116	634,215
INCOME TAX AND SOCIAL CONTRIBUTION					
Current	24	(297,655)	(124,354)	(475,681)	(242,541)
Deferred	24	52,270	27,406	121,224	52,316
NET INCOME		777,271	450,733	772,659	443,990
NUMBER OF SHARES		426,425,468	106,606,367		
EARNINGS PER SHARE - R\$		1.82	4.23		

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

FERTILIZANTES FOSFATADOS S.A. FOSFERTIL

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (COMPANY)

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(In thousands of Brazilian reais - R\$)

		Capital reserve		Revaluation reserve	Profit reserves			Retained earnings	Total
Note	Capital	Investment grants	Legal		Treasury shares	Profit retention			
BALANCES AS OF DECEMBER 31, 2006		720,000	49	54,163	79,644	(7,699)	407,979	-	1,254,136
Realization of revaluation reserve		-	-	(3,317)	-	-	-	3,317	-
Net income		-	-	-	-	-	-	450,733	450,733
Allocation of net income:									
Legal reserve		-	-	-	22,537	-	-	(22,537)	-
Interest on capital		-	-	-	-	-	-	(76,106)	(76,106)
Proposed dividends		-	-	-	-	-	(151,595)	(31,772)	(183,367)
Profit retention reserve		-	-	-	-	-	323,635	(323,635)	-
BALANCES AS OF DECEMBER 31, 2007		720,000	49	50,846	102,181	(7,699)	580,019	-	1,445,396
Capital increase through absorption of reserves	20.a	90,000	-	-	-	-	(90,000)	-	-
Treasury shares	20.c	-	-	-	-	(28,185)	-	-	(28,185)
Realization of revaluation reserve	20.b	-	-	(3,317)	-	-	-	3,317	-
Net income		-	-	-	-	-	-	777,271	777,271
Allocation of net income:									
Legal reserve		-	-	-	38,864	-	-	(38,864)	-
Dividends and interest on capital	20.d	-	-	-	-	-	-	(264,786)	(264,786)
Profit retention reserve	20.e	-	-	-	-	-	476,938	(476,938)	-
BALANCES AS OF DECEMBER 31, 2008		810,000	49	47,529	141,045	(35,884)	966,957	-	1,929,696

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

**FERTILIZANTES FOSFATADOS S.A. FOSFERTIL AND SUBSIDIARIES**

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007  
(In thousands of Brazilian reais - R\$)

	Company		Consolidated	
	2008	2007	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income	777,271	450,733	772,659	443,990
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation, amortization and depletion	77,477	77,698	186,455	162,046
Loss on sale of permanent assets	(3,275)	(349)	(3,355)	(554)
Deferred income tax and social contribution	(52,045)	(27,406)	(120,989)	(52,316)
Equity in subsidiary	(209,543)	(189,495)	-	-
Inflation adjustment, exchange rate changes and interest	6,025	(4,016)	6,427	(3,204)
Provision for (reversal of) adjustments to realizable value of current and noncurrent assets	(2,205)	62,081	52,480	117,200
Reserve for contingencies	15,085	25,019	29,228	56,868
Provision for pension plan and employee post-employment benefits	3,116	2,503	15,606	10,990
Dividends received from subsidiary	129,172	35,256	-	-
Changes in assets and liabilities:				
Decrease (increase) in trade accounts receivable	1,253	107	(15,531)	482
Decrease (increase) in recoverable taxes	3,566	42,821	(4,236)	20,199
Increase in inventories	(807,563)	(10,595)	(1,037,442)	(41,629)
(Increase) decrease in other receivables	(7,186)	14,341	(5,567)	8,495
Increase in trade accounts payable	768,764	43,741	1,065,266	150,216
Increase in payables and provisions	111,245	69,882	242,378	100,641
Increase in income tax and social contribution	131,795	62,522	158,243	94,342
Decrease in other payables	(31,393)	(17,647)	(32,445)	(22,803)
Net cash provided by operating activities	911,559	637,196	1,309,177	1,044,963
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchases of permanent assets	(129,148)	(37,804)	(264,207)	(141,325)
Purchases of shares	(28,185)	-	(28,185)	-
Proceeds from sale of permanent assets	6,805	470	7,548	831
Net cash used in investing activities	(150,528)	(37,334)	(284,844)	(140,494)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Dividends and interest on capital paid	(448,076)	(76,106)	(448,076)	(76,106)
Loans	-	121	-	121
Payment of loans	(23,470)	(117,672)	(26,287)	(129,976)
Interest paid on loans	(1,790)	(8,072)	(2,220)	(9,214)
Net cash used in financing activities	(473,336)	(201,729)	(476,583)	(215,175)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>287,695</b>	<b>398,133</b>	<b>547,750</b>	<b>689,294</b>
Cash and cash equivalents at beginning of year	465,190	67,057	793,960	104,666
Cash and cash equivalents at end of year	752,885	465,190	1,341,710	793,960
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>287,695</b>	<b>398,133</b>	<b>547,750</b>	<b>689,294</b>

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

**FERTILIZANTES FOSFATADOS S.A. FOSFERTIL AND SUBSIDIARIES**

STATEMENTS OF VALUE ADDED  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007  
(In thousands of Brazilian reais - R\$)

	Company		Consolidated	
	2008	2007	2008	2007
<b>REVENUES</b>				
Sales of products and services	1,849,573	1,156,935	3,729,387	2,686,888
Allowance for doubtful accounts	(411)	(458)	(487)	(7,604)
Other revenues	5,276	4,030	8,620	7,513
	1,854,438	1,160,507	3,737,520	2,686,797
<b>INPUTS PURCHASED FROM THIRD PARTIES</b>				
Raw materials consumed	546,623	552,074	1,253,633	1,235,349
Cost of sales and services	196,544	109,429	620,472	403,228
	743,167	661,503	1,874,105	1,638,577
<b>GROSS VALUE ADDED</b>	<b>1,111,271</b>	<b>499,004</b>	<b>1,863,415</b>	<b>1,048,220</b>
<b>RETENTIONS</b>				
Depreciation, amortization and depletion	77,477	77,698	186,455	162,046
<b>NET VALUE ADDED GENERATED BY THE COMPANY</b>	<b>1,033,794</b>	<b>421,306</b>	<b>1,676,960</b>	<b>886,174</b>
<b>VALUE ADDED RECEIVED IN TRANSFER</b>				
Equity in subsidiary	209,543	189,495	-	-
Financial income	94,019	36,513	145,478	59,050
	303,562	226,008	145,478	59,050
<b>TOTAL WEALTH FOR DISTRIBUTION</b>	<b>1,337,356</b>	<b>647,314</b>	<b>1,822,438</b>	<b>945,224</b>
<b>WEALTH DISTRIBUTED</b>				
<b>Employees:</b>				
Salaries and wages	48,676	40,528	176,067	152,277
Benefits	9,420	8,171	29,009	26,075
Severance Pay Fund (FGTS)	2,368	1,983	9,080	7,674
	60,464	50,682	214,156	186,026
<b>Taxes and contributions:</b>				
Federal	311,892	141,264	521,372	294,240
State	2,920	185	3,157	5,265
Municipal	771	473	5,702	5,647
	315,583	141,922	530,231	305,152
<b>Interest and rentals:</b>				
Interest	179,964	66	284,589	(5,487)
Rentals	4,074	3,911	20,803	15,543
	184,038	3,977	305,392	10,056
<b>Shareholders:</b>				
Interest on capital	94,871	259,473	94,871	259,473
Dividends	169,915	-	169,915	-
Retained earnings	512,485	191,260	507,873	184,517
	777,271	450,733	772,659	443,990
	<b>1,337,356</b>	<b>647,314</b>	<b>1,822,438</b>	<b>945,224</b>

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

FERTILIZANTES FOSFATADOS S.A. FOSFERTIL AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

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1. OPERATIONS

Fertilizantes Fosfatados S.A. Fosfertil (“Fosfertil” or the “Company”) is engaged in the production of fertilizers and other products for agriculture using minerals extracted from the Company’s own mines, as well as in the sale, transportation, import and export of these products, agency services, toll manufacturing, and holding of equity interests in other domestic or foreign companies, as partner or shareholder.

The wholly-owned subsidiary Ultrafertil S.A. (“Ultrafertil” or “wholly-owned subsidiary”) is primarily engaged in the production and sale of fertilizers and chemical products, and in the operation of port terminal for its own and third-party use.

2. CORPORATE AND OPERATING RESTRUCTURING

The Board of Directors of Fosfertil approved, on December 21, 2006, the proposal for the merger of shares of Bunge Fertilizantes S.A. into Fosfertil, as disclosed in a Significant Event Notice and information to the market.

On August 28, 2007, the São Paulo State Court of Justice accepted the appeals filed by shareholders to nullify the resolutions made at the Annual Shareholders’ Meeting of Fosfertil’s shareholder, Fertifos Administração e Participação S.A. (“Fertifos”), held on April 27, 2006, including the substitution of three directors of Fertifos, and the acts of the Board of Directors, including the approval of the corporate and operating restructuring.

On June 6, 2008, by means of an injunction granted to the Company and Fertifos, the Superior Court of Justice ordered the stay of the effects of the decision of the São Paulo State Court of Justice.

In view of the above, the resolutions made at the Shareholders’ Meeting of Fertifos on April 27, 2006 and their effects, including those related to the restructuring involving the Company, are still under discussion.

3. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared and are presented in conformity with Brazilian accounting practices and standards established by the Brazilian Securities and Exchange Commission (CVM) and Brazilian Corporate Law, including the changes introduced by Law 11638/07 and Provisional Act 449/08, as described in note 4.i).

Regarding the first-time adoption of the changes in accounting practices introduced by Law 11638/07 and Provisional Act 449/08, the Company's Management elected to, pursuant to paragraph 10(a) of Accounting Pronouncements Committee (CPC) 13 - "First-Time Adoption of Law 11638/07 and Provisional Act 449/08", prepare a transition balance sheet as of January 1, 2007, the starting point to reflect the adjustments arising from the changes in Brazilian accounting practices. Thus, the financial statements for the prior year, presented for comparative purposes, have been adjusted and are being restated as set forth in NPC 12 - "Accounting Policies, Changes in Accounting Estimates and Errors".

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

The preparation of financial statements requires the use of estimates and assumptions to record certain assets, liabilities and other transactions. Accounting estimates were based on objective and subjective factors, and Management's judgment was required to determine the adequate amount to be included in the financial statements. Significant items subject to these estimates include, but are not limited to, the net book value of property, plant and equipment, allowance for doubtful accounts, inventories, deferred income tax asset, reserve for contingencies, valuation of derivatives, and assets and liabilities related to employee benefits. Actual results of the settlement of transactions involving these estimates could differ from estimates due to the lack of precision inherent to the process of ascertainment. The Company reviews these estimates and assumptions at least on a quarterly basis.

The significant accounting practices adopted by the Company are as follows:

a) Revenue recognition

Revenues are recognized on the accrual basis.

Revenue from sales is recognized when all risks and rewards in connection with ownership of products are transferred to the buyer. Revenue from services is recognized when services are provided. Revenue is not recognized when there is significant uncertainty as to its realization.

b) Foreign currency

Monetary assets and liabilities denominated in foreign currencies were translated into Brazilian reais at the exchange rate prevailing at the balance sheets dates. Currency translation differences were recognized in the statement of income.

c) Current and noncurrent assets

Short-term investments

Represented by highly liquid investments that will be held to maturity and are stated at cost, plus income earned through the reporting dates, which does not exceed their fair or realizable value.

Allowance for doubtful accounts

The allowance for doubtful accounts is recorded in an amount considered sufficient to cover possible losses on the collection of receivables.

Inventories

Stated at the lower of average acquisition and/or production cost or fair market value. Imports in transit are stated at the cost incurred through the reporting date. Allowances for losses on obsolete inventories are recorded based on related analyses.

Other current and noncurrent assets

Stated at their net realizable value.

d) Permanent assets

Investments

The investment in the wholly-owned subsidiary Ultrafertil S.A. is accounted for under the equity method, less unamortized negative goodwill. Other investments are stated at cost, less an allowance for losses, when deemed necessary.

Property, plant, and equipment

Stated at acquisition or construction cost, plus a revaluation write-up. As permitted by Law 11638/07 and mentioned in note 4.i), the Company elected to maintain the balances of asset revaluations as of December 31, 2007.

Depreciation is calculated under the straight-line method, based on the estimated useful lives of the assets, at the rates stated in note 14.

In March 2006, in compliance with Circular Letter CVM/SEP 2/06, CVM Resolution 189/05 and item 13 of NPC 22 of the Brazilian Institute of Independent Auditors (IBRACON), the Company adopted the accounting practice of recording costs incurred on scheduled maintenance shutdowns of property, plant and equipment items under the caption "Equipment and facilities". These scheduled shutdowns take place in periods from one to three years and the related costs are depreciated until the beginning of the next scheduled shutdown.

Intangible assets

Stated at acquisition cost. Depletion is calculated based on the production to mineral reserves ratio.

### Deferred charges

Until the year ended December 31, 2007, deferred charges were stated at acquisition cost, less amortization, which is calculated under the straight-line method at rates that take into consideration the useful lives of assets. With the changes in Brazilian corporate law and the effects of Provisional Act 449/08, the deferred charges balance was eliminated from the balance sheet as of December 31, 2008 and allocated to “Intangible assets” and “Property, plant and equipment”, and part was allocated to net income.

e) Current and noncurrent liabilities

Stated at known or estimated amounts, considering changes in exchange rates and financial charges specified in agreements in effect, to reflect amounts incurred through the reporting dates.

f) Provisions

Provisions were recorded by Management based on objective and subjective factors, representing the best estimates of the obligation to be recorded in the financial statements.

g) Income tax and social contribution

Current and deferred income tax and social contribution are calculated based on net income adjusted as per tax law and effective tax rates.

h) Pension plan and employee post-employment benefits

The sponsorship costs of the pension plan and employee post-employment benefits and any deficits (surpluses) are recorded in compliance with CVM Resolution 371/00 and NPC 26 of IBRACON.

i) First-time adoption of changes in Brazilian accounting practices

Law 11638/07 and Provisional Act 449/08 altered, revoked and added new provisions to the Brazilian Corporate Law, especially with respect to chapter XV, “Fiscal Year and Financial Statements”, effective for fiscal years beginning on or after December 31, 2008, and applicable to all corporations and large companies, regardless of how they were established.

These changes were designed primarily to update the Brazilian Corporate Law, so as to enable the convergence of Brazilian accounting practices with international accounting standards (IFRS) and allow regulatory agencies to issue new accounting standards and procedures, in conformity with such international accounting standards.

Additionally, as a result of the enactment of said Law and Provisional Act, in 2008 the CPC issued several accounting pronouncements with application mandatory for the financial statements for the year ended December 31, 2008.

The main changes in accounting practices introduced by Law 11638/07 and articles 36 and 37 of Provisional Act 449/08 applicable to the Company and its subsidiary, and adopted in the preparation of the financial statements for the years ended December 31, 2008 and 2007, were as follows:

- i. Replacement of the statement of changes in financial position by the statement of cash flows, prepared in accordance with CPC 03 - "Statement of Cash Flows".
- ii. Inclusion of the statement of value added, prepared in accordance with CPC 09 - "Statement of Value Added".
- iii. Creation of a new account group, intangible assets, which includes goodwill, for purposes of balance sheet presentation.
- iv. Impairment test of amounts recorded under property, plant and equipment, intangible assets, and deferred changes, as regulated by CPC 01 - "Impairment of Assets". The Company informed that it tested all its assets for impairment and that it did not identify events or factors that indicate the need to record an allowance for losses.
- v. Requirement that certain long-term assets and liabilities be recorded at present value, and, if material, for certain other short-term assets and liabilities. This practice is already adopted for adjustment to present value of foreign trade accounts payable. For other short- and long-term monetary assets and liabilities, the Company and its wholly-owned subsidiary assessed the impacts of this change and concluded that there are no other accounts subject to adjustment to present value, according to the criteria set forth by CPC 12 - "Adjustment to Present Value".

The Company calculated and recognized in the financial statements for the year ended December 31, 2008 the effects of the adjustment to present value, as follows:

	<u>Company</u>	<u>Consolidated</u>
	<u>(D) C</u>	<u>(D) C</u>
Cost of sales and services	22,026	28,767
Financial income (expenses)	(6,303)	(9,712)
Equity in subsidiary	2,199	-
Deferred income tax and social contribution	<u>(5,346)</u>	<u>(6,479)</u>
Net effect on net income	<u>12,576</u>	<u>12,576</u>

Had the Company recognized the effects of the adjustment to present value in 2007, the net amount of these adjustments would be an income of R\$1,756.

- vi. Elimination of the asset revaluation reserve. Any balances of existing revaluation reserves shall be maintained until their realization or reversed by the end of the year in which the law goes into effect, in this case December 31, 2008. As permitted by Law 11638/07, the Company and its wholly-owned subsidiary decided to maintain the balances of existing revaluation reserves.

vii. Discontinuation of the captions “Deferred charges” and “Deferred income”

As regards the caption “Deferred charges”, the Company assessed the breakdown of expenses recorded until December 31, 2008 and reallocated the amounts to the related captions in property, plant and equipment and intangible assets, and part, in the amount of R\$2,229, net of taxes (R\$4,707, consolidated), was allocated to net income.

As for “Deferred income”, the Company reclassified the balance to the caption “Negative goodwill on investment in wholly-owned subsidiary” in noncurrent liabilities.

viii. Discontinuation of the presentation of nonoperating income (expenses) in the statement of income, as regulated by Provisional Act 449/08.

j) Interest on capital

Interest on capital is initially recorded in the statement of income as financial expenses and subsequently reversed in the calculation of net income and stated as allocation of retained earnings in the statement of changes in shareholders’ equity. For tax purposes, interest on capital was considered as financial expenses, reducing the income tax and social contribution basis.

k) Earnings per share

Calculated based on the number of shares outstanding at the reporting dates.

## 5. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in conformity with consolidation principles set forth by CVM Instruction 247/96 and include the accounts of the wholly-owned subsidiary Ultrafertil S.A. and its subsidiary UF Distribuidora de Combustíveis Ltda.

	<u>Ownership interest - %</u>	
	<u>2008</u>	<u>2007</u>
Ultrafertil S.A.	100.00	100.00
UF Distribuidora de Combustíveis Ltda.	99.00	99.00

Description of the main consolidation procedures:

- a) Elimination of intercompany balances.
- b) Elimination of ownership interests, reserves and retained earnings of subsidiaries.
- c) Elimination of intercompany transactions and unrealized profits.

The accounting policies were consistently adopted for all consolidated companies and are consistent with those adopted in the prior year.

The financial statements of the wholly-owned subsidiary Ultrafertil S.A. and its subsidiary UF Distribuidora de Combustíveis Ltda. are also audited by the same independent auditors of the Company.

The reconciliation of Company and consolidated net income and shareholders' equity is as follows:

	<u>Net income</u>		<u>Shareholders' equity</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Company	777,271	450,733	1,929,696	1,445,396
Realized (unrealized) profit on sale of Company's raw materials to wholly-owned subsidiary, net of taxes	<u>(4,612)</u>	<u>(6,743)</u>	<u>(11,693)</u>	<u>(7,081)</u>
Consolidated	<u>772,659</u>	<u>443,990</u>	<u>1,918,003</u>	<u>1,438,315</u>

## 6. SHORT-TERM INVESTMENTS

Short-term investments are represented by the following items, indexed to the interbank deposit rate (CDI):

	<u>Average rates</u>	<u>Company</u>		<u>Consolidated</u>	
		<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Bank certificates of deposit (CDB)	100% to 101.2% of CDI	197,764	139,460	405,295	204,314
Debentures - repurchase commitments		<u>554,924</u>	<u>325,087</u>	<u>935,043</u>	<u>587,780</u>
		<u>752,688</u>	<u>464,547</u>	<u>1,340,338</u>	<u>792,094</u>

## 7. TRADE ACCOUNTS RECEIVABLE

	<u>Company</u>		<u>Consolidated</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current:				
Trade accounts receivable	7,348	11,061	73,996	58,716
Allowance for doubtful accounts	<u>(400)</u>	<u>(234)</u>	<u>(1,420)</u>	<u>(4,253)</u>
	<u>6,948</u>	<u>10,827</u>	<u>72,576</u>	<u>54,463</u>
Noncurrent:				
Trade accounts receivable	10,659	8,200	15,862	15,611
Allowance for doubtful accounts	<u>(5,546)</u>	<u>(5,544)</u>	<u>(9,641)</u>	<u>(11,491)</u>
Total	<u>5,113</u>	<u>2,656</u>	<u>6,221</u>	<u>4,120</u>

## 8. INVENTORIES

	Company		Consolidated	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current:				
Finished products	601,991	106,350	873,959	184,990
Raw materials	253,793	9,085	308,432	16,618
Basic inputs	7,518	5,478	39,532	35,366
Supplies	13,343	13,859	25,551	43,049
Imports in transit	78,373	15,055	82,073	26,720
Allowance for adjustment to realizable value	<u>(9,085)</u>	<u>(13,336)</u>	<u>(27,275)</u>	<u>(30,972)</u>
	<u>945,933</u>	<u>136,491</u>	<u>1,302,272</u>	<u>275,771</u>
Noncurrent:				
Supplies	48,427	48,000	126,626	134,856
Allowance for adjustment to realizable value	<u>(29,380)</u>	<u>(3,522)</u>	<u>(77,437)</u>	<u>(21,158)</u>
	<u>19,047</u>	<u>44,478</u>	<u>49,189</u>	<u>113,698</u>

## 9. RECOVERABLE TAXES

	Company		Consolidated	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current:				
Noncumulative taxes on revenue (PIS and COFINS) (a)	12,837	13,193	17,020	19,929
State VAT (ICMS) (b)	100	31	488	655
Other	-	-	42	-
	<u>12,937</u>	<u>13,224</u>	<u>17,550</u>	<u>20,584</u>
Noncurrent:				
Noncumulative PIS and COFINS (a)	565	2,152	2,428	5,370
ICMS (b)	59,537	61,229	171,853	161,641
Allowance for adjustment to ICMS realizable value	<u>(17,934)</u>	<u>(43,606)</u>	<u>(69,580)</u>	<u>(87,896)</u>
	<u>42,168</u>	<u>19,775</u>	<u>104,701</u>	<u>79,115</u>

(a) Noncumulative PIS and COFINS credits for offset.

(b) Portion of ICMS credits arising from purchases of materials included in permanent assets and credit balance for offset in subsequent periods.

## 10. ESCROW DEPOSITS

The Company and its wholly-owned subsidiary have amounts deposited in escrow, ordered by several court levels, awaiting final decision of the lawsuits. Certain escrow deposits balances, when intrinsically related to the reserve for contingencies, were reclassified and are presented at their net amount, in compliance with CVM Resolution 489/05.

Escrow deposits not related to the reserve for contingencies are as follows:

	Company		Consolidated	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Civil	727	727	1,291	1,172
Tax:				
Federal:				
PIS and COFINS	3,168	3,168	20,444	20,444
Occupational Accident Insurance (SAT)	792	611	2,600	2,085
Other	1,633	1,457	5,502	6,095
State	<u>1,900</u>	<u>4,324</u>	<u>3,726</u>	<u>6,150</u>
	<u>8,220</u>	<u>10,287</u>	<u>33,563</u>	<u>35,946</u>

## 11. DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION

The deferred income tax and social contribution are recognized to reflect future tax effects attributable to temporary differences between the tax basis of assets and liabilities and their carrying amounts. Management considers these amounts realizable in the proportion of the final resolution of contingencies, settlement of the projected pension plan obligations, and other reserves.

	Company		Consolidated	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Assets:				
Current:				
Allowance for doubtful accounts	136	79	483	1,446
Allowance for adjustment to realizable value of current assets	3,089	4,534	9,274	5,355
Unrealized foreign exchange losses	55,381	-	90,464	-
Unrealized profit on Company's sale to wholly-owned subsidiary	-	-	17,504	-
Other provisions	<u>627</u>	<u>1,045</u>	<u>2,345</u>	<u>2,805</u>
	<u>59,233</u>	<u>5,658</u>	<u>120,070</u>	<u>9,606</u>
Noncurrent:				
Reserve for contingencies	30,969	25,848	53,372	46,162
Provision for pension plan - CVM Resolution 371/00	3,706	2,647	15,871	10,565
Allowance for adjustment to realizable value of noncurrent assets	16,087	16,024	49,987	37,079
Semiannual PIS	4,980	4,980	4,980	4,980
Unrealized foreign exchange losses	-	7,915	122	7,915
Other provisions	<u>220</u>	<u>71</u>	<u>1,437</u>	<u>1,362</u>
	<u>55,962</u>	<u>57,485</u>	<u>125,769</u>	<u>108,063</u>

	Company		Consolidated	
	2008	2007	2008	2007
Liabilities:				
Current:				
Adjustment to present value pursuant to Law 11638/07	5,571	-	6,723	-
Unrealized foreign exchange gains	<u>-</u>	<u>5,666</u>	<u>-</u>	<u>7,613</u>
	<u>5,571</u>	<u>5,666</u>	<u>6,723</u>	<u>7,613</u>
Noncurrent-				
Tax-incentive accelerated depreciation - Law 11196/05	<u>102</u>	<u>-</u>	<u>9,136</u>	<u>1,065</u>

## 12. INVESTMENT IN WHOLLY-OWNED SUBSIDIARY

	Company	
	2008	2007
Information on wholly-owned subsidiary - Ultrafertil S.A.:		
Ownership interest	100%	100%
Capital	397,137	397,137
Shareholders' equity	679,466	679,466
Net income	238,909	187,182
Unrealized profits on intercompany transactions	31,360	1,995
Changes in investments:		
At beginning of year	677,471	617,148
Equity in subsidiary	209,543	189,495
Dividends	<u>(238,909)</u>	<u>(129,172)</u>
At end of year	648,105	677,471
Unamortized negative goodwill	<u>(37,792)</u>	<u>(37,792)</u>
	<u>610,313</u>	<u>639,679</u>

Negative goodwill was attributed to other economic fundamentals (article 21, c, of CVM Instruction 1/78), and, therefore, will only be amortized in the event of write-off due to disposal or retirement of assets, in compliance with article 14, paragraph 4, of CVM Instruction 247/96. In the consolidated balance sheet, the balance was reclassified to the caption "Negative goodwill on investment in wholly-owned subsidiary", in noncurrent liabilities.

## 13. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

	Company				Consolidated	
	2008		2007		2008	2007
	Wholly- -owned subsidiary	Indirect shareholders	Wholly- -owned subsidiary	Indirect shareholders	Indirect shareholders	Indirect shareholders
Current assets:						
Trade accounts receivable	895	(454)	1,221	181	6,471	1,579
Inventories - product loans	5,278	28	381	103	35	8,294
Advances to suppliers	-	5,947	-	-	7,856	-
Other receivables	15	-	31	-	-	-
	<u>6,188</u>	<u>5,521</u>	<u>1,633</u>	<u>284</u>	<u>14,362</u>	<u>9,873</u>
Current liabilities:						
Trade accounts payable - domestic	3,735	3,315	2,215	347	3,335	389
Advances from customers	-	123,662	-	39,362	251,371	59,028
Other payables	542	6,660	630	6	12,752	611
	<u>4,277</u>	<u>133,637</u>	<u>2,845</u>	<u>39,715</u>	<u>267,458</u>	<u>60,028</u>
Purchases	133,460	11,785	36,002	10,375	22,482	12,208
Sales	199,138	952,456	116,643	553,055	1,740,730	1,243,484
Interest received	-	-	9	-	-	-
Financial expenses	-	(145)	-	(319)	(145)	(337)

Transactions with related parties refer to purchases and sales of services and products with indirect shareholders. These transactions are conducted under usual market prices and conditions.

The Company has entered into export financing transactions in an amount equivalent to US\$9.5 million, backed by export receivables purchased in the market. For export transactions, products were purchased from a related party. The difference between the purchase and sale amounts of these products related to the performance lease was classified as financial expenses.

## 14. PROPERTY, PLANT AND EQUIPMENT

	Annual depreciation rate - %	Company			
		2008		2007	
		Cost	Depreciation	Net	Net
Buildings and improvements	4	382,189	(263,596)	118,593	130,399
Equipment and facilities	10 to 20 (a)	622,887	(397,319)	225,568	256,829
Vehicles	20 and 25	37,450	(29,106)	8,344	5,489
Computers and peripherals	20	3,969	(3,042)	927	1,449
Other	10	2,042	(1,417)	625	769
		<u>1,048,537</u>	<u>(694,480)</u>	<u>354,057</u>	<u>394,935</u>
Cost of nondepreciable items:					
Land				69,209	57,769
Spare parts				259	259
Construction in progress				96,906	22,729
Advances to suppliers				4,915	22
				<u>525,346</u>	<u>475,714</u>

	Annual depreciation rate - %	Consolidated			
		2008			2007
		Cost	Depreciation	Net	Net
Buildings and improvements	4	664,436	(421,509)	242,927	259,446
Equipment and facilities	10 to 20 (b)	1,621,068	(1,155,346)	465,722	489,659
Vehicles	20 and 25	44,110	(35,403)	8,707	6,129
Computers and peripherals	20	21,385	(17,204)	4,181	5,838
Other	10	<u>5,110</u>	<u>(3,690)</u>	<u>1,420</u>	<u>1,562</u>
		<u>2,356,109</u>	<u>(1,633,152)</u>	722,957	762,634
Cost of nondepreciable items:					
Land				97,005	98,916
Spare parts				37,251	39,056
Construction in progress				186,904	74,853
Advances to suppliers				<u>15,585</u>	<u>4,329</u>
				<u>1,059,702</u>	<u>979,788</u>

(a) Weighted rate of 15.41%, Company.

(b) Weighted rate of 16.17%, consolidated.

#### Changes in cost

	Company				
	2007	2008			
	Cost	Additions	Write-off	Transfers	Cost
Buildings and improvements	380,275	-	-	1,914	382,189
Equipment and facilities	593,956	-	(123)	29,054	622,887
Vehicles	38,634	-	(9,392)	8,208	37,450
Computers and peripherals	3,952	-	-	17	3,969
Other	<u>2,053</u>	<u>-</u>	<u>(11)</u>	<u>-</u>	<u>2,042</u>
	<u>1,018,870</u>	<u>-</u>	<u>(9,526)</u>	<u>39,193</u>	<u>1,048,537</u>
Cost of nondepreciable items:					
Land	57,769	-	-	11,440	69,209
Spare parts	259	-	-	-	259
Construction in progress	22,729	119,418	(2,816)	(42,425)	96,906
Advances to suppliers	<u>22</u>	<u>13,101</u>	<u>-</u>	<u>(8,208)</u>	<u>4,915</u>
	<u>80,779</u>	<u>132,519</u>	<u>(2,816)</u>	<u>(39,193)</u>	<u>171,289</u>
	<u>1,099,649</u>	<u>132,519</u>	<u>(12,342)</u>	<u>-</u>	<u>1,219,826</u>

	Consolidated				
	2007	2008			
	<u>Cost</u>	<u>Additions</u>	<u>Write-off</u>	<u>Transfers</u>	<u>Cost</u>
Buildings and improvements	658,169	-	-	6,267	664,436
Equipment and facilities	1,489,636	348	(533)	131,617	1,621,068
Vehicles	45,657	-	(9,817)	8,270	44,110
Computers and peripherals	20,831	5	-	549	21,385
Other	4,993	129	(12)	-	5,110
	<u>2,219,286</u>	<u>482</u>	<u>(10,362)</u>	<u>146,703</u>	<u>2,356,109</u>
Cost of nondepreciable items:					
Land	98,916	-	-	(1,911)	97,005
Spare parts	39,056	3,157	-	(4,962)	37,251
Construction in progress	74,853	249,130	(5,458)	(131,621)	186,904
Advances to suppliers	4,329	19,465	-	(8,209)	15,585
	<u>217,154</u>	<u>271,752</u>	<u>(5,458)</u>	<u>(146,703)</u>	<u>336,745</u>
	<u>2,436,440</u>	<u>272,234</u>	<u>(15,820)</u>	<u>-</u>	<u>2,692,854</u>

The Company, based on CVM Instruction 288/98 and CVM Resolution 183/95, utilized the inflation-adjusted cost in the valuation of property, plant and equipment items, although it maintained part of its assets (land and buildings) at their revalued amounts recorded in 1986, which will be recovered in future operations.

## 15. INTANGIBLE ASSETS

	Company		Consolidated	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Mining rights	13,182	13,182	19,027	19,027
(-) Depletion	<u>(2,345)</u>	<u>(2,095)</u>	<u>(4,218)</u>	<u>(3,853)</u>
	<u>10,837</u>	<u>11,087</u>	<u>14,809</u>	<u>15,174</u>
Software and licenses	515	783	5,628	7,453
(-) Amortization	<u>(266)</u>	<u>(448)</u>	<u>(3,464)</u>	<u>(4,477)</u>
	<u>249</u>	<u>335</u>	<u>2,164</u>	<u>2,976</u>
Rights and concessions	<u>503</u>	<u>503</u>	<u>520</u>	<u>521</u>
	<u>11,589</u>	<u>11,925</u>	<u>17,493</u>	<u>18,671</u>

Depletion is calculated based on the production to mineral reserves ratio.

16. FINANCING

<u>Type/purpose</u>	<u>Annual financial charges</u>	<u>Company</u>			<u>Consolidated</u>		
		<u>Current</u>		<u>Noncurrent</u>	<u>Current</u>		<u>Noncurrent</u>
		<u>2008</u>	<u>2007</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2007</u>
<b>Working capital:</b>							
Unibanco S.A. - compro	103% of CDI	-	20	-	-	22	-
Banco Santander S.A. - pre-export finance	5.65% + exchange rate change	11,945	9,237	8,857	11,495	9,237	8,857
Banco Itaú S.A. - pre-export finance	5.65% + exchange rate change	10,258	15,733	7,591	10,258	15,733	7,591
<b>Purchases of fixed assets and investments-</b>							
Banco do Brasil S.A.	14.00%	-	-	-	2,836	2,863	2,817
		<u>22,203</u>	<u>24,990</u>	<u>16,448</u>	<u>25,039</u>	<u>27,855</u>	<u>19,265</u>

Financing is collateralized by letters of guarantee, promissory notes and mortgage on company-owned assets.

The financial covenants of the agreements with Banco Santander S.A. and Banco Itaú S.A. are calculated on a consolidated basis and are properly complied with at the reporting dates.

## 17. TRADE ACCOUNTS PAYABLE

	Company		Consolidated	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Domestic	74,474	35,691	158,858	114,505
Foreign	<u>814,659</u>	<u>84,678</u>	<u>1,210,468</u>	<u>183,555</u>
	<u>889,133</u>	<u>120,369</u>	<u>1,363,326</u>	<u>298,060</u>

The Company and its wholly-owned subsidiary import raw materials and other inputs from certain suppliers, which conduct import draft transactions. In these transactions suppliers negotiate their receivables with financial institutions for advance collection of their sales to the Company, which becomes debtor to the financial institutions. The average term of these transactions is 360 days.

## 18. RESERVE FOR CONTINGENCIES

The Company and its wholly-owned subsidiary are parties to lawsuits that are at several court levels. Management recognized reserves in amounts considered sufficient to cover losses on lawsuits for which its legal counsel assessed the likelihood of a favorable outcome as remote.

	Company					
	2008			2007		
	<u>Escrow deposits</u>	<u>Contingencies Reserve</u>	<u>Net</u>	<u>Escrow deposits</u>	<u>Contingencies Reserve</u>	<u>Net</u>
Labor and civil	11,542	66,159	54,617	11,079	56,226	45,147
Tax:						
Federal:						
Income tax and social contribution (a)	-	257	257	-	225	225
COFINS (c)	7,822	9,156	1,334	7,822	8,028	206
INSS (d)	-	1,659	1,659	-	919	919
Other	2,899	6,642	3,743	2,899	4,048	1,149
State (e)	-	<u>7,700</u>	<u>7,700</u>	-	<u>6,579</u>	<u>6,579</u>
	<u>22,263</u>	<u>91,573</u>	<u>69,310</u>	<u>21,800</u>	<u>76,025</u>	<u>54,225</u>

	Consolidated					
	2008			2007		
	Escrow deposits	Contingencies Reserve	Net	Escrow deposits	Contingencies Reserve	Net
Labor and civil	17,014	91,570	74,556	16,526	84,646	68,120
Tax:						
Federal:						
Income tax and social contribution (a)	3,127	77,654	74,527	3,127	72,674	69,547
COFINS (c)	7,940	7,940	-	7,940	7,940	-
INSS (d)	7,822	9,156	1,334	7,822	8,028	206
Other	3,773	18,752	14,979	3,773	18,932	15,159
State (e)	3,709	20,941	17,232	3,709	5,250	1,541
	-	8,227	8,227	-	7,054	7,054
	<u>43,385</u>	<u>234,240</u>	<u>190,855</u>	<u>42,897</u>	<u>204,524</u>	<u>161,627</u>

Changes in lawsuits

	Company			
	2007	2008		
	Beginning balance	Addition and inflation adjustment, net of reversal	Payments	Ending balance
Labor and civil	56,226	15,795	(5,862)	66,159
Tax :				
Federal:				
Income tax and social contribution (a)	225	32	-	257
COFINS (c)	8,028	1,128	-	9,156
INSS (d)	919	740	-	1,659
Other	4,048	3,706	(1,112)	6,642
State (e)	<u>6,579</u>	<u>1,320</u>	<u>(199)</u>	<u>7,700</u>
	<u>76,025</u>	<u>22,721</u>	<u>(7,173)</u>	<u>91,573</u>

	Consolidated			
	2007	2008		
	Beginning balance	Addition and inflation adjustment, net of reversal	Payments	Ending balance
Labor and civil	84,646	14,692	(7,768)	91,570
Tax:				
Federal:				
Income tax and social contribution (a)	72,674	4,980	-	77,654
SAT (b)	7,940	-	-	7,940
COFINS (c)	8,028	1,128	-	9,156
INSS (d)	18,932	(180)	-	18,752
Other	5,250	16,803	(1,112)	20,941
State (e)	<u>7,054</u>	<u>1,372</u>	<u>(199)</u>	<u>8,227</u>
	<u>204,524</u>	<u>38,795</u>	<u>(9,079)</u>	<u>234,240</u>

- (a) Ordinary lawsuit with obtainment of injunction related to the deductibility of social contribution from the income tax basis and from its own basis (Law 9316/96) and declaratory action related to the discontinuance of balance sheet inflation adjustment in the wholly-owned subsidiary.

In 2007, the Company recorded a reserve related to collection of income tax, due to the utilization of tax loss carryforwards against taxable income in 1995, according to Law 8981/95, article 42, and Law 9065/95, article 12.

- (b) Injunction challenging the SAT risk level definition criterion.
- (c) Difference in the inflation adjustment index used in the FINSOCIAL balance utilized against the COFINS balance. The overutilized difference is being collected in the tax collection lawsuit.
- (d) Tax notifications issued by the National Institute of Social Security (INSS) related to the social security legislation.
- (e) At the State level, these lawsuits are related to the levy of ICMS.

Other lawsuits

There are other lawsuits assessed by the Company's legal counsel as possible loss, for which no reserve was recorded considering that Brazilian accounting practices do not require its recording, as follows:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Labor and civil	8,243	5,251	52,452	48,305
Tax	<u>4,617</u>	<u>14,718</u>	<u>47,886</u>	<u>54,705</u>
	<u>12,860</u>	<u>19,969</u>	<u>100,338</u>	<u>103,010</u>

19. PENSION PLAN AND EMPLOYEE POST-EMPLOYMENT BENEFITS

The wholly-owned subsidiary Ultrafertil S.A. maintains, by means of Fundação PETROBRAS de Seguridade Social - PETROS, a defined benefit plan to supplement the benefits granted by social security, for employees hired until September 1993. This pension plan has 1,709 members from the wholly-owned subsidiary, of whom 1,457 are already receiving retirement/pension supplementation. In 2008, Ultrafertil S.A. contributed R\$2,740 to PETROS (R\$2,572 in 2007).

In October 2001, the Company and its wholly-owned subsidiary implemented the pension plan intended to supplement the retirement paid by the official social security. This defined benefit plan is managed by Bradesco Previdência e Seguros S.A. In 2008, contributions to Bradesco Previdência e Seguros S.A. amounted to R\$1,038 (R\$1,058 in 2007), of which R\$261 (R\$270 in 2007) related to the Company and R\$777 (R\$788 in 2007) related to the wholly-owned subsidiary. In the wholly-owned subsidiary Ultrafertil S.A., this plan includes only employees not covered by PETROS.

Contribution rates to Bradesco Previdência e Seguros S.A. are 0.94% and 1.75%, Company and wholly-owned subsidiary, respectively, on the salaries of employees affiliated to this plan, and 12.93% on the salaries of employees of the wholly-owned subsidiary Ultrafertil S.A. affiliated to this plan.

The Company and its wholly-owned subsidiary pay to eligible employees a fine related to federal severance pay fund (FGTS), according to the agreement with the labor union.

For a portion of retired employees that are eligible, the Company and its wholly-owned subsidiary also offer health care benefits.

The actuarial liability as of December 31, 2008, calculated based on an independent actuary's report, is as follows:

	Company		Consolidated	
	2008	2007	2008	2007
Actuarial liability:				
Present value of actuarial obligations	(22,165)	(21,665)	(655,990)	(640,737)
Fair value of plan's assets	<u>3,360</u>	<u>794</u>	<u>748,848</u>	<u>609,684</u>
	<u>(18,805)</u>	<u>(20,871)</u>	<u>92,858</u>	<u>(31,053)</u>
Unrecognized actuarial gains (losses)	(3,150)	2,076	(144,574)	(16,077)
Unrecognized past service cost	<u>11,054</u>	<u>11,751</u>	<u>35,077</u>	<u>37,500</u>
Net liability in the balance sheet	<u>(10,901)</u>	<u>(7,044)</u>	<u>(16,639)</u>	<u>(9,630)</u>
Amounts in the balance sheet-				
Liability	<u>(10,901)</u>	<u>(7,785)</u>	<u>(46,680)</u>	<u>(31,074)</u>

The Company and its wholly-owned subsidiary Ultrafertil S.A. did not recognize assets originating from part of their plans in the amount of R\$30,041 related to the wholly-owned subsidiary. Under CVM Resolution 371/00, when the result of the actuarial calculation is an asset, this will only be recognized when it reduces the sponsor's contributions or is reimbursable in the future.

The independent actuary's report was prepared based on the trial balance as of September 30, 2007 provided by PETROS.

The breakdown of the actuarial liability is as follows:

	Company		Consolidated	
	2008	2007	2008	2007
Accumulated service cost-				
Actuarial liability:				
Interest on actuarial obligation	2,317	2,226	64,350	61,559
Expected return on plan's assets	(308)	(88)	(64,417)	(72,081)
Loss amortization	81	127	127	669
Service cost amortization	697	697	2,423	2,423
Current service cost	1,400	1,434	7,688	7,254
Employee contribution	-	-	<u>(1,444)</u>	<u>(1,560)</u>
Total	<u>4,187</u>	<u>4,512</u>	<u>8,727</u>	<u>(1,736)</u>
Actual return on plan's assets	<u>308</u>	<u>81</u>	<u>130,821</u>	<u>106,774</u>

Changes in the net liability recognized in the balance sheet are as follows:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Net liability at beginning of year	(7,785)	(5,282)	(31,074)	(20,084)
Net expense recognized in the statement of income	(3,821)	(2,820)	(18,676)	(13,452)
Contributions paid	<u>(705)</u>	<u>317</u>	<u>3,070</u>	<u>2,462</u>
Net liability at end of year	<u>(10,901)</u>	<u>(7,785)</u>	<u>46,680</u>	<u>(31,074)</u>

Main actuarial assumptions used by actuaries:

<u>Actuarial valuation method</u>	<u>Nominal rates - %</u>
Discount rate	12.35 p.a.
Expected return on plan's assets	11.45 p.a.
Future inflation rate	5.00 p.a.
Future salary growth - up to 47 years	7.10 p.a.
Future salary growth - after 48 years	5.00 p.a.
Medical costs growth	9.73 p.a.
Mortality table	AT-2000

PETROS plan's assets refer basically to fixed-income investments (62.51%), variable-income investments (31.61%), real estate investments (4.42%), and transactions with participants - loans (1.46%).

The amounts recorded by the Company and its wholly-owned subsidiary were calculated by an independent actuary whose report is dated December 30, 2008.

## 20. SHAREHOLDERS' EQUITY - COMPANY

### a) Capital

Subscribed and paid-up capital is represented by 426,425,468 shares without par value, of which 144,320,088 are common shares and 282,105,380 are preferred shares. Preferred shares do not have voting rights.

The 87<sup>th</sup> Annual and Extraordinary Shareholders' Meeting held on April 25, 2008 approved Management's proposals for increase in the Company's capital by R\$90,000, to R\$810,000 from R\$720,000, through the capitalization of profit reserve, without the issuance of new shares.

On September 10, 2008, the 88<sup>th</sup> Extraordinary Shareholders' Meeting approved the stock split at a 1:4 ratio, without any change in capital.

Preferred shares are entitled to dividends 10% higher than dividends paid on common shares, according to Law 9457/97, and also grant their holders priority in capital reimbursement in the event of the Company's liquidation, without premium.

b) Revaluation reserve

The portion realized this year of the revaluation reserve recognized in prior years, proportional to the depreciation of the revalued permanent assets, was transferred to retained earnings. Out of the total balance of the reserve, R\$24,913 corresponds to revaluation of land, which will only be realized in the event of sale of assets.

As permitted by CVM Instruction 197/93, tax charges on the revaluation reserve in the amount of R\$7,689 as of December 31, 2008 (2007 - R\$8,817) are recognized in the statement of income as this reserve is realized.

Management, based on the provision introduced by Law 11638/07, and article 6, which addresses the revaluation reserve, elected to maintain the balance as of December 31, 2008, of R\$47,529, until it is realized, of which R\$24,913 refers to the revaluation of land and R\$22,616 refers to the revaluation of buildings, the current balance of which will be realized through the depreciation of the revalued buildings or until its discontinuation.

c) Treasury shares

The Company's Board of Directors approved, on September 16, 2008, the buyback of 7,600,000 Company preferred shares to be held in treasury for subsequent sale or cancellation. The buyback term expires on September 16, 2009.

As of December 31, 2008 the position is as follows:

Type	Number bought (unit)	Purchase price			Market price as of 12/31/08		
		Minimum	Average	Maximum	Minimum	Average	Closing
Preferred	<u>347,800</u>	21.09	22.13	22.19			
	1,391,200 (*)						
Preferred	<u>2,561,700</u>	8.71	10.96	18.17	10.92	11.08	11.17
	<u>3,952,900</u>						

(\*) Arising from the stock split at a 1:4 ratio, approved at the Extraordinary Shareholders' Meeting held on September 10, 2008, due to the buyback program approved on May 10, 2006.

d) Dividends

Shareholders are entitled to a mandatory minimum dividend of 25% of the net income for the year, after the recognition of legal reserve.

Net income for the year	777,271
Recognition of legal reserve	(38,864)
Realization of revaluation reserve	<u>3,317</u>
Calculation basis	<u>741,724</u>
Mandatory minimum dividend - 25%	<u>185,431</u>

Dividends paid in 2008

	Per share		<u>Total</u>
	<u>Common shares</u>	<u>Preferred shares</u>	
Interim dividends attributable to net income as of June 30, 2008	150	1.65	169,915
Interest on capital attributed to 2008 mandatory minimum dividend (see note 21)	0.84	0.92	<u>94,871</u>
			264,786
Withholding income tax (IRRF) on interest on capital			<u>(12,842)</u>
Total			<u>251,944</u>

e) Profit retention reserve

Pursuant to article 196 of Brazilian Corporate Law (Law 6404/76), a proposal will be made for retention of the remaining profits, for which the reserve will reach R\$966,957, in compliance with the 2008 capital budget and the Company's working capital requirements, in view of the seasonality of the fertilizer business.

21. INTEREST ON CAPITAL

As permitted by Law 9249/95, the Company calculated interest on capital based on the long-term interest rate (TJLP) for the year, in the amount of R\$94,871 (R\$76,106 in 2007), which was recorded in financial expenses, as required by tax legislation. For purposes of these financial statements, this interest was eliminated from financial expenses for the year and is presented in the "retained earnings" account as a contra entry to current liabilities.

Income tax and social contribution for the year were reduced by R\$32,256 (R\$25,876 in 2007) as a result of the deduction of interest on capital paid to shareholders from these tax bases.

## 22. FINANCIAL RESULT, NET

	<u>Company</u>		<u>Consolidated</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Financial income:				
Short-term investments	90,967	27,313	139,155	47,412
Foreign exchange	-	4,342	-	4,342
Interest	161	126	752	708
Other	<u>2,891</u>	<u>4,732</u>	<u>5,571</u>	<u>6,588</u>
	<u>94,019</u>	<u>36,513</u>	<u>145,478</u>	<u>59,050</u>
Financial expenses:				
Interest	(3,281)	(4,503)	(4,831)	(6,141)
Inflation rate changes	-	(1,356)	-	(1,358)
Foreign exchange	(167,341)	11,523	(261,504)	30,468
Adjustment to present value	(6,303)	-	(9,711)	-
Other	<u>(3,039)</u>	<u>(5,730)</u>	<u>(8,549)</u>	<u>(17,482)</u>
	<u>(179,964)</u>	<u>(66)</u>	<u>(284,595)</u>	<u>5,487</u>
Financial results, net	<u>(85,945)</u>	<u>36,447</u>	<u>(139,117)</u>	<u>64,537</u>

## 23. OTHER OPERATING EXPENSES, NET

	<u>Company</u>		<u>Consolidated</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Expenses on contingencies	(28,837)	(25,776)	(40,482)	(53,231)
Maintenance shutdown (a)	(3,778)	(4,526)	(34,803)	(10,240)
Unscheduled shutdown	(12,254)	(5,990)	(39,809)	(22,797)
Provision for pension plan and employee post-employment benefits	(3,116)	(2,503)	(15,606)	(10,990)
Net proceeds from the sale of materials, scrap and waste	(722)	(5,989)	(2,436)	(12,477)
Expenses on technology innovation projects (b)	(2,895)	(2,303)	(4,371)	(5,465)
Amounts written off from deferred charges - Provisional Act 449/08 (c)	(3,377)	-	(7,131)	-
Other	<u>(2,123)</u>	<u>(6,357)</u>	<u>(8,643)</u>	<u>(16,241)</u>
	<u>(57,102)</u>	<u>(53,444)</u>	<u>(153,281)</u>	<u>(131,441)</u>

- (a) Expenses on scheduled maintenance shutdown, related to fixed structural costs and noncapitalizable costs, pursuant to CVM/SEP Circular 2/06, CVM Resolution 489/05, and item 13 of NPC 22 of IBRACON.
- (b) Expenses on technology innovation, according to article 10 of Decree 5798/06, which regulated articles 17 to 26 of Law 11196/05.
- (c) In order to conform the financial statements to the requirements of Provisional Act 449/08, the Company written off part of the deferred charges balance as of December 31, 2008.

## 24. INCOME TAX AND SOCIAL CONTRIBUTION

Reconciliation of income tax and social contribution, at statutory and effective rates:

	Company		Consolidated	
	2008	2007	2008	2007
Income before income tax and social contribution	1,002,656	547,681	1,127,116	634,215
Income tax and social contribution at statutory rates (34%)	(347,703)	(186,212)	(383,219)	(215,633)
Reconciliation:				
Equity in subsidiary	71,245	64,428	-	-
Deduction of interest on capital	32,256	25,876	32,256	25,876
Deduction of depreciation of revalued assets	(1,128)	(1,128)	(1,128)	(1,128)
Permanent deductions	(1,061)	(571)	(3,816)	(808)
Tax benefits	1,006	659	1,450	1,468
Income tax and social contribution	<u>(245,385)</u>	<u>(96,948)</u>	<u>(354,457)</u>	<u>(190,225)</u>
Income tax and social contribution:				
Current	(297,655)	(124,354)	(475,681)	(242,541)
Deferred	52,270	27,406	121,224	52,316
	<u>(245,385)</u>	<u>(96,948)</u>	<u>(354,457)</u>	<u>(190,225)</u>

## 25. FINANCIAL INSTRUMENTS

## a) General considerations

The Company and its subsidiary enter into transactions involving financial instruments, including derivatives, all of which recorded in balance sheet accounts, which are intended to meet their operating and financial needs. The Company and its subsidiary contract short-term investments, loans and financing, and derivative financial instruments.

These financial instruments are managed based on policies, definition of strategies and implementation of control systems, monitored by the Company's Management.

The Company and its wholly-owned subsidiary do not invest in derivatives or in any other risk asset for speculative purposes.

Short-term investments

The short-term investments policy established by the Company's Management elects the financial institutions with which contracts can be entered into, and defines limits for the amounts to be invested in each financial institution (see note 6).

Loans and financing

Loans and financing are recorded based on the contractual interest for each transaction, as shown in note 16.

Derivative policy

i. Foreign exchange risk

The Company and its wholly-owned subsidiary enter into derivative transactions to hedge against the exposure to foreign currency fluctuations arising from raw material purchases and financing agreements obtained for expansion of its manufacturing operations.

The domestic fertilizer industry is considered a price taker, i.e., it charges foreign market prices. Accordingly, there is price to foreign currency parity; consequently, the adjustment of inventories to exchange rate changes is reflected in the financial statements when products are transferred to buyers.

ii. Interest rate risks

The policy of the Company and its wholly-owned subsidiary is to maintain short-term investments in transactions yielding the CDI, as shown in note 6. The Company's and its wholly-owned subsidiary's financing are made at fixed rates, as shown in note 6.

b) Foreign exchange exposure

Foreign exchange exposure is mainly indexed to the U.S. dollar, as follows:

	Company		Consolidated	
	2008	2007	2008	2007
Assets:				
Inventories, net of contracted sales	994,542	116,532	1,352,791	241,378
Currency hedge financial instruments	-	35,469	-	35,469
Liabilities:				
Financing	(22,203)	(41,418)	(22,203)	(41,418)
Trade accounts payable	(814,659)	(84,678)	(1,210,468)	(183,555)
Foreign exchange exposure	<u>157,680</u>	<u>25,905</u>	<u>120,120</u>	<u>51,874</u>

## c) Exposure to interest rate risk

As of December 31, 2008 and 2007, the Company's asset exposures to interest rates are as follows:

	Company		Consolidated	
	2008	2007	2008	2007
Assets-				
Short-term investments (see note 6)	752,688	464,547	1,340,338	792,094

## d) Derivative transactions

The Company has entered into swap transactions as a hedge for the exposure of its liabilities to foreign exchange fluctuations arising from U.S. dollar-denominated financing agreements. These transactions consist of swapping a foreign currency-denominated liability for a liability bearing charges subject to CDI fluctuation, as follows.

	Contract date	Maturity	Notional amount - US\$000		Long position	Short position	Gains (losses) - R\$		Fair value - R\$
			2008	2007			2008	2007	2007
Conventional swaps:									
Contract "A"	Apr./04	Feb./09	3,744	3,744	VC + 6.95% p.a.	CDI	1,021	(2,756)	10,050
Contract "B"	Sept./04	Aug./08	3,303	3,303	VC + 7.55% p.a.	CDI	(1,803)	(2,485)	7,883
Contract "C"	Sept./04	Feb./09	<u>8,162</u>	<u>8,162</u>	VC + 8.05% p.a.	CDI	<u>2,196</u>	<u>(5,952)</u>	<u>18,610</u>
			<u>15,209</u>	<u>15,209</u>			<u>1,414</u>	<u>(11,193)</u>	<u>36,543</u>

The Company settled in advance, in November and December 2008, the amount of R\$25,442 with original maturity in 2009.

## e) Fair value

The carrying amounts of the Company's and its wholly-owned subsidiary's financial instruments approximate their fair values. The fair values of these financial instruments were obtained by calculating their present value, considering current market interest rates for transactions with similar terms and risks.

The wholly-owned subsidiary Ultrafertil S.A. is a closely-held company, and thus there is no available information on its fair value.

## f) Sensitivity analysis

In view of the current exposure of the Company and its wholly-owned subsidiary to the exchange rate fluctuations risk, a possible depreciation of the Brazilian real against the U.S. dollar would have an adverse effect on the Company.

Based on the exchange rate at December 31, 2008 (R\$2,337 per US\$1.00), the Company considered the following scenarios: (i) probable - additional depreciation of 7% in relation to the rate at December 31, 2008, with exchange rate of R\$2.50 per US\$1.00; (ii) possible - additional depreciation of 25% in relation to the rate at December 31, 2008, with exchange rate of R\$2.92 per US\$1.00; and (iii) remote - additional depreciation of 50% in relation to the rate at December 31, 2008, with exchange rate reaching R\$3.51 per US\$1.00.

Considering the foreign fluctuation trend on those dates and the mentioned scenarios, Management estimates that the Company would incur the following losses, which would be recovered as inventories were realized, based on product price parity in the foreign market (note 25.a)i):

<u>Foreign exchange risk</u>	<u>Scenarios</u>		
	<u>Probable</u>	<u>Possible</u>	<u>Remote</u>
Increase in exchange rate from R\$2.337 per US\$1.00	+ 7% (R\$2.50 per US\$1.00)	+ 25% (R\$2.92 per US\$1.00)	+ 50% (R\$3.51 per US\$1.00)
Trade accounts payable - foreign	86,304	308,474	621,088
Financing	<u>1,549</u>	<u>5,539</u>	<u>11,144</u>
Total effect	<u>87,853</u>	<u>314,013</u>	<u>632,232</u>

g) Credit risk

The sales of the Company and its wholly-owned subsidiary are made to a large number of customers and this risk is managed through a strict credit granting process. The result of this management is reflected in the caption "Allowance for doubtful accounts", as shown in note 7.

The Company and its wholly-owned subsidiary are also subject to credit risks related to financial instruments contracted to manage their business. The Company's Management considers the risk of default on transactions conducted with financial institutions with which it operates as low, since they are considered prime financial institutions by the market.

26. INSURANCE

The Company and its subsidiary maintain standard safety, training, environment, and quality programs in all of its plants, which, among other benefits, aim at reducing the risk of accidents. In addition, the Company has insurance coverage, based on experts' advice, which take into consideration the nature and the risk level, in amounts considered sufficient to cover possible significant losses on their assets and liabilities. The risk assumptions adopted, in view of their nature, are not part of the scope of an audit of the financial statements and, accordingly, were not audited by our independent auditors.

Insurance coverage as of December 31, 2008 is as follows:

<u>Type</u>	<u>Company</u>	<u>Consolidated</u>
Civil liability (*)	23,370	23,370
Operational risks/property damages	1,366,393	3,505,174
Loss of profits	<u>579,560</u>	<u>1,171,804</u>
	<u>1,969,323</u>	<u>4,700,348</u>

(\*) The insurance covers both the Company and its subsidiary Ultrafertil S.A.

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