

## Introduction

The Mosaic Company (before or after the Cargill Transaction described in Note 2 of our Consolidated Financial Statements, "**Mosaic**," and with its consolidated subsidiaries, "**we**," "**us**," "**our**," or the "**Company**") is the parent company of the business that was formed through the business combination ("**Combination**") of IMC Global Inc. and the Cargill Crop Nutrition fertilizer businesses of Cargill, Incorporated and its subsidiaries (collectively, "**Cargill**") on October 22, 2004.

We produce and market 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. We are organized into the following business segments:

Our **Phosphates** business segment owns and operates mines and production facilities in Florida which produce concentrated phosphate crop nutrients and phosphate-based animal feed ingredients, and processing plants in Louisiana which produce concentrated phosphate crop nutrients. In fiscal 2011, the Phosphates segment acquired a 35% economic interest in a joint venture that owns a phosphate rock mine (the "**Miski Mayo Mine**") in Peru. Our Phosphates segment's results also include our North American and international distribution activities as well as the consolidated results of Phosphate Chemicals Export Association, Inc. ("**PhosChem**"), a U.S. Webb-Pomerene Act association of phosphate producers that exports concentrated phosphate crop nutrient products around the world for us and PhosChem's other member. Our share of PhosChem's sales of dry phosphate crop nutrient products was approximately 87% for the year ended May 31, 2011.

Our **Potash** business segment owns and operates potash mines and production facilities in Canada and the U.S. which produce potash-based crop nutrients, 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 outside of the U.S. and Canada. Our Potash segment also includes North American potash distribution activities.

## Key Factors That Can Affect Results of Operations and Financial Condition

Our primary products, phosphate and potash crop nutrients, 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 and customer sentiment 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 significant raw material costs in our Phosphates business, fixed costs associated with owning and operating our major facilities and worldwide supply and demand for our products.

World prices for the key raw material 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 as well as supply and demand. Sulfur is a world commodity that is primarily produced as co-products of oil refining, where the cost is based primarily on supply and demand for sulfur. We produce most of our requirements for phosphate rock through either wholly or partly owned mines.

Our production is generally sold based on the market prices prevailing at the time the sales contract is signed or through contracts which are priced at the time of shipment based on a formula. Additionally, in certain circumstances the final price of our products is determined after shipment based on the current market at the time the price is agreed with the customer. 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, as well as customer requirements. In a period of changing 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 Canadian resource taxes and royalties that we pay the Province of Saskatchewan to mine our potash reserves. In addition, cost of goods sold are affected by the level of periodic inflationary pressures on resources, such as labor, processing materials and construction costs, due to the rate of economic growth in western Canada where we produce most of our potash, the capital and operating costs we incur to manage brine inflows at our potash mine at Esterhazy, Saskatchewan and natural gas costs for operating our potash solution mine at Belle Plaine, Saskatchewan. Our per tonne selling prices for potash are affected by shifts in the product mix between agricultural and industrial sales because a significant portion of our industrial sales are long-term and based on historical market prices which can lag current market prices.

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 currency risk exposure on anticipated cash flows. Depending on the underlying exposure, such derivatives can create additional earnings volatility because we do not use hedge accounting. Gains or losses on these derivative contracts, both for open contracts at quarter end (unrealized) and settled contracts (realized), are recorded in either cost of goods sold or foreign currency transaction loss (gain). Our sales are typically denominated in U.S. dollars, which generates U.S. dollar denominated intercompany accounts receivable and cash in these entities. If the U.S. dollar weakens relative to the Canadian dollar, we record a foreign currency transaction loss in non-operating income (expense). This foreign currency loss typically does not have a cash flow impact.
- The functional currency for our Brazilian subsidiaries is the Brazilian real. We finance our Brazilian inventory purchases with U.S. dollar denominated liabilities. A weaker U.S. dollar relative to the Brazilian real has the impact of reducing these liabilities on a functional currency basis. When this occurs, an associated foreign currency transaction gain is recorded in non-operating income (expense). A stronger U.S. dollar has the opposite effect. Effective June 1, 2010, we started hedging a portion of our currency risk exposure on anticipated cash flows and we record an associated foreign currency transaction gain or loss in cost of goods sold. In periods prior to June 1, 2010, we hedged our balance sheet exposure which is typically U.S. dollar denominated liabilities generated by inventory purchases.

In fiscal 2011, we continued the expansion of capacity in our Potash segment, in line with our view of the long-term fundamentals of that business. The planned brownfield expansions over the next decade are expected to increase our annual proven peaking capacity for finished product by approximately five million tonnes. We have completed the first of our planned expansions with the other remaining projects progressing as planned. We are positioning our expansion projects so we are able to bring the additional capacity on line when market demand warrants.

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 short or long ton(s) which are the equivalent of 2,000 pounds and 2,240 pounds, respectively. 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, 2011, 2010 and 2009:

IN MILLIONS, EXCEPT PER SHARE DATA	YEARS ENDED MAY 31,			2011-2010		2010-2009	
	2011	2010	2009	CHANGE	PERCENT	CHANGE	PERCENT
Net sales	<b>\$ 9,937.8</b>	\$ 6,759.1	\$ 10,298.0	\$ 3,178.7	47%	\$(3,538.9)	(34%)
Cost of goods sold	<b>6,816.0</b>	5,065.8	7,148.1	1,750.2	35%	(2,082.3)	(29%)
Lower of cost or market write-down	—	—	383.2	—	—	(383.2)	NM
Gross margin	<b>3,121.8</b>	1,693.3	2,766.7	1,428.5	84%	(1,073.4)	(39%)
Gross margin percentage	<b>31.4%</b>	25.1%	26.9%				
Selling, general and administrative expenses	<b>372.5</b>	360.3	321.4	12.2	3%	38.9	12%
Other operating expenses	<b>85.1</b>	62.2	44.4	22.9	37%	17.8	40%
Operating earnings	<b>2,664.2</b>	1,270.8	2,400.9	1,393.4	110%	(1,130.1)	(47%)
Interest expense, net	<b>5.1</b>	49.6	43.3	(44.5)	(90%)	6.3	15%
Foreign currency transaction loss	<b>(56.3)</b>	(32.4)	(131.8)	(23.9)	74%	99.4	(75%)
Gain on sale of equity investment	<b>685.6</b>	—	673.4	685.6	NM	(673.4)	NM
Other income (expense)	<b>(17.1)</b>	0.9	6.5	(18.0)	NM	(5.6)	(86%)
Earnings from consolidated companies before income taxes	<b>3,271.3</b>	1,189.7	2,905.7	2,081.6	175%	(1,716.0)	(59%)
Provision for income taxes	<b>752.8</b>	347.3	649.3	405.5	117%	(302.0)	(47%)
Earnings from consolidated companies	<b>2,518.5</b>	842.4	2,256.4	1,676.1	199%	(1,414.0)	(63%)
Equity in net earnings (loss) of nonconsolidated companies	<b>(5.0)</b>	(10.9)	100.1	5.9	(54%)	(111.0)	NM
Net earnings including non-controlling interests	<b>2,513.5</b>	831.5	2,356.5	1,682.0	202%	(1,525.0)	(65%)
Less: Net earnings (loss) attributable to non-controlling interests	<b>(1.1)</b>	4.4	6.3	(5.5)	NM	(1.9)	(30%)
Net earnings attributable to Mosaic	<b>\$ 2,514.6</b>	\$ 827.1	\$ 2,350.2	\$ 1,687.5	204%	\$ (1,523.1)	(65%)
Diluted net earnings per share attributable to Mosaic	<b>\$ 5.62</b>	\$ 1.85	\$ 5.27	\$ 3.77	204%	\$ (3.42)	(65%)
Diluted weighted average number of shares outstanding	<b>447.5</b>	446.6	446.2				

### Overview of Fiscal 2011, 2010 and 2009

Net earnings attributable to Mosaic for fiscal 2011 were \$2.5 billion, or \$5.62 per diluted share, compared to fiscal 2010 net earnings of \$0.8 billion, or \$1.85 per diluted share, and \$2.4 billion, or \$5.27 per diluted share, for fiscal 2009. The more significant factors that affected our results of operations and financial condition in fiscal 2011, 2010 and 2009 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 2011

Our results for fiscal 2011 reflected continued strengthening of phosphate sales prices compared to the prior year when the recovery in phosphates selling prices was in its early stages. Potash sales volumes increased compared to the prior year due to increasing demand. The crop nutrient market has shown significant improvement compared to fiscal 2010 due to the strengthening global outlook for agriculture fundamentals, supported by increased grain and oilseed prices in the current year. Other factors contributing to the strong market dynamics were low producer and pipeline inventories and the impact of improving application rates as farmers make up for lower rates in recent years.

The selling prices for our diammonium phosphate ("**DAP**") products in fiscal 2011 were significantly higher than in fiscal 2010 due to the factors discussed above and the effect on selling prices of high raw material costs.

Higher raw material costs partially offset the benefit from the increase in market prices for our phosphates products. The higher prices for our key raw materials for concentrated phosphates, primarily sulfur and ammonia, resulted from higher global demand for these raw materials in the current year compared to the prior year. We believe that our investments in sulfur transportation assets continue to afford us a competitive advantage compared to other North American producers in the cost of and access to sulfur.

### Other Highlights in Fiscal 2011:

- On May 25, 2011, we, Cargill and certain Cargill shareholders consummated the first in a series of transactions intended to result in the split-off and orderly distribution of Cargill's approximately 64% equity interest in us (the "**Cargill Transaction**") through a series of public offerings. As of May 25, 2011, Cargill no longer owns any outstanding shares of Mosaic. We expect the Cargill Transaction to benefit us by improving our long-term strategic and financial flexibility, as well as greatly increasing the liquidity of our common stock. The Cargill Transaction resulted in no change to our total outstanding shares, the economic rights of our shares or earnings per share. The Cargill Transaction also is not expected to have a material impact on our underlying financial performance or current business operations. We have included additional information about the Cargill Transaction in Note 2 of our Consolidated Financial Statements.
- We generated \$2.4 billion in cash flows from operations in fiscal 2011 and maintained cash and cash equivalents of \$3.9 billion as of May 31, 2011. We were successful in investing in our business and divesting non-strategic assets:
  - We consummated an agreement on July 7, 2010 to acquire a 35% economic interest in a joint venture, with subsidiaries of Vale S.A. ("**Vale**") and Mitsui & Co., Ltd., that owns a recently completed phosphate rock mine (the "**Miski Mayo Mine**") in the Bayovar region of Peru for \$385 million. We also entered into a commercial offtake supply agreement to purchase phosphate rock from the Miski Mayo Mine in a volume proportionate to our economic interest in the joint venture. We expect the Miski Mayo Mine's production capacity to be approximately 3.9 million tonnes per year, once full capacity is reached.
  - In the second quarter of fiscal 2011, we completed the sale of our interest in Fosfertil S.A. to Vale, which resulted in a pre-tax gain of \$685.6 million (\$559.5 million after tax and \$1.25 per share). The tax impact of this transaction was \$126.1 million and is included in our provision for income taxes for the year months ended May 31, 2011.
  - Capital expenditures increased to \$1.3 billion in fiscal 2011 from \$910.6 million in fiscal 2010, as we continued the expansion of capacity in our Potash segment, in line with our views of the long-term fundamentals of that business. Over the next decade we expect the planned expansions to increase our annual proven peaking capacity for finished product by approximately 5 million tonnes.
- We began development of Streamsong, a destination resort and conference center, in certain areas of previously mined land as part of our long-term business strategy to invest in our communities and maximize the value and utility of our extensive land holdings in Florida.
- On May 2, 2011, we notified Potash Corporation of Saskatchewan Inc. ("**PCS**") that we have satisfied our obligation to produce potash from our Esterhazy, Saskatchewan, mine under a tolling agreement (the "**Tolling Agreement**"). Under the agreement, we have been providing PCS with potash from the Esterhazy mine at cost for forty years. In recent years, PCS has elected to receive approximately one million tonnes per year under the agreement. We and PCS are currently in litigation (the "**Tolling Agreement Dispute**") concerning our respective rights and obligations under the agreement. Pursuant to a court order in the Tolling Agreement Dispute, we are continuing to supply potash under the terms of the Tolling Agreement until trial begins, currently scheduled for January 2012. In the event that PCS does not prevail after trial on the merits of its underlying claim, PCS has agreed to pay monetary damages to us for the loss we suffer as a result of the court's order.

### The Hardee County Extension of the South Fort Meade Mine

In July 2010, the United States District Court for the Middle District of Florida (the "**Jacksonville District Court**") issued a preliminary injunction (the "**First Preliminary Injunction**") that prevented us from extending the mining at our South Fort Meade, Florida, phosphate rock mine into Hardee County (the "**Hardee County Extension**"). The First Preliminary Injunction was issued in a lawsuit brought by several non-governmental organizations challenging the U.S. Army Corps of Engineers' (the "**Corps**") actions in granting a permit (the "**Hardee County Extension Permit**") to us for the mining of wetlands in the Hardee County Extension.

In response to the First Preliminary Injunction, we were forced to indefinitely close the South Fort Meade mine. We subsequently entered into a partial settlement (the "**Partial Settlement**") with the plaintiffs that allowed us to commence mining in a limited area of the Hardee County Extension ("**Phase I**") from December 2010 until June 2011 at a reduced operating rate.

In April 2011, the Eleventh Circuit Court of Appeals vacated the First Preliminary Injunction effective July 7, 2011.

On April 19, 2011, we notified the Jacksonville District Court that we planned to conduct uplands-only mining (i.e., non-wetlands) in an area ("**Phase II**") at our South Fort Meade mine. Uplands-only mining does not require a federal permit, the Jacksonville District Court and the plaintiffs had previously indicated that uplands mining is permissible and the Corps notified the Jacksonville District Court that it had no objection to our uplands-only mining contingency plan because no federal permit is required to mine uplands. Our mining plan contemplated that we would mine an estimated 2.4 million tonnes of phosphate rock from Phase II during a period ranging from approximately June 2011 into July 2012.

On July 8, 2011, the Jacksonville District Court issued a second preliminary injunction (the "**Second Preliminary Injunction**") again preventing us from mining the Hardee County Extension, including uplands in Phase II.



Although the South Fort Meade mine is one of our two largest phosphate rock mines, as a result of our successful execution of mitigation measures, the indefinite closure of the South Fort Meade mine for most of the first six months of fiscal 2011 and reduced operating rate at the mine for the remainder of the fiscal year did not significantly impact our sales volumes for fiscal 2011, although it did adversely affect our gross margin.

In response to the Second Preliminary Injunction, we have stopped mining in the Hardee County Extension. For fiscal 2012, we believe we will be able to continue to support planned finished phosphate production levels through a continuation of our mitigation activities although the Second Preliminary Injunction could increase fiscal 2012 costs substantially, principally if we need to purchase incremental levels of phosphate rock in the second half of fiscal 2012. The degree to which we are able to successfully mitigate the effects of the Second Preliminary Injunction in the longer-term remains uncertain.

We believe that the plaintiffs' claims in this case are without merit and that the Second Preliminary Injunction is not supported by the facts or the law. We intend to vigorously defend the Corps' issuance of the Hardee County Extension Permit and our rights to mine the Hardee County Extension.

We have included additional discussion about the lawsuit contesting the issuance of the Hardee County Extension Permit and its potential effects on us under "Environmental, Health and Safety Matters—Permitting" below and in Note 22 of our Consolidated Financial Statements.

### Fiscal 2010

Much like the second half of fiscal 2009, in the first half of fiscal 2010 we experienced soft agricultural fundamentals and industry demand. Late in the first half of fiscal 2010, we began to see improvement in the North American crop nutrient market through higher application rates. Demand continued to improve through the second half of fiscal 2010 with an early spring planting season in North America and a recovery in international sales with higher phosphates sales volumes to customers in India. Phosphates and potash average selling prices declined significantly in the first half of fiscal 2010. However, Phosphates selling prices increased in the second half of fiscal 2010 in response to increased demand while Potash selling prices stabilized in the second half of fiscal 2010.

The lower market prices for our Phosphates segment's products in part corresponded to lower market prices for key raw materials for concentrated phosphates, such as sulfur and ammonia. The decline in these raw material costs was due to lower world demand for sulfur and lower natural gas prices, which affects the price of ammonia.

Profitability in our Potash segment continued to be negatively impacted by lower sales and the resulting effect on production as tonnes sold remained low by historic standards in response to soft demand throughout most of fiscal 2010.

We generated cash flow from operations of \$1.4 billion in fiscal 2010 and maintained cash and cash equivalents of \$2.5 billion as of May 31, 2010. Our strong cash flows allowed us to pay a special dividend of \$578.5 million, or \$1.30 per share, on December 3, 2009 in addition to quarterly dividends of \$0.05 per share of common stock for each quarter of fiscal 2010.

### Fiscal 2009

Fiscal 2009 began with a continuation of the strong agricultural fundamentals and industry demand that prevailed from the latter part of fiscal 2007 and throughout fiscal 2008. In the latter part of the second quarter of fiscal 2009, we began to experience a rapid softening of the strong agricultural fundamentals and industry demand. The softening was due to a change in buyer sentiment resulting from, among other factors, lower grain and oilseed prices, a late North American harvest in the fall of 2008, a build-up of inventories in the distribution supply chain, the global economic slowdown and the re-calibration of the phosphate market to reflect lower raw material input costs. These market conditions caused phosphates selling prices to begin to decline sharply toward the end of the fiscal 2009 second quarter through the end of fiscal 2009. These factors also caused farmers to delay purchases of phosphates and potash crop nutrients in anticipation of reduced selling prices resulting in lower crop nutrient application rates during fiscal 2009.

Following dramatic increases during fiscal 2008 and into fiscal 2009 in market prices for ammonia and sulfur, as well as for phosphate rock purchased in world markets by non-integrated producers of finished phosphate crop nutrients, in the third quarter of fiscal 2009, market prices for phosphates' raw materials began to significantly decrease. We were unable to realize the full benefit of the declining market prices for sulfur in our Phosphate segment's results due to previous contractual commitments to purchase sulfur that we entered into before the significant price declines. Also, finished goods inventory on hand at the beginning of fiscal 2009 included higher raw material costs, while selling prices for finished phosphate crop nutrients declined quickly in response to the decline in the market prices for raw materials.

Because of the lower demand for our products, we significantly reduced production volumes in both our Phosphate and Potash businesses in fiscal 2009. The lower demand and production had a significant adverse impact on our operating costs and results.

During fiscal 2009, we recorded lower of cost or market inventory write-downs of \$383.2 million, primarily in our Phosphates segment, as a result of declining selling prices caused by the factors discussed above. These write-downs were necessary because the carrying cost of certain inventories exceeded our estimates of future selling prices less reasonably predictable selling costs.

Through the first half of fiscal 2009, potash selling prices rose significantly due to robust demand and tight market supply early in the year. Higher selling prices were sustained through the fiscal year, despite a sharp decline in sales volumes in the latter part of the year. The decline in potash sales volumes was due to many of the same reasons described above.

On October 1, 2008, Saskferco Products Limited Partnership (the "**Saskferco Partnership**"), in which we had a 50% interest, sold its wholly owned subsidiary Saskferco Products ULC, a Saskatchewan, Canada-based producer of nitrogen crop nutrients and feed ingredients. Our share of the gross proceeds was approximately \$750 million. We recorded a gain on the sale of \$673.4 million or \$1.03 per share.

## Phosphates Net Sales and Gross Margin

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

IN MILLIONS, EXCEPT PRICE PER TONNE OR UNIT	YEARS ENDED MAY 31,			2011-2010		2010-2009	
	2011	2010	2009	CHANGE	PERCENT	CHANGE	PERCENT
Net sales:							
North America	\$2,185.6	\$ 1,330.5	\$ 2,156.5	\$ 855.1	64%	\$ (826.0)	(38%)
International	4,709.6	3,400.6	5,253.4	1,309.0	38%	(1,852.8)	(35%)
Total	6,895.2	4,731.1	7,409.9	2,164.1	46%	(2,678.8)	(36%)
Cost of goods sold	5,241.2	4,082.9	5,802.6	1,158.3	28%	(1,719.7)	(30%)
Lower of cost or market write-down	—	—	377.4	—	—	(377.4)	NM
Gross margin	\$1,654.0	\$ 648.2	\$ 1,229.9	\$ 1,005.8	155%	\$ (581.7)	(47%)
Gross margin as a percent of net sales	24.0%	13.7%	16.6%				
Sales volume (in thousands of metric tonnes)							
Crop Nutrients <sup>(a)</sup> :							
North America	3,441	2,855	2,254	586	21%	601	27%
International	4,116	4,561	3,388	(445)	(10%)	1,173	35%
Crop Nutrient Blends <sup>(b)</sup> :	2,636	2,181	1,971	455	21%	210	11%
Feed Phosphates	567	619	572	(52)	(8%)	47	8%
Other <sup>(c)</sup> :	1,200	818	764	382	47%	54	7%
Total	11,960	11,034	8,949	926	8%	2,085	23%
Average selling price per tonne:							
DAP (FOB plant)	\$ 491	\$ 327	\$ 726	\$ 164	50%	\$ (399)	(55%)
Crop Nutrient Blends (FOB destination)	475	396	634	79	20%	(238)	(38%)
Average price per unit:							
Ammonia (metric tonne) (Central Florida)	\$ 407	\$ 265	\$ 524	\$ 142	54%	\$ (259)	(49%)
Sulfur (long ton)	162	71	485	91	128%	(414)	(85%)

<sup>(a)</sup> Excludes tonnes sold by PhosChem for its other member.

<sup>(b)</sup> The average product mix in crop nutrient blends ("Blends") (by volume) contains approximately 50% phosphate, 25% potash and 25% nitrogen.

<sup>(c)</sup> Other volumes are primarily single superphosphate ("SSP"), potash and urea sold outside of North America.

### Fiscal 2011 Compared to Fiscal 2010

The Phosphates segment's net sales increased to \$6.9 billion in fiscal 2011, compared to \$4.7 billion in fiscal 2010. The increase was primarily due to higher sales prices that resulted in incremental net sales of approximately \$1.8 billion.

Our average DAP selling price was \$491 per tonne in fiscal 2011, an increase of \$164 per tonne or 50% compared with fiscal 2010 due to the factors discussed in the Overview. The increase in the selling price of Blends was 20% compared with fiscal 2010. The increase in Blends pricing is lower than the increase in the DAP selling price due to the mix of potash and nitrogen used in the production of Blends. The price of these materials increased at a lower rate than phosphate prices.

The Phosphates segment's sales volumes increased to 12.0 million tonnes in fiscal 2011, compared to 11.0 million tonnes in the same period a year ago due to the factors discussed in the Overview. In fiscal 2011 there was also a shift in sales volumes between North America and International as we made a strategic decision to sell into North America.

Sales volumes of Blends also increased as demand was driven by strong farmer economics primarily in Brazil.

We consolidate the results of PhosChem. Included in our results for fiscal 2011 is PhosChem net sales and cost of goods sold for its other member of \$507 million compared with \$305 million in fiscal 2010.

Gross margin for the Phosphates segment increased to \$1.7 billion in fiscal 2011 compared with \$0.6 billion in fiscal 2010, primarily due to higher sales prices which had a favorable impact on gross margin of approximately \$1.8 billion, partially offset by higher product costs of approximately \$680 million. The higher costs were primarily due to higher raw material costs for sulfur and ammonia, in addition to those related to nitrogen that is used as a raw material in the production of our Blends. In the prior year, gross margin was unfavorably impacted by \$39.8 million related to the permanent closure of our Green Bay plant and South Pierce phosphoric acid plant in the second quarter of fiscal 2010. Other factors affecting gross margin and costs are discussed below. As a result of these factors, gross margin as a percentage of net sales increased to 24% in fiscal 2011 compared to 14% for the same period a year ago.

For fiscal 2011, higher sulfur and ammonia prices unfavorably impacted cost of goods sold by approximately \$400 million compared with prior year results. The average consumed price for sulfur increased to \$162 per long ton in fiscal 2011 from \$71 in the same period a year ago. The average consumed price for ammonia increased to \$407 per tonne for fiscal 2011 from \$265 in the same period a year ago. The increase in the market prices of these raw materials was due to the factors discussed in the Overview.

Costs were also impacted by net unrealized mark-to-market derivative gains of \$0.5 million and \$45.1 million in fiscal 2011 and 2010, respectively, primarily on natural gas derivatives.

The Phosphates segment's North American production of crop nutrient dry concentrates and animal feed ingredients was 8.4 million tonnes for fiscal 2011 compared with 7.9 million tonnes in the same period a year ago. Our operating rate for processed phosphate production was 87% in fiscal 2011 compared to 81% in fiscal 2010. Our phosphate rock production was 11.5 million tonnes for fiscal 2011 compared with 13.3 million tonnes in the same period a year ago. The reduction in phosphate rock production rates was due to the temporary shutdown for most of the first six months of fiscal 2011 and subsequent reduced production level for the remainder of fiscal 2011 at the South Fort Meade mine as discussed under "Environmental, Health and Safety Matters—Permitting" below and in Note 22 of our Consolidated Financial Statements.

### Fiscal 2010 Compared to Fiscal 2009

The Phosphates segment's net sales decreased to \$4.7 billion in fiscal 2010, compared to \$7.4 billion in fiscal 2009, primarily as a result of the significant decline in average selling prices resulting in a decrease in revenue of approximately \$4.2 billion, partially offset by an increase in sales volumes resulting in an increase in revenue of approximately \$1.9 billion.

Our average DAP selling price was \$327 per tonne in fiscal 2010, a decrease of \$399 per tonne or 55% compared with fiscal 2009 that was due to the factors discussed in the Overview. The decrease in the selling price of Blends was 38% compared with fiscal 2009. The decrease in Blends is lower than the decrease in the DAP selling price due to the mix of potash and nitrogen used in the production of Blends. The price of these materials did not decrease at the same rate as phosphates.

The Phosphates segment's sales volumes were 11.0 million tonnes for fiscal 2010 compared to 8.9 million tonnes in fiscal 2009. Sales volumes increased due to the factors described in the Overview. Also, international sales volumes benefited from agreements to supply 1.8 million tonnes to Indian customers. Crop nutrient blends sales volumes increased due to the same factors noted for phosphates crop nutrients. However, the increase was partially offset by the sale of our distribution businesses in Thailand and Mexico in fiscal 2010, as well as customers in Brazil delaying purchases in the fourth quarter of fiscal 2010 which were completed in the first quarter of fiscal 2011.

PhosChem revenue and cost of goods sold from sales for its other member was \$305 million in fiscal 2010 compared with \$700 million in fiscal 2009.

Gross margin for the Phosphates segment decreased from \$1.2 billion in fiscal 2009 to \$0.6 billion in fiscal 2010. The decline in gross margin was primarily due to the effects of significantly lower selling prices which had an unfavorable impact on gross margin of approximately \$4.2 billion, partially offset by higher sales volumes and a decline in costs that favorably impacted gross margin by approximately \$0.9 billion and \$2.7 billion, respectively. The lower costs were primarily due to lower raw material costs for sulfur and ammonia and improved operating cost performance that was driven by higher North American phosphates concentrates production rates in fiscal 2010. Also impacting costs in fiscal 2010 were \$0.4 billion in lower costs related to potash and nitrogen purchases that are used as raw materials in the production of our Crop Nutrient Blends. Gross margin was also unfavorably impacted by \$39.8 million related to the permanent closure of our Green Bay plant and South Pierce phosphoric acid plant in the second quarter of fiscal 2010. Fiscal 2009 results included a lower of cost or market inventory write-down of \$377.4 million. Other factors affecting gross margin and costs are discussed below. As a result of these factors, gross margin as a percentage of net sales decreased to 14% in fiscal 2010 compared to 17% for the same period a year ago.

Lower sulfur and ammonia prices favorably impacted costs by approximately \$2.1 billion in fiscal 2010. The average price for sulfur (North America) decreased to \$71 per long ton in fiscal 2010 from \$485 per long ton in fiscal 2009. The average price for ammonia decreased to \$265 per tonne in fiscal 2010 from \$524 per tonne in the same period a year ago. Sulfur and ammonia prices remained volatile throughout fiscal 2010. Market prices for sulfur ranged from a low in our first fiscal quarter of approximately \$5 per long ton to a high of approximately \$150 per long ton at the end of fiscal 2010. Market prices for ammonia ranged from a low in the first quarter of fiscal 2010 of approximately \$180 per tonne to a high of approximately \$450 per tonne early in the fourth quarter of fiscal 2010, then declined to approximately \$370 per tonne at the end of fiscal 2010.

Costs were also favorably impacted by net unrealized mark-to-market derivative gains, primarily on natural gas derivatives, which were \$45.1 million in fiscal 2010 compared with losses, primarily on natural gas derivatives, of \$79.1 million in fiscal 2009.

We increased the Phosphates segment's North American production of crop nutrient dry concentrates and animal feed ingredients to 7.9 million tonnes in fiscal 2010 compared with 6.7 million tonnes for the same period in fiscal 2009. The increase in production was in response to the increased demand in fiscal 2010. Our phosphate rock production was 13.3 million tonnes during fiscal 2010, compared with 13.2 million tonnes in fiscal 2009.

## Potash Net Sales and Gross Margin

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

IN MILLIONS, EXCEPT PRICE PER TONNE OR UNIT	YEARS ENDED MAY 31,			2011–2010		2010–2009	
	2011	2010	2009	CHANGE	PERCENT	CHANGE	PERCENT
Net sales:							
North America	\$1,949.7	\$1,309.8	\$1,387.9	\$639.9	49%	\$ (78.1)	(6%)
International	1,111.3	864.3	1,429.3	247.0	29%	(565.0)	(40%)
Total	3,061.0	2,174.1	2,817.2	886.9	41%	(643.1)	(23%)
Cost of goods sold	1,592.0	1,139.5	1,311.3	452.5	40%	(171.8)	(13%)
Gross margin	\$1,469.0	\$1,034.6	\$1,505.9	\$434.4	42%	\$ (471.3)	(31%)
Gross margin as a percent of net sales	48.0%	47.6%	53.5%				
Sales volume (in thousands of metric tonnes)							
Crop Nutrients <sup>(a)</sup> :							
North America	3,263	2,111	1,505	1,152	55%	606	40%
International	3,626	2,739	2,564	887	32%	175	7%
Total	6,889	4,850	4,069	2,039	42%	781	19%
Non-agricultural	634	687	981	(53)	(8%)	(294)	(30%)
Total	7,523	5,537	5,050	1,986	36%	487	10%
Average selling price per tonne (FOB plant):							
MOP—North America crop nutrients <sup>(b)</sup>	\$ 394	\$ 387	\$ 614	\$ 7	2%	\$ (227)	(37%)
MOP—International	309	287	558	22	8%	(271)	(49%)
MOP—Average <sup>(c)</sup>	359	352	521	7	2%	(169)	(32%)

<sup>(a)</sup> Excludes tonnes related to a third-party tolling arrangement.

<sup>(b)</sup> Price excludes industrial and feed sales.

<sup>(c)</sup> Our previously reported average selling price for MOP has been adjusted to eliminate intersegment transactions.

### Fiscal 2011 Compared to Fiscal 2010

The Potash segment's net sales increased to \$3.1 billion in fiscal 2011 compared with \$2.2 billion in fiscal 2010 primarily due to an increase in sales volumes that resulted in an increase in net sales of approximately \$790 million.

The Potash segment's sales volumes increased to 7.5 million tonnes for fiscal 2011 compared to 5.5 million tonnes in the same period a year ago, primarily driven by the factors described in the Overview. North American sales volumes increased at a higher rate than International sales volumes as a result stronger demand.

Our average MOP selling price was \$359 per tonne in fiscal 2011, which is a slight increase compared to the prior year average price of \$352 per tonne. MOP selling prices, both domestic and international, increased due to strong demand primarily driven by factors discussed in the Overview. Although both domestic and international selling prices increased, the international MOP price continued to lag domestic market pricing as North American demand has returned more rapidly than elsewhere.

Gross margin for the Potash segment increased to \$1.5 billion in fiscal 2011 compared to \$1.0 billion in fiscal 2010. The gross margin was favorably impacted by approximately \$510 million due primarily to the increase in sales volumes. The gross margin was also favorably impacted by approximately \$130 million in lower costs due primarily to higher production rates in the current period that resulted in a decrease in cost per tonne. This was partially offset by a \$166.3 million increase in Canadian resource taxes and royalties. These and other factors affecting gross margin and costs are further discussed below. Gross margin as a percentage of net sales was 48% in fiscal 2011 and 2010.

We incurred \$294.2 million in Canadian resource taxes and royalties in fiscal 2011 compared with \$127.9 million in fiscal 2010. The increase in these taxes and royalties was due primarily to the increase in sales volumes in fiscal 2011, partially offset by a higher deduction for capital expenditures related to our expansion projects.

Costs were impacted by net unrealized mark-to-market derivative gains, primarily on foreign currency derivatives, of \$12.5 million in fiscal 2011 compared with gains, primarily on natural gas derivatives, of \$27.6 million in fiscal 2010.



We incurred \$151.9 million in expenses related to managing and mitigating the brine inflows at our Esterhazy mine during fiscal 2011 compared to \$133.4 million in fiscal 2010. The rate of brine inflows at our Esterhazy mine varies over time and remains within the historical range that we have successfully managed since 1985. We are reimbursed a pro-rata share of operating and capital costs of our Esterhazy mine, including a portion of our costs for managing the brine inflows, under the Tolling Agreement. We believe our obligation to ship expired in calendar 2011 but are continuing to supply potash under the Tolling Agreement until the beginning of trial (currently scheduled for January 2012) in the Tolling Agreement Dispute. Once we are no longer required to supply potash under the Tolling Agreement, we will be able to fully utilize the productive capacity that has previously been used to satisfy our obligations under it for sales to any of our customers at then-current market prices. In the event that we are unable to sell this additional potash when available, our future gross margin could be unfavorably impacted.

For fiscal 2011 potash production was 7.3 million tonnes compared to 5.2 million tonnes in fiscal 2010. We increased our production rates beginning in the first quarter of fiscal 2011 to meet increasing demand. Our operating rate for potash production was 80% in fiscal 2011 compared to 57% in fiscal 2010. Operating rates exclude tonnes produced under the Tolling Agreement.

### Fiscal 2010 Compared to Fiscal 2009

The Potash segment's net sales decreased to \$2.2 billion in fiscal 2010, compared to \$2.8 billion in fiscal 2009 due to a decrease in the average MOP selling price that resulted in a decrease in revenue of approximately \$0.9 billion. This was partially offset by improved sales volumes which resulted in an increase in revenue of approximately \$0.2 billion.

The decline in MOP selling prices was due to continued slow demand around the world in the first half of fiscal 2010. As a result of decreased selling prices, demand began to increase in the latter part of the third quarter and continued to grow in the fourth quarter of fiscal 2010.

The Potash segment's sales volumes were 5.5 million tonnes for fiscal 2010, compared to 5.1 million tonnes in fiscal 2009. North American sales

volumes increased due to an early spring planting season; however, the market remained soft by historical standards. International sales volumes decreased due to uncertain price trends as key customers had not executed long term contracts. Non-agricultural sales volumes decreased as one significant customer reduced its purchases in fiscal 2010.

Gross margin for the Potash segment decreased from \$1.5 billion in fiscal 2009 to \$1.0 billion in fiscal 2010. The decrease in gross margin was primarily due to a significant decrease in average MOP selling prices, which unfavorably impacted gross margin by approximately \$0.9 billion. This adverse impact was partially offset by an increase in sales volumes and the effects of changes in product mix, which favorably impacted gross margin by approximately \$0.2 billion, and a \$0.2 billion decrease in costs driven primarily by a reduction in Canadian resource taxes. Other factors affecting gross margin and costs are discussed below. As a result of these factors, gross margin as a percentage of net sales decreased to 48% in fiscal 2010 from 54% in fiscal 2009.

We incurred \$127.9 million in Canadian resource taxes and royalties in fiscal 2010, compared to \$415.5 million in fiscal 2009. The decline in Canadian resource taxes and royalties was due to lower profitability and the resource tax deduction related to significant capital expenditures, primarily related to the expansion of our potash mines.

Costs were also favorably impacted by net unrealized mark-to-market derivative gains, primarily on natural gas derivatives, of \$27.6 million in fiscal 2010, compared with losses, primarily on natural gas derivatives, of \$58.1 million in fiscal 2009.

We incurred \$133.4 million in costs related to managing and mitigating the brine inflows at our Esterhazy mine during fiscal 2010, compared to \$81.3 million in fiscal 2009. The increase in these costs was due to an elevated level of inflows in the first half of fiscal 2010 compared to fiscal 2009, which has since been successfully reduced.

We reduced potash production to 5.2 million tonnes in fiscal 2010 from 5.9 million tonnes a year ago in response to the continued softness in the market compared to historical years. However, we increased our production rates in mid-February due to improved demand for potash.

## Other Income Statement Items

IN MILLIONS	YEARS ENDED MAY 31,			2011-2010		2010-2009	
	2011	2010	2009	CHANGE	PERCENT	CHANGE	PERCENT
Selling, general and administrative expenses	\$372.5	\$360.3	\$321.4	\$12.2	3%	\$38.9	12%
Other operating expenses	85.1	62.2	44.4	22.9	37%	17.8	40%
Interest expense	27.6	65.7	90.2	(38.1)	(58%)	(24.5)	(27%)
Interest income	22.5	16.1	46.9	6.4	40%	(30.8)	(66%)
Interest expense, net	5.1	49.6	43.3	(44.5)	(90%)	6.3	15%
Foreign currency transaction loss	(56.3)	(32.4)	(131.8)	(23.9)	74%	99.4	(75%)
Gain on sale of equity investment	685.6	—	673.4	685.6	NM	(673.4)	NM
Other income (expense)	(17.1)	0.9	6.5	(18.0)	NM	(5.6)	(86%)
Provision for income taxes	752.8	347.3	649.3	405.5	117%	(302.0)	(47%)
Equity in net earnings (loss) of nonconsolidated companies	(5.0)	(10.9)	100.1	5.9	(54%)	(111.0)	(111%)

### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$372.5 million in fiscal 2011 compared to \$360.3 million in fiscal 2010 primarily as a result of an increase in charitable contributions. Selling, general and administrative expenses increased to \$360.3 million in fiscal 2010 compared to \$321.4 million in fiscal 2009 primarily due to increased incentive compensation accruals and external consulting fees related to strategic initiatives.

### Other Operating Expenses

Other operating expenses were \$85.1 million in fiscal 2011 compared to \$62.2 million in fiscal 2010. The increase in other operating expenses is primarily due to \$19.0 million of expenses related to the Cargill Transaction, an increase of \$20.0 million in environmental reserves and a \$17.0 million write-off of assets at our Louisiana ammonia facility in our Phosphates segment, partially offset by insurance proceeds of approximately \$37.0 million primarily related to our Potash segment. Other operating expenses increased to \$62.2 million in fiscal 2010 compared to \$44.4 million in fiscal 2009 primarily due to an increase in costs related to closed facilities in our Phosphates segment.

### Foreign Currency Transaction Loss

In fiscal 2011 and 2010, we recorded foreign currency transaction losses of \$56.3 million and \$32.4 million, respectively. The foreign currency transaction losses in fiscal 2011 and 2010 were primarily the result of the effect of a weakening of the U.S. dollar relative to the Canadian dollar on significant U.S. dollar denominated intercompany receivables and cash held by our Canadian affiliates. The average value of the Canadian dollar increased by 5% and 8% in fiscal 2011 and 2010, respectively.

In fiscal 2009, we recorded a foreign currency transaction loss of \$131.8 million, which was primarily the result of the effect of a strengthening U.S. dollar relative to the Brazilian Real on significant U.S. dollar denominated payables in Brazil. The average value of the Brazilian Real decreased by 21% in fiscal 2009.

### Gain on Sale of Equity Investment

In fiscal 2011, we recorded a \$685.6 million pre-tax gain on the sale of our equity method investment in Fosfertil S.A. The tax impact of this transaction was \$126.1 million which is included in our provision for income taxes as of May 31, 2011. We recorded a \$673.4 million pre-tax gain on the sale of our equity method investment in Saskferco in fiscal 2009. The tax impact of this transaction was \$214.5 million. For further discussion see Note 10 to our Consolidated Financial Statements.

### Other Income (Expense)

For fiscal 2011, we recorded a charge of approximately \$19 million for the call premium and write-off of unamortized fees related to the redemption of the remaining \$455.4 million aggregate principal amount of our 7-3/8% senior notes due December 2014. See Note 12 to our Consolidated Financial Statements.

### Provision for Income Taxes

YEARS ENDED MAY 31,	EFFECTIVE TAX RATE	PROVISION FOR INCOME TAXES
2011	23.0%	\$752.8
2010	29.2%	347.3
2009	22.3%	649.3

Our income tax rate is impacted by the mix of earnings across the jurisdictions in which we operate and by a benefit associated with depletion. Income tax expense for fiscal 2011 was \$752.8 million, an effective tax rate of 23.0%, on pre-tax income of \$3.3 billion. The tax rate includes a \$126.1 million expense related to the gain on the sale of our interest in Fosfertil.

Income tax expense for fiscal 2010 was \$347.3 million, an effective tax rate of 29.2%, on pre-tax income of \$1.2 billion. The effective tax rate was unfavorably impacted by \$53.0 million related to losses in non-U.S. subsidiaries for which we did not realize a tax benefit in fiscal 2010.

Income tax expense for fiscal 2009 was \$649.3 million, an effective tax rate of 22.3%, on pre-tax income of \$2.9 billion. The fiscal 2009 effective tax rate was favorably impacted by \$282.7 million related to foreign tax credits associated with a special dividend that was distributed from our non-U.S. subsidiaries to our U.S. subsidiaries. The effective tax rate was unfavorably impacted by the recognition of a deferred tax liability related to the sale of our investment in Saskferco and \$106.0 million of losses in non-U.S. subsidiaries for which we did not realize a tax benefit in fiscal 2009.

### Equity in Net Earnings (Loss) of Non-Consolidated Companies

Equity in net earnings of non-consolidated companies was a loss of \$5.0 million in fiscal 2011. Our fiscal 2011 loss was driven primarily by our investment in the Miski Mayo Mine which was in the startup stage in fiscal 2011.

Equity in net earnings of non-consolidated companies was a loss of \$10.9 million in fiscal 2010 primarily driven by losses from Fosfertil which was sold in fiscal 2011. The loss from Fosfertil were the result of a decrease in phosphate selling prices, higher costs of raw materials to produce phosphates, and an unfavorable foreign exchange impact.

Equity in net earnings of non-consolidated companies was \$100.1 million in fiscal 2009. The largest earnings contributors were Fosfertil and Saskferco. Equity earnings increased from Fosfertil due to increased selling prices in the first two quarters of the year. We sold our investment in Saskferco on October 1, 2008.

## 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 3 to our Notes of our 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.

### Recoverability of Long-Lived Assets

Management's assessments of the recoverability and impairment tests of non-current assets involve critical accounting estimates. These estimates require significant management judgment, include inherent uncertainties and are often interdependent; therefore, they do not change in isolation. Factors that management must estimate include, among others, industry and market conditions, the economic life of the asset, sales volume and prices, inflation, raw materials costs, cost of capital, tax rates and capital spending. These factors are even more difficult to predict when global financial markets are highly volatile. The estimates we use when assessing the recoverability of non-current assets are consistent with those we use in our internal planning. The variability of these factors depends on a number of conditions, including uncertainty about future events, and thus our accounting estimates may change from period to period. If differing assumptions and estimates had been used in the current period, impairment charges could have resulted. As mentioned above, these factors do not change in isolation; and therefore, it is not practicable to present the impact of changing a single factor. Furthermore, if management uses different assumptions or if different conditions occur in future periods, future impairment charges could result and could be material. Impairments generally would be non-cash charges.

Our Company faces many uncertainties and risks related to various economic, political and regulatory environments in the countries in which we operate. Refer to "Item 1A. Risk Factors" in Part I of our annual report on Form 10-K for fiscal 2011. As a result, management must make numerous assumptions which involve a significant amount of judgment when completing recoverability and impairment tests of non-current assets.

We perform recoverability and impairment tests of non-current assets in accordance with accounting principles generally accepted in the United States. For long-lived assets, recoverability and/or impairment tests are required only when conditions exist that indicate the carrying value may not be recoverable. During the current fiscal year, no material impairment was indicated. For goodwill, impairment tests are required at least annually, or more frequently, if events or circumstances indicate that it may be impaired.

The goodwill impairment test is performed in two phases. The first step compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. However, if the carrying amount of the reporting unit exceeds its fair value, the implied fair value of the reporting unit's goodwill would be compared with the carrying amount of that goodwill. An impairment loss would be recorded to the extent that the carrying amount of goodwill exceeds its implied fair value.

The carrying value of goodwill in our business segments, which are also our reporting units, is tested annually for possible impairment during the second quarter of each fiscal year. We typically use an income approach valuation model, representing present value of future cash flows, to determine the fair value of a reporting unit. Growth rates for sales and profits are determined using inputs from our annual long-range planning process. The rates used to discount projected future cash flows reflect a weighted average cost of capital based on the Company's industry, capital structure and risk premiums including those reflected in the current market capitalization. When preparing these estimates, management considers each reporting unit's historical results, current operating trends, and specific plans in place. These estimates are impacted by variable factors including inflation, the general health of the economy and market competition. In addition, events and circumstances that might be indicators of possible impairment are assessed during other interim periods. No goodwill impairment was indicated in the current fiscal year. Further, our market capitalization exceeded our net book value at the end of each quarter of fiscal year 2011. See Note 11 of our Notes to Consolidated Financial Statements for additional information regarding goodwill. As of May 31, 2011 we had \$1.8 billion of goodwill.

### Useful Lives of Depreciable Assets and Rates of Depletion

Property, plant and equipment are depreciated based on their estimated useful lives, which typically range from three to forty 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.

Depletion expenses for mining operations, including mineral reserves, are generally determined using the units-of-production method based on estimates of recoverable reserves. These estimates may change based on new information regarding the mineral reserves, permitting or changes in mining strategies.

### Derivative Financial Instruments

We periodically enter into derivatives to mitigate our exposure to foreign currency risks and the effects of changing commodity and freight prices. All derivatives are recorded on the balance sheet at fair value. The fair value of these instruments is determined by using quoted market prices, third-party comparables, or internal estimates. Application of these valuation inputs requires judgment and estimates in varying degrees. Changes in these inputs or their application can affect the determination

of fair value. Changes in the fair value of the foreign currency, commodity, and freight derivatives are immediately recognized in earnings because we do not apply hedge accounting treatment to these instruments. See Notes 16 and 17 of our Notes to Consolidated Financial Statements for additional information regarding derivatives.

### Inventories

We record inventory at lower of cost or market. Market values are defined as forecasted selling prices less reasonably predictable selling costs (net realizable value). Significant management judgment is involved in estimating future selling prices. Factors affecting forecasted selling prices include demand and supply variables. Examples of demand variables include grain and oilseed prices and stock-to-use ratios, and changes in inventories in the crop nutrient distribution channels. Examples of supply variables include forecasted prices of raw materials, such as phosphate rock, sulfur, ammonia, and natural gas, estimated operating rates and industry crop nutrient inventory levels. Results could differ materially if actual selling prices differ materially from forecasted selling prices. These factors do not change in isolation, and therefore, it is not practicable to present the impact of changing a single factor. Charges for lower of cost or market adjustments, if any, are recognized in our Consolidated Statements of Earnings in the period when there is evidence of a permanent decline of market value below cost. During fiscal year 2011 no lower of cost or market inventory write-downs were indicated.

We allocate fixed expense to the costs of production based on normal capacity, which refers to a range of production levels and is considered the production expected to be achieved over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. Fixed overhead costs allocated to each unit of production should not increase due to abnormally low production. Those excess costs are recognized as a current period expense. When a production facility is completely shut down temporarily, it is considered "idle", and all related expenses are charged to cost of goods sold.

### Environmental Liabilities and Asset Retirement Obligations ("AROs")

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

Accruals for environmental matters are based primarily on third-party estimates for the cost of remediation at previously operated sites and estimates of legal costs for ongoing environmental litigation. We regularly 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 contingencies 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, 2011 and 2010, we had accrued \$41.7 million and \$26.2 million, respectively, for environmental matters.

We recognize AROs in the period in which we have an existing legal obligation, and the amount of the liability can be reasonably estimated. We utilize internal engineering experts as well as third-party consultants to assist management in determining the costs of retiring certain of our long-term operating assets. Assumptions and estimates reflect our historical experience and our best judgments regarding future

expenditures. The assumed costs are inflated based on an estimated inflation factor and discounted based on a credit-adjusted risk-free rate. For active facilities, fluctuations in the estimated costs (including those resulting from a change in environmental regulations), inflation rates and discount rates can have a significant impact on the amounts recorded on the Consolidated Balance Sheets. However, changes in the assumptions for our active facilities would not have a significant impact on the Consolidated Statements of Earnings. For closed facilities, fluctuations in the estimated costs, inflation and discount rates have an impact on the Consolidated Statements of Earnings as there is no asset related to these items. Phosphate land reclamation activities generally occur concurrently with mining operations; as such, we determined that it is appropriate to capitalize an amount of asset retirement costs and allocate an equal amount to expense in the same accounting period. At May 31, 2011 and 2010, \$573.1 million and \$525.9 million, respectively, was accrued for asset retirement obligations. A further discussion of our AROs can be found in Note 15 of our Notes to Consolidated Financial Statements.

### Pension Plans and Other Postretirement Benefits

The accounting for benefit plans is highly dependent on valuation of pension assets and actuarial estimates and assumptions.

We have investments that require the use of management estimates to determine their valuation. These estimates include third-party comparables, net asset value as determined by fund managers, or other internal estimates. However, we believe that our defined benefit pension plans are well diversified with an asset allocation policy that provides the pension plans with the appropriate balance of investment return and volatility risk given the funded nature of the plans, our present and future liability characteristics and our long-term investment horizon. The primary investment objective is to provide that adequate assets are available to meet future liabilities. To accomplish this, we monitor and manage the assets of the plans to better insulate the portfolio from changes in interest rates that impact the assets and liabilities.

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 judgments regarding future expectations that have been deemed reasonable by management.

The judgments made in determining the costs of our benefit plans can impact our Consolidated Statements of Earnings. As a result, we use actuarial consultants to assist management 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/(expense) as unamortized net gains and losses, which are amortized into the Consolidated Statements of Earnings over future periods. At May 31, 2011 and 2010, we had \$124.8 million and \$213.1 million, respectively, accrued for pension and other postretirement benefit obligations. We have included a further discussion of pension and other postretirement benefits in Note 19 of our Notes to Consolidated Financial Statements.



## Income Taxes

In preparing our Consolidated Financial Statements, we utilize the asset and liability approach in accounting for income taxes. We recognize income taxes in each of the jurisdictions in which we have a presence. For each jurisdiction, we estimate the actual amount of income taxes currently payable or receivable, as well as deferred income 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.

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. We evaluate our ability to realize the tax benefits associated with deferred tax assets by analyzing the relative impact of all the available positive and negative evidence regarding our forecasted taxable income using both historical and projected future operating results, the reversal of existing taxable temporary differences, taxable income in prior carry-back years (if permitted) and the availability of tax planning strategies. A valuation allowance will be recorded in each jurisdiction in which a deferred income tax asset is recorded when it is more likely than not that the deferred income tax asset will not be realized. Effective in the first quarter of fiscal year 2010, the Company adopted a new accounting pronouncement that amended the accounting for adjustments to deferred tax asset valuation allowances established in connection with a business combination. Accordingly, changes in deferred tax asset valuation allowances established in the Combination now impact income tax expense and not goodwill. Previously, deductions to the valuation allowances were recorded as 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. As of May 31, 2011 and 2010, we had a valuation allowance of \$209.2 million and \$157.1 million, respectively.

The minimum threshold that a tax position must meet before a financial statement benefit is recognized is defined as a tax position that is "more likely than not" to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Future changes in judgment related to the expected ultimate resolution of uncertain tax positions will affect earnings in the quarter of such change. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, we believe that our liabilities for income taxes reflect the most likely outcome. We adjust these liabilities, as well as the related interest, in light of changing facts and circumstances. Settlement of any particular position would usually require the use of cash. Based upon an analysis of tax positions taken on prior year returns and expected positions to be taken on the current year return, management has identified gross uncertain income tax positions of \$263.5 million as of May 31, 2011.

We have not recorded U.S. deferred income taxes on certain of our non-U.S. subsidiaries' undistributed earnings as such amounts are intended

to be reinvested outside the United States indefinitely. However, should we change our business and tax strategies in the future and decide to repatriate a portion of these earnings to one of our U.S. subsidiaries, including cash maintained by these non-U.S. subsidiaries, additional U.S. tax liabilities would be incurred. It is not practical to estimate the amount of additional U.S. tax liabilities we would incur.

We have included a further discussion of income taxes in Note 14 of our Notes to Consolidated Financial Statements.

## Canadian Resource Taxes and Royalties

We pay Canadian resource taxes consisting of the Potash Production Tax and resource surcharge. 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 a percentage of the value of resource sales from our Saskatchewan mines. In addition to the Canadian resource taxes, royalties are payable to the mineral owners with respect to the majority of potash reserves or production of potash. These resource taxes and royalties are recorded in cost of goods sold in our Consolidated Statements of Earnings. Our Canadian resource taxes and royalties expenses were \$294.2 million, \$127.9 million and \$415.5 million for fiscal 2011, 2010 and 2009, respectively. As of May 31, 2011 and 2010, our Canadian resource taxes and royalties accruals were \$112.1 million and \$33.9 million, respectively, in our Consolidated Balance Sheets.

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 \$59.25 (Canadian dollar) of profit per  $K_2O$  tonne and a 35% rate applies to the additional profit per  $K_2O$  tonne. 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. As a result, the effective tax rate ranges from 14% to 33% at our three Canadian mines. The Potash Production Tax is calculated on a calendar year basis and the total expense for fiscal 2011 is based in part on forecasted profit per  $K_2O$  tonne for calendar 2011. In calculating profit per  $K_2O$  tonne for profits tax purposes, we deduct, among other operating expenses, a depreciation allowance with a majority of the depreciation allowance in calendar 2011 at a 120% rate of the capital expenditures made during the year. Therefore, the capital expenditures related to the potash mine expansions forecasted for calendar 2011 will significantly reduce the calculated profit per  $K_2O$  tonne and the resulting profit tax accrued as of May 31, 2011. This impact is expected to continue until the potash mine expansions are complete.

If differing assumptions and estimates had been used in the current period, including assumptions regarding future potash selling prices and sales volumes and forecasted capital expenditures, the accruals for Canadian resource taxes and royalties could have changed. These factors do not change in isolation; and therefore, it is not practicable to present the impact of changing a single factor.

## 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 increases and decreases, 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 our Consolidated Statement of Earnings each quarter. The litigation accruals at any time reflect updated assessments of the probable and estimable losses for the resolution of the then-existing claims and legal actions. The final outcome or potential settlement of litigation matters could differ materially from the accruals which have been established by the Company.

## Liquidity and Capital Resources

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 including expansion projects, 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 have significant liquidity and capital resources as of May 31, 2011 with approximately \$3.9 billion in cash and cash equivalents, \$11.7 billion of equity, long-term debt (less current maturities of \$48.0 million) of \$761.3 million and short-term debt of \$23.6 million. Maturities of long-term debt within the next five years are \$52.5 million.

### Sources and Uses of Cash

The following table represents a comparison of the net cash provided by operating activities, net cash used in investing activities, and net cash used in financing activities for fiscal 2011, 2010 and 2009:

IN MILLIONS	YEARS ENDED MAY 31,			2011–2010		2010–2009	
	2011	2010	2009	CHANGE	PERCENT	CHANGE	PERCENT
Cash Flow							
Net cash provided by operating activities	<b>\$2,426.7</b>	\$1,356.0	\$1,242.6	\$1,070.7	79%	\$ 113.4	9%
Net cash used in investing activities	<b>(572.1)</b>	(866.3)	(81.6)	294.2	(34%)	(784.7)	962%
Net cash used in financing activities	<b>(585.0)</b>	(710.6)	(224.9)	125.6	(18%)	(485.7)	216%

As of May 31, 2011, we had cash and cash equivalents of \$3.9 billion. 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 meet our operating needs and finance anticipated expansion plans and strategic initiatives in fiscal 2012. In addition, as of May 31, 2011, approximately \$728 million was available under our credit facility for

Nearly all of our cash and cash equivalents are held in North America and are diversified in highly rated investment vehicles.

Approximately \$2.8 billion of cash and cash equivalents are held by non-U.S. subsidiaries as of May 31, 2011. There are no significant restrictions that would preclude us from bringing these funds back to the U.S. However, we currently have no intention of remitting certain undistributed earnings of non-U.S. subsidiaries. In addition, the majority of these funds are not subject to significant foreign currency exposures as the bulk of these funds are held in U.S. dollar denominated investments. Information about the investment of our cash and cash equivalents is included in Note 3 of our Notes to Consolidated Financial Statements.

### 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. Unconditional purchase obligations are our largest contractual cash obligations. These include contracts to purchase raw materials such as sulfur, ammonia and natural gas, obligations to purchase raw materials for our International distribution activities, and obligations for capital expenditures related to our expansion projects. Other large cash obligations are our AROs and other environmental obligations primarily related to our Phosphates segment and our long-term debt. Our long-term debt has maturities ranging from one year to 29 years. We expect to fund our AROs, purchase obligations, and capital expenditures with a combination of operating cash flows, cash and cash equivalents, and borrowings. See Off-Balance Sheet Arrangements and Obligations for the amounts owed by Mosaic under Contractual Cash Obligations below.

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

Net cash flow from operating activities has provided us with a significant source of liquidity. For fiscal 2011, net cash provided by operations was \$2.4 billion, compared to \$1.4 billion in fiscal 2010. Operating cash flow

was primarily driven by net earnings in fiscal 2011. In addition, accounts receivable increased related to increased sales prices and volumes and inventories increased due to increased raw material costs in fiscal 2011, partially offset by increases in accounts payable and customer prepayments which are included in accrued liabilities.

Operating activities provided \$1.4 billion of cash for fiscal 2010, an increase of \$113.4 million compared to fiscal 2009. Operating cash flow was primarily driven by net earnings in fiscal 2010. In addition, significant changes in working capital related to a reduction in other current assets for U.S. income tax refunds received in fiscal 2010 offset by a reduction in income tax payables in Canada.

Operating activities provided \$1.2 billion of cash for fiscal 2009, primarily driven by net earnings.

### Investing Activities

Net cash used in investing activities was \$572.1 million in fiscal 2011, compared to \$866.3 million in fiscal 2010. The decrease in cash used in investing activities is primarily due to \$1.0 billion in proceeds from the sale of our investment in Fosfertil, partially offset by our investment in our equity interest in the Miski Mayo Mine of \$385 million and an increase in capital expenditures primarily related to our expansion projects in our Potash segment. Capital expenditures related to our expansion projects were \$611.2 million in fiscal 2011.

Investing activities used \$866.3 million of cash for fiscal 2010, an increase of \$784.7 million compared to fiscal 2009. The increase in net cash used in investing activities was mainly the result of proceeds of \$745.7 million received from the sale of our investment in Saskferco included in the prior year and by higher capital spending in fiscal 2010. Capital expenditures increased primarily due to the expansion projects in our Potash segment. Capital expenditures related to our expansion projects were \$362.4 million in fiscal 2010.

### Financing Activities

Net cash used in financing activities for fiscal 2011 was \$585.0 million, compared to \$710.6 million for the same period in fiscal 2010. The primary reason for the decrease in net cash used in financing activities was the payment of a special dividend of \$578.5 million in the third quarter of fiscal 2010. On January 13, 2011, we redeemed the remaining \$455.4 million aggregate principal amount of our 7-3/8% senior notes due December 2014.

Net cash used in financing activities for fiscal 2010 was \$710.6 million, an increase of \$485.7 million compared to fiscal 2009. The primary reason for the increase in net cash used in financing activities in fiscal 2010 was the special dividend payment of \$578.5 million in December 2009. This was partially offset by fewer payments made on debt as we reduced long-term debt in fiscal 2009.

### Debt Instruments, Guarantees and Related Covenants

On April 26, 2011, we entered into a new unsecured five-year revolving credit facility of up to \$750 million (the "**Mosaic Credit Facility**"). The revolving credit facility is available for revolving credit loans, swing line loans of up to \$20 million and letters of credit of up to \$300 million.

The Mosaic Credit Facility replaces a prior unsecured credit facility that consisted of a revolving facility of up to \$500 million, swing line loans of up to \$20 million and letters of credit of up to \$200 million (the "**Prior Credit Facility**"). The Prior Credit Facility was terminated contemporaneously with the Company's entry into the Mosaic Credit Facility. We entered into the Mosaic Credit Facility to avoid any potential conflict with the terms of the Prior Credit Facility in connection with consummation of the Cargill Transaction and to reduce interest rates and unused commitment fees, and improve other terms compared to the Prior Credit Facility.

On January 13, 2011, we redeemed the remaining \$455.4 million aggregate principal amount of our 7-3/8% senior notes due December 2014. A pre-tax charge of approximately \$19 million was recorded, primarily related to the call premium and the write-off of unamortized fees. Our 7-5/8% senior notes due 2016, which had a balance outstanding of \$469.3 million as of May 31, 2011, are redeemable beginning in December 2011 at \$103.81 per \$100.00 principal amount of the notes to be redeemed plus accrued but unpaid interest.

See Note 12 of our Notes to Consolidated Financial Statements for additional information relating to our financing arrangements.

### Financial Assurance Requirements

In addition to various operational and environmental regulations related to our Phosphates segment, we incur liabilities for reclamation activities under which 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 additional information about these requirements.

## 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:

- certain obligations under guarantee contracts that have "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*" ("**ASC 460-10-15-4**");
- a retained or 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 a contract that would be accounted for as derivative instruments except that it is both indexed to the registrant'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 that meet the above requirements is included in Note 18 of our Notes to Consolidated Financial Statements and 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, 2011:

IN MILLIONS	TOTAL	PAYMENTS BY FISCAL YEAR			
		LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Long-term debt	\$ 809.3	\$ 48.0	\$ 2.2	\$ 2.3	\$ 756.8
Estimated interest payments on long-term debt <sup>(a)</sup>	458.3	57.8	111.9	111.6	177.0
Operating leases	128.2	42.0	49.6	23.6	13.0
Purchase commitments <sup>(b)</sup>	5,961.7	1,865.6	660.4	289.6	3,146.1
Pension and postretirement liabilities <sup>(c)</sup>	473.5	34.0	88.4	94.8	256.3
Total contractual cash obligations	\$ 7,831.0	\$ 2,047.4	\$ 912.5	\$ 521.9	\$ 4,349.2

<sup>(a)</sup> Based on interest rates and debt balances as of May 31, 2011.

<sup>(b)</sup> Based on prevailing market prices as of May 31, 2011.

<sup>(c)</sup> Fiscal 2012 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, 2011:

IN MILLIONS	TOTAL	COMMITMENT EXPIRATION BY FISCAL YEAR			
		LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Letters of credit	\$ 24.1	\$ 24.1	\$ —	\$ —	\$ —
Surety bonds	203.4	202.6	0.8	—	—
Total	\$ 227.5	\$ 226.7	\$ 0.8	\$ —	\$ —

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 primarily incur liabilities for reclamation activities in our Florida operations and for 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, 2011, we had \$173.3 million in surety bonds outstanding for mining reclamation obligations in Florida. We have letters of credit directly supporting mining reclamation activity of \$2.0 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 are subject to financial responsibility obligations for our phosphogypsum stack systems in Florida and Louisiana. We are currently in compliance with the Louisiana financial assurance requirements because our financial strength permits us to meet applicable financial strength tests.

Under the Florida financial strength test applicable to companies that maintain investment-grade debt, there is a requirement to have bonds outstanding with maturities of at least five years remaining and a cumulative maturity value of the greater of \$100 million or 5% of our total assets. Although we pass the financial test metrics and all of our debt is rated as "investment-grade", we are technically out of compliance because we currently do not have a sufficient amount of debt outstanding to meet the requirement. We are working with the Florida Department of Environmental Protection to determine an alternative means of meeting the financial strength test.

There can be no assurance that we will be able to meet applicable financial strength tests in Louisiana and Florida in the future. In the event we do not meet either the Louisiana or Florida financial strength test, we could be required to seek an alternate financial strength test acceptable to state regulatory authorities or provide credit support, which may include surety bonds, letters of credit and cash escrows. Assuming we maintain our current levels of liquidity and capital resources, we do not expect that these requirements will have a material effect on our results of operations, liquidity or capital resources. See Note 22 of our Notes to 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, 2011:

IN MILLIONS	TOTAL	PAYMENTS BY FISCAL YEAR			
		LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Asset retirement obligations <sup>(a)</sup>	\$1,663.9	\$92.9	\$125.6	\$144.0	\$1,301.4

<sup>(a)</sup> Represents the undiscounted, inflation adjusted estimated cash outflows required to settle the asset retirement obligations. The corresponding present value of these future expenditures is \$573.1 million as of May 31, 2011, and is reflected in our accrued liabilities and other noncurrent liabilities in our Consolidated Balance Sheets.

As of May 31, 2011, we had contractual commitments with non-affiliated customers for the sale of approximately 5.9 million tonnes of concentrated phosphates and 0.8 million tonnes of potash for fiscal 2012.

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 21 of our Notes to Consolidated Financial Statements and are incorporated herein by reference.

## Income Tax Obligations

Uncertain tax positions as of May 31, 2011 of \$263.5 million are not included in the other long-term obligations table presented above because the timing of the settlement of unrecognized tax benefits cannot be fully determined. For further discussion, refer to Note 14 of our Notes to Consolidated Financial Statements.

## Market Risk

We are exposed to the impact of fluctuations in the relative value of currencies, fluctuations in the purchase price of natural gas, ammonia and sulfur consumed in operations, and 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 and 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 Earnings and the Consolidated Statements of Cash Flows. 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. We generally hedge a portion of the currency risk exposure on anticipated

cash inflows and outflows. A stronger Canadian dollar generally reduces these entities' operating earnings. A weaker Canadian dollar has the opposite effect. Depending on the underlying exposure, such derivatives can create additional earnings volatility because we do not use hedge accounting. Gains or losses on these derivative contracts, both for open contracts at quarter end (unrealized) and settled contracts (realized), are recorded in either cost of goods sold or foreign currency transaction loss (gain).

We finance our Brazilian inventory purchases with U.S. dollar denominated liabilities. A weaker U.S. dollar relative to the Brazilian real has the impact of reducing these liabilities on a functional currency basis. When this occurs, an associated foreign currency transaction gain is recorded in non operating income (expense). A stronger U.S. dollar has the opposite effect. Effective June 1, 2010, we started hedging a portion of our Brazil currency risk exposures on anticipated cash flows and we record an associated foreign currency transaction gain or loss in cost of goods sold.

Our foreign currency exchange contracts do not qualify for hedge accounting; therefore, all gains and losses are recorded in the Consolidated Statements of Earnings. Gains and losses on foreign currency exchange contracts are recorded in either cost of goods sold or foreign currency transaction loss (gain) in the Consolidated Statement of Earnings depending on the underlying transactions.

As discussed above, we have Canadian dollar, Brazilian real, and other foreign currency exchange contracts. As of May 31, 2011 and 2010, the fair value of all of our foreign currency exchange contracts were \$14.8 million and (\$0.7) million, respectively. We recorded an unrealized gain of \$6.8 million in cost of goods sold and recorded an unrealized gain of \$7.9 million in foreign currency transaction gain (losses) in the Consolidated Statements of Earnings for fiscal 2011.

The table below provides information about Mosaic's significant foreign exchange derivatives.

IN MILLIONS	AS OF MAY 31, 2011		AS OF MAY 31, 2010	
	EXPECTED MATURITY DATE FISCAL 2012	FAIR VALUE	EXPECTED MATURITY DATE FISCAL 2011	FAIR VALUE
<b>Foreign Currency Exchange Forwards</b>				
<b>Canadian Dollar</b>				
Notional (million US\$)	\$ 523.6	\$ 14.6	\$ 237.1	\$ (1.7)
Weighted Average Rate—Canadian dollar to U.S. dollar	1.0011		1.0376	
<b>Foreign Currency Exchange Collars</b>				
<b>Canadian Dollar</b>				
Notional (million US\$)	\$ 41.1	\$ 0.6		
Weighted Average Participation Rate—Canadian dollar to U.S. dollar	1.0270			
Weighted Average Protection Rate—Canadian dollar to U.S. dollar	0.9679			
<b>Brazilian Real</b>				
Notional (million US\$)	\$ 4.9	\$ 0.2		
Weighted Average Participation Rate—Brazilian real to U.S. dollar	1.9580			
Weighted Average Protection Rate—Brazilian real to U.S. dollar	1.6568			
<b>Indian Rupee</b>				
Notional (million US\$)	\$ 15.0	\$ (0.2)		
Weighted Average Participation Rate—Indian rupee to U.S. dollar	44.5400			
Weighted Average Protection Rate—Indian rupee to U.S. dollar	48.1667			
<b>Foreign Currency Exchange Non-Deliverable Forwards</b>				
<b>Brazilian Real</b>				
Notional (million US\$)—long	\$ 212.5	\$ 1.2		\$ —
Weighted Average Rate—Brazilian real to U.S. dollar	1.5918			
Notional (million US\$)—short	\$ 49.2			
Weighted Average Rate—Brazilian real to U.S. dollar	1.7022			
<b>Indian Rupee</b>				
Notional (million US\$)—long	\$ 46.0	\$ (1.1)		
Weighted Average Rate—Brazilian real to U.S. dollar	46.2261			
<b>Foreign Currency Exchange Futures Brazilian Real</b>				
Notional (million US\$)—long	\$ 130.0	\$ (0.5)		\$ —
Weighted Average Rate—Brazilian real to U.S. dollar	1.6058			
Notional (million US\$)—short	\$ 80.0	\$ —		\$ —
Weighted Average Rate—Brazilian real to U.S. dollar	1.6113			
<b>Total Fair Value</b>		<u>\$ 14.8</u>		<u>\$ (1.7)</u>

## Commodities

We use forward purchase contracts, swaps and three-way 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; therefore, all gains and losses are recorded in the Consolidated Statements of Earnings. Gains and losses on commodities contracts are recorded in cost of goods sold in the Consolidated Statements of Earnings.

As of May 31, 2011 and 2010, the fair value of our natural gas commodities contracts were (\$4.9) million and (\$12.3) million, respectively. We recorded an unrealized gain of \$8.3 million in cost of goods sold on the Consolidated Statements of Earnings in fiscal 2011.

Our primary commodities exposure relates to price changes in natural gas.

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.

IN MILLIONS	AS OF MAY 31, 2011				AS OF MAY 31, 2010			
	EXPECTED MATURITY DATE			FAIR VALUE	EXPECTED MATURITY DATE			FAIR VALUE
	FISCAL 2012	FISCAL 2013	FISCAL 2014		FISCAL 2011	FISCAL 2012	FISCAL 2013	
Natural Gas Swaps								
Notional (million MMBtu)—long	9.3	6.6	6.6	\$ (4.9)	8.4	3.5	0.8	\$ (1.9)
Weighted Average Rate (US\$/MMBtu)	\$ 4.65	\$ 4.55	\$ 4.63		\$ 4.50	\$ 5.13	\$ 5.18	
Natural Gas 3-Way Collars								
Notional (million MMBtu)					4.0			\$ (10.4)
Weighted Average Call Purchased					\$ 7.39			
Total Fair Value				\$ (4.9)				\$ (12.3)

### Summary

Overall, there have been no material changes in our primary risk exposures since the prior year. We do not expect any material changes in our primary risk exposures; however, during fiscal year 2010 we changed the manner in which market risks are managed for certain currencies. We now use a cash flow based approach to managing market risks. For additional information related to derivatives, see Notes 16 and 17 of our Notes to Consolidated Financial Statements.

## Environmental, Health and Safety Matters

We are subject to an evolving complex of international, federal, state, provincial and local environmental, health and safety ("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/or remediation of potential impacts to air, water quality and soil from our operations; (iii) disposal of waste materials; (iv) reclamation of lands after mining; (v) management and handling of raw materials; (vi) product content; and (vii) use of products by both us and our customers.

We have a comprehensive EHS management program that seeks to achieve sustainable, predictable and verifiable EHS performance. Key elements of our 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. Our business units are responsible for implementing day-to-day elements of our 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.

New or proposed regulatory programs can present significant challenges in ascertaining future compliance obligations, implementing compliance plans, and estimating future costs until implementing regulations have been finalized and definitive regulatory interpretations have been adopted. New or proposed regulatory requirements may require modifications to our facilities or to operating procedures and these modifications may involve significant capital costs or increases in operating costs.

We have expended, and anticipate that we will continue to expend, substantial financial and managerial resources to comply with EHS standards and continue to improve our environmental stewardship. In fiscal 2012, we expect environmental capital expenditures to total approximately \$120 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, Gypstack closure and water treatment activities are expected to total approximately \$100 million in fiscal 2012. In fiscal 2013, we estimate environmental capital expenditures will be approximately \$150 million and expenditures for land reclamation activities, Gypstack closure and water treatment activities are expected to be approximately \$80 million. In fiscal 2011, we spent approximately \$220 million for environmental capital expenditures, land reclamation activities, Gypstack closure and water treatment activities. No assurance can be given that greater-than-anticipated EHS capital expenditures or land reclamation, Gypstack closure or water treatment expenditures will not be required in fiscal 2012 or in the future.

### 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, to substantially change conditions applicable to a permit modification, or by legal actions that successfully challenge our permits.

Expansion of our operations or extension of operations into new areas is also predicated upon securing the necessary environmental or other permits or approvals. We have been engaged in, and over the next several years will be continuing, 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.

A denial of our permits, the issuance of permits with cost-prohibitive conditions, substantial delays in issuing key permits, legal actions that prevent us from relying on permits or revocation of permits can prevent or delay our mining at the affected properties and thereby materially affect our business, results of operations, liquidity or financial condition:

**The Altman Extension of the Four Corners Mine.** In fiscal 2009, in connection with our efforts to permit the Altman Extension (the "*Altman Extension*") of our Four Corners, Florida, phosphate rock mine, non-governmental organizations for the first time filed a lawsuit in federal court contesting the actions by the Corps in issuing a federal wetlands permit. Although this lawsuit remains ongoing, the federal wetlands permit issued by the Corps remains in effect and mining on the Altman Extension has commenced and is continuing. We believe that the permit was issued in accordance with all applicable requirements and that it will ultimately be upheld.

**The Hardee County Extension of the South Fort Meade Mine.** Delays in receiving the Hardee County Extension Permit impacted the scheduled progression of mining activities for the Hardee County Extension. As a result, we began to experience idle time with a portion of our mining equipment at the mine in the latter part of fiscal 2010. On June 14, 2010, the Corps issued the federal wetlands permit. We subsequently initiated site preparation activities to begin mining the Hardee County Extension.

On June 30, 2010, certain non-governmental organizations filed a lawsuit against the Corps contesting its issuance of the Hardee County Extension Permit, alleging that the Corps' actions in issuing the permit violated certain federal laws relating to the protection of the environment. On July 30, 2010, the court entered the First Preliminary Injunction.

Without the Hardee County Extension Permit, mining at the South Fort Meade mine could not continue without adverse consequences. Draglines that are used to extract phosphate rock had exhausted reserves practically available in Polk County and had been idled awaiting access to the new reserves in Hardee County and/or recommencement of operations at South Fort Meade.

Accordingly, we appealed the First Preliminary Injunction and indefinitely closed the South Fort Meade mine.

On October 27, 2010, we entered into the Partial Settlement that allowed mining to proceed within Phase I of the Hardee County Extension, which we commenced in December 2010 and completed in June 2011.

On April 11, 2011, the Eleventh Circuit vacated the First Preliminary Injunction, set aside the District Court's remand of the permit to the Corps and directed the Jacksonville District Court to stay the

effectiveness of the permit for 90 days to permit the District Court to make a decision on the merits based on the applicable standard of deference to the Corps' determinations in granting the permit.

On April 19, 2011, we notified the Jacksonville District Court that we planned to conduct uplands-only mining (i.e., non-wetlands) in an area ("*Phase II*") at our South Fort Meade mine. Uplands-only mining does not require a federal permit, the Jacksonville District Court and the plaintiffs had previously indicated that uplands mining is permissible and the Corps notified the Jacksonville District Court that it had no objection to our uplands-only mining contingency plan because no federal permit is required to mine uplands. Although we could only have mined Phase II at a reduced operating rate and the inability to mine wetlands would have resulted in less production and less efficient mining than our mining plan allowed under the Hardee County Extension Permit, this transition would have allowed us to continue to produce phosphate rock and keep our South Fort Meade workforce employed while we addressed the merits of the permit litigation.

On May 24, 2011, the plaintiffs amended their complaint to include allegations that our mining of Phase II is a significant new fact that requires the Corps to make a supplemental environmental study or assessment in connection with the Hardee County Extension Permit and that our ability to conduct uplands-only mining in Phase II is a fact that should have been considered by the Corps in initially granting the Hardee County Extension Permit.

On June 6, 2011, the plaintiffs filed a motion for a preliminary injunction against our mining of Phase II. On July 8, 2011, the Jacksonville District Court entered the Second Preliminary Injunction and we stopped mining in the Hardee County Extension. On July 14, 2011, we filed a motion requesting the Eleventh Circuit to enforce its April 8, 2011 order and vacate the Second Preliminary Injunction, on July 15, 2011 we filed a notice of appeal of the Second Preliminary Injunction and on July 19, 2011 we requested a stay (as to Phase II only) of the Second Preliminary Injunction from the Jacksonville District Court.

In fiscal 2011, the shutdown of the South Fort Meade mine resulted in costs to suspend operations and idle plant costs during the second quarter of fiscal 2011. The lower phosphate rock mining production levels also adversely affected gross margin. Because of our successful execution of mitigation measures, the indefinite closure of the South Fort Meade mine did not significantly impact our sales volumes in fiscal 2011. In addition to mining Phase I, our near-term mitigation activities have included drawing down existing phosphate rock and finished product inventories; sourcing rock from our investment in the Miski Mayo Mine; purchasing phosphate rock from third parties where reasonable; and maximizing production at our other phosphate mines.

For fiscal 2012, we believe we will be able to continue to support planned finished phosphate production levels through a continuation of our mitigation activities although the Second Preliminary Injunction could increase fiscal 2012 costs substantially, principally if we need to purchase incremental levels of phosphate rock in the second half of fiscal 2012. The degree to which we are able to successfully mitigate the effects of the Second Preliminary Injunction in the longer-term remains uncertain. Our production of concentrated phosphates from the South Fort Meade mine's phosphate rock production is estimated to be approximately 3.2 million tonnes per year. Accordingly,



an extended loss of production from the South Fort Meade mine could also potentially adversely impact production at our phosphate concentrates plants and our sales volumes, lead to further layoffs of employees, and result in the indefinite closure of at least one of our phosphate concentrates plants. This could further significantly affect our future results of operations, reduce our future cash flows from operations, and, in the longer term, conceivably adversely affect our liquidity and capital resources.

In addition to adverse effects on us, our employees, customers and suppliers, and the state and local economies, we believe the possibility of an extended loss of production from the South Fort Meade mine has been one of several factors causing supply uncertainty in global fertilizer markets. An extended loss of production from the mine would also ultimately cause a dramatic reduction in annual U.S. phosphate rock production.

We believe that the plaintiffs' claims in this case are without merit and that the Second Preliminary Injunction is not supported by the facts or the law. We intend to vigorously defend the Corps' issuance of the Hardee County Extension Permit and our right to engage in uplands-only mining without a federal permit, including seeking a stay of the Second Preliminary Injunction. However, if the plaintiffs were to prevail in this case, obtaining new or modified permits could significantly delay the mining of the Hardee County Extension and could result in more onerous mining conditions.

**Central Florida Phosphate District Area-Wide Impact Statement.** In fiscal 2011, we received official confirmation from the Corps that it plans to conduct an area-wide environmental impact statement for the central Florida phosphate district. Although we do not currently expect its outcome to materially influence the conditions of future federal wetlands permits for our mining in central Florida, a protracted timeline for this process could delay our other future permitting efforts.

**Local Community Participation.** In addition, in Florida, local community participation has become an increasingly important factor in the permitting process for mining companies, and various local counties and other parties in Florida have in the past and continue to file lawsuits challenging the issuance of some of the permits we require. These actions can significantly delay permit issuance.

**Water Quality Regulations for Nutrient Discharges in Florida.** On December 6, 2010, the U.S. Environmental Protection Agency ("EPA") adopted numeric water quality standards (the "**NNC Rule**") for the discharge of nitrogen and/or phosphorus into Florida lakes and streams. The NNC Rule sets criteria for such discharges that would require drastic reductions in the levels of nutrients allowed in Florida lakes and streams, and would require us and others to significantly limit discharges of these nutrients in Florida by March 2012.

Accordingly, we and others have brought lawsuits in the United States District Court for the Northern District of Florida, challenging the NNC Rule on the bases, among others, that the criteria set by the EPA do not comport with the requirements of the Federal Water Pollution Control Act or the Administrative Procedure Act, and seeking a declaration that the NNC Rule is arbitrary, capricious, an abuse of discretion and not in accordance with law, vacating the NNC Rule, and remanding it for further rulemaking proceedings consistent with applicable law.

The NNC Rule includes regulatory relief mechanisms, as well as a provision for site-specific alternative criteria which, if approved by the EPA, allow for deviations from the water quality standard that is otherwise applicable under the NNC Rule. We intend to explore the use of site-specific alternative criteria; however, we cannot predict whether we will be able to identify and obtain EPA approval of site-specific alternative criteria or whether any such approved criteria would significantly mitigate the adverse effects on us of the NNC Rule. Absent success in our lawsuit challenging the NNC Rule or in identifying and obtaining EPA approval of site-specific alternative criteria that would significantly mitigate the NNC Rule's adverse effects, we expect that compliance with the requirements of the NNC Rule would adversely affect our Florida Phosphate operations, require significant capital expenditures and substantially increase our annual operating expenses.

**Reclamation Obligations.** During our phosphate mining operations, we remove overburden 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.

**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 Gypstacks.

During the life of the tailings management areas, clay settling ponds and Gypstacks, 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. We have recorded significant asset retirement obligations in accordance with FASB Accounting Standards Codification ("**ASC**") 415 with respect to the Phosphates business.

The Saskatchewan government has approved decommissioning and reclamation plans for potash facilities. In light of our current expectations about the remaining lives of our mines in Saskatchewan, we do not believe that these requirements are material to us.

**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 Gypstacks. See Other Commercial Commitments under Off-Balance Sheet Arrangements and Obligations above for additional information about these requirements.

In connection with the closure plans for potash facilities discussed above, we obtained approval to post financial assurance in the amount of approximately CAD \$1.5 million (equivalent to approximately USD \$1.5 million at May 31, 2011), an amount which is intended to grow by the estimated time of closure in approximately 70 to 100 years to an amount that would fully fund the closure liability. The government is now proposing that industry increase the amount to as much as 30% of the

full cost of closure. We do not believe that compliance with any such additional funding requirement, if adopted by the government, would have a material effect on our results of operations, liquidity or capital resources in the foreseeable future.

### Climate Change Regulation

Various governmental initiatives to limit greenhouse gas emissions are under way or under consideration around the world. These initiatives could restrict our operating activities, require us to make changes in our operating activities that would increase our operating costs, reduce our efficiency or limit our output, require us to make capital improvements to our facilities, increase our energy, raw material and transportation costs or limit their availability, or otherwise adversely affect our results of operations, liquidity or capital resources, and these effects could be material to us.

The direct greenhouse gas emissions from our operations result primarily from:

- Combustion of natural gas to produce steam and dry potash products at our Belle Plaine, Saskatchewan, and Hersey, Michigan potash solution mines. To a lesser extent, at our potash shaft mines, natural gas is used as a fuel to heat fresh air supplied to the shaft mines and for drying potash products.
- The use of natural gas as a feedstock in the production of ammonia at our Faustina, Louisiana phosphates plant.
- Process reactions from naturally occurring carbonates in phosphate rock.

In addition, the production of energy and raw materials that we purchase from unrelated parties for use in our business and energy used in the transportation of our products and raw materials can result in greenhouse gas emissions.

Governmental greenhouse gas emission initiatives include among others:

#### Initiatives in the United States:

- **EPA Regulations.** In December 2009, the EPA finalized its previously proposed Endangerment Finding under the Clean Air Act that motor vehicles are sources of greenhouse gases that are reasonably anticipated to endanger public health and welfare. Subsequently, on May 13, 2010, the EPA issued its final Prevention of Significant Deterioration ("**PSD**") and Title V Greenhouse Gas Tailoring Rule (the "**Tailoring Rule**"). Under the Tailoring Rule, (i) beginning in January 2011, sources that are currently subject to the PSD requirements that undergo modifications that increase their greenhouse gas emissions by 75,000 short tons per year will be subject to PSD permitting requirements for greenhouse gas emissions and (ii) beginning in July 2011, new projects that are not otherwise subject to the PSD requirements will become subject to PSD requirements if they emit greenhouse gas emissions of more than 100,000 short tons per year. We do not believe the Tailoring Rule will have a material effect on our results of operations, liquidity or capital resources.

The EPA has also enacted a greenhouse gas reporting rule that requires us to report certain aspects of our greenhouse gas emissions. Compliance with this rule does not have a material effect on our results of operations, liquidity or capital resources.

- **Congressional Legislation.** In past sessions of Congress, the U.S. House of Representatives passed legislation that would have established a comprehensive program to reduce greenhouse gas emissions. This legislation would have mandated increased use of renewable energy sources, increased energy efficiency, and an economy-wide emission cap and trade program. Many other bills have been more recently introduced both in the U.S. House of Representatives and the U.S. Senate. We cannot predict when or whether legislation will be enacted, or what the final requirements might be.
- **State Initiatives.** The Florida Department of Environmental Protection ("**FDEP**") is conducting rulemaking proceedings to develop a greenhouse gas cap and trade regulatory program applicable to electric utilities. Some public documents and discussions that are part of the FDEP's rulemaking process have considered our Phosphates' business segment's electricity cogeneration facilities to be includable in such a regulatory program. We cannot predict when or whether these or other state or regional initiatives will establish a regulatory program applicable to our operations or that affects the supply and demand for energy or natural gas, or what the final requirements will be. In addition, we cannot predict whether the federal legislation described above, if enacted, will preempt the state or regional programs or leave them in place.

Our continuing focus on operational excellence in our Phosphates business segment is helping us reduce our indirect greenhouse gas emissions. For example, normal chemical processes in our U.S. Phosphates' operations generate heat that can be captured and converted into electricity to replace some of the electricity we currently purchase. We already have waste heat recovery systems that generate a portion of our U.S. Phosphates' electricity needs and are continuing waste heat recovery initiatives that will deliver significant additional energy savings. These initiatives, along with energy efficiency and conservation measures, are intended to offset most or all of our U.S. Phosphates' electricity purchases and are expected to significantly reduce the indirect greenhouse gas emissions associated with our Phosphates business.

#### Initiatives in Canada—Kyoto Protocol:

In December 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). Developments in Canada's efforts to reduce greenhouse gases include:

- In March 2008, Canada announced a new Climate Change Plan for Canada which established a target of reducing greenhouse gases 20% from 2006 levels by 2020. In May 2009, the Minister of Environment indicated implementation may be delayed to assure sufficient alignment with the evolving approach in the U.S. to avoid trade sanctions.

In May 2009, the Province of Saskatchewan, in which our Canadian potash mines are located, began to consider legislation intended to lead to the development and administration of climate change regulation in Saskatchewan by the Province rather than the federal government. Key elements under consideration by the Province include a primary focus on achieving the 20% reduction by 2020 through technological advancements; creation of a Technology Fund to allow large final emitters of greenhouse gases to obtain required greenhouse gas emission credits by paying into the fund and using this fund for approved research and development projects targeted primarily at applied technological

improvements; and creation of a "Green" Foundation Fund intended to be used more broadly for grass roots research and development.

We continue to work with the Canadian Fertilizer Institute, Saskatchewan Mining Association and Saskatchewan Potash Producers Association in negotiating with the Canadian federal and provincial governments, focusing on, among other matters, energy reduction initiatives as a means for reducing greenhouse gas emissions and addressing the implications of implementation of greenhouse gas emissions regulations in Canada on the competitiveness of Canadian industry in the global marketplace.

We have significantly reduced the energy intensity of our business over the last two decades through efficiency improvements, switching to lower energy demand technologies and cogeneration. We continue to focus on energy efficiency initiatives within our operations in order to reduce our need to purchase credits under the Climate Change Plan to apply against our greenhouse gas emissions. These initiatives include continued upgrading and optimizing of combustion equipment, applied research and development and grassroots research and development to advance opportunities and develop new technology.

#### International Initiatives:

Although international negotiations concerning greenhouse gas emission reductions and other responses to climate change are underway, final obligations in the post-Kyoto Protocol period after 2012 remain undefined. Any new international agreements addressing climate change could adversely affect our operating activities, energy, raw material and transportation costs, results of operations, liquidity or capital resources, and these effects could be material. In addition, to the extent climate change restrictions imposed in countries where our competitors operate, such as China, India, Former Soviet Union countries or Morocco, are less stringent than in the United States or Canada, our competitors could gain cost or other competitive advantages over us.

**Operating Impacts Due to Climate Change.** The prospective impact of potential climate change on our operations and those of our customers and farmers remains uncertain. Some scientists have hypothesized that the impacts of climate change could include changes in rainfall patterns, water shortages, changing sea levels, changing storm patterns and intensities, and changing temperature levels and that these changes could be severe. These impacts could vary by geographic location. Severe climate change could impact our costs and operating activities, the location and cost of global grain and oilseed production, and the supply and demand for grains and oilseeds. At the present time, we cannot predict the prospective impact of potential climate change on our results of operations, liquidity or capital resources, or whether any such effects could be material to us.

#### Remedial Activities

The U.S. Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as CERCLA or the Superfund law, and state analogues, impose 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. 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 \$41.7 million as of May 31, 2011, 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.

## 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. We believe 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 and that any additional standards or regulatory requirements relating to product requirements and impacts will not have a material adverse effect on our business or financial condition.

## Additional Information

For additional information about phosphate mine permitting in Florida, our environmental liabilities, the environmental proceedings in which we are involved, our asset retirement obligations related to environmental matters, and our related accounting policies, see Environmental Liabilities and Asset Retirement Obligations under Critical Accounting Estimates above and Notes 3, 15, and 22 of our Notes to Consolidated Financial Statements.

## Contingencies

Information regarding contingencies in Note 22 of our Notes to Consolidated Financial Statements is incorporated herein by reference.

## Related Parties

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

## Recently Issued Accounting Guidance

Recently issued accounting guidance is set forth in Note 5 of our Notes to 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, including statements about the Cargill Transaction and its nature, impact and benefits, 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 farmers' application rates for crop nutrients;
- changes in the operation of world phosphate or potash markets, including continuing consolidation in the crop nutrient 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;
- build-up of inventories in the distribution channels for our products that can adversely affect our sales volumes and selling prices;
- 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;
- rapid drops in the prices for our products and the raw materials we use to produce them that can require us to write down our inventories to the lower of cost or market;
- the effects on our customers of holding high cost inventories of crop nutrients in periods of rapidly declining market prices for crop nutrients;
- the lag in realizing the benefit of falling market prices for the raw materials we use to produce our products that can occur while we consume raw materials that we purchased or committed to purchase in the past at higher prices;
- customer expectations about future trends in the selling prices and availability of our products and in farmer economics;
- 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;
- further developments in the lawsuit involving the federal wetlands permit for the Hardee County Extension or another lawsuit relating to permits we need for our operations, including orders, rulings, injunctions or other actions by the court or actions by the plaintiffs, the Corps or others in relation to the lawsuit, and any actions the Company may identify and implement in an effort to mitigate the effects of the lawsuit;
- other difficulties or delays in receiving, or increased costs of obtaining or satisfying conditions of, required governmental and regulatory approvals including permitting activities;
- further developments in the lawsuit involving the tolling agreement at the Company's Esterhazy, Saskatchewan, potash mine, including settlement or orders, rulings, injunctions or other actions by the court, the plaintiff or others in relation to the lawsuit;
- changes in the environmental and other governmental regulation that applies to our operations, including the possibility of further federal or state legislation or regulatory action affecting greenhouse gas emissions or of restrictions or liabilities related to elevated levels of naturally-occurring radiation that arise from disturbing the ground in the course of mining activities;
- the potential costs and effects of implementation of the U.S. Environmental Protection Agency's numeric water quality standards for the discharge of nitrogen and/or phosphorus into Florida lakes and streams;
- the financial resources of our competitors, including state-owned and government-subsidized entities in other countries;
- 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;
- any significant reduction in customers' liquidity or access to credit that they need to purchase our products;
- rates of return on, and the investment risks associated with, our cash balances;
- the effectiveness of our risk management strategy;
- the effectiveness of the processes we put in place to manage our significant strategic priorities, including the expansion of our Potash business;
- actual costs of various items differing from management's current estimates, including, among others, asset retirement, environmental remediation, reclamation or other environmental obligations, or Canadian resource taxes and royalties;
- 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;
- actions by the holders of controlling equity interests in businesses in which we hold a noncontrolling interest;
- the adequacy of our property, business interruption and casualty insurance policies to cover potential hazards and risks incident to our business, and our willingness and ability to maintain current levels of insurance coverage as a result of market conditions, our loss experience and other factors;
- restrictions on our ability to execute certain actions and potential liabilities imposed on us by the agreements relating to the Cargill Transaction; 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, 2011 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.