MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Mosaic Company

INTRODUCTION

The Mosaic Company (***"Mosaic"***, and individually or in any combination with its consolidated subsidiaries, ***"we"***, ***"us"***, ***"our"***, or the ***"Company"***) was created to serve as the parent company of the business that was formed through the business combination (***"Combination"***) of IMC Global Inc. (***"IMC"*** or ***"Mosaic Global Holdings"***) and the Cargill Crop Nutrition fertilizer businesses (***"CCN"***) of Cargill, Incorporated and its subsidiaries (collectively, ***"Cargill"***) on October 22, 2004.

We are one of the world's leading producers and marketers of concentrated phosphate and potash crop nutrients. We conduct our business through wholly and majority owned subsidiaries as well as businesses in which we own less than a majority or a non-controlling interest, including consolidated variable interest entities and investments accounted for by the equity method. We are organized in three business segments.

Our **Phosphates** business segment owns and operates mines and production facilities in Florida which produce phosphate fertilizer and phosphate-based animal feed ingredients, and processing plants in Louisiana which produce phosphate fertilizer. Our Phosphates segment's results include North American distribution activities. Our consolidated results also include Phosphate Chemicals Export Association, Inc. (***"PhosChem"***), a U.S. Webb-Pomerene Act association of phosphate producers which exports phosphate fertilizer products around the world for us and PhosChem's other member. Our share of PhosChem's sales volumes of dry phosphate fertilizer products is approximately 85%.

Our **Potash** business segment owns and operates potash mines and production facilities in Canada and the U.S. which produce potash-based fertilizer, animal feed ingredients and industrial products. Potash sales include domestic and international sales. We are a member of Canpotex, Limited (***"Canpotex"***), an export association of Canadian potash producers through which we sell our Canadian potash internationally. Our share of Canpotex's sales, by volume, of potash fertilizer was 37.5% in fiscal 2008.

Our **Offshore** business segment consists of sales offices, fertilizer blending and bagging facilities, port terminals and warehouses in several key international countries, including Brazil. In addition, we own or have strategic investments in production facilities in Brazil and a number of other countries. Our Offshore segment serves as a market for our Phosphates and Potash segments but also purchases and markets products from other suppliers worldwide.

KEY FACTORS AFFECTING RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our primary products, phosphate and potash fertilizers are, to a large extent, global commodities that are also available from a number of domestic and international competitors, and are sold by negotiated contracts or by reference to published market prices. The most important competitive factor for our products is delivered price. As a result, the markets for our products are highly competitive. Business and economic conditions and governmental policies affecting the agricultural industry are the most significant factors affecting worldwide demand for crop nutrients. The profitability of our businesses is heavily influenced by worldwide supply and demand for our products, which affects our sales prices and volumes. Our costs per tonne to produce our products are also heavily influenced by worldwide supply and demand because of the significant fixed costs associated with owning and operating our major facilities.

The strong agricultural fundamentals and increased demand and resulting increases in the market prices for our primary products that began in the latter part of fiscal 2007 has continued throughout fiscal 2008 and into fiscal 2009. The increased global demand is being driven by increasing world population, household incomes, and demand for more protein rich food, particularly in developing regions such as China, India, and Latin America, and also by the growth in the biofuels industry, such as the U.S. ethanol market.

To better serve our customers and help respond to the tight market conditions for our products caused by the rising global demand for food and fuel, we have completed several capacity expansion initiatives and have announced a number of additional initiatives to expand our production capacities, primarily in our Potash business and also in our Phosphates business. We plan to expand the production capacity of our existing potash mines by more than five million tonnes over the next twelve years. Some of the annual expansions are already underway while others are in the planning and approval stages. In our Phosphates business, in fiscal 2009, we plan to restart one of two indefinitely closed phosphoric acid production lines at our South Pierce, Florida phosphates facility, and engage in other debottlenecking activities to increase our production capacities.

World prices for the key inputs for concentrated phosphate products, including ammonia, sulfur and phosphate rock, have an effect on industry-wide phosphate prices and costs. The primary feedstock for producing ammonia is natural gas, and costs for ammonia are generally highly dependent on natural gas prices. Sulfur is a world commodity that is primarily produced as a byproduct of oil refining, where the cost is based on supply and demand of the commodity. We produce substantially all of our requirements for phosphate rock. During fiscal 2008, market prices for ammonia and sulfur, as well as for phosphate rock purchased in the world market by non-integrated producers of finished phosphate fertilizers, rose dramatically. We believe that the resulting upward pressure on the market price for finished phosphate fertilizer more than offset our Phosphates business' increased costs for raw materials in fiscal 2008 in part because of our competitive advantages as an integrated producer of both finished phosphate fertilizers and phosphate rock, and from our investments in infrastructure for sourcing sulfur.

Much of our production is sold based on the market prices prevailing at the time of sale. We sell a portion on the basis of forward sales. The forward sales can either be on a fixed priced basis or can be priced at the time of shipment on a 'formula' basis. In some cases, customers prepay us for forward sales. The mix and parameters of these sales programs vary over time based on our marketing strategy, which considers factors that include among others optimizing our production and operating efficiency with warehouse limitations and customer needs. In a period of rising prices, forward sales programs at fixed prices create a lag between prevailing market prices and our average realized selling prices. Prepaid forward sales can also increase our liquidity and accelerate cash flows.

Our Potash business is significantly affected by the capital and operating costs we incur to manage brine inflows at our potash mine at Esterhazy, Saskatchewan, by natural gas costs for operating our potash solution mine at Belle Plaine, Saskatchewan, by Canadian resource taxes and royalties that we pay the Province of Saskatchewan to mine our potash reserves, and by increasing inflationary pressures on resources, such as labor, processing materials and construction costs, due to the high rate of economic growth in western Canada where we produce most of our potash.

Our Offshore business primarily sells products produced by our Phosphates and Potash businesses as well as by other suppliers. As a result, its profitability does not typically change significantly as product prices change except to the extent that it sells from inventory positions taken in earlier periods. During the current period of rising selling prices, our Offshore business has benefited significantly from effective inventory positioning.

Our results of operations are also affected by changes in currency exchange rates due to our international footprint. The most significant currency impacts are generally from the Canadian dollar and the Brazilian Real:

- The functional currency for several of our Canadian entities is the Canadian dollar. A stronger Canadian dollar generally reduces these entities' operating earnings. A weaker Canadian dollar has the opposite effect. We generally hedge a portion of the anticipated currency risk exposure. Gains or losses on these hedge contracts, both for open contracts at quarter end (unrealized) and settled contracts (realized), are recorded in cost of goods sold.
- The functional currency for our Brazilian affiliate is the Brazilian Real. We typically finance Brazilian inventory purchases with U.S. dollar denominated liabilities. A weaker U.S. dollar has the impact of reducing these liabilities on a functional currency basis. When this occurs, an associated foreign currency gain is recorded in non-operating income (foreign currency transaction (gain)/loss). A stronger U.S. dollar has the opposite effect. We generally hedge a portion of this currency exposure. Associated gains or losses on these foreign currency contracts are also recorded in non-operating income.

A discussion of these and other factors that affected our results of operations and financial condition for the periods covered by this Management's Discussion and Analysis of Financial Condition and Results of Operations is set forth in further detail below. This Management's Discussion and Analysis of Financial Condition and Results of Operations should also be read in conjunction with the narrative description of our business in Item 1, and the risk factors described in Item 1A, of Part I of our annual report on Form 10-K, and our Consolidated Financial Statements, accompanying notes and other information listed in the accompanying Financial Table of Contents.

Throughout the discussion below, we measure units of production, sales and raw materials in metric tonnes which are the equivalent of 2,205 pounds; unless we specifically state that we mean long ton(s) which is the equivalent of 2,240 pounds. References to a particular fiscal year are to the twelve months ended May 31 of that year. In the following table, there are certain percentages that are not considered to be meaningful and are represented by "NM".

RESULTS OF OPERATIONS

The following table shows the results of operations for the three years ended May 31, 2008, 2007 and 2006:

	Years Ended May 31,			2008-2007		2007-2006	
(in millions, except per share data)	2008	2007	2006	Change	Percent	Change	Percent
Net sales	$9,812.6	$5,773.7	$5,305.8	$4,038.9	70%	$ 467.9	9%
Cost of goods sold	6,652.1	4,847.6	4,668.4	1,804.5	37%	179.2	4%
Gross margin	3,160.5	926.1	637.4	2,234.4	241%	288.7	45%
Gross margin percentage	32.2%	16.0%	12.0%				
Selling, general and administrative expenses	323.8	309.8	241.3	14.0	5%	68.5	28%
Restructuring loss (gain)	18.3	(2.1)	287.6	20.4	NM	(289.7)	NM
Other operating expenses	11.7	2.1	6.6	9.6	457%	(4.5)	(68%)
Operating earnings	2,806.7	616.3	101.9	2,190.4	355%	514.4	505%
Interest expense, net	90.5	149.6	153.2	(59.1)	(40%)	(3.6)	(2%)
Foreign currency transaction loss	57.5	8.6	100.6	48.9	569%	(92.0)	(91%)
Loss (gain) on extinguishment of debt	2.6	(34.6)	–	37.2	NM	(34.6)	NM
Other (income) expenses	(26.3)	(13.0)	8.2	(13.3)	102%	(21.2)	NM
Earnings (loss) before income taxes	2,682.4	505.7	(160.1)	2,176.7	430%	665.8	NM
Provision for income taxes	714.9	123.4	5.3	591.5	479%	118.1	2,228%
Equity in net earnings of nonconsolidated companies	124.0	41.3	48.4	82.7	200%	(7.1)	(15%)
Minority interests in net earnings of consolidated companies	(8.7)	(3.9)	(4.4)	(4.8)	123%	0.5	(11%)
Net earnings (loss)	$2,082.8	$ 419.7	$ (121.4)	$1,663.1	396%	$ 541.1	NM
Diluted earnings (loss) per share	$ 4.67	$ 0.95	$ (0.35)	$ 3.72	392%	$ 1.30	NM
Weighted average diluted shares outstanding	445.7	440.3	382.2				

Overview of Fiscal 2008, 2007 and 2006

Net earnings for fiscal 2008 were $2.1 billion, or $4.67 per diluted share, compared with net earnings for fiscal 2007 of $419.7 million, or $0.95 per diluted share, and a net loss of $121.4 million, or $0.35 per diluted share, for fiscal 2006. The more significant factors that affected our results of operations and financial condition in fiscal 2008, 2007 and 2006 are listed below. These factors are discussed in more detail in the following sections of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Fiscal 2008 Compared to Fiscal 2007

- Our net sales and gross margins in fiscal 2008 continued to benefit from strong agricultural fundamentals that resulted in significant increases in crop nutrient prices driven by robust demand and tight market supplies. Market prices for phosphates were also driven by significant increases in the cost of key raw materials, including ammonia and sulfur and, for non-integrated producers of finished phosphate fertilizers that do not produce their own phosphate rock, open-market prices for phosphate rock. The increases in crop nutrient prices were partially offset by higher raw material costs in our Phosphates segment and increased Canadian resource taxes and royalties in our Potash segment. Our average crop nutrient selling prices have continued to rise in fiscal 2009.
  - o Our Phosphates segment average selling price for diammonium phosphate fertilizer (***"DAP"***) nearly doubled to $513 per tonne in fiscal 2008 from $264 in fiscal 2007. The DAP average selling price in the fourth quarter of fiscal 2008 was $754 per tonne.
  - o Our average muriate of potash (***"MOP"***) selling price increased 57% to $226 per tonne in fiscal 2008 from $144 per tonne in fiscal 2007. The MOP average selling price in the fourth quarter of fiscal 2008 was $335 per tonne.

- o Our Potash segment sold 8.6 million tonnes of potash in fiscal 2008 compared to 7.9 million tonnes in fiscal 2007 primarily due to having additional production tonnes available from the May 2007 expansion of our Esterhazy, Saskatchewan potash mine.
- o Increasing raw material costs for sulfur and ammonia have adversely impacted our Phosphates' segment costs and continue to do so. Our average purchase price paid for sulfur increased 197% to $184 per long ton in fiscal 2008 from $62 per long ton in fiscal 2007. The purchase price paid for ammonia in Central Florida increased 22% to $404 per tonne in fiscal 2008 from $331 per tonne in fiscal 2007. Our average purchase prices paid for sulfur and ammonia were $389 per long ton and $573 per tonne, respectively, in the fourth quarter of fiscal 2008.
- o Production costs in our Potash segment increased as a result of significantly higher Canadian resource taxes and royalties, the effect of a stronger Canadian dollar on operating costs and, to a lesser extent, higher costs for resources due to continuing inflationary pressures. We recorded approximately $361.8 million and $154.1 million in Canadian resources taxes and royalties in fiscal 2008 and 2007, respectively. This is a result of our increased profitability and the surge in potash selling prices, a trend which we expect to lead to a substantial increase in these costs again in fiscal 2009. Also, the continuing high rate of economic growth in western Canada, where we produce most of our potash, along with the global boom in commodity prices, has resulted in inflationary pressures on other important resources we use in our Potash business, including steel, reagents, and labor for routine maintenance. We expect that inflationary pressures will also impact the capital cost of our planned Potash capacity expansions. Our production costs, particularly at our Belle Plaine solution mine, were also impacted by inflationary pressures on natural gas.
- o Our Offshore segment results were strong primarily due to the benefit of positioning of lower cost inventories in a period of rising selling prices.

- In fiscal 2008, we had income tax expense of $714.9 million, an effective tax rate of 26.7%, on pre-tax earnings of $2.7 billion, compared to income tax expense of $123.4 million, an effective tax rate of 24.4%, on pre-tax earnings of $505.7 million in fiscal 2007. Income tax expense increased in fiscal 2008 due to our increased profitability, partially offset by several tax benefits including $34.0 million related to a reduction in Canadian deferred tax liabilities as a result of a reduction in the statutory federal corporate tax rate, $29.8 million related to the reduction of the valuation allowance on the U.S. deferred tax assets and approximately $30.0 million related to a reduction of the valuation allowance on non-U.S. deferred tax assets and $62.2 million due to our ability to utilize foreign tax credits. In fiscal 2007, income tax expense was reduced by approximately $46.0 million due to a reduction of the Canadian deferred tax liabilities as a result of a reduction in the statutory federal corporate tax rate and elimination of the Canadian corporate surtax rate.

- We generated $2.5 billion in cash flow from operations in fiscal 2008 compared with $707.9 million in fiscal 2007. Our improved cash flow during fiscal 2008 allowed us to fund the prepayment of $750.0 million of long-term debt resulting in a reduction in interest expense of $47.5 million in fiscal 2008. Our outstanding senior notes received investment grade ratings from two credit rating agencies[1] in early June 2008. This resulted in the fall away of certain restrictive covenants of the senior notes and provides us greater flexibility in making financial, investment and operating decisions.

Fiscal 2007 Compared to Fiscal 2006

- Our sales and gross margins benefited from strong agricultural fundamentals and demand for phosphate and potash fertilizers in fiscal 2007, particularly in the second half. This was partially due to demand growth from countries that have been the traditional drivers for food production such as India and Brazil. In addition, there were new demand drivers as a result of strong growth in the biofuels industry, such as the U.S. ethanol market. As a result of the strong agricultural fundamentals:

  - o Our average price for DAP rose to $264 per tonne in fiscal 2007 from $245 in fiscal 2006. Almost all of the increase occurred in the fourth quarter of fiscal 2007, when our average price for DAP rose to $338 per tonne, compared with $246 per tonne in third quarter of fiscal 2007 and $248 per tonne in the fourth quarter of fiscal 2006. In May 2007, PhosChem entered into a supply contract with a major importer in India, under which it supplied 1.1 million tonnes of DAP from June 2007 through November 2007 at a delivered price of $477 per tonne, including ocean freight. In August 2007, PhosChem signed an additional supply contract with a major importer in India, under which it supplied an additional 0.6 million tonnes of DAP from August 2007 through March 2008 at a delivered price of $495 per tonne, including ocean freight.

[1] *A security rating is not a recommendation to buy, sell, or hold securities. Although a security rating may be subject to revision or withdrawal at any time by the assigning rating organization, any such revision or withdrawal would not affect the fall-away of the covenants relating to the senior notes. Each rating should be evaluated separately from any other rating.*

- o Our Potash segment sold 7.9 million tonnes of potash in fiscal 2007 compared to 6.5 million tonnes in fiscal 2006, when volumes were unfavorably affected by a lack of supply contracts in the latter half of fiscal 2006. In February 2007, Canpotex entered into a potash supply contract with a large fertilizer distributor in China for a $5 per tonne increase over calendar 2006 prices and with importers in India at a $50 per tonne delivered price increase.
- o Our Offshore segment also benefited from the stronger global demand for fertilizers by selling inventory purchased at lower market prices prevailing at the time of purchase.

- In fiscal 2007, we completed an expansion of the capacity of our Esterhazy, Saskatchewan potash mine by adding 1.1 million tonnes of annual capacity for a capital cost of approximately $38 million. Pursuant to an existing tolling contract, a customer is entitled to one-quarter of the additional production until the customer receives all of its available reserves under the contract. The customer paid one-quarter of the costs of the expansion.

- In December 2006, the brine inflows at our Esterhazy, Saskatchewan potash mine increased to a level that was significantly higher than we had previously experienced. In the second half of fiscal 2007 and continuing throughout fiscal 2008, we incurred higher operating and capital costs associated with our remediation of the brine inflows. Our remediation efforts reduced the brine inflows to a rate that is consistent with our experience in recent years, and our increased pumping efforts began reducing the level of brine in the mine. We expensed $56.2 million and capitalized $45.9 million related to all brine inflows during fiscal 2007. Approximately 25% of these costs for the brine inflows were reimbursed by a third party customer for whom we toll potash reserves.

- Our selling, general and administrative expenses increased, primarily as a result of higher incentive compensation accruals related to our improved operating results, higher share-based compensation costs, changes in our executive leadership, including the retirement of our former Chief Executive Officer and President, changes in our long-term incentive awards to employees, and our implementation of a new enterprise resource planning system and related costs. During the post-implementation phase, we continued to incur costs related to stabilizing the system. The comparison of our selling, general and administrative expenses in fiscal 2007 to fiscal 2006 was also affected by our reversal in fiscal 2006 of an allowance of approximately $14 million associated with value-added tax credits in Brazil.

- In December 2006, we refinanced approximately $2 billion in debt (***"Refinancing"***). The Refinancing created a pre-tax gain on the extinguishment of debt of $33.9 million in the third quarter of fiscal 2007. Our strong cash flow from operations in fiscal 2007 permitted us to pay approximately $280 million of debt in the fourth quarter of fiscal 2007, which triggered an additional gain on the extinguishment of debt of $0.7 million.

- We had foreign currency transaction losses in both fiscal 2007 and 2006. In both years, this was mainly the result of the effect of a stronger Canadian dollar on large U.S. denominated intercompany receivables held by our Canadian subsidiaries. The average value of the Canadian dollar increased by 2.8% in fiscal 2007 and 12.4% in fiscal 2006.

- In fiscal 2007, we had income tax expense of $123.4 million, an effective tax rate of 24.4%, on pre-tax income of $505.7 million, compared to $5.3 million, an effective tax rate of 3.3%, on the pre-tax loss of $160.1 million in fiscal 2006. In fiscal 2007, income tax expense was reduced by approximately $46.0 million due to a reduction of the Canadian deferred tax liabilities as a result of a reduction in the statutory federal corporate tax rate and elimination of the Canadian corporate surtax rate. In fiscal 2006, we had tax expense of $5.3 million on a pre-tax loss of $160.1 million primarily as a result of losses in the U.S. and Brazil, for which no tax benefit was recorded, including substantially all of the $287.6 million restructuring and other charges, and because our Canadian-based businesses generated most of our pre-tax income which was taxed at relatively higher rates than our other businesses. This was partially offset by an $81.0 million tax benefit from a reduction in our Canadian provincial tax rates which resulted in a reduction of our Canadian deferred tax liabilities.

Phosphates Net Sales and Gross Margin

The following table summarizes Phosphates net sales, gross margin, sales volumes and certain other information:

	Years Ended May 31,			2008-2007		2007-2006	
(in millions, except price per tonne or unit)	2008	2007	2006	Change	Percent	Change	Percent
Net sales:							
North America	$2,332.4	$1,284.4	$ 929.2	$1,048.0	82%	$ 355.2	38%
International	3,373.8	1,919.5	2,168.3	1,454.3	76%	(248.8)	(11%)
Total	5,706.2	3,203.9	3,097.5	2,502.3	78%	106.4	3%
Cost of goods sold	3,625.1	2,772.2	2,849.8	852.9	31%	(77.6)	(3%)
Gross margin	$2,081.1	$ 431.7	$ 247.7	$1,649.4	382%	$ 184.0	74%
Gross margin as a percent of net sales	36.5%	13.5%	8.0%				
Sales volume (in thousands of metric tonnes)							
Fertilizer[(a)]:							
North America	3,732	2,856	2,661	876	31%	195	7%
International	4,456	5,201	6,520	(745)	(14%)	(1,319)	(20%)
Total	8,188	8,057	9,181	131	2%	(1,124)	(12%)
Feed Phosphates	896	845	914	51	6%	(69)	(8%)
Total	9,084	8,902	10,095	182	2%	(1,193)	(12%)
Average selling price per tonne:							
DAP (FOB plant)	$ 513	$ 264	$ 245	$ 249	94%	$ 19	8%
Average purchase price paid per unit:							
Ammonia (metric tonne) (Central Florida)	$ 404	$ 331	$ 343	$ 73	22%	$ (12)	(3%)
Sulfur (long ton)	184	62	72	122	197%	(10)	(14%)

(a) Excludes tonnes sold by PhosChem for its other members

Fiscal 2008 Compared to Fiscal 2007

Phosphates' net sales increased 78% to $5.7 billion in fiscal 2008, compared to $3.2 billion in fiscal 2007 mainly due to a significant increase in phosphate selling prices along with a slight increase in sales volumes. The increase in phosphate selling prices was due to the factors described in "Overview of Fiscal 2008, 2007, and 2006". Our forward selling programs resulted in about a two to three-month lag between prevailing market prices and our realized prices for our products.

Our average DAP price was $513 per tonne in fiscal 2008, an increase of $249 per tonne compared with fiscal 2007. Phosphate selling prices continually increased during fiscal 2008 due to strong fundamentals and increased raw material costs, as further described in "Overview of Fiscal 2008, 2007, and 2006". Our average DAP price for the fourth quarter of fiscal 2008 was $754 per tonne compared to $487 per tonne for the third quarter of fiscal 2008; while our average DAP price for the fourth quarter of fiscal 2007 was $338 per tonne.

In fiscal 2008, sales volumes increased 2% to 9.1 million tonnes of phosphate fertilizer and animal feed ingredients, compared with 8.9 million tonnes for fiscal 2007. Sales volumes in North America increased 31% as this region continues to exhibit strong demand growth combined with execution on our plan to grow sales in this region. Sales volumes to international markets declined 14% due to the increased volume sold into North America.

Included in our consolidated net sales and cost of goods sold in fiscal 2008 are sales of $491.7 million for the other member of PhosChem, compared with $376.1 million in fiscal 2007.

Our average feed phosphate price increased by approximately 35% in fiscal 2008 compared with levels a year ago. We have a stable customer base consisting of feed integrators and end users that supply the three key customer segments worldwide – poultry, hogs and cattle. Feed phosphate demand was strong this past fiscal year despite the industry challenge facing our customers of rapidly rising input costs, including phosphates.

Gross margin for Phosphates in fiscal 2008 was $2.1 billion compared with $431.7 million in fiscal 2007. Gross margin as a percentage of net sales increased to 36.5% in fiscal 2008 from 13.5% in fiscal 2007 due to an approximate doubling of fertilizer selling prices, partly offset by higher market prices for our sulfur and ammonia raw material purchases. Our average purchase price paid for sulfur increased

197% to $184 per long ton in fiscal 2008 from $62 per long ton in fiscal 2007. The average purchase price paid for ammonia in Central Florida increased 22% to $404 per tonne in fiscal 2008 from $331 per tonne in fiscal 2007. In the fourth quarter of fiscal 2008, our average purchase prices paid for sulfur and ammonia were $389 per long ton and $573 per tonne, respectively. The increases in market prices for sulfur reflected high demand coupled with insufficient supply, primarily due to oil refinery production issues. These factors have continued into fiscal 2009. We did not experience significant production issues due to lack of sulfur availability in fiscal 2008. We believe that our investments in sulfur transportation assets and other actions we are taking should allow us to avoid significant effects on production due to lack of sulfur and continue to afford us a competitive advantage in the cost of and access to available sulfur.

Our production of DAP and monoammonium phosphate fertilizer (***"MAP"***) was 8.0 million tonnes for fiscal 2008, compared to 7.9 million tonnes for the same period last year.

Our phosphate rock production was 15.8 million tonnes during fiscal 2008, compared with 13.7 million tonnes for the same period a year ago. The increase in production was primarily due to the restart of our Wingate mine in the first quarter of fiscal 2008, debottlenecking initiatives we undertook at our Wingate mine that increased its productive capacity, and increased operating rates at other mines.

Fiscal 2007 Compared to Fiscal 2006

Phosphates' net sales increased 3% to $3.2 billion in fiscal 2007, mainly due to higher phosphates prices in the fourth quarter of fiscal 2007, partially offset by a decline in sales volumes.

Our average DAP price was $264 per tonne in fiscal 2007, an increase of $19 per tonne compared with fiscal 2006. Stronger agricultural market fundamentals in the second half of fiscal 2007, including tight market supplies, led to a sharp increase in DAP prices. Our forward selling programs resulted in about a two to three-month lag between prevailing market prices and our realized prices for our products. Therefore, the higher market prices that were reported beginning in the third fiscal quarter began to be realized in the fourth quarter of fiscal 2007. Our average DAP price for the fourth quarter of fiscal 2007 was $338 per tonne compared to $246 per tonne for the third quarter of fiscal 2007, while our average DAP price for the fourth quarter of fiscal 2006 was $248 per tonne.

In fiscal 2007, sales volumes declined 12% to 8.9 million tonnes of phosphate fertilizer and animal feed ingredients, compared with 10.1 million tonnes for fiscal 2006. Sales volumes to North America increased 7% as a result of an improved agricultural sector based on much higher grain prices in the second half of fiscal 2007. Sales volumes to international markets declined 20% as strong demand in India was more than offset by lower sales to China, as a result of increased domestic production of phosphate fertilizer in China. In addition, Australia sales volumes decreased as a result of a drought and the end of a marketing agreement with a third party. Our sales volumes were also down as a result of our indefinite closure of our Green Bay and South Pierce plants at the end of fiscal 2006.

In addition, our consolidated net sales and cost of goods sold in fiscal 2007 included sales of $376.1million for other members of PhosChem, compared with $126.6 million in fiscal 2006.

Our average feed phosphate price increased by approximately 14% in fiscal 2007 compared with fiscal 2006. Feed phosphate demand was strong during fiscal 2006, resulting in tight global supplies. This resulted in high operating rates at our feed plants in New Wales and Riverview. Feed phosphate pricing trends trailed those of the phosphate fertilizer sector by approximately six months in fiscal 2007.

Gross margin for Phosphates in fiscal 2007 was $431.7 million compared with $247.7 million in fiscal 2006. Gross margin as a percentage of net sales increased to 13.5% in fiscal 2007 from 8.0% in fiscal 2006 primarily due to a $19 per tonne increase in average selling prices. In addition, costs of goods sold declined due to reduced production and lower ammonia and sulfur prices. These were partially offset by higher idle plant costs due to the restructuring of the Phosphates business, in which we indefinitely closed the Green Bay, South Pierce and Fort Green facilities at the end of May 2006. For fiscal 2007, the average purchase price of ammonia in Central Florida declined by $12 per tonne from the prior year to $331 per tonne. Average sulfur prices declined by $10 per long ton to $62 per long ton. Phosphates had unrealized mark-to-market gains of $11.7 million for fiscal 2007, mainly related to natural gas derivative contracts, compared with losses of $11.1 million in fiscal 2006. These gains and losses are included in our cost of goods sold.

Our production of DAP and MAP was 7.9 million tonnes for fiscal 2007, compared to 9.1 million tonnes of dry concentrated products for fiscal 2006. Fiscal 2006 production included granular triple superphosphate (***"GTSP"***), which we no longer produce after the restructuring of our Phosphates business. The production volumes were down as a result of the indefinite closure of the Green Bay and South Pierce plants at the end of the prior fiscal year. In addition, we experienced an explosion at our Faustina, Louisiana ammonia plant in October 2006, which idled this plant for repairs until mid-January 2007. Our adjacent phosphate plant in Faustina, Louisiana sharply reduced production of DAP and MAP during this period to effectively manage its inventory and working capital levels and to mitigate the cost of purchased ammonia. The Faustina phosphate plant increased its production level back to more normal levels in January 2007, and the ammonia plant was operational by mid-January.

Our phosphate rock production was 13.7 million tonnes during fiscal 2007, compared with 16.9 million tonnes for the same period a year earlier. The decline in production and increase in operating rates was primarily due to the closure of our Kingsford phosphate rock mine in September 2005 and the indefinite closure of our Fort Green phosphate rock mine in May 2006. We also idled our Wingate mine in November 2005, although this mine re-started production in June 2007.

Potash Net Sales and Gross Margin

The following table summarizes Potash net sales, gross margin, sales volumes and certain other information:

	Years Ended May 31,			2008-2007		2007-2006	
(in millions, except price per tonne)	2008	2007	2006	Change	Percent	Change	Percent
Net sales:							
North America	$1,301.1	$ 818.2	$ 767.3	$482.9	59%	$ 50.9	7%
International	950.1	660.7	388.6	289.4	44%	272.1	70%
Total	2,251.2	1,478.9	1,155.9	772.3	52%	323.0	28%
Cost of goods sold	1,397.9	1,065.0	804.3	332.9	31%	260.7	32%
Gross margin	$ 853.3	$ 413.9	$ 351.6	$439.4	106%	$ 62.3	18%
Gross margin as a percent of net sales	37.9%	28.0%	30.4%				
Sales volume (in thousands of metric tonnes)							
Fertilizer[(a)]:							
North America	3,354	3,393	2,509	(39)	(1%)	884	35%
International	4,151	3,596	2,842	555	15%	754	27%
Total	7,505	6,989	5,351	516	7%	1,638	31%
Non-agricultural (industrial and feed)	1,058	918	1,148	140	15%	(230)	(20%)
Total[(b)]	8,563	7,907	6,499	656	8%	1,408	22%
Average selling price per tonne:							
MOP (FOB plant)	$ 226	$ 144	$ 144	$ 82	57%	$ –	0%
K-Mag® (FOB plant)	148	119	116	29	24%	3	3%

(a) Excludes tonnes related to a third-party tolling arrangement

(b) Includes sales volumes (in thousands of metric tonnes) of 838 tonnes, 735 tonnes and 784 tonnes of K-Mag® for fiscal 2008, 2007 and 2006, respectively

Fiscal 2008 Compared to Fiscal 2007

Potash's net sales were $2.3 billion in fiscal 2008, compared to $1.5 billion in fiscal 2007. Potash's net sales increased 52% in fiscal 2008 compared to fiscal 2007 primarily due to a significant increase in potash selling prices along with higher sales volumes. The increase in potash selling prices was due to the same factors described in "Overview of fiscal 2008, 2007, and 2006".

Our average MOP selling price was $226 per tonne in fiscal 2008, an increase of $82 per tonne compared with fiscal 2007. Our average K-Mag® selling price of $148 per tonne in fiscal 2008 increased $29 per tonne compared with fiscal 2007. Approximately 12% of our net sales were to non-agricultural customers during fiscal 2008 and 2007. These non-agricultural customers represent a diverse end user mix. With the exception of legacy contracts with one customer, all new agreements with non-agricultural customers are based on pricing formulas that are based on historical market prices and can result in a significant lag compared to our agricultural contract pricing in rising markets.

Potash sales volumes increased to 8.6 million tonnes in fiscal 2008 compared with 7.9 million tonnes a year ago, or 8%. This was a result of increased global demand, which we helped satisfy from a full year of production from our fiscal 2007 capacity expansion at our Esterhazy mine. International sales volumes increased approximately 15% due to increased demand for MOP. During fiscal 2008, potash supply contract negotiations between Canpotex and China were delayed until mid-April. Product supply traditionally sold to China during the contract delay period was sold to other customers. Fiscal 2008 potash sales volumes benefited from selling through existing inventories resulting in lower than normal beginning potash inventories in fiscal 2009. Accordingly, this benefit will not be available in fiscal 2009.

Potash gross margin for fiscal 2008 was $853.3 million compared with $413.9 million in fiscal 2007. Potash gross margin as a percent of net sales increased to 37.9% in fiscal 2008 from 28.0% in fiscal 2007 mainly due to the significant increases in potash selling prices, partially offset by higher costs of production compared with the same period in fiscal 2008. The increase in production costs was primarily the result of significantly higher Canadian resources taxes and royalties, the effect of a stronger Canadian dollar on operating costs and, to a lesser extent, the higher costs for resources due to continuing inflationary pressures.

We recorded approximately $361.8 million in Canadian resource taxes and royalties in fiscal 2008 compared to $154.1 million in fiscal 2007. For the fourth quarter of 2008 and 2007, Canadian resource taxes and royalties were $207.1 million and $52.3 million, respectively. This is a result of our increased profitability and the surge in potash selling prices, a trend we expect to lead to a substantial increase in these costs again in fiscal 2009.

Our production costs for our Potash operations also increased during fiscal 2008 compared with fiscal 2007 due to inflationary pressures on resources. Costs at our Belle Plaine, Saskatchewan, potash solution mine were significantly affected by increasing market prices for natural gas because solution mining, unlike shaft mining, uses a significant amount of natural gas in its production process. The continuing high rate of economic growth in western Canada, where we produce most of our potash, along with the global boom in commodity prices, has also resulted in inflationary pressures on other important resources we use in our Potash business, including steel, reagents, and labor for routine maintenance and production. We expect that inflationary pressures will also impact the capital cost of our planned Potash capacity expansions.

As part of our strategic initiatives, we have announced plans to grow our Potash business through expansion of our existing potash mines by more than five million tonnes of annual capacity over the next twelve years. We believe forecasted global demand and supply fundamentals support the need for our growth. Some of the expansions are already underway while others are in the planning and approval stages. Based on our construction experience and ongoing detailed design, scope and cost analyses, we expect the size of our expansions to be modestly higher than previously estimated. The costs of our expansions, particularly in later years, may be substantially higher than previously estimated. Inflationary pressures on construction as described above are affecting the cost of building or expanding potash capacity across the industry, particularly for longer time horizon projects. We are continuing to assess the impact of these inflationary pressures and the increased size on the capital costs of our expansions. We believe that our expansions remain cost effective, financially attractive and significantly less than the cost of a greenfield project. We have the flexibility to moderate the timing of these expansions, if necessary.

In addition to these expansions, approximately 1.3 million tonnes of annual capacity will revert to Mosaic upon expiration of a third party tolling agreement at Esterhazy.

Our remediation efforts have reduced the brine inflows at our Esterhazy, Saskatchewan potash mine to a rate that is consistent with our experience in recent years, and we are reducing the accumulated brine level in the mine. We expensed $72.3 million, including depreciation of $5.2 million, and capitalized $15.8 million related to the brine inflows at our Esterhazy mine during fiscal 2008. In fiscal 2007 we expensed $56.2 million, including depreciation of $1.4 million, and capitalized $45.9 million related to brine inflows at our Esterhazy mine. Approximately 25% of these cash costs for the brine inflows were reimbursed by a third party customer for whom we toll potash reserves.

Fiscal 2007 Compared to Fiscal 2006

Potash's net sales were $1.5 billion in fiscal 2007, compared to $1.2 billion in fiscal 2006. Potash's net sales increased 28% in fiscal 2007 compared to fiscal 2006 primarily due to higher sales volumes. Potash sales volumes increased to 7.9 million tonnes in fiscal 2007 compared with 6.5 million tonnes in fiscal 2006.

Potash sales volumes increased 22% in fiscal 2007 as a result of strong North American and international markets. Stronger agricultural market fundamentals including higher grain prices in both North America and internationally led to demand growth for potash. The increase in international demand was due to increases in key countries, including China, Brazil, India and Malaysia. This compares with slow international sales in the second half of fiscal 2006 as Canpotex did not make shipments during the second half of fiscal 2006 to these countries due to a lack of supply contracts. Canpotex entered into new supply contracts with its customers in these countries in the first half of fiscal 2007.

Potash gross margin for fiscal 2007 was $413.9 million compared with $351.6 million in fiscal 2006. Potash gross margin as a percent of net sales declined to 28.0% in fiscal 2007 from 30.4% in fiscal 2006 mainly due to higher costs of production compared with the same period the prior year. The increase in production costs was primarily a result of an increase in the brine inflows at our Esterhazy mine, the increase in the Canadian dollar exchange rate, higher Canadian resource taxes and royalties, partially offset by lower natural gas costs. Included in fiscal 2007 gross margin are $2.5 million unrealized mark-to-market gains on foreign currency derivative exchange contracts and natural gas derivative contracts compared to gains of $18.7 million in fiscal 2006.

Our average MOP selling price was $144 per tonne in fiscal 2007, which was comparable to fiscal 2006. Our average K-Mag® selling price was $119 per tonne in fiscal 2007, an increase of $3 per tonne compared with fiscal 2006. Approximately 12% of our net sales were to non-agricultural customers during 2007, compared with 18% in the prior year. Prices to non-agricultural customers generally were based on long-term legacy contracts at prices which were below our average potash selling price. The average non-agricultural potash price increased during the second half of fiscal 2007, although the average remained below our average selling prices for agricultural sales.

In fiscal 2007, our 1.1 million tonnes per year capacity expansion at our Esterhazy mine was completed at a capital cost of approximately $38 million. A customer under a third-party tolling contract paid for one-quarter of the capital cost of this project and receives one-quarter of the additional production until the customer receives all of its available reserves under the contract.

In December 2006, the brine inflows at our Esterhazy, Saskatchewan potash mine increased to a level that was significantly higher than we had previously experienced. In the second half of fiscal 2007 and continuing into fiscal 2008, we incurred higher operating and capital costs associated with our remediation of the brine inflows. By fiscal year-end, our remediation efforts reduced the brine inflows to a rate that was consistent with our experience in recent years, and our increased pumping efforts began to reduce the level of brine in the mine. We expensed $56.2 million, including depreciation of $1.4 million, and capitalized $45.9 million related to brine inflows at our Esterhazy mine during fiscal 2007. In fiscal 2006 we expensed $33.2 million, including depreciation of $1.5 million, and capitalized $2.0 million related to brine inflows at our Esterhazy mine. Approximately 25% of these costs for the brine inflows were reimbursed by a third party customer for whom we toll potash reserves.

Offshore Net Sales and Gross Margin

The following table summarizes Offshore net sales, gross margin information, and equity in net earnings of non-consolidated companies:

	Years Ended May 31,			2008-2007		2007-2006	
(in millions)	2008	2007	2006	Change	Percent	Change	Percent
Net sales	$2,223.8	$1,355.6	$1,238.9	$868.2	64%	$116.7	9%
Cost of goods sold	1,945.9	1,276.9	1,194.0	669.0	52%	82.9	7%
Gross margin	$ 277.9	$ 78.7	$ 44.9	$199.2	253%	$ 33.8	75%
Gross margin as a percent of net sales	12.5%	5.8%	3.6%				
Equity in net earnings of nonconsolidated companies							
Fertifos S.A.	$ 49.2	$ 14.4	$ 20.0	$ 34.8	242%	$ (5.6)	(28%)
Other companies	5.8	2.1	7.0	3.7	176%	(4.9)	(70%)
Total	$ 55.0	$ 16.5	$ 27.0	$ 38.5	234%	$ (10.5)	(39%)

Fiscal 2008 Compared to Fiscal 2007

Offshore's net sales were $2.2 billion in fiscal 2008 compared with $1.4 billion in fiscal 2007, an increase of 64%, primarily as a result of increased selling prices. The increase in Offshore selling prices was due to the same factors described in "Overview of Fiscal 2008, 2007, and 2006".

Gross margins increased to $277.9 million, or 12.5% of net sales, compared to $78.7 million, or 5.8% of net sales, in fiscal 2007. Our Offshore segment sells products produced by our Phosphates and Potash segments, as well as other suppliers. The increase in gross margin as a percentage of net sales was primarily due to the increase in selling prices and the benefit of positioning of lower cost inventories during a period of rising selling prices. If selling prices do not continue to rise in fiscal 2009, these benefits would not be expected to continue.

Gross margin in Brazil increased to $153.8 million, or 10.3% of net sales, in fiscal 2008 compared with $38.5 million, or 5.3% of net sales, in fiscal 2007. The primary driver of the gross margin increase in Brazil was a result of strong agricultural fundamentals and the benefit of positioning of lower cost inventory during a period of rising selling prices.

In India, gross margin increased $30.5 million in fiscal 2008 compared with fiscal 2007. The increase was primarily due to the benefit of lower cost inventory positions on product during a period of rising selling prices.

In Argentina, gross margin increased $23.6 million in fiscal 2008 compared with fiscal 2007. Gross margin increased due to the same factors described above and increased production from the granular single superphosphate (***"GSSP"***) plant in Argentina.

Equity in net earnings of non-consolidated companies increased to $55.0 million for fiscal 2008 compared with $16.5 million in fiscal 2007. This was mainly the result of improved equity earnings from our investment in Fertifos S.A. and its subsidiary Fosfertil, which operate in Brazil. The increase in equity earnings from Fertifos S.A. and its subsidiary Fosfertil is due to higher selling prices and increased demand for crop nutrients in Brazil.

Fiscal 2007 compared to Fiscal 2006

Offshore's net sales were $1.4 billion in fiscal 2007 compared with $1.2 billion in fiscal 2006, an increase of 9%, primarily as a result of higher volumes in Brazil, which was partially offset by lower Australia volumes due to the end of a marketing agreement with a third party. Gross margins increased to $78.7 million, or 5.8% of net sales, compared to $44.9 million, or 3.6% of net sales, in fiscal 2006.

Gross margin in Brazil increased to $38.5 million, or 5.3% of net sales, in fiscal 2007 compared with $6.5 million, or 1.0% of net sales, in fiscal 2006. The primary driver of the gross margin increase in Brazil was related to the benefit from selling inventory in the fourth quarter of fiscal 2007 that had been purchased in the third quarter of fiscal 2007 at the lower market prices prevailing at the time of purchase. The remaining increase in gross margin in Brazil was a result of the improving agricultural market in the second half of fiscal 2007 and actions taken to reduce our costs.

In Argentina, gross margin increased $2.9 million in fiscal 2007 compared with fiscal 2006. Gross margin increased primarily as a result of our new GSSP plant, with a capacity of 240,000 tonnes per year, which began production during the first quarter of fiscal 2007.

In India, gross margin declined $7.6 million in fiscal 2007 compared with fiscal 2006. The decrease was primarily due to the effect of a weaker U.S. dollar and an unfavorable effect on the subsidy from the Indian government as an increase in distribution costs was not fully compensated in the subsidy.

Other Income Statement Items

	Years ended May 31,			2008-2007		2007-2006		Percent of Net Sales		
(in millions)	2008	2007	2006	Change	Percent	Change	Percent	2008	2007	2006
Selling, general and administrative expenses	$323.8	$309.8	$241.3	$14.0	5%	$ 68.5	28%	3%	5%	5%
Restructuring loss (gain)	18.3	(2.1)	287.6	20.4	NM	(289.7)	NM	0%	(0%)	5%
Interest expense	124.0	171.5	166.5	(47.5)	(28%)	5.0	3%	1%	3%	3%
Interest income	33.5	21.9	13.3	11.6	53%	8.6	65%	0%	0%	0%
Interest expense, net	90.5	149.6	153.2	(59.1)	(40%)	(3.6)	(2%)	1%	3%	3%
Foreign currency transaction loss	57.5	8.6	100.6	48.9	569%	(92.0)	(91%)	1%	0%	2%
Loss (gain) on extinguishment of debt	2.6	(34.6)	–	37.2	(108%)	(34.6)	NM	0%	(1%)	0%
Other (income) expense	(26.3)	(13.0)	8.2	13.3	(102%)	(21.2)	NM	(0%)	(0%)	0%
Provision for income taxes	714.9	123.4	5.3	(591.5)	(479%)	118.1	2228%	7%	2%	0%
Equity in net earnings of nonconsolidated companies	124.0	41.3	48.4	82.7	200%	(7.1)	(15%)	1%	1%	1%

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $323.8 million for fiscal 2008 compared to $309.8 million for fiscal 2007. The increase in selling, general and administrative expenses was primarily the result of higher incentive compensation accruals and external consulting fees.

Selling, general and administrative expenses were $309.8 million for fiscal 2007 compared to $241.3 million for fiscal 2006. This increase in expense was primarily a result of higher incentive compensation accruals, higher share-based compensation costs related to the effects of changes to our executive leadership, including the retirement of our former Chief Executive Officer and changes in our long-term incentive awards to employees, and post-implementation and depreciation costs related to our enterprise resource planning system. In addition, in fiscal 2006, we reversed an allowance associated with value added tax credits in Brazil, which we offset against other federal taxes payable in Brazil.

Restructuring (Gain) Loss

During fiscal 2008, we had a net restructuring loss which related to a revision in our estimated cash flows for asset retirement obligations (*"ARO"*) of previously closed facilities, primarily related to water treatment and phosphogypsum stack closure costs at our former Green Bay, Florida, facility. Annually, we review the costs related to our ARO to determine if revisions are necessary. We normally have revisions to these costs as underlying factors continue to change, such as water treatment costs. In fiscal 2007, revisions or other costs that related to restructuring were minimal.

During fiscal 2006, we had a pre-tax restructuring charge of $287.6 million due to the restructuring of our Phosphates business. The restructuring included the indefinite closure of one phosphate rock mine and two phosphate concentrate plants. We closed these three facilities because they were among our highest cost operations.

Interest Expense, Net

Interest expense, net of interest income, was $90.5 million in fiscal 2008, compared to $149.6 million in fiscal 2007. The decrease in interest expense is primarily due to lower average debt balances as a result of repayments of long-term debt. In fiscal 2008 and 2007, interest income was $33.5 million and $21.9 million, respectively. The increase in interest income for fiscal 2008 related to an increase in cash and cash equivalents as a result of our strong operating results.

Interest expense, net of interest income, was $149.6 million in fiscal 2007, compared to $153.2 million in fiscal 2006. Interest expense increased from $166.5 million in fiscal 2006 to $171.5 million in fiscal 2007 due to an increase in LIBOR rates, an increase in the spread paid on term loans, and an increase in the effective rate paid on long term bonds. In fiscal 2007 and 2006, our interest income was $21.9 million and $13.3 million, respectively. Interest income increased as a result of a higher level of cash and cash equivalents.

Foreign Currency Transaction Loss

In fiscal 2008, we recorded a foreign currency transaction loss of $57.5 million compared with a loss of $8.6 million in the prior year. In both years, this was mainly the result of the effect of a significant strengthening of the Canadian dollar on significant U.S. dollar denominated intercompany receivables, intercompany loans and receivables, and cash held by our Canadian affiliates. The average value of the Canadian dollar increased by 7.1% in fiscal 2008. This was slightly offset by the effect of the strengthening of the Brazilian real on U.S. dollar denominated payables and intercompany payables.

In fiscal 2007, we recorded a foreign currency transaction loss of $8.6 million compared with a loss of $100.6 million in the prior year. In both years, this was mainly the result of the effect of a stronger Canadian dollar on large U.S. dollar denominated assets held by our Canadian subsidiaries. The average value of the Canadian dollar increased by 2.8% in fiscal 2007.

Loss (Gain) on Extinguishment of Debt

We had a pre-tax gain on the extinguishment of debt of $33.9 million in the third quarter of fiscal 2007 related to the Refinancing of approximately $2 billion in debt on December 1, 2006. We also paid down approximately $280 million of debt in the fourth quarter of fiscal 2007, which triggered a gain on the extinguishment of debt of $0.7 million. See Note 12 to the Consolidated Financial Statements.

Other (Income) Expense

We had other income of $26.3 million in fiscal 2008 compared to other income of $13.0 million in fiscal 2007. Other income in fiscal 2008 primarily relates to a $24.6 million gain in December 2007 on our sale of an investment in a business in which IMC had sold the majority interest prior to the Combination. Other income in fiscal 2007 primarily relates to a favorable arbitration award received in July 2006 of $15.3 million that related to an environmental dispute involving IMC prior to the Combination.

Provision for Income Taxes

Years Ended May 31,	Effective Tax Rate	Provision for Income Taxes
2008	26.7%	$714.9
2007	24.4%	123.4
2006	3.3%	5.3

Income tax expense for fiscal 2008 was $714.9 million, an effective tax rate of 26.7%, on pre-tax income of $2.7 billion. The fiscal 2008 rate reflects a number of benefits including $34.0 million from a reduction of our Canadian deferred tax liabilities as a result of a statutory reduction in the Canadian federal corporate tax rate, $62.2 million related to our ability to utilize foreign tax credits, $29.8 million related to the reduction of the valuation allowance that related to a portion of our U.S. deferred tax assets and approximately $30.0 million related to the reduction of the valuation allowance that related to a portion of our non-U.S. deferred tax assets.

Income tax expense for fiscal 2007 was $123.4 million, an effective tax rate of 24.4%, on pre-tax income of $505.7 million. The fiscal 2007 tax rate reflects a benefit of approximately $46.0 million from a reduction of our Canadian deferred tax liabilities as a result of a statutory reduction in the Canadian federal corporate tax rate and the elimination of the corporate surtax, a change in the pre-tax profit mix among Mosaic's business geographies, as well as a benefit from the U.S. valuation allowance that was reduced due to fiscal 2007 activity.

Income tax expense for fiscal 2006 was $5.3 million, an effective tax rate of 3.3%, on the pre-tax loss of $160.1 million. We incurred tax expense in a year of a pre-tax loss primarily because of losses in the U.S. and Brazil, for which no tax benefit was recorded, including substantially all of the $287.6 million restructuring and other charges, and because our Canadian-based businesses generated most of our pre-tax income and this income was taxed at relatively higher rates than our other businesses. This was partially offset by an $81.0 million tax benefit from the reduction in our Canadian deferred tax liabilities as the result of a statutory reduction in the future Saskatchewan provincial statutory tax rates.

As of May 31, 2008 we had estimated carryforwards for tax purposes as follows: alternative minimum tax credits of $125.6 million, net operating losses of $53.5 million, capital losses of approximately $23 million, and foreign tax credits of $115.7 million. See Note 14 to our Consolidated Financial Statements for further information about these carryforwards.

Equity in Net Earnings of Non-Consolidated Companies

Equity in net earnings of non-consolidated companies was $124.0 million in fiscal 2008 compared with $41.3 million in fiscal 2007, and $48.4 million in fiscal 2006. The largest earnings contributors were Fertifos S.A. and its subsidiary Fosfertil, which is included in our Offshore segment, and Saskferco Products Inc., (***"Saskferco"***), which is included in our Corporate, Eliminations, and Other segment. The increase in equity earnings in fiscal 2008 from Fertifos S.A. and its subsidiary Fosfertil is a result of higher local demand for fertilizer products and increased selling prices because of the strong global agricultural fundamentals. The increase in equity earnings in fiscal 2008 from Saskferco is a result of higher nitrogen selling prices and mark-to-market gains on natural gas derivatives. As discussed in Note 25 to the Consolidated Financial Statements, we have announced a definitive agreement to sell Saskferco.

CRITICAL ACCOUNTING ESTIMATES

The Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the Consolidated Financial Statements, we are required to make various judgments, estimates and assumptions that could have a significant impact on the results reported in the Consolidated Financial Statements. We base these estimates on historical experience and other assumptions believed to be reasonable by management under the circumstances. Changes in these estimates could have a material effect on our Consolidated Financial Statements.

Our significant accounting policies can be found in Note 2 to the Consolidated Financial Statements. We believe the following accounting policies may include a higher degree of judgment and complexity in their application and are most critical to aid in fully understanding and evaluating our reported financial condition and results of operations.

Share-Based Payments

Costs associated with stock-based compensation are accounted for in accordance with Statement of Financial Accounting Standards (***"SFAS"***) No. 123 (R) *"Share-Based Payment"* (***"SFAS 123R"***). Under SFAS 123R, share-based compensation expense is measured at the grant date based on the fair value of the award using the Black-Scholes option valuation model and is recognized as an expense over the service period. Determining the fair value of the stock-based awards at the grant date requires judgment. Key assumptions used in a Black-Scholes option valuation model include estimating the expected term of stock options, the expected volatility of our stock and expected dividends. In addition, estimates of the number of share-based awards that are expected to be forfeited are also required as a component of measuring share-based compensation expense.

Goodwill

We review goodwill for impairment annually or at any time events or circumstances indicate that the carrying value may not be fully recoverable. Under our accounting policy, an annual review is performed in the second quarter of each year, or more frequently if indicators of potential impairment exist. Our impairment review process is based on a discounted future cash flow approach that uses estimates of revenues for the reporting units, driven by sales volumes, average sales price and estimated future gross margin, as well as appropriate foreign exchange, discount and tax rates. These estimates are consistent with the plans and estimates that are used to manage the underlying businesses. Charges for impairment of goodwill for a reporting unit may be incurred if the reporting unit fails to achieve its assumed sales volume or assumed gross margin, or if interest rates increase significantly.

Recoverability of Long-Lived Assets

The assessment of the recoverability of long-lived assets reflects management's assumptions and estimates. Factors that management must estimate when performing impairment tests include sales volumes, prices, inflation, discount rates, exchange and tax rates, and capital spending. Significant management judgment is involved in estimating these factors, and they include inherent uncertainties. The measurement of the recoverability of these assets is dependent upon the accuracy of the assumptions used in making these estimates and how the estimates compare to the eventual future operating performance of the specific businesses to which the assets are attributed. Certain of the operating assumptions are particularly sensitive to the cyclical nature of our Phosphates business. There have been no triggering events in the current year that would require an evaluation of the recoverability of long-lived assets.

Useful Lives of Depreciable Assets

Property, plant and equipment are depreciated based on their estimated useful lives, which typically range from three to 40 years. We estimate initial useful lives based on experience and current technology. These estimates may be extended through sustaining capital programs. Factors affecting the fair value of our assets may also affect the estimated useful lives of our assets and these factors can change. Therefore, we periodically review the estimated remaining useful lives of our facilities and other significant assets and adjust our depreciation rates prospectively where appropriate.

Environmental Liabilities and Asset Retirement Obligations

We record liabilities for various environmental and reclamation matters including the demolition of former operating facilities, and AROs.

Accruals for environmental matters are based on third party estimates for the cost of remediation at previously operated sites and estimates of legal costs for ongoing litigation. In accordance with Statement of Position 96-1, *"Environmental Remediation Liabilities,"* which prescribes the guidance contained within SFAS No. 5, *"Accounting for Contingencies,"* (***"SFAS 5"***) and Financial Accounting Standards Board (***"FASB"***) Interpretation No. 14, *"Reasonable Estimation of an Amount of a Loss,"* we are required to assess the likelihood of material adverse judgments or outcomes as well as potential ranges or probability of losses. We determine the amount of accruals required, if any, for environmental liabilities after carefully analyzing each individual matter. Actual costs incurred in future periods may vary from the estimates, given the inherent uncertainties in evaluating environmental exposures. As of May 31, 2008 and 2007, we had accrued $22.8 million and $16.7 million, respectively, for environmental matters.

Based upon the guidance of SFAS No. 143, *"Accounting for Asset Retirement Obligations,"* (***"SFAS 143"***) we, together with third party consultants, develop estimates for the costs of retiring certain of our long-term operating assets. The costs are inflated based on an inflation factor and discounted based on a credit-adjusted risk-free rate. For operating facilities, fluctuations in the estimated costs, inflation and interest rates can have an impact on the amounts recorded on the Consolidated Balance Sheets. However, changes in the assumptions would not have a significant impact on the Consolidated Statements of Operations. For restructured and idled facilities and land reclamation, fluctuations in the estimated costs, inflation and interest rates can have an impact on the Consolidated Statements of Operations. The land reclamation occurs at the same pace as the mining activity; as such, we determined that it is appropriate to capitalize an amount of asset retirement cost and allocate an equal amount to expense in the same accounting period. In addition our closed facilities do not have a future economic life; therefore, any changes to those balances have an immediate impact on our Consolidated Statements of Operations. A 1% increase or decrease in the discount rate used to calculate our land reclamation would result in a $5.8 million decrease in expense or a $6.3 million increase in expense for land reclamation, respectively. A further discussion of the Company's asset retirement obligations can be found in Note 15 to the Consolidated Financial Statements.

Pension Plans and Other Postretirement Benefits

The accounting for benefit plans is highly dependent on actuarial estimates, assumptions and calculations which result from a complex series of judgments about future events and uncertainties. The assumptions and actuarial estimates required to estimate the employee benefit obligations for pension plans and other postretirement benefits include discount rate, expected salary increases, certain employee-related factors, such as turnover, retirement age and mortality (life expectancy), expected return on assets and healthcare cost trend rates. We evaluate these critical assumptions at least annually. Our assumptions reflect our historical experiences and our best judgment regarding future expectations that have been deemed reasonable by management. The judgments made in determining the costs of our benefit plans can impact our results of operations. As a result, we obtain assistance from actuarial experts to aid in developing reasonable assumptions and cost estimates. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors. The effects of actual results differing from our assumptions are included as a component of other comprehensive income as unamortized net gains and losses, which are amortized over future periods. At May 31, 2008 and 2007, we had $155.1 million and $195.4 million, respectively, accrued for pension and other postretirement benefit obligations. We have included a further discussion of pension and other postretirement benefits in Note 18 of our Consolidated Financial Statements.

Income Taxes

We recognize income taxes in each of the jurisdictions in which we operate. For each jurisdiction, we estimate the actual amount of taxes currently payable or receivable, as well as deferred tax assets and liabilities attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. For example, in fiscal 2008, there was a statutory reduction in the future Canadian federal corporate tax rate for which we recorded a benefit of approximately $34 million.

A valuation allowance is provided for those deferred tax assets for which it is more likely than not that the related tax benefits will not be realized, which generally includes significant estimates and assumptions which result from a complex series of judgments about future events. The judgments include evaluating objective evidence, both positive and negative, in determining the need for a valuation allowance. In determining whether a valuation allowance is required, we apply the principles enumerated in SFAS No. 109, *"Accounting for Income Taxes,"* (***"SFAS 109"***) in the U.S. and each foreign jurisdiction in which a deferred tax asset is recorded. In addition, as part of the process of recording the Combination, we have made certain adjustments to valuation allowances related to the businesses of IMC (***"Purchase Accounting Valuation Allowances"***). If during an accounting period we determine that we will not realize all or a portion of our deferred tax assets, we will increase our valuation allowances with a charge to income tax expense. Conversely, if we determine that we will ultimately be able to realize all or a portion of the related tax benefits, we will reduce valuation allowances with either (i) a reduction to goodwill, if the reduction relates to Purchase Accounting Valuation Allowances, or (ii) in all other cases, with a reduction to income tax expense. Prior to fiscal 2008, we had provided a valuation allowance for a portion of our U.S. deferred tax assets and certain non-U.S. deferred tax assets. During the first quarter of fiscal 2008, we determined that it was more likely than not that we would realize the benefits of the U.S. deferred tax assets related to net operating loss carryforwards, alternative minimum tax (***"AMT"***) credit carryforwards and other deductible temporary differences for which a U.S. valuation allowance had been recorded. In reaching those conclusions we considered both positive and negative evidence. Positive evidence included our recent strong earnings and operating performance, the expectation of continued strength in the agricultural markets that we serve and the related expectation of future taxable income during the carryforward periods of our various tax carryforwards. Negative evidence that we considered included losses in the U.S. during several fiscal quarters since inception, the loss experience of IMC in the U.S. during years prior to the business combination, the significant U.S. loss in the fourth quarter of fiscal 2006 associated with the restructuring, and the limited period of the improved operating performance. Through our analysis, we have determined that sufficient evidence existed to conclude that as of August 31, 2007, it was more likely than not that the benefits of certain U.S. deferred tax assets would be realized. Accordingly during fiscal 2008, a reduction of the U.S. valuation allowance of $250.1 million was recorded. Approximately $213.6 million of the offset was a reduction to goodwill and approximately $31.0 million was a reduction to income tax expense. The reversal was recorded over each of the quarters of fiscal 2008 as the related income was generated. During the fourth quarter of fiscal 2008, we determined that our valuation allowance against certain non-U.S. deferred tax assets recorded in prior fiscal years was not required. A reduction of the majority of the non-U.S. valuation allowance of approximately $30.0 million was recorded as a reduction to income tax expense. We no longer carry a valuation allowance of $5.5 million against U.S. capital loss carryforwards as the capital losses expired at the end of fiscal 2008.

Effective June 1, 2007, we adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (***"FIN 48"***). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS 109 and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken in a tax return. Under FIN 48, the impact of an uncertain tax position on the income tax return must be recognized at the largest amount that is more likely than not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on subsequent de-recognition of tax positions, financial statement classification, recognition of interest and penalties, accounting in interim periods and disclosure and transition rules.

Canadian Resource Taxes and Royalties

We pay Canadian resource taxes consisting of the Potash Production Tax and capital taxes. The Potash Production Tax is a Saskatchewan provincial tax on potash production and consists of a base payment and a profits tax. We also pay the greater of (i) a capital tax on the paid-up capital of our subsidiaries that own and operate our Saskatchewan potash mines or (ii) a percentage of the value of resource sales from our Saskatchewan mines. We also pay capital tax in other Canadian provinces. In addition to the Canadian resource taxes, royalties are payable to the mineral owners in respect of potash reserves or production of potash. Our Canadian resource taxes and royalties expenses were $361.8 million, $154.1 million and $118.4 million for fiscal 2008, 2007 and 2006 respectively. These resource taxes and royalties are recorded in our cost of goods sold.

The profits tax is the most significant part of the Potash Production Tax. The profits tax is calculated on the potash content of each tonne sold (***"K_2O tonne"***) from each Saskatchewan mine. A 15% tax rate applies to the first $58.15 (CAD) of profit per K_2O tonne and a 35% rate applies to the additional profit per K_2O tonne. Not all K_2O tonnes sold are subject to the profits tax. Although all K_2O tonnes sold by mine are used in calculating profit per K_2O tonne, the tax is applied to the lesser of (i) actual K_2O tonnes sold or (ii) the average K_2O tonnes sold for the years 2001 and 2002. The Potash Production Tax is calculated on a calendar year basis and the total expense for fiscal year ended May 31, 2008 is based in part on forecasted profit per K_2O tonne for calendar 2008.

A $100 increase or decrease in the price of Potash, that takes effect August 31, 2008 and remains in effect for the remainder of calendar 2008, would result in an approximately $24 million increase or decrease, respectively, in Canadian resource taxes and royalties within cost of goods sold.

Variable Interest Entities

In the normal course of business, we may enter into arrangements that need to be examined to determine whether they fall under the variable interest entity (***"VIE"***) accounting guidance prescribed under FASB Interpretation No. 46R (***"FIN 46R"***), *"Consolidation of Variable Interest Entities."* In accordance with the interpretation, management must exercise significant judgment to determine if VIE relationships are required to be consolidated. We use a variety of complex estimation processes involving both qualitative and quantitative factors that may involve the use of a number of assumptions about the business environment in which an entity operates to determine whether the entity is a VIE, and to analyze and calculate its expected losses and expected residual returns. These processes involve estimating the future cash flows and performance of the entity, analyzing the variability in those cash flows and allocating the losses and returns among the identified parties holding variable interests. Our interests are then compared to those of unrelated outside parties to identify if we are the primary beneficiary, and thus should consolidate the entity. In fiscal 2008, we did not identify any additional VIEs that would require consolidation or disclosure. We currently consolidate three VIEs, which we further discuss in Note 13 of our Consolidated Financial Statements.

Litigation

We are involved from time to time in claims and legal actions incidental to our operations, both as plaintiff and defendant. We have established what we currently believe to be adequate accruals for pending legal matters. These accruals are established as part of an ongoing worldwide assessment of claims and legal actions that takes into consideration such items as advice of legal counsel, individual developments in court proceedings, changes in the law, changes in business focus, changes in the litigation environment, changes in opponent strategy and tactics, new developments as a result of ongoing discovery, and past experience in defending and settling similar claims. Changes in accruals, both up and down, are part of the ordinary, recurring course of business, in which management, after consultation with legal counsel, is required to make estimates of various amounts for business and strategic planning purposes, as well as for accounting and Securities Exchange Act of 1934 reporting purposes. These changes are reflected in the reported earnings of the Company each quarter. The litigation accruals at any time reflect updated assessments of the then-existing claims and legal actions as assessed under SFAS 5. The final outcome or potential settlement of litigation matters could differ materially from the accruals which have been established by the Company.

CAPITAL RESOURCES AND LIQUIDITY

We define liquidity as the ability to generate adequate amounts of cash to meet current cash needs. We assess our liquidity in terms of our ability to fund working capital requirements, fund capital expenditures and expansion efforts in the future, and make payments on and refinance our indebtedness. This, to a certain extent, is subject to general economic, financial, competitive and other factors that are beyond our control. We believe that our cash, other liquid assets and operating cash flow, together with available borrowings and potential access to credit and capital markets, will be sufficient to meet our operating and capital expenditure requirements and to service our debt and meet other contractual obligations as they become due.

Cash Requirements

We have certain contractual cash obligations that require us to make payments on a scheduled basis which include, among other things, long-term debt payments, interest payments, operating leases, unconditional purchase obligations, and funding requirements of pension and postretirement obligations. Our unconditional purchase obligations are our largest contractual cash obligation. Unconditional purchase obligations are contracts to purchase raw materials such as sulfur, ammonia and natural gas. Our next largest cash obligations are our long-term debt that has maturities ranging from one year to 19 years and finally, our ARO and other environmental obligations primarily related to our Phosphates segment. We expect to fund our purchase obligations, ARO, and capital expenditures with a combination of operating cash flows, cash and cash equivalents, and borrowings. For fiscal 2009, we expect our capital expenditures to significantly increase due to large investments within our existing businesses. See Off-Balance Sheet Arrangements and Obligations for the amounts owed by Mosaic under Contractual Cash Obligations.

Sources and Uses of Cash

The following table represents a comparison of the cash provided by operating activities, cash used in investing activities, and cash provided by (used in) financing activities for fiscal 2008, 2007 and 2006:

	Years Ended May 31,			2008-2007		2007-2006	
(in millions)	2008	2007	2006	$ Change	% Change	$ Change	% Change
Cash Flow							
Cash provided by operating activities	$2,546.6	$707.9	$294.4	$1,838.7	260%	$413.5	140%
Cash used in investing activities	(341.6)	(304.0)	(359.2)	(37.6)	12%	55.2	(15%)
Cash (used in) provided by financing activities	(709.8)	(173.2)	6.3	(536.6)	310%	(179.5)	NM

Our strong operating cash flow in fiscal 2008 resulted in cash and cash equivalents at May 31, 2008 of $2.0 billion, up from $420.6 million at May 31, 2007 and also permitted us to repay $801 million of long-term debt during fiscal 2008. Funds generated by operating activities, available cash and cash equivalents and our credit facilities continue to be our most significant sources of liquidity. We believe funds generated from the expected results of operations and available cash and cash equivalents will be sufficient to finance anticipated expansion plans and strategic initiatives in fiscal 2009. In addition, our credit facilities are available for additional working capital needs and investment opportunities. There can be no assurance, however, that we will continue to generate cash flows at or above current levels.

Operating Activities. Operating activities provided $2.5 billion of cash for fiscal 2008, an increase of $1.8 billion compared to fiscal 2007. The increase in cash flows was primarily the result of significant growth in net earnings, an increase in accrued liabilities primarily driven by an increase in customer prepayments and an increase in accounts payable to finance our Offshore inventories, partially offset by an increase in accounts receivable and inventories. Accounts receivable increased due to higher selling prices and sales volumes. Inventories increased as a result of higher sulfur and ammonia costs and an increase in our Offshore inventories as a result of accumulating lower cost inventories during a time of rising prices.

Operating activities provided $707.9 million of cash for fiscal 2007, an increase of $413.5 million compared to fiscal 2006. The increase in cash flows was primarily the result of growth in net earnings, an increase in accounts payable and accrued liabilities, partially offset by an increase in accounts receivable and a decrease in other noncurrent liabilities, and by a $94.0 million payment in fiscal 2006 in connection with early termination of a phosphate rock contract and settlement of a lawsuit related to the contract. Accounts receivable increased primarily as a result of higher phosphate prices and higher sales volumes in the fourth quarter of fiscal 2007. Accounts payable increased primarily as a result of the timing of payments. Accrued liabilities increased as a result of higher incentives accruals, higher accrued taxes, and more customer prepayments at the end of fiscal 2007. Noncurrent liabilities decreased as a result of reduction in our ARO. In fiscal 2006, we paid $84.0 million in connection with the early termination of a phosphate rock sales agreement between U.S. Agri-Chemicals Corporation and Mosaic Fertilizer, LLC and $10.0 million to settle an existing lawsuit relating to certain pricing disputes under the agreement.

Investing Activities. Investing activities used $341.6 million of cash for fiscal 2008, an increase of $37.6 million compared to fiscal 2007. The increase in cash used by investing activities was mainly the result of higher capital expenditures in fiscal 2008 partially offset by proceeds from the sale of an investment. For fiscal 2009, we expect to increase our capital expenditures in order to fund our initiatives for expanding our existing businesses and to sustain the operating rates necessary to support current and planned production volumes.

Investing activities used $304.0 million of cash for fiscal 2007, a decrease of $55.2 million compared to fiscal 2006. The decrease in cash used by investing activities was mainly the result of lower capital expenditures in fiscal 2007 primarily as a result of the impact of the Phosphates Restructuring, partially offset by increased spending in the Potash segment for the Esterhazy expansion and Esterhazy brine inflows. Investing activities in fiscal 2006 included $44.0 million in proceeds from a note receivable from Saskferco.

Financing Activities. Cash used in financing activities for fiscal 2008 was $709.8 million, an increase of $536.6 million compared to $173.2 million in fiscal 2007. The primary reason for the increase in cash used in financing activities in fiscal 2008 relates to the paydown of debt. We paid down $801 million of long-term debt in fiscal 2008. This was partially offset by increased proceeds from stock options exercised and excess tax benefits related to stock option exercises.

Cash used in financing activities for fiscal 2007 was $173.2 million, an increase of $179.5 million compared to cash provided by financing activities of $6.3 million in fiscal 2006. The primary reason for the increase in cash used in financing activities in fiscal 2007 relates to the repayment of debt and the charges involved with the completion of the Refinancing that occurred on December 1, 2006. We paid down approximately $280 million of debt in the fourth quarter of fiscal 2007 which was partially offset by net cash received from the Refinancing. In association with the Refinancing, we paid a tender premium of $111.8 million, terminated an interest rate swap at $6.4 million, and incurred deferred financing fees of $15.6 million. In addition, we paid down our revolving credit facility under the senior secured credit facility; however, this was offset by our Offshore segment obtaining short term borrowings to fund the purchase of inventories. The above activities were partially offset by additional proceeds received from stock option exercises. See Note 12 to the Consolidated Financial Statements for information regarding the Refinancing.

Debt Instruments, Guarantees and Related Covenants

Our strong cash flows during fiscal 2008 and the latter part of fiscal 2007 allowed us to prepay $1 billion in debt from May 1, 2007 through December 31, 2007, achieving our goal of reducing our long-term debt and marking a key milestone toward our goal of obtaining an investment grade credit rating. During the remainder of fiscal 2008, our strong cash flows allowed us to accumulate significant cash and cash equivalents and we were able to eliminate a restriction on capital expenditures from our debt covenants, which should help enable us to grow our businesses in the future. In June 2008, two of three credit rating agencies, Fitch Inc. and Standard and Poor's Ratings Services, that rate our 7-3/8% senior notes due 2014 and 7-5/8% senior notes due 2016 (***"New Senior Notes"***) upgraded their ratings of the New Senior Notes and other unsecured debt to investment grade status.[2]

On December 1, 2006, we completed a refinancing, consisting of (i) the purchase by subsidiaries of approximately $1.4 billion of outstanding senior notes and debentures (***"Existing Notes"***) pursuant to tender offers and (ii) the refinancing of a $345.0 million term loan B facility under our existing bank credit agreement. The total consideration paid for the purchase of the Existing Notes, including tender premiums and consent payments but excluding accrued and unpaid interest, was approximately $1.5 billion. Mosaic funded the purchase of the Existing Notes and the refinancing of the existing term loan B facility through the issuance of the New Senior Notes, and new $400.0 million term loan A-1 and $612.0 million new term loan B facilities under an amended and restated senior secured bank credit agreement (***"Restated Credit Agreement"***). See Note 12 to our Consolidated Financial Statements for additional information relating to our financing arrangements, including the Refinancing. The Refinancing lengthened the average maturity of our indebtedness, decreased our annual cash interest payments, and increased our flexibility to reduce our level of debt in the future.

New Senior Notes. The indenture relating to the New Senior Notes contained certain covenants and events of default that limited various matters or required us to take various actions under specified circumstances. In June 2008, as previously noted, two of three credit rating agencies that rate the New Senior Notes had upgraded their ratings of the New Senior Notes and other unsecured debt to investment grade status. As a result, pursuant to the terms of the indenture, most of the restrictive covenants relating to the New Senior Notes have fallen away. Certain restrictive covenants of the New Senior Notes continue to apply, including restrictive covenants limiting liens, sale and leaseback transactions and mergers, consolidations and sales of substantially all assets as well as the events of default.

The obligations under the New Senior Notes are guaranteed by substantially all of Mosaic's domestic subsidiaries that are involved in operating activities, Mosaic's subsidiaries that own and operate our potash mines at Belle Plaine and Colonsay, Saskatchewan, Canada, and intermediate holding companies through which Mosaic owns the guarantors. Subsidiaries that are not guarantors generally are other foreign subsidiaries, insignificant domestic subsidiaries and other domestic subsidiaries that are not directly engaged in operating activities.

Amended and Restated Credit Facilities. At May 31, 2008 and 2007, respectively, primarily as a result of the prepayments discussed above, the outstanding term loans under the Restated Credit Agreement were reduced to $2.2 million and $34.5 million principal amount of Term Loan A borrowings, $19.2 million and $301.2 million principal amount of Term Loan A-1 borrowings, and $29.6 million and $465.3 million principal amount of Term Loan B borrowings. The prepayments were made from available cash generated by the ongoing business operations of the company.

The Restated Credit Agreement requires us to maintain certain financial ratios, including a leverage ratio and an interest coverage ratio. The Restated Credit Agreement also contains events of default and covenants that, among other things, limit our ability to:

- borrow money, issue specified types of preferred stock or guarantee or provide other support for indebtedness of third parties, including guarantees to finance purchases of our products;
- pay dividends on, redeem or repurchase our capital stock;
- make investments in or loans to entities that we do not control, including joint ventures;
- transact business with Cargill, which owns approximately 64.4% of Mosaic's outstanding common stock, or Cargill's other subsidiaries, except under circumstances intended to provide comfort that the transactions are fair to us;
- use assets as security for the payment of our obligations;
- sell assets, other than sales of inventory in the ordinary course of business, except in compliance with specified limits and up to specified dollar amounts, and in some cases require that we use the net proceeds to repay indebtedness or reinvest in replacement assets;

[2] *A security rating is not a recommendation to buy, sell or hold securities. Although a security rating may be subject to revision or withdrawal at any time by the assigning rating organization, any such revision or withdrawal would not affect the fall-away of the covenants relating to the New Senior Notes. Each rating should be evaluated separately from any other rating.*

- merge with or into other companies;
- enter into sale and leaseback transactions;
- enter into unrelated businesses;
- enter into speculative swaps, derivatives or similar transactions;
- fund our Offshore business segment from our North American operations; or
- prepay indebtedness.

In addition, a change of control of Mosaic is a default under the Restated Credit Agreement.

In connection with the Refinancing, certain covenants in our existing credit agreement were amended to provide us with greater financial flexibility. These amendments included adjustments to the required levels of the leverage ratio and the interest coverage ratio.

The Restated Credit Agreement also contains other covenants and events of default that limit various matters or require us to take various actions under specified circumstances.

On May 27, 2008, we amended our Restated Credit Agreement. The amendment made several changes to the Restated Credit Agreement, including among other things:

- Eliminating a restriction on capital expenditures and certain other limited expenditures; and
- Increasing an exemption for borrowings by foreign subsidiaries from $200 million to 10% of consolidated assets of Mosaic and consolidated subsidiaries.

The obligations under the Restated Credit Agreement are guaranteed by substantially all of our domestic subsidiaries that are involved in operating activities, our subsidiaries that own and operate our potash mines at Belle Plaine and Colonsay, Saskatchewan, Canada, and intermediate holding companies through which we own the guarantors. Subsidiaries that are not guarantors generally are other foreign subsidiaries, insignificant domestic subsidiaries and other domestic subsidiaries that are not directly engaged in operating activities. The obligations are secured by security interests in, mortgages on and/or pledges of (i) the equity interests in the guarantors and in domestic subsidiaries held directly by Mosaic and the guarantors under the Restated Credit Agreement; (ii) 65% of the equity interests in other foreign subsidiaries held directly by Mosaic and such guarantors; (iii) intercompany borrowings by subsidiaries that are held by Mosaic and such guarantors; (iv) our Belle Plaine and Colonsay, Saskatchewan, Canada and Hersey, Michigan potash mines and Riverview, Florida phosphate plant; and (v) all inventory and receivables of Mosaic and such guarantors.

Cross-Default Provisions. Most of our material debt instruments, including the Restated Credit Agreement and the indenture relating to the New Senior Notes, have cross-default provisions. In general, pursuant to these provisions, a failure to pay principal or interest under other indebtedness in excess of a specified threshold amount will result in a cross-default. The threshold under the Restated Credit Agreement and the indenture relating to the New Senior Notes is $30.0 million. Of our material debt instruments, the indentures relating to Mosaic Global Holdings' 7.375% debentures due 2018 and 7.300% debentures due 2028 have the lowest specified cross-default threshold amount, $25.0 million.

Other Debt Repayments. On February 15, 2008, Phosphate Acquisition Partners LP paid at maturity $4.2 million aggregate principal amount of its 7.0% senior notes due 2008 pursuant to the terms of their indenture.

Additional information regarding our financing arrangements is included in Note 12 of our Consolidated Financial Statements.

Financial Assurance Requirements. In addition to various operational and environmental regulations related to Phosphates, we are subject to financial assurance requirements. In various jurisdictions in which we operate, particularly Florida and Louisiana, we are required to pass a financial strength test or provide credit support, typically in the form of surety bonds or letters of credit. See Other Commercial Commitments under Off-Balance Sheet Arrangements and Obligations for the amounts of such financial assurance maintained by the Company and the impacts of such assurance.

OFF-BALANCE SHEET ARRANGEMENTS AND OBLIGATIONS

Off-Balance Sheet Arrangements

In accordance with the definition under rules of the Securities and Exchange Commission (***"SEC"***), the following qualify as off-balance sheet arrangements:

- any obligation under a guarantee contract that has any of the characteristics identified in paragraph 3 of FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*;
- a contingent interest in assets transferred to an unconsolidated entity or similar entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets;
- any obligation, including a contingent obligation, under contracts that would be accounted for as derivative instruments that are indexed to the Company's own stock and classified as equity; and
- any obligation, arising out of a variable interest in an unconsolidated entity that is held by, and material to, the registrant, where such entity provides financing, liquidity, market risk or credit risk support to the registrant, or engages in leasing, hedging or research and development services with the registrant.

Information regarding guarantees in Note 17 to the Consolidated Financial Statements is hereby incorporated by reference. We do not have any contingent interest in assets transferred, derivative instruments, or variable interest entities that qualify as off-balance sheet arrangements under SEC rules.

Contractual Cash Obligations

The following is a summary of our contractual cash obligations as of May 31, 2008:

		Payments by Fiscal Year			
(in millions)	Total	Less than 1 year	1–3 years	3–5 years	More than 5 years
Long-term debt	$1,407.4	$ 42.4	$ 51.1	$ 65.0	$1,248.9
Estimated interest payments on long-term debt[a]	880.6	101.3	197.4	187.8	394.1
Operating leases	105.2	36.6	44.6	18.5	5.5
Purchase commitments[b]	3,592.5	2,481.2	998.3	90.9	22.1
Pension and postretirement liabilities[c]	470.5	31.7	88.0	95.1	255.7
Total contractual cash obligations	$6,456.2	$2,693.2	$1,379.4	$457.3	$1,926.3

(a) Based on interest rates and debt balances as of May 31, 2008.

(b) Based on prevailing market prices as of May 31, 2008.

(c) Fiscal 2009 pension plan payments are based on minimum funding requirements. For years thereafter, pension plan payments are based on expected benefits paid. The postretirement plan payments are based on projected benefit payments.

Other Commercial Commitments

The following is a summary of our other commercial commitments as of May 31, 2008:

		Commitment Expiration by Fiscal Year			
(in millions)	Total	Less than 1 year	1–3 years	3–5 years	More than 5 years
Letters of credit	$ 41.2	$ 41.2	$ –	$ –	$ –
Surety bonds	143.0	128.0	–	15.0	–
Total	$184.2	$169.2	$ –	$15.0	$ –

The surety bonds and letters of credit generally expire within one year or less but a substantial portion of these instruments provide financial assurance for continuing obligations and, therefore, in most cases, must be renewed on an annual basis. We incur liabilities for reclamation activities and phosphogypsum stack system closure in our Florida and Louisiana operations where, in order to obtain necessary permits, we must either pass a test of financial strength or provide credit support, typically in the form of surety bonds or letters of credit. As of May 31, 2008, we had $108.5 million in surety bonds outstanding for mining reclamation obligations in Florida. We have letters of credit directly supporting mining reclamation activity of $0.9 million. The surety bonds generally require us to obtain a discharge of the bonds or to post additional collateral (typically in the form of cash or letters of credit) at the request of the issuer of the bonds.

We have entered into a Consent Agreement with the Florida Department of Environmental Protection to satisfy financial responsibility obligations for our phosphogypsum stack systems in Florida, and are currently in negotiations for an exemption request with the Louisiana Department of Environmental Quality on its financial responsibility requirements, which we currently do not meet. See Note 21 to our Consolidated Financial Statements for more information on our compliance with applicable financial responsibility regulations.

Other Long-Term Obligations

The following is a summary of our other long-term obligations as of May 31, 2008:

		Payments by Fiscal Year			
(in millions)	Total	Less than 1 year	1–3 years	3–5 years	More than 5 years
Asset retirement obligations[(a)]	$1,569.3	$91.1	$109.0	$88.4	$1,280.8

(a) Represents the undiscounted, inflation adjusted estimated cash outflows required to settle the asset retirement obligations. The corresponding present value of these future expenditures is $515.6 million as of May 31, 2008, and is reflected in our accrued liabilities and other noncurrent liabilities in our Consolidated Balance Sheets.

As of May 31, 2008, we had contractual commitments from non-affiliated customers for the shipment of approximately 2.6 million tonnes of concentrated phosphates, phosphate feed products amounting to approximately 0.4 million tonnes, and potash amounting to approximately 2.0 million tonnes for fiscal 2009.

In addition, we have granted a mortgage on approximately 22,000 previously mined acres of land in Florida with a net book value of approximately $14.0 million as security for certain reclamation costs in the event that an option granted to a third party to purchase the mortgaged land is not exercised.

Most of our export sales of phosphate and potash crop nutrients are marketed through two North American export associations, PhosChem and Canpotex, respectively, which fund their operations in part through third-party financing facilities. As a member, Mosaic or our subsidiaries are, subject to certain conditions and exceptions, contractually obligated to reimburse the export associations for their pro rata share of any operating expenses or other liabilities incurred. The reimbursements are made through reductions to members' cash receipts from the export associations. Commitments are set forth in Note 20 to our Consolidated Financial Statements and are incorporated herein by reference.

Tax Obligations

We adopted FIN 48, *Accounting for Uncertainty in Income Taxes* (***"FIN 48"***), as of June 1, 2007. The impact of FIN 48 resulted in a reclassification from other tax accounts of a $169.6 million liability for unrecognized tax benefits related to various tax positions which includes penalties and interest. As of May 31, 2008, the unrecognized tax benefit related to various tax positions was $202.7 million which included penalties and interest. Based on the uncertainties associated with the settlement of these positions, we are unable to make reasonably reliable estimates of the period of potential cash settlement, if any, with taxing authorities. For further discussion, refer to Note 14 of the Consolidated Financial Statements.

MARKET RISK

We are exposed to the impact of fluctuations in the relative value of currencies, the impact of fluctuations in the purchase price of natural gas, ammonia and sulfur consumed in operations, changes in freight costs, as well as changes in the market value of our financial instruments. We periodically enter into derivatives in order to mitigate our foreign currency risks, the effects of changing commodity prices and freight prices, but not for speculative purposes.

Foreign Currency Exchange Rates

We use financial instruments, including forward contracts, zero-cost collars and futures, which typically expire within one year, to reduce the impact of foreign currency exchange risk in the Consolidated Statements of Operations. One of the primary currency exposures relates to several of our Canadian entities, whose sales are denominated in U.S. dollars, but whose costs are paid principally in Canadian dollars, which is their functional currency. Our Canadian businesses monitor their foreign currency risk by estimating their forecasted transactions and measuring their balance sheet exposure in U.S. dollars and Canadian dollars. We hedge certain of these risks through forward contracts and zero-cost collars.

Our foreign currency exchange contracts do not qualify for hedge accounting under SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities,"* as amended (***"SFAS 133"***); therefore, all gains and losses are recorded in the Consolidated Statements of Operations. Gains and losses on foreign currency exchange contracts related to inventory purchases are recorded in cost of goods sold in the Consolidated Statements of Operations. Gains or losses used to hedge changes in our financial position are included in the foreign currency transaction gain (losses) line in the Consolidated Statements of Operations.

As discussed above, we have Canadian dollar, Brazilian real, and other foreign currency exchange contracts. As of May 31, 2008, the fair value of all of our foreign currency exchange contracts decreased $18.5 million over the prior year to $3.6 million. We recorded an unrealized loss of $12.6 million in cost of goods sold and recorded an unrealized loss of $5.9 million in foreign currency transaction (gain) losses in the Consolidated Statements of Operations for fiscal 2008. Our largest foreign currency exposure relates to several of our Canadian entities as discussed above. As of May 31, 2008, the fair value of our Canadian foreign currency exchange contracts decreased $19.5 million over the prior year to $2.3 million. We recorded an unrealized loss of $14.7 million in cost of goods sold and recorded an unrealized loss of $4.8 million in foreign currency transaction (gain) losses in the Consolidated Statements of Operations in fiscal 2008 for those contracts.

The table below provides information about Mosaic's foreign exchange derivatives which hedge foreign exchange exposure for our Canadian entities.

	As of May 31, 2008	
(in millions)	Expected Maturity Date FY 2009	Fair Value
Foreign Currency Exchange Forwards		
Canadian Dollar		
Notional (million US$)	$ 74.0	$1.5
Weighted Average Rate	1.0145	
Foreign Currency Exchange Collars		
Canadian Dollar		
Notional (million US$)	$ 212.5	$0.8
Weighted Average Participation Rate	1.0371	
Weighted Average Protection Rate	0.9710	
Total Fair Value		$2.3

Commodities

We use forward purchase contracts, swaps and zero-cost collars to reduce the risk related to significant price changes in our inputs and product prices.

Our commodities contracts do not qualify for hedge accounting under SFAS 133; therefore, all gains and losses are recorded in the Consolidated Statements of Operations. Gains and losses on commodities contracts are recorded in cost of goods sold in the Consolidated Statements of Operations.

As of May 31, 2008, the fair value of our commodities contracts increased $36.9 million over the prior year to $43.3 million. Accordingly, we recorded an unrealized gain of $36.9 million in cost of goods sold on the Consolidated Statements of Operations in fiscal 2008.

Our primary commodities exposure relates to price changes in natural gas. As of May 31, 2008, the fair value of our natural gas commodities contracts increased $38.9 million over the prior year to $45.6 million. Accordingly, we recorded an unrealized gain of $38.9 million in cost of goods sold in the Consolidated Statements of Operations for fiscal 2008.

The table below provides information about Mosaic's natural gas derivatives which are used to manage the risk related to significant price changes in natural gas.

	As of May 31, 2008			
	Expected Maturity Date			
(in millions)	FY 2009	FY 2010	FY 2011	Fair Value
Natural Gas Swaps				
Notional (million MMBtu)	12.0			$ 9.5
Weighted Average Rate (US$/MMBtu)	$10.35			
Natural Gas 3-Way Collars				
Notional (million MMBtu)	33.9	16.4	5.1	$36.1
Weighted Average Call Purchased Rate (US$/MMBtu)	$ 9.70	$ 8.11	$ 7.76	
Weighted Average Call Sold Rate (US$/MMBtu)	$11.92	$10.45	$10.35	
Weighted Average Put Sold Rate (US$/MMBtu)	$ 8.39	$ 7.17	$ 6.84	
Total Fair Value				$45.6

Overall, there have been no material changes in our primary risk exposures or management of market risks since the prior year. We do not expect any material changes in our primary risk exposures or management of market risks for the foreseeable future. For additional information related to derivatives, see Note 16 of our Consolidated Financial Statements.

ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

The Company's Program

We have adopted the following Environmental, Health and Safety (***"EHS"***) Policy (***"Policy"***):

> *It is the policy of The Mosaic Company and subsidiaries, which it controls, to conduct all business activities in a manner that protects the environment and the health and safety of our employees, contractors, customers and communities. Environmental stewardship, health and safety will be integrated into all business practices. Our employees will be trained to ensure that environmental, health and safety standards and procedures are understood and implemented.*

Environment. *Mosaic employees and business units will comply with all applicable laws and regulations. Mosaic supports the responsible production and use of crop nutrient products to enhance preservation of natural systems.*

Health and Safety. *Mosaic will design, operate and manage company facilities to protect the health and safety of our employees and communities. We require that all work, however urgent, be done safely.*

Product Safety. *The safety of Mosaic products for human, animal and plant applications will not be compromised. The management of raw materials, production processes and material handling facilities will at all times be protective of our customers and communities.*

This Policy is the cornerstone of our comprehensive EHS management program (***"EHS Program"***), which seeks to achieve sustainable, predictable and verifiable EHS performance. Key elements of the EHS Program include: (i) identifying and managing EHS risk; (ii) complying with legal requirements; (iii) improving our EHS procedures and protocols; (iv) educating employees regarding EHS obligations; (v) retaining and developing professional qualified EHS staff; (vi) evaluating facility conditions; (vii) evaluating and enhancing safe workplace behaviors; (viii) performing audits; (ix) formulating EHS action plans; and (x) assuring accountability of all managers and other employees for environmental performance. The business units are responsible for implementing day-to-day elements of the EHS Program, assisted by an integrated staff of EHS professionals. We conduct audits to verify that each facility has identified risks, achieved regulatory compliance, implemented continuous EHS improvement, and incorporated EHS management systems into day-to-day business functions.

A critical focus of our EHS Program is achieving compliance with the evolving myriad of international, federal, state, provincial and local EHS laws that govern our production and distribution of crop and animal nutrients. These EHS laws regulate or propose to regulate: (i) conduct of mining and production operations, including employee safety procedures; (ii) management and handling of raw materials; (iii) product content; (iv) use of products by both us and our customers; (v) management and/or remediation of potential impacts to air, water quality and soil from our operations; (vi) disposal of waste materials; and (vii) reclamation of lands after mining. For any new regulatory programs that might be proposed, it is difficult to ascertain future compliance obligations or to estimate future costs until implementing regulations have been finalized and definitive regulatory interpretations have been adopted. We typically respond to such regulatory requirements at the appropriate time by implementing necessary modifications to facilities or to operating procedures.

We have expended, and anticipate that we will continue to expend, substantial financial and managerial resources to comply with EHS standards and improve our environmental stewardship. In fiscal 2009, environmental capital expenditures are expected to total approximately $158 million, primarily related to: (i) modification or construction of waste management, water treatment areas and water treatment systems; (ii) construction and modification projects associated with phosphogypsum stacks (***"Gypstacks"***) and clay settling ponds at our Phosphates facilities and tailings management areas for our Potash mining and processing facilities; (iii) upgrading or new construction of air pollution control equipment at some of the concentrates plants; and (iv) capital projects associated with remediation of contamination at current or former operations. Additional expenditures for land reclamation activities are expected to total approximately $58 million in fiscal 2009. In fiscal 2010, we estimate environmental capital expenditures will be approximately $121 million and expenditures for land reclamation activities are expected to be approximately $39 million. No assurance can be given that greater-than-anticipated EHS capital expenditures or land reclamation expenditures will not be required in fiscal 2009 or in the future.

We have recorded accruals for certain environmental liabilities and believe such accruals are in accordance with U.S. GAAP. We record accruals for environmental investigatory and non-capital remediation costs and for expenses associated with litigation when litigation has commenced or a claim or assessment has been asserted or is imminent, the likelihood of an unfavorable outcome is probable and the financial impact of such outcome is reasonably estimable. These accruals are adjusted quarterly for any changes in our estimates of the future costs associated with these matters.

Product Requirements and Impacts

International, federal, state and provincial standards require us to register many of our products before these products can be sold. The standards also impose labeling requirements on these products and require us to manufacture the products to formulations set forth on the labels. Various environmental, natural resource and public health agencies continue to evaluate alleged health and environmental impacts that could arise from the handling and use of products such as those we manufacture. The U.S. Environmental Protection Agency, the State of California, and The Fertilizer Institute in conjunction with the European Fertilizer Manufacturers Association have completed independent assessments of potential risks posed by crop nutrient materials. These assessments concluded that when handled and used as intended, based on the available data, crop nutrient materials do not pose harm to human health or the environment. Nevertheless, agencies could impose additional standards or regulatory requirements on the producing industries, including us or our customers. It is our current opinion that the potential impact of any such standards on the market for our products, and the expenditures that might be necessary to meet any such standards, will not have a material adverse effect on our business or financial condition.

Operating Requirements and Impacts

Permitting. We hold numerous environmental, mining and other permits or approvals authorizing operation at each of our facilities. Our ability to continue operations at a facility could be materially affected by a government agency decision to deny or delay issuing a new or renewed permit or approval, to revoke or substantially modify an existing permit or approval or to substantially change conditions applicable to a permit modification. In addition, expansion of our operations or extension of operations into new areas is predicated upon securing the necessary environmental or other permits or approvals. For instance, over the next several years, we will be continuing our efforts to obtain permits in support of our anticipated Florida mining operations at certain of our properties. For years, we have successfully permitted mining properties and anticipate that we will be able to permit these properties as well. In Florida, local community participation has become an important factor in the permitting process for mining companies. A denial of these permits or the issuance of permits with cost-prohibitive conditions would prevent us from mining at these properties and thereby have a material adverse effect on our business and financial condition.

Operating Impacts Due to the Kyoto Protocol. On December 16, 2002, the Prime Minister of Canada ratified the Kyoto Protocol, committing Canada to reduce its greenhouse gas emissions on average to six percent below 1990 levels through the first commitment period (2008-2012). This equates to reductions of between 20 to 30 percent from current emission levels across the country. Implementation of this commitment will be achieved through The Climate Change Plan for Canada. In early 2008, the present government announced a new Climate Change Plan for Canada which set back ongoing discussions between the government and industry representatives substantially through changing the baseline year. Negotiating through the Canadian Fertilizer Institute, we continue to work for carbon dioxide reduction targets that could be achieved by continuing to focus on energy efficiency initiatives within our operations, thus avoiding the need to purchase carbon credits. At this point there is no certainty regarding the final targets or costs.

Reclamation Obligations. During our phosphate mining operations, we remove overburden and sand tailings in order to retrieve phosphate rock reserves. Once we have finished mining in an area, we return overburden and sand tailings and reclaim the area in accordance with approved reclamation plans and applicable laws. We have incurred and will continue to incur significant costs to fulfill our reclamation obligations. In the past, we have established accruals to account for our reclamation expenses. Since June 1, 2003, we have accounted for mandatory reclamation of phosphate mining land in accordance with SFAS 143. See Note 15 to our Consolidated Financial Statements for the impact of this accounting treatment.

Management of Residual Materials and Closure of Management Areas. Mining and processing of potash and phosphate generate residual materials that must be managed both during the operation of the facility and upon facility closure. Potash tailings, consisting primarily of salt and clay, are stored in surface disposal sites. Phosphate clay residuals from mining are deposited in clay settling ponds. Processing of phosphate rock with sulfuric acid generates phosphogypsum that is stored in phosphogypsum management systems.

During the life of the tailings management areas, clay settling ponds and phosphogypsum management systems, we have incurred and will continue to incur significant costs to manage our potash and phosphate residual materials in accordance with environmental laws and regulations and with permit requirements. Additional legal and permit requirements will take effect when these facilities are closed.

The Company has significant asset retirement obligations recorded under SFAS 143. See Critical Accounting Estimates and Note 15 to our Consolidated Financial Statements for the impact of this accounting pronouncement.

Saskatchewan Environment (***"SE"***) is in the process of establishing appropriate closure requirements for potash tailings management areas. SE has required all mine operators in Saskatchewan to obtain approval of facility decommissioning and reclamation plans (***"Plans"***). These Plans, which apply once mining operations at any facility are terminated, must specify procedures for handling potash residuals and for decommissioning all mine facilities including potash tailings management areas. On July 5, 2000, SE approved, with comments, the decommissioning Plans submitted by us for each of our facilities. These comments required us and the rest of the industry to cooperate with SE to evaluate technically feasible, cost-effective and environmentally responsible disposal options for tailings residuals and to correct any deficiencies in the Plans that were noted by SE. The Plans initially approved July 5, 2000 were reviewed, updated, and resubmitted to SE in May 2006. These plans have been tentatively approved, subject to a continuing review of the associated financial assurance proposal.

Financial Assurance. Separate from our accounting treatment for reclamation and closure liabilities, some jurisdictions in which we operate have required us either to pass a test of financial strength or provide credit support, typically surety bonds, financial guarantees or letters of credit, to address phosphate mining reclamation liabilities and closure liabilities for clay settling areas and phosphogypsum management systems. See Other Commercial Commitments under Off-Balance Sheet Arrangements and Obligations above for the amounts of such assurance maintained by the Company and the impacts of such assurance.

In connection with the interim approval of closure plans for potash tailings management areas discussed above, we were required to post interim financial assurance to cover the estimated amount that would be necessary to operate our tailings management areas for approximately two years in the event that we were no longer able to fund facility decommissioning. In April 2006, a proposal for initiating a closure fund for each company was made to SE. As proposed, the fund would be managed by a mutually agreed upon third party. An initial investment by us of approximately $1.5 million Canadian would grow by the estimated time of closure, or by the one-hundredth year of operation, to an amount that would fully fund the industry's closure liability. SE would review the sufficiency of the fund every five years. In addition, under the proposal, the existing interim financial assurance would remain in place. SE has not yet formally responded to the proposal, but in principle, appears to support it. SE has extended the expiration of our current financial assurance indefinitely pending its review of the proposal.

Upon final approval by SE, we will be required to provide financial assurance that the plans proposed by us ultimately will be carried out. Because SE has not yet specified the assurance mechanism to be utilized, we cannot predict with certainty the financial impact of these financial assurance requirements on us.

Remedial Activities

The U.S. Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as the Superfund law, imposes liability, without regard to fault or to the legality of a party's conduct, on certain categories of persons who have disposed of "hazardous substances" at a third-party location. Various states have enacted legislation that is analogous to the federal Superfund program. Under Superfund, or its various state analogues, one party may be responsible for the entire site, regardless of fault or the locality of its disposal activity. We have contingent environmental remedial liabilities that arise principally from three sources which are further discussed below: (i) facilities currently or formerly owned by our subsidiaries or their predecessors; (ii) facilities adjacent to currently or formerly owned facilities; and (iii) third-party Superfund or state equivalent sites where we have disposed of hazardous materials. Taking into consideration established accruals for environmental remedial matters of approximately $22.8 million as of May 31, 2008, expenditures for these known conditions currently are not expected, individually or in the aggregate, to have a material effect on our business or financial condition. However, material expenditures could be required in the future to remediate the contamination at known sites or at other current or former sites.

Remediation at Our Facilities. Many of our formerly owned or current facilities have been in operation for a number of years. The historical use and handling of regulated chemical substances, crop and animal nutrients and additives as well as by-product or process tailings at these facilities by us and predecessor operators have resulted in soil, surface water and groundwater impacts.

At many of these facilities, spills or other releases of regulated substances have occurred previously and potentially could occur in the future, possibly requiring us to undertake or fund cleanup efforts under Superfund or otherwise. In some instances, we have agreed, pursuant to consent orders or agreements with the appropriate governmental agencies, to undertake certain investigations, which currently are in progress, to determine whether remedial action may be required to address site impacts. At other locations, we have entered into consent orders or agreements with appropriate governmental agencies to perform required remedial activities that will address identified site conditions. Taking into account established accruals, future expenditures for these known conditions currently are not expected, individually or in the aggregate, to have a material adverse effect on our business or financial condition. However, material expenditures by us could be required in the future to remediate the environmental impacts at these or at other current or former sites.

Remediation at Third-Party Facilities. Various third parties have alleged that our historic operations have impacted neighboring off-site areas or nearby third-party facilities. In some instances, we have agreed, pursuant to orders from or agreements with appropriate governmental agencies or agreements with private parties, to undertake or fund investigations, some of which currently are in progress, to determine whether remedial action, under Superfund or otherwise, may be required to address off-site impacts. Our remedial liability at these sites, either alone or in the aggregate, taking into account established accruals, currently is not expected to have a material adverse effect on our business or financial condition. As more information is obtained regarding these sites, this expectation could change.

Liability for Off-Site Disposal Locations. Currently, we are involved or concluding involvement for off-site disposal at several Superfund or equivalent state sites. Moreover, we previously have entered into settlements to resolve liability with regard to Superfund or equivalent state sites. In some cases, such settlements have included "reopeners," which could result in additional liability at such sites in the event of newly discovered contamination or other circumstances. Our remedial liability at such disposal sites, either alone or in the aggregate, currently is not expected to have a material adverse effect on our business or financial condition. As more information is obtained regarding these sites and the potentially responsible parties involved, this expectation could change.

For additional discussion of environmental liabilities and proceedings in which we are involved, see Note 21 to our Consolidated Financial Statements.

CONTINGENCIES

Information regarding contingencies in Note 21 to our Consolidated Financial Statements is hereby incorporated by reference.

RELATED PARTIES

Information regarding related party transactions is set forth in Note 23 to our Consolidated Financial Statements and is incorporated herein by reference.

RECENTLY ISSUED ACCOUNTING GUIDANCE

Recently issued accounting guidance is set forth in Note 4 to the Consolidated Financial Statements and is incorporated herein by reference.

FORWARD-LOOKING STATEMENTS

Cautionary Statement Regarding Forward-Looking Information

All statements, other than statements of historical fact, appearing in this report constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, among other things, statements about our expectations, beliefs, intentions or strategies for the future, statements concerning our future operations, financial condition and prospects, statements regarding our expectations for capital expenditures, statements concerning our level of indebtedness and other information, and any statements of assumptions regarding any of the foregoing. In particular, forward-looking statements may include words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "potential," "predict," "project" or "should." These statements involve certain risks and uncertainties that may cause actual results to differ materially from expectations as of the date of this filing.

Factors that could cause reported results to differ materially from those expressed or implied by the forward-looking statements include, but are not limited to, the following:

- business and economic conditions and governmental policies affecting the agricultural industry where we or our customers operate, including price and demand volatility resulting from periodic imbalances of supply and demand;
- changes in the operation of world phosphate or potash markets, including continuing consolidation in the fertilizer industry, particularly if we do not participate in the consolidation;
- pressure on prices realized by us for our products;

- the expansion or contraction of production capacity or selling efforts by competitors or new entrants in the industries in which we operate;
- seasonality in our business that results in the need to carry significant amounts of inventory and seasonal peaks in working capital requirements, and may result in excess inventory or product shortages;
- changes in the costs, or constraints on supplies, of raw materials or energy used in manufacturing our products, or in the costs or availability of transportation for our products;
- disruptions to existing transportation or terminaling facilities;
- shortages of railcars, barges and ships for carrying our products and raw materials;
- the effects of and change in trade, monetary, environmental, tax and fiscal policies, laws and regulations;
- foreign exchange rates and fluctuations in those rates;
- tax regulations, currency exchange controls and other restrictions that may affect our ability to optimize the use of our liquidity;
- other risks associated with our international operations;
- adverse weather conditions affecting our operations, including the impact of potential hurricanes or excess rainfall;
- difficulties or delays in receiving, or increased costs of obtaining or satisfying conditions of, required governmental and regulatory approvals including permitting activities;
- the financial resources of our competitors, including state-owned and government-subsidized entities in other countries;
- provisions in the agreements governing our indebtedness that limit our discretion to operate our business and require us to meet specified financial tests;
- adverse changes in the ratings of our securities and changes in availability of funds to us in the financial markets;
- the possibility of defaults by our customers on trade credit that we extend to them or on indebtedness that they incur to purchase our products and that we guarantee;
- rates of return on, and the investment risks associated with, our cash balances;
- the effectiveness of our risk management strategy;
- actual costs of asset retirement, environmental remediation, reclamation and other environmental obligations differing from management's current estimates;
- the costs and effects of legal proceedings and regulatory matters affecting us including environmental and administrative proceedings;
- the success of our efforts to attract and retain highly qualified and motivated employees;
- strikes, labor stoppages or slowdowns by our work force or increased costs resulting from unsuccessful labor contract negotiations;
- accidents involving our operations, including brine inflows at our Esterhazy, Saskatchewan potash mine as well as potential inflows at our other shaft mines, and potential fires, explosions, seismic events or releases of hazardous or volatile chemicals;
- terrorism or other malicious intentional acts;
- other disruptions of operations at any of our key production and distribution facilities, particularly when they are operating at high operating rates;
- changes in antitrust and competition laws or their enforcement;
- other changes in laws and regulations resulting from concerns over rising food and crop nutrient prices;
- actions by the holders of controlling equity interests in businesses in which we hold a minority interest;
- Cargill's majority ownership and representation on Mosaic's Board of Directors and its ability to control Mosaic's actions, and the possibility that it could either increase its ownership after the expiration of existing standstill provisions in our investor rights agreement with Cargill that expire in 2008 or sell its interest in Mosaic; and
- other risk factors reported from time to time in our Securities and Exchange Commission reports.

Material uncertainties and other factors known to us are discussed in Item 1A, "Risk Factors," of our annual report on Form 10-K for the fiscal year ended May 31, 2008 and incorporated by reference herein as if fully stated herein.

We base our forward-looking statements on information currently available to us, and we undertake no obligation to update or revise any of these statements, whether as a result of changes in underlying factors, new information, future events or other developments.