

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

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

Deloitte Touche Tohmatsu Auditores Independentes

## INDEPENDENT AUDITORS' REPORT

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

1. We have audited the accompanying consolidated balance sheets of Fertilizantes Fosfatados S.A. Fosfertil and subsidiaries ("Fosfertil" or the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, all expressed in United States dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.
2. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
3. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Fertilizantes Fosfatados S.A. Fosfertil and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.
4. As discussed in Note 2 to the consolidated financial statements, in December 2006, the Company announced a proposed corporate reorganization that contemplates the merger of Bunge Fertilizantes S.A., an indirect shareholder of the Company, which is subject to shareholders approval. The proposed reorganization has been suspended, pending the outcome of legal proceedings brought by the Company's shareholders.
5. As discussed in Note 8 to the financial statements, the Company adopted FASB Interpretation 48, "Accounting for Uncertainties in Income Taxes", as of January 1, 2007.

February 5, 2009

FERTILIZANTES FOSFATADOS S.A. FOSFERTIL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007

(In thousands of U.S. dollars - US\$)

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<u>ASSETS</u>	<u>Note</u>	<u>2008</u>	<u>2007</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		574,117	448,235
Trade accounts receivable, net (including related parties, US\$2,769 in 2008 and US\$891 in 2007)	3	31,057	30,747
Inventories	4	553,878	148,871
Recoverable taxes	5	7,510	11,621
Deferred income taxes - current	8	53,332	134
Other current assets		<u>23,077</u>	<u>32,339</u>
Total current assets		1,242,971	671,947
PROPERTY, PLANT AND EQUIPMENT, NET		<u>410,441</u>	<u>515,543</u>
<b>OTHER ASSETS</b>			
Trade accounts receivable, net	3	2,444	2,326
Recoverable taxes, net	5	44,802	44,665
Prepaid pension asset	12	55,846	25,545
Deferred income taxes	8	43,740	70,941
Other noncurrent assets	6	<u>62,083</u>	<u>110,591</u>
Total other assets		208,915	254,068
TOTAL ASSETS		<u>1,862,327</u>	<u>1,441,558</u>

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

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FERTILIZANTES FOSFATADOS S.A. FOSFERTIL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007

(In thousands of U.S. dollars - US\$)

<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>Note</u>	<u>2008</u>	<u>2007</u>
<b>CURRENT LIABILITIES</b>			
Current portion of long-term debt	9	10,714	15,714
Trade accounts payable (including related parties, US\$1,427 in 2008 and US\$219 in 2007)		595,084	168,272
Accrued payroll and wages		26,641	33,249
Income taxes payable		117,723	65,983
Accrual for pension and postretirement benefit obligations	12	5,749	5,978
Dividends		-	17,937
Advances on sales (including related parties, US\$107,561 in 2008 and US\$33,324 in 2007)		145,890	58,409
Other current liabilities (including related parties, US\$5,457 in 2008 and US\$346 in 2007)		10,795	17,689
Total current liabilities		<u>912,596</u>	<u>383,231</u>
<b>LONG-TERM LIABILITIES</b>			
Long-term debt	9	-	10,876
Accrual for pension and postretirement benefit obligations	12	25,344	37,099
Accrual for claims and lawsuits	14	63,849	74,436
Income taxes - FIN 48	8	36,382	41,029
Other long-term liabilities		5,114	23,175
Total long-term liabilities		<u>130,689</u>	<u>186,615</u>
<b>SHAREHOLDERS' EQUITY</b>			
Common shares, no par value; 144,320,088 authorized and outstanding shares and additional paid-in capital		194,628	176,375
Preferred shares, no par value; 282,105,380 authorized and 280,380,139 outstanding shares and additional paid-in capital		391,558	355,880
Legal reserve		81,416	64,786
Treasury stock (at cost)		(16,022)	(3,558)
Retained earnings		288,462	173,772
Accumulated other comprehensive income (loss)		(121,000)	104,457
Total shareholders' equity		819,042	871,712
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u><u>1,862,327</u></u>	<u><u>1,441,558</u></u>

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

FERTILIZANTES FOSFATADOS S.A. FOSFERTIL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(In thousands of U.S. dollars - US\$, except share and per share information)

	<u>Note</u>	<u>2008</u>	<u>2007</u>
NET SALES (including related parties, US\$948,730 in 2008 and US\$740,691 in 2007)		1,968,939	1,291,995
COST OF SALES		(1,202,496)	(909,205)
GROSS PROFIT		766,443	382,790
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		(70,274)	(85,370)
OPERATING INCOME		696,169	297,420
NONOPERATING INCOME (EXPENSES)			
Interest income		78,151	29,270
Interest expense		(3,786)	(9,367)
Foreign exchange		(126,619)	17,824
Other, net		122	779
Nonoperating income (expenses), net		(52,132)	38,506
INCOME BEFORE INCOME TAXES		644,037	335,926
Income tax expense	8	(208,069)	(101,093)
NET INCOME		435,968	234,833
EARNINGS PER SHARE - BASIC AND DILUTED	11		
Common - US\$		0.9632	2.0731
Preferred - US\$		1.0591	2.2804
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	11	144,320,088	36,080,022
WEIGHTED AVERAGE NUMBER OF PREFERRED SHARES OUTSTANDING	11	280,380,139	70,178,545

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

FERTILIZANTES FOSFATADOS S.A. FOSFERTIL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007  
(In thousands of U.S. dollars - US\$)

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	<u>Note</u>	<u>2008</u>	<u>2007</u>
NET INCOME		435,968	234,833
OTHER COMPREHENSIVE INCOME			
Foreign currency translation adjustment		(251,862)	134,485
Impact of adoption and amortization of SFAS 158	12	26,405	4,612
COMPREHENSIVE INCOME		<u>210,511</u>	<u>373,930</u>

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

FERTILIZANTES FOSFATADOS S.A. FOSFERTIL

CONDOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007  
(In thousands of U.S. dollars - US\$)

	<u>Note</u>	<u>Common shares and additional paid-in capital</u>	<u>Preferred shares and additional paid-in capital</u>	<u>Legal reserve</u>	<u>Treasury stock</u>	<u>Retained earnings</u>	<u>Accumulated other comprehensive loss</u>	<u>Total</u>
BALANCES AS OF DECEMBER 31, 2006		176,375	355,880	52,063	(3,558)	9,864	(34,640)	555,984
Net income		-	-	-	-	234,833	-	234,833
Transfer to legal reserve		-	-	12,723	-	(12,723)	-	-
Dividends		-	-	-	-	(56,682)	-	(56,682)
Impact of adoption of FIN 48	8	-	-	-	-	(1,520)	-	(1,520)
Amount amortized of SFAS 158	12	-	-	-	-	-	4,612	4,612
Net foreign currency translation adjustment		-	-	-	-	-	134,485	134,485
BALANCES AS OF DECEMBER 31, 2007		<u>176,375</u>	<u>355,880</u>	<u>64,786</u>	<u>(3,558)</u>	<u>173,772</u>	<u>104,457</u>	<u>871,712</u>
Net income		-	-	-	-	435,968	-	435,968
Transfer to capital		18,253	35,678	-	-	(53,931)	-	-
Transfer to legal reserve		-	-	16,630	-	(16,630)	-	-
Dividends		-	-	-	-	(250,717)	-	(250,717)
Repurchase of stocks		-	-	-	(12,464)	-	-	(12,464)
Amount amortized of SFAS 158	12	-	-	-	-	-	26,405	26,405
Net foreign currency translation adjustment		-	-	-	-	-	(251,862)	(251,862)
BALANCES AS OF DECEMBER 31, 2008		<u>194,628</u>	<u>391,558</u>	<u>81,416</u>	<u>(16,022)</u>	<u>288,462</u>	<u>(121,000)</u>	<u>819,042</u>

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

FERTILIZANTES FOSFATADOS S.A. FOSFERTIL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(In thousands of U.S. dollars - US\$)

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	435,968	234,833
<b>ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Unrealized foreign exchange/monetary variation on debt	151,910	(4,309)
Depreciation and amortization	67,498	67,559
Provision for (reversal of) adjustments to realizable value of current and noncurrent assets	28,602	60,164
Loss on disposal of property, plant and equipment	4,566	3,953
Deferred income taxes	(65,558)	(25,453)
<b>CHANGES IN OPERATING ASSETS AND LIABILITIES</b>		
Trade accounts receivable	(9,872)	555
Inventories	(557,073)	(62,662)
Recoverable taxes	(10,968)	48,303
Other assets	(7,002)	(767)
Trade accounts payable	446,155	76,997
Income taxes payable	86,245	48,453
Accrued payroll and wages	1,835	8,216
Other liabilities	<u>121,923</u>	<u>60,864</u>
Net cash provided by operating activities	<u>694,229</u>	<u>516,706</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(94,706)	(59,992)
Judicial deposits (restricted assets)	<u>1,033</u>	<u>3,414</u>
Net cash used in investing activities	<u>(93,673)</u>	<u>(56,578)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repurchase of preferred stocks	(12,464)	-
Repayments of short-term debt	(15,372)	(64,534)
Dividends paid to shareholders	<u>(269,265)</u>	<u>(38,745)</u>
Net cash used in financing activities	<u>(297,101)</u>	<u>(103,279)</u>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<u>(177,573)</u>	<u>42,576</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	125,882	399,425
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	448,235	48,810
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>574,117</u>	<u>448,235</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid for:		
Interest	1,296	4,527
Income taxes	145,288	39,763

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

## FERTILIZANTES FOSFATADOS S.A. FOSFERTIL AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(Expressed in thousands of U.S. dollars - US\$, except share and per share information and unless otherwise stated)

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

##### Description of business

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

##### Basis of presentation

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

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

##### Use of estimates

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

##### Translation of foreign currency financial statements

The accompanying financial statements have been translated from Brazilian reais into United States dollars in accordance with the standards set forth in Statement of Financial Accounting Standards - SFAS 52, “Foreign Currency Translation”, for the purposes of consolidation and the application of equity method of accounting by the Company’s investors.

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

#### Foreign currency transactions

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

#### Cash and cash equivalents

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

#### Trade accounts receivable

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

#### Derivative financial instruments

Fosfertil enters into derivative financial instruments to limit exposure to changes in foreign currency fluctuations. The Company does not enter into derivative financial instruments for speculative purposes. The Company accounts for derivative financial instruments in accordance with Financial Accounting Standards Board - FASB Statement of Financial Accounting Standard - SFAS 133 and 138, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133 and 138").

The Company's derivative instruments are recorded at fair value in the balance sheet based on quoted market prices or based on the present value of estimated future cash flows. The Company's derivative financial instruments have not been designated as accounting hedges under SFAS 133 and 138 and, as such, changes in fair value are recognized currently in income as a part of foreign exchange in the statements of income.

#### Inventories

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

#### Recoverable taxes

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

### Spare parts

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

### Property, plant and equipment

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

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

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

### Impairment of long-lived assets

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

### Environmental, site and restoration costs

Expenditures related to ongoing compliance with environmental regulations are charged to expense as incurred. These ongoing programs are designed to minimize the environmental impact of the Company's activities. Effective January 1, 2003, the Company adopted the provisions of SFAS 143, "Accounting for Asset Retirement Obligations", which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs, including those final site

restoration and reclamation costs associated with the Company's mining rights and operating facilities. In accordance with SFAS 143, these asset retirement obligations are recorded at their present value when incurred, with a corresponding amount capitalized as part of property, plant and equipment. The related asset retirement obligations will be accreted to the estimated future values on the estimated date that such obligations will be paid, while the asset will subsequently be depreciated over the remaining estimated useful life.

#### Income taxes

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

#### Revenue recognition

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

#### Comprehensive income

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

#### Recent accounting developments

In December 2008, the FASB issued FSP FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets" ("FSP FAS 132(R)-1"). FSP FAS 132(R)-1 requires additional disclosures about assets held in an employer's defined benefit pension or other postretirement plan. FSP FAS 132(R)-1 replaces the requirement to disclose the percentage of the fair value of total plan assets with the requirement to disclose the fair value of each major asset category. In addition, FSP FAS 132(R)-1 amends SFAS 132(R) to require disclosure of the level within the fair value hierarchy (i.e., Level 1, Level 2 and Level 3), in which each major category of plan assets falls, using the guidance in SFAS 157, "Fair Value Measurements", as well as to require reconciliation of the beginning and ending balances of plan assets with fair values measured using significant unobservable inputs (Level 3), separately presenting changes during the period attributable to actual return on plan assets, purchases, sales and settlements (net) and transfers in and out of Level 3. FSP FAS 132(R)-1 is effective for fiscal year ending after December 15, 2009. The adoption of FSP FAS 132(R)-1 will require expanded disclosures in the notes to Fosfertil's consolidated financial statements but will not impact Fosfertil's financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS 161, “Disclosures About Derivative Instruments and Hedging Activities, an Amendment of FASB Statement 133” (“SFAS 161”), which amends SFAS 133, “Accounting for Derivative Instruments and Hedging Activities”, by expanding the disclosure requirements. The disclosure provisions of SFAS 161 apply to all entities with derivative instruments subject to SFAS 133 and also apply to related hedged items and other instruments that are designated and qualify as hedging instruments. SFAS 161 requires a company to disclose how and why it uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133, and how derivative instruments and related hedged items affect the company’s financial position, financial performance, and cash flows. Companies are required to provide tabular disclosures of the location, by line item, of amounts of gains and losses reported in the statement of income. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption permitted. The adoption of this standard will require expanded disclosure in the notes to Fosfertil’s consolidated financial statements but will not impact Fosfertil’s financial position, results of operations or cash flows.

In April 2008, the FASB issued FSP FAS 142-3, “Determination of the Useful Life of Intangible Assets” (“FSP FAS 142-3”). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, “Goodwill and Other Intangible Assets”. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Fosfertil is currently evaluating the impact, if any, that FSP FAS 142-3 will have on its consolidated financial statements.

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS 160, “Noncontrolling Interests in Consolidated Financial Statements”, an amendment of ARB 51 (“SFAS 160”). SFAS 160 requires an entity to clearly identify and present ownership interests in subsidiaries held by parties other than the entity in the consolidated financial statements within the equity section but separate from the entity’s equity. It also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; changes in ownership interest be accounted for similarly, as equity transactions; and when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary and the gain or loss on the deconsolidation of the subsidiary be measured at fair value. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, the Company will adopt SFAS 160 in fiscal year 2010. The Company will assess the impact of SFAS 160 on the consolidated financial statements.

In December 2007, the FASB issued SFAS 141 (revised 2007), “Business Combinations” (“SFAS 141R”). Under SFAS 141R, an entity is required to recognize the assets acquired, liabilities assumed, contractual contingencies and contingent consideration measured at their fair value at the acquisition date. It further requires that acquisition-related costs are to be recognized separately from the acquisition and expensed as incurred. In addition, acquired in-process research and development (“IPR&D”) is capitalized as an intangible asset and amortized over its estimated useful life. The IPR&D is evaluated for impairment and if no alternative future use exists, the asset is expensed. SFAS 141R is effective for business combinations for which the acquisition date is after the beginning of the first annual

reporting period beginning after December 15, 2008. Company's management does not expect any relevant impact as a result of this Statement; however, management will assess the impact of adopting SFAS 141R.

In February 2007, the FASB issued Statement of Financial Accounting Standards 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of SFAS 115" ("SFAS 159"). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement 157, "Fair Value Measurements". Company's management does not expect this guidance to have a significant impact on the financial statements; however, management has assessed and decided for not adopting SFAS 159.

## 2. PROPOSED CORPORATE REORGANIZATION

In December 2006, Fosfertil announced a proposed corporate reorganization intended to capture synergies and compete better in the domestic and international fertilizer markets. As part of the proposed reorganization, Bunge Fertilizantes S.A. ("Bunge"), a wholly-owned subsidiary of Bunge Ltd., a direct and indirect shareholder of Fosfertil, would become a subsidiary of Fosfertil, and Bunge's combined direct and indirect ownership in Fosfertil would increase.

On August 28, 2007, the Justice Court of São Paulo agreed to the appeals filed by the shareholders in order to suspend the decisions made at the Ordinary General Meeting of Fertifos Administração e Participação S.A. (Fosfertil's major shareholder) held on April 27, 2006, including the substitution of three Council's members of Fertifos, stating the ineffectiveness of the Council's acts, including the approval of the Company's operational and corporate reorganization. On June 6, 2008, by means of preliminary order due to the writ of prevention applied by the Company and Fertifos, the Superior Court of Justice suspended the effects of the decision made by the Justice Court of São Paulo. In light of the foregoing, the determination made at the Ordinary General Meeting of Fertifos Administração e Participação S.A. on April 27, 2006 and its effects remain under discussion, including the related reorganization concerning the Company.

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

3. TRADE ACCOUNTS RECEIVABLE

	<u>2008</u>	<u>2007</u>
Current:		
Trade accounts receivable	31,665	33,148
Allowance for doubtful accounts	<u>(608)</u>	<u>(2,401)</u>
Total	<u>31,057</u>	<u>30,747</u>
Noncurrent:		
Trade accounts receivable	6,517	8,813
Allowance for doubtful accounts	<u>(4,073)</u>	<u>(6,487)</u>
Total	<u>2,444</u>	<u>2,326</u>

4. INVENTORIES

	<u>2008</u>	<u>2007</u>
Raw materials and supplies	152,166	29,349
Imports in transit	35,119	15,085
Finished goods	<u>366,593</u>	<u>104,437</u>
Total	<u>553,878</u>	<u>148,871</u>

5. RECOVERABLE TAXES

	<u>2008</u>	<u>2007</u>
Recoverable taxes (ICMS)	73,871	91,625
Recoverable taxes (PIS and COFINS)	<u>8,214</u>	<u>14,284</u>
	82,085	105,909
Less- valuation allowance	<u>(29,773)</u>	<u>(49,623)</u>
Total	<u>52,312</u>	<u>56,286</u>
Current	7,510	11,621
Noncurrent	44,802	44,665

At December 31, 2008 and 2007, Fosfertil had recorded a valuation allowance in the amounts of US\$29,773 and US\$49,623, respectively, to reduce the balance of recoverable taxes related to ICMS to an amount that management believes is more likely than not to be realized.

## 6. OTHER NONCURRENT ASSETS

	<u>2008</u>	<u>2007</u>
Spare parts	21,048	55,222
Judicial deposits	32,926	44,511
Other	<u>8,109</u>	<u>10,858</u>
Total	<u>62,083</u>	<u>110,591</u>

## 7. PROPERTY, PLANT AND EQUIPMENT, NET

	<u>2008</u>	<u>2007</u>
Buildings	238,682	313,408
Machinery and equipment	661,222	852,376
Furniture, fixtures and other	<u>41,016</u>	<u>62,355</u>
	940,920	1,228,139
Less accumulated depreciation	<u>(657,813)</u>	<u>(805,881)</u>
Subtotal	283,107	422,258
Land	28,148	44,572
Construction in progress	<u>99,186</u>	<u>48,713</u>
Total	<u>410,441</u>	<u>515,543</u>

The Company capitalized interest on construction in progress in the amounts of US\$1,024 and US\$1,365 for the years ended December 31, 2008 and 2007, respectively. Depreciation expense was US\$67,498 and US\$67,559 for the years ended December 31, 2008 and 2007, respectively.

## 8. INCOME TAXES

On January 1, 2007, Fosfertil adopted the provisions of FIN 48. Among other tax guidances, FIN 48 requires applying a “more likely than not” threshold to the recognition and derecognition of tax positions. As a result of the adoption of FIN 48, the Company reclassified from contingencies the amount of US\$30,105 related to liabilities for unrecognized tax benefits and recorded US\$1,520 of interest over the principal amount in retained earnings. The balance related to FIN 48 as of December 31, 2008 amounts to US\$36,382, which includes the accrued interest and penalties of US\$7,236 recorded during 2008 in the statement of income as income tax expenses.

The activity for the period is as follows:

	<u>Balance as of</u> <u>January 1, 2008</u>	<u>Interest</u>	<u>Loss on</u> <u>translation</u>	<u>Balance as of</u> <u>December 31, 2008</u>
Principal	36,339	-	(8,796)	27,543
Interest	<u>4,690</u>	<u>7,236</u>	<u>(3,087)</u>	<u>8,839</u>
Total	<u>41,029</u>	<u>7,236</u>	<u>(11,883)</u>	<u>36,382</u>

The components of income tax expense are as follows:

	<u>2008</u>	<u>2007</u>
Current	273,627	126,546
Deferred	<u>(65,558)</u>	<u>(25,453)</u>
Income tax expense	<u>208,069</u>	<u>101,093</u>

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

	<u>2008</u>	<u>2007</u>
Income before income tax expense	644,037	335,926
Composite statutory income tax rate	<u>34%</u>	<u>34%</u>
Income tax expense at statutory rate	218,973	114,215
Adjustments to derive effective rate:		
Income tax effect of interest on shareholders' equity	(19,736)	(13,608)
FIN 48 interest	7,236	2,311
Other permanent differences	<u>1,596</u>	<u>(1,825)</u>
Income tax expense	<u>208,069</u>	<u>101,093</u>

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

The components of deferred income taxes are as follows:

	<u>2008</u>	<u>2007</u>
Deferred income tax assets:		
Accruals and reserves not currently deductible for tax purposes	66,677	66,430
Foreign exchange losses not realized	38,709	-
Excess of tax basis over financial statement basis of property, plant and equipment and other	<u>14,582</u>	<u>18,229</u>
Total	<u>119,968</u>	<u>84,659</u>
Deferred income tax liabilities:		
Prepaid pension asset	18,987	8,685
Accelerated depreciation	3,909	601
Foreign exchange gains	<u>-</u>	<u>4,298</u>
Total	<u>22,896</u>	<u>13,584</u>

## 9. LONG-TERM DEBT

Long-term debt obligations are summarized below:

	<u>2008</u>	<u>2007</u>
Due in Brazilian currency (real)-		
Long-term debt, interest plus 14.0%, payable through 2009	1,213	3,206
Due in foreign currency (U.S. dollar)-		
Long-term debt, interest rate of 5.7%, payable through 2009	<u>9,501</u>	<u>23,384</u>
	10,714	26,590
Less- current portion	<u>(10,714)</u>	<u>(15,714)</u>
Total	<u>          -</u>	<u>10,876</u>

As of December 31, 2008, certain land, property, plant and equipment having a net carrying value of approximately US\$46,000 have been mortgaged or otherwise encumbered against long-term debt.

A portion of the Company's long-term debt is subject to certain restrictive covenants, which include restrictions as to the payments of dividends, as well as limits on capital expenditures and maintenance of certain debt levels, among others. The Company was in compliance with all such covenants as of December 31, 2008. Furthermore, these covenants have not restricted the Company's ability to conduct its normal business or incur additional debt to fund its working capital or capital expenditure needs.

## 10. FINANCIAL INSTRUMENTS

### Risk management

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

### Fair value of financial instruments

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

The carrying amounts and fair values of financial instruments as of December 31 are as follows:

	2008		2007	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	574,117	574,117	448,235	448,235
Accounts receivable	31,057	31,057	30,747	30,747
Debt	10,714	10,714	26,590	26,590
Hedge transactions	-	-	15,637	15,637

#### Foreign currency risk management

Fosfertil enters into foreign currency exchange swap and forward contracts to hedge foreign currency exposures. Generally, the Company hedges only the net exposure of assets and liabilities denominated in the same currency. The related derivative contracts are not designated as accounting hedges under SFAS 133. The fair value gains or losses from these foreign currency derivatives are recognized directly in earnings, and generally offset foreign exchange gains or losses, which are recorded as other assets or liabilities according to the maturity dates.

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.

As of December 31, 2007, Fosfertil had cross-currency swaps outstanding with notional principal amounts of US\$15,209 and unrealized mark-to-market losses of US\$20,630. In 2008, the Company liquidated such contracts.

#### Adoption of SFAS 157, "Fair Value Measurements"

Effective January 1, 2008, the Company adopted SFAS 157, which provides a framework for measuring fair value. SFAS 157 also eliminates the deferral of gains and losses at inception associated with certain derivative contracts whose fair value was not evidenced by observable market data. SFAS 157 requires that the impact of this change in accounting for derivative contracts be recorded as an adjustment to opening retained earnings in the period of adoption. The Company did not have any deferred gains or losses at inception of derivative contracts and therefore no adjustment to opening retained earnings was made upon adoption of SFAS 157.

SFAS 157 defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in Fertifos' principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The Company determined the fair market values of its derivative contracts based on the fair value hierarchy established in SFAS 157, which requires a company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are inputs that reflect the assumptions market participants would use in

pricing the asset or liability developed based on market data obtained from sources independent of the reporting company. Unobservable inputs are inputs that reflect the Company's own assumptions based on market data and on assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The standard describes three levels within its hierarchy that may be used to measure fair value:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 1 assets and liabilities include exchange-traded derivative contracts.
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are a significant component of the fair value of the assets or liabilities. In evaluating the significance of fair value inputs, the Company gives consideration to items that individually, or when aggregated with other inputs, generally represent more than 10% of the fair value of the assets or liabilities. For such identified inputs, judgments are required when evaluating both quantitative and qualitative factors in the determination of significance for purposes of fair value level classification and disclosure.

Based on the management's assessment, the Company has only foreign currency exchange swap and forward contracts to hedge foreign currency exposures. Generally, the Company hedges only the net exposure of assets and liabilities denominated in the same currency. The fair value gains or losses from these foreign currency derivatives are recognized directly in earnings, and generally offset foreign exchange gains or losses, which are recorded as other assets or liabilities according to the maturity dates.

## 11. SHAREHOLDERS' EQUITY

### Capital structure

The Company's capital structure is composed of common and preferred shares. No additional share of either class of security was authorized, issued or retired during the years ended December 31, 2008 and 2007. During 2008, shareholders approved increase to the Company's capital stock of US\$53,931 through the capitalization of a portion of unappropriated retained earning. This is an act permitted by Brazilian corporate law.

### Security rights

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

Legal reserve

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

Treasury stock

In September 2008, the Company's Board of Directors authorized the Preferred Stock Repurchase Plan, which provided for reacquisition of up to 7,600,000 of the Company's preferred stock. This authorization will expire in September 2009. As of December 31, 2008, the Company kept in treasury 3,952,900 shares of preferred stock repurchased at a total cost of US\$16,022.

Dividends

Aggregate dividends declared by the Company were as follows:

	<u>2008</u>	<u>2007</u>
Dividends - common shares	79,964	18,054
Dividends - preferred shares	<u>170,753</u>	<u>38,628</u>
Total	<u>250,717</u>	<u>56,682</u>

Earnings per share

In accordance with SFAS 128, "Earnings per Share", the following tables reconcile net income available to common and preferred shareholders and weighted average common and preferred shares outstanding to the amounts used to calculate basic and diluted income per share for each of the years ended December 31, 2008 and 2007.

	<u>2008</u>		
	<u>Common</u>	<u>Preferred</u>	<u>Total</u>
Basic and diluted numerator:			
Actual dividends declared	79,964	170,753	250,717
Basic allocated undistributed income	<u>58,244</u>	<u>127,007</u>	<u>185,251</u>
Allocated net income available to common and preferred shareholders	<u>138,208</u>	<u>297,760</u>	<u>435,968</u>
Basic and diluted denominator:			
Weighted average shares outstanding	<u>144,320,088</u>	<u>280,380,139</u>	
Earnings per share - basic and diluted	<u>0.9632</u>	<u>1.0591</u>	
	<u>2007</u>		
	<u>Common</u>	<u>Preferred</u>	<u>Total</u>
Basic and diluted numerator:			
Actual dividends declared	18,054	38,628	56,682
Basic allocated undistributed income	<u>56,743</u>	<u>121,408</u>	<u>178,151</u>
Allocated net income available to common and preferred shareholders	<u>74,797</u>	<u>160,036</u>	<u>234,833</u>
Basic and diluted denominator:			
Weighted average shares outstanding	<u>36,080,022</u>	<u>70,178,545</u>	
Earnings per share - basic and diluted	<u>2.0731</u>	<u>2.2804</u>	

On September 10, 2008, shareholders approved the stock's spin-off in the proportion of 1:4, with no changes in the capital stock.

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

## 12. EMPLOYEE BENEFIT PLANS

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

### Employee defined benefit pension plan

Ultrafertil sponsors a noncontributory defined benefit pension plan administered by the Fundação PETROBRAS de Seguridade Social ("PETROS") covering 1,709 active and 1,457 retired employees of Ultrafertil. Beginning January 1, 2002, the Company began accounting for the related pension benefits associated with this plan in accordance with SFAS 87, "Employers Accounting for Pensions", as a result of its withdrawal from the previous PETROS multiemployer plan. The plan provides benefits based primarily on participant's salary and length of service. The funding policy for the plan is generally determined in accordance with statutory funding requirements.

### Postretirement healthcare and other benefits

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

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

	2008		2007	
	Pension benefits	Other postretirement benefits	Pension benefits	Other Postretirement benefits
Change in projected benefit obligation:				
Benefit obligation at beginning of year	318,697	43,036	243,025	33,927
Service cost	1,959	2,231	1,399	2,325
Interest cost	31,105	3,967	27,810	3,791
Actuarial (gain) loss	(5,692)	(8,631)	11,411	(2,854)
Benefits paid	(22,051)	(1,145)	(17,560)	(1,366)
Other	6,751	-	-	-
Foreign currency translation adjustment	<u>(79,701)</u>	<u>(9,648)</u>	<u>52,612</u>	<u>7,213</u>
Benefit obligation at end of year	<u>250,888</u>	<u>29,809</u>	<u>318,697</u>	<u>43,036</u>
Change in plan assets:				
Fair value of plans assets at beginning of year	344,201	-	249,175	-
Actual return on plan assets	71,298	-	54,812	-
Contributions received	3,124	-	2,249	-
Benefits paid	(22,051)	-	(17,560)	-
Other	4,395	-	-	-
Foreign currency translation adjustment	<u>(95,517)</u>	<u>-</u>	<u>55,525</u>	<u>-</u>
Fair value of plans assets at end of year	<u>305,450</u>	<u>-</u>	<u>344,201</u>	<u>-</u>
Funded status	<u>(54,562)</u>	<u>29,809</u>	<u>(25,504)</u>	<u>43,036</u>
Amount recognized in consolidated balance sheet (asset) liability	<u>(54,562)</u>	<u>29,809</u>	<u>(25,504)</u>	<u>43,036</u>
Noncurrent assets	(55,846)	-	(25,545)	-
Current liabilities	-	5,749	29	5,949
Noncurrent liabilities	1,284	24,060	12	37,087

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

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

	2008	2007
Accumulated benefit obligation	242,141	328,962
Projected benefit obligation	250,888	318,697
Fair value of plan assets	305,450	344,201

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

	2008		2007	
	Pension benefits	Other postretirement benefits	Pension benefits	Other postretirement benefits
Service cost, net of participant contributions	920	1,751	658	2,557
Interest cost	24,421	3,115	30,584	4,169
Expected return on plan assets	(27,564)	-	(40,694)	-
Amortization of prior service cost	-	1,156	-	1,525
Amortization of net (gain) loss	<u>(2)</u>	<u>59</u>	<u>(3)</u>	<u>384</u>
Total net periodic benefit expense (benefit)	<u>(2,225)</u>	<u>6,081</u>	<u>(9,455)</u>	<u>8,635</u>

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

	%	
	<u>2008</u>	<u>2007</u>
Discount rate	12.3	10.2
Increase in future compensation levels	7.1	6.1
Inflation	5.0	4.0

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

	%	
	<u>2008</u>	<u>2007</u>
Discount rate	12.3	10.8
Expected long-term rate of return on plan assets	11.4	13.9
Increase in future compensation levels	7.1	6.6
Inflation	5.0	4.5

The expected long-term rate of return on assets is based in consultation with the plan's investment advisors and actuaries. These rates are intended to reflect the average rates of return expected to be earned on the funds invested or to be invested to provide required plan benefits. The plan is assumed to continue in effect as long as assets are expected to be invested. In estimating the expected long-term rate of return on assets, appropriate consideration is given to historical performance for the major asset classes held or anticipated to be held by the plan and to current forecasts of future rates of return for those asset classes, considering such factors as projected long-term inflation rates, future interest yield curves and other economic projection data available in the market. Cash flow and expenses are taken into consideration to the extent that the expected returns would be affected by them. The pension plan's weighted-average actual asset allocations at the end of the plan year for 2008 and 2007, by category, are as follows:

	%	
	<u>2008</u>	<u>2007</u>
Fixed income investments	62.5	58.2
Variable rate investments	31.6	28.7
Real estate	4.4	5.9
Loans and other	1.5	7.2

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

At December 31, 2008 and 2007, for measurement purposes, an annual rate of increase of 8.7% and 7.12%, respectively, in the "per capita" costs of covered healthcare benefits was assumed. A one percentage point change in the assumed health care cost trend rates would have had the following effects at December 31, 2008:

	<u>One percentage point increase</u>	<u>One percentage point decrease</u>
Effect on total service and interest cost components	645	(487)
Effect on postretirement benefit obligation	3,268	(2,533)

Fosfertil expects to contribute approximately US\$1,128 to its defined benefit pension plan in 2009.

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

	<u>Pension benefits</u>	<u>Other postretirement benefits</u>
2009	18,384	5,749
2010	19,447	1,238
2011	20,571	1,696
2012	21,828	2,109
2013	23,247	3,078
2014 - 2018	140,676	13,703

The following table summarizes the amounts recorded in accumulated other comprehensive income at December 31, 2008:

	2008	
	Pension	Other
	<u>benefits</u>	<u>postretirement</u> <u>benefits</u>
Net actuarial loss	(41,359)	(2,951)
Prior service cost	<u>-</u>	<u>16,658</u>
	(41,359)	13,707
Income taxes effect	<u>14,062</u>	<u>(4,660)</u>
Total	<u>27,797</u>	<u>9,047</u>

The Company estimates that approximately US\$142 of net gains and losses and prior service cost will be recognized as a component of net periodic benefit costs in 2009.

#### Employee defined contribution plan

In October 2001, Fosfertil and Ultrafertil implemented defined contribution plans that cover substantially all employees, except the ones already included in Petros. In 2008 and 2007, the Company made combined contributions to the plans of approximately US\$565 and US\$543, respectively.

### 13. RELATED-PARTY TRANSACTIONS AND BALANCES

The Company sells phosphate and nitrogenous materials principally to the fertilizer industry in Brazil. Many of the Company's shareholders are engaged in this industry and buy a majority of the Company's production. The Company recorded net sales of US\$948,730 and US\$740,891 for the years ended December 31, 2008 and 2007, respectively, to its shareholders.

Accounts payable with related parties refers to acquisition of raw material. Other current liabilities including amounts due to shareholders were US\$107,561 and US\$33,324 as of December 31, 2008 and 2007, respectively, related to advances for future purchases of the Company's products.

### 14. COMMITMENTS AND CONTINGENCIES

Fosfertil is a party to a number of claims and lawsuits arising out of the normal course of business with respect to commercial matters, including various tax and labor claims. Accruals for claims and lawsuits of US\$63,849 and US\$74,436 as of December 31, 2008 and 2007, respectively, are summarized as follows:

	<u>2008</u>	<u>2007</u>
Labor matters	27,731	33,923
Disputed taxes	24,667	26,649
Civil	<u>11,451</u>	<u>13,864</u>
Total	<u>63,849</u>	<u>74,436</u>

#### Labor matters

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

#### Disputed taxes

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

In December 2008, the balance refers basically to filed injunctions disputing changes to the legislation and assessments. Such taxes have been accrued in accordance with applicable legislation and based on the advice of its legal counsel and tax advisors.

#### Civil

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

The Company recorded US\$19,146 and US\$26,149 of expense for contingencies during the years ended December 31, 2008 and 2007, respectively.

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