

# 2006/07 Potash Outlook

by

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2007 Fertilizer Outlook and Technology Conference  
November 7, 2006  
Arlington, VA



# Safe Harbor Statement

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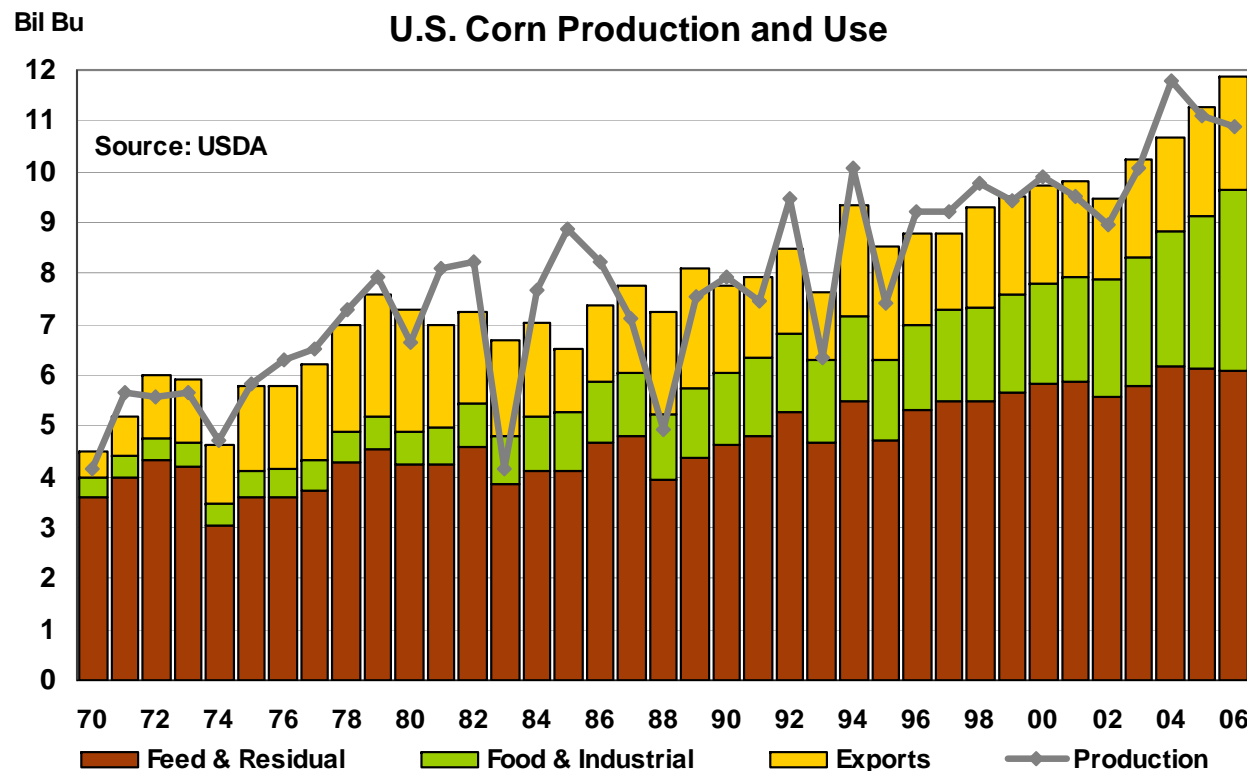
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# Take-Aways

- The potash market looks increasingly tight in 2006/07 due to:
  - ✓ rapidly improving global demand prospects (vs. stock-building in 2004/05)
  - ✓ the recent supply shock caused by the loss of Uralkali's Berezniki I mine.
- Any surprise will likely tighten the market further:
  - ✓ additional supply losses resulting indirectly from the Berezniki I mine flood
  - ✓ a stronger and earlier than expected pick-up in Brazilian demand
  - ✓ delays in the start-ups of the three Canadian mine expansions
- Canadian exports are projected to rebound 50% (37% from FYA)
  - ✓ shipments during the first three months of the fertilizer year were up 48%
  - ✓ prospects for the rest of the year look good
- Domestic shipments are forecast to jump 22% (2% from FYA)
  - ✓ shipments during the first three months of the fertilizer year were off 7%
  - ✓ the pace of potash (as well as urea and DAP/MAP) shipments is expected to accelerate quickly during the remainder of the fertilizer year

# Drivers of rapidly improving demand prospects

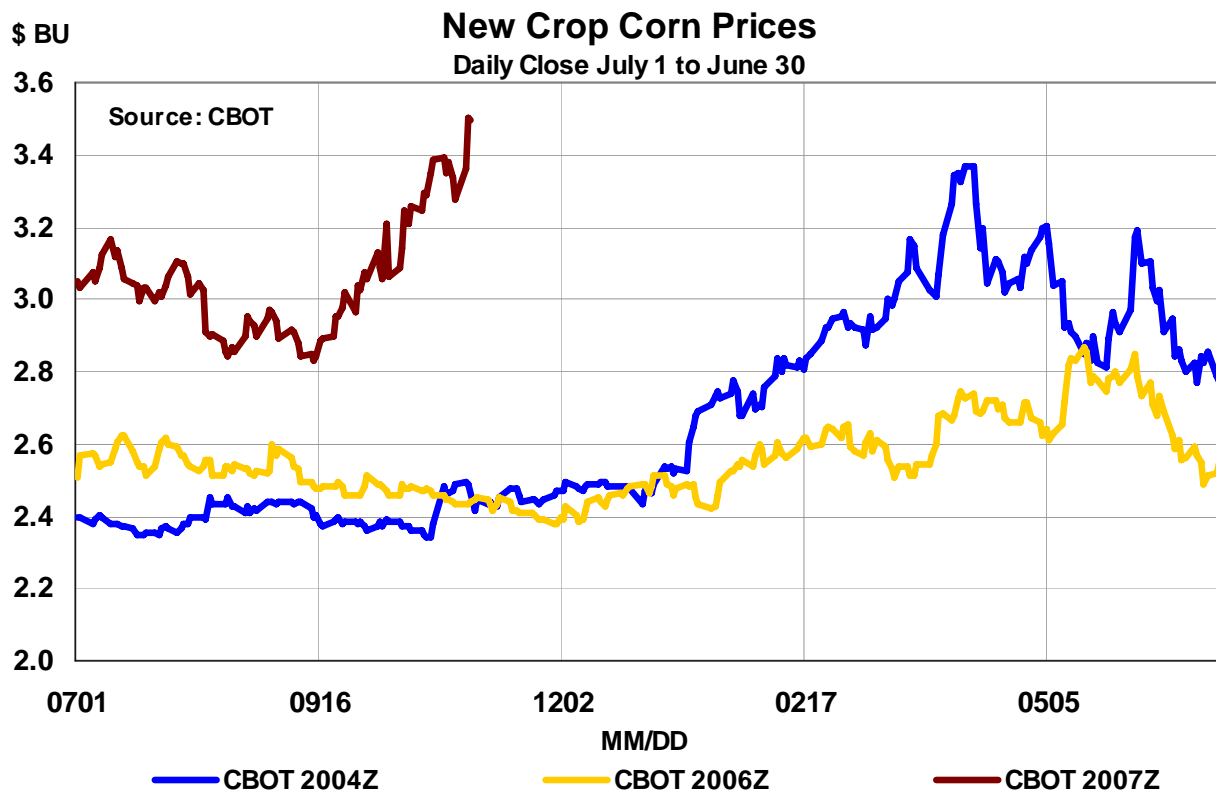


*Unlike the past, U.S. corn stocks are projected to fall not as a result of a supply shock but rather due to impressive growth in corn use during the last few years.*

*Domestic feed demand is stable at high levels and U.S. corn exports remain strong due to steady economic growth in key import markets, the decline in Chinese exports and a weak U.S. dollar.*

*But increases in ethanol production have accounted for most of the recent growth in U.S. corn use and projected exponential increases in ethanol production are expected to fuel even larger increases in domestic corn use during the next few years.*

# Drivers of rapidly improving demand prospects



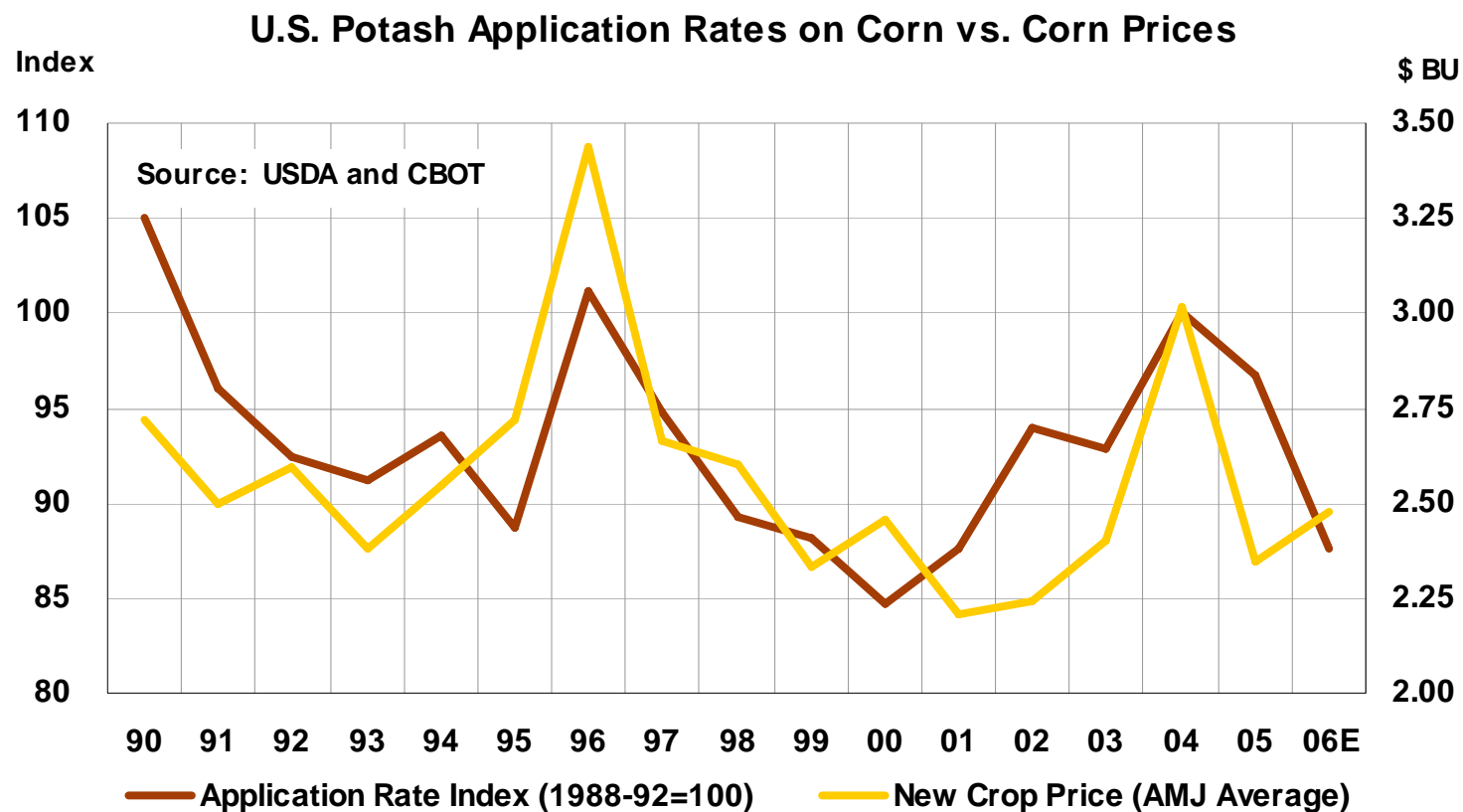
*Grain markets are signaling the need for more production to meet growing demand.*

*The 2007 new crop price of corn has climbed steadily since mid-September due to downward revisions in the size of the U.S. crop and strong demand prospects. U.S. farmers are expected to harvest the third largest corn crop on record this fall, but the harvest is projected to fall short of use by more than one billion bushels.*

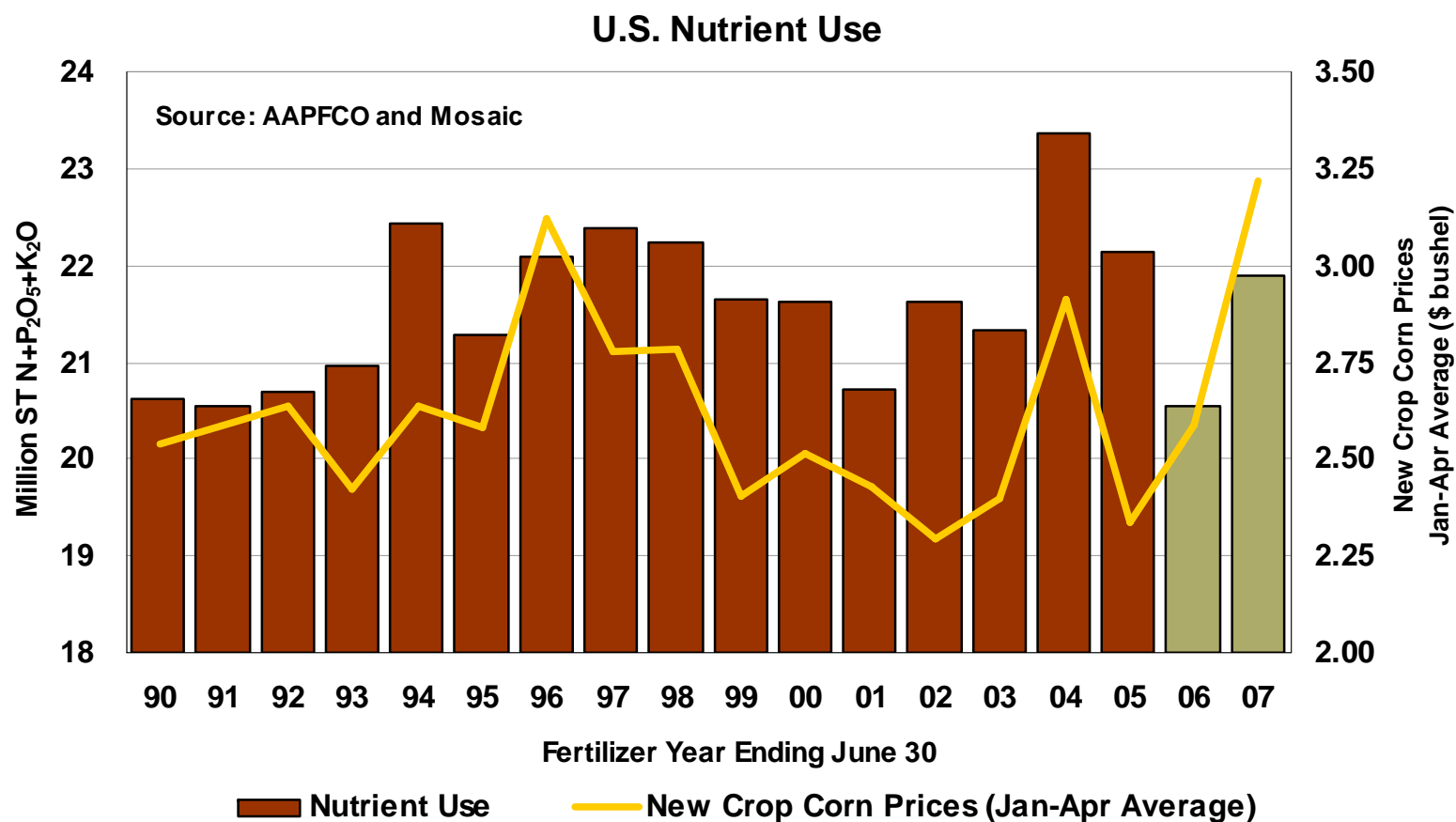
*The new crop price of corn today is more than one dollar per bushel higher than a year ago and that difference looks like it will continue to widen as the 2007 planting season approaches.*

*Corn farmers will begin to make planting and crop input decisions later this fall and winter based on much stronger market signals than last year and based on prices even higher than in 2004.*

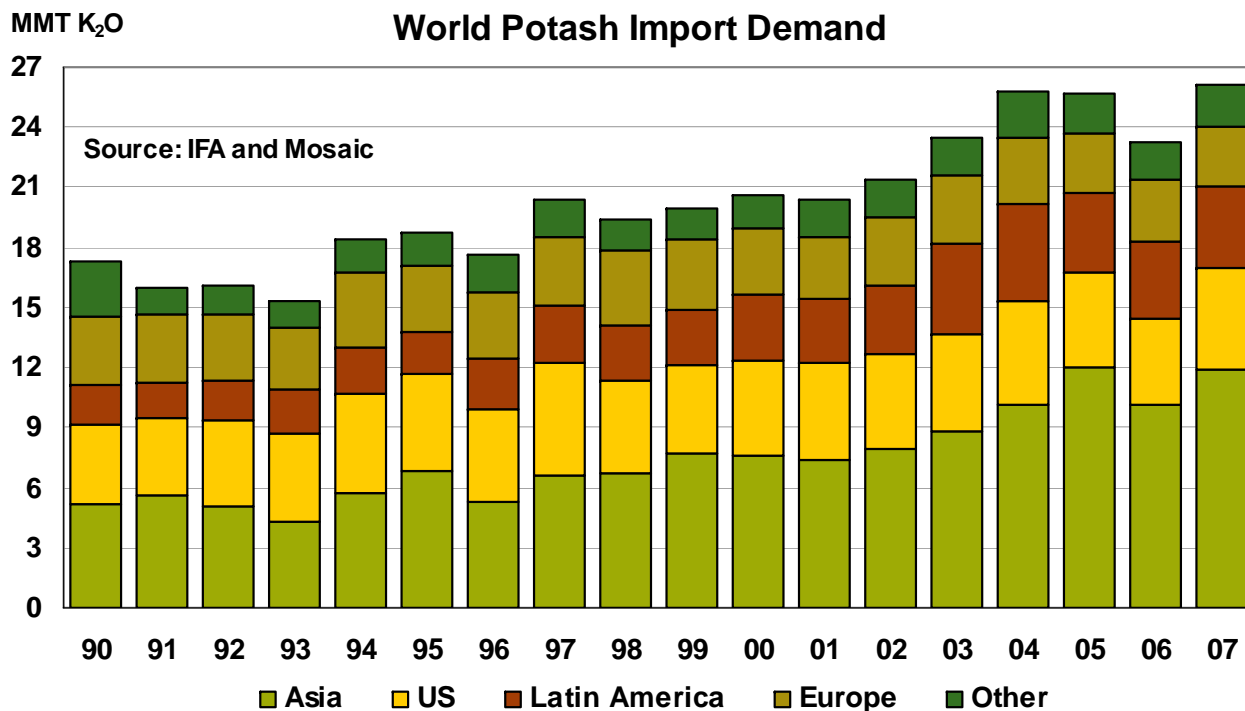
# Drivers of rapidly improving demand prospects



# Drivers of rapidly improving demand prospects



# Import demand projected to rebound to record levels



Global import demand is projected to decline about 9% or 2.4 million tonnes K<sub>2</sub>O in CY 2006 due to significant decreases in each of the four major import markets – namely Brazil, China, India and the United States.

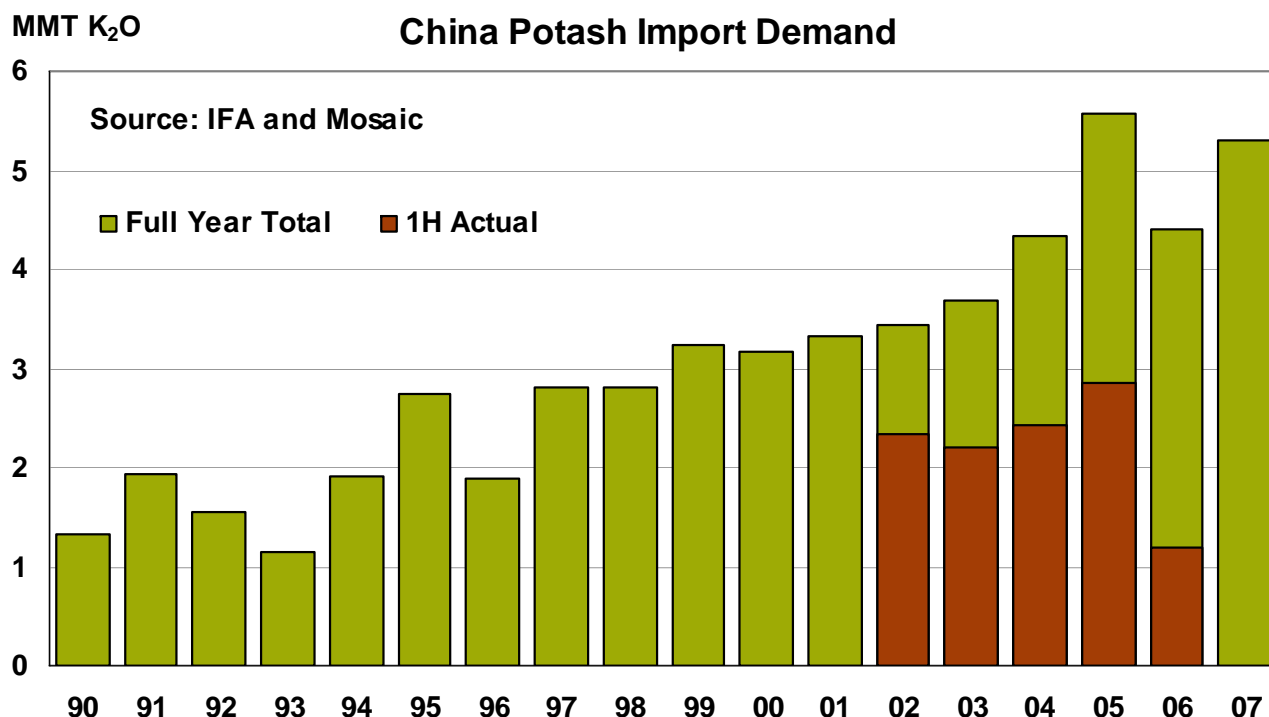
Demand fundamentals are improving rapidly and a strong recovery is forecast for 2007. Exponential growth in biofuels production and continued strong food and feed demand is pulling down grain stocks and fueling an impressive rally in grain prices.

In addition, we estimate that inventories throughout the global distribution pipeline were pulled down to low levels this year.

As a result, global import demand is forecast to rebound about 12% or 2.8 million tonnes to a record 26.1 mmt K<sub>2</sub>O in 2007.



# Chinese imports are forecast to rebound 17% in 2007

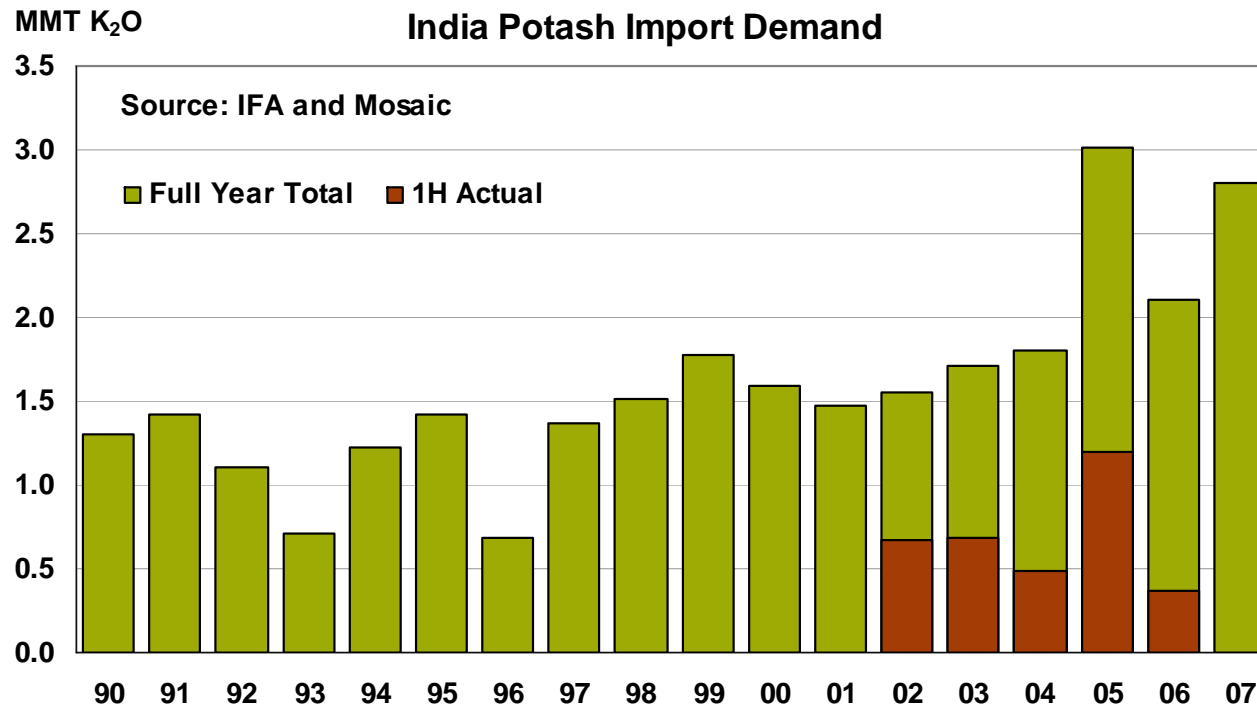


*China's potash imports are projected to decline 21% this year due to a combination of factors including a build-up of stocks in 2005, increased domestic production, weaker demand for NPK production and long delays in settling 2006 contracts.*

*Export shipments to China during the first half 2006 were off 58% from the record level of 2005. Shipments during the last five months of this year are on a record pace, but are not expected to make up the large decline during the first seven months of the year.*

*Imports are forecast to rebound 17% or about 900,000 tonnes K<sub>2</sub>O in 2007 due to strong demand drivers, lower pipeline stocks and assuming more timely settlements of 2007 contracts.*

# Indian fundamentals remain positive



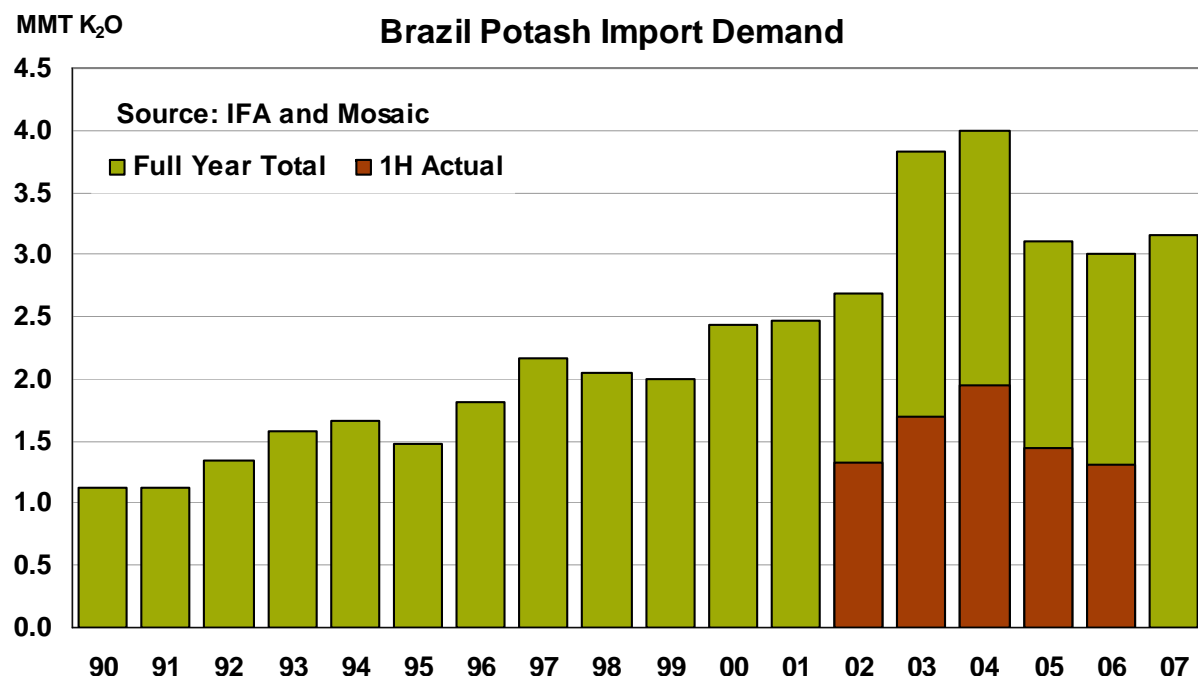
After surging 66% in 2005, India's potash imports are projected to decline about 30% or 900,000 tonnes K<sub>2</sub>O in 2006 due to a build-up of distribution pipeline stocks last year and long delays in settling 2006 contracts.

Export shipments during the first half of 2006 were off 72% from a year earlier, but large shipments during the last four months of this year are expected to make up a significant part of that decline.

Demand prospects remain extremely strong due to near-normal monsoon rainfall this year, high wheat and rice prices and government efforts to boost wheat acreage and yields.

Imports are forecast to rebound 33% or about 700,000 tonnes K<sub>2</sub>O in 2007.

# No recovery is expected in Brazil in 2007, but . . .

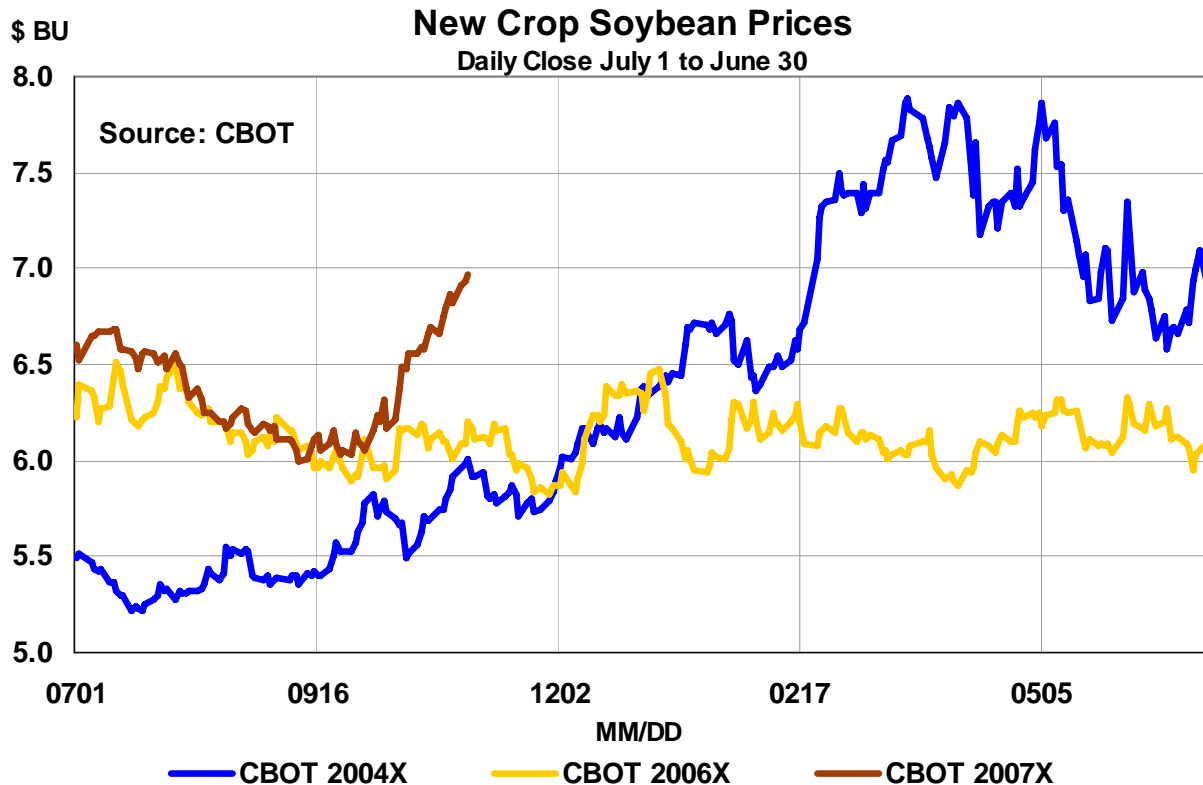


*Brazilian MOP import demand is projected to decline another 3% or 100,000 tonnes K<sub>2</sub>O in 2006. That follows a 22% decline in 2005.*

*Producers reported shipping 10% less potash to Brazilian buyers during the first half of 2006 than a year earlier. Brazilian customs statistics indicated that MOP imports during the first nine months of 2006 were down 3% from last year.*

*Imports are forecast to increase only about 5% or 150,000 tonnes K<sub>2</sub>O in 2007. A significant recovery will require a jump in oilseed prices and/or a collapse of the Brazilian real.*

# Oilseed markets are beginning to perk up



*The rally in corn and wheat markets is beginning to spill over into the oilseed complex.*

*The 2007 new crop price of soybeans has increased almost one dollar per bushel since mid-September.*

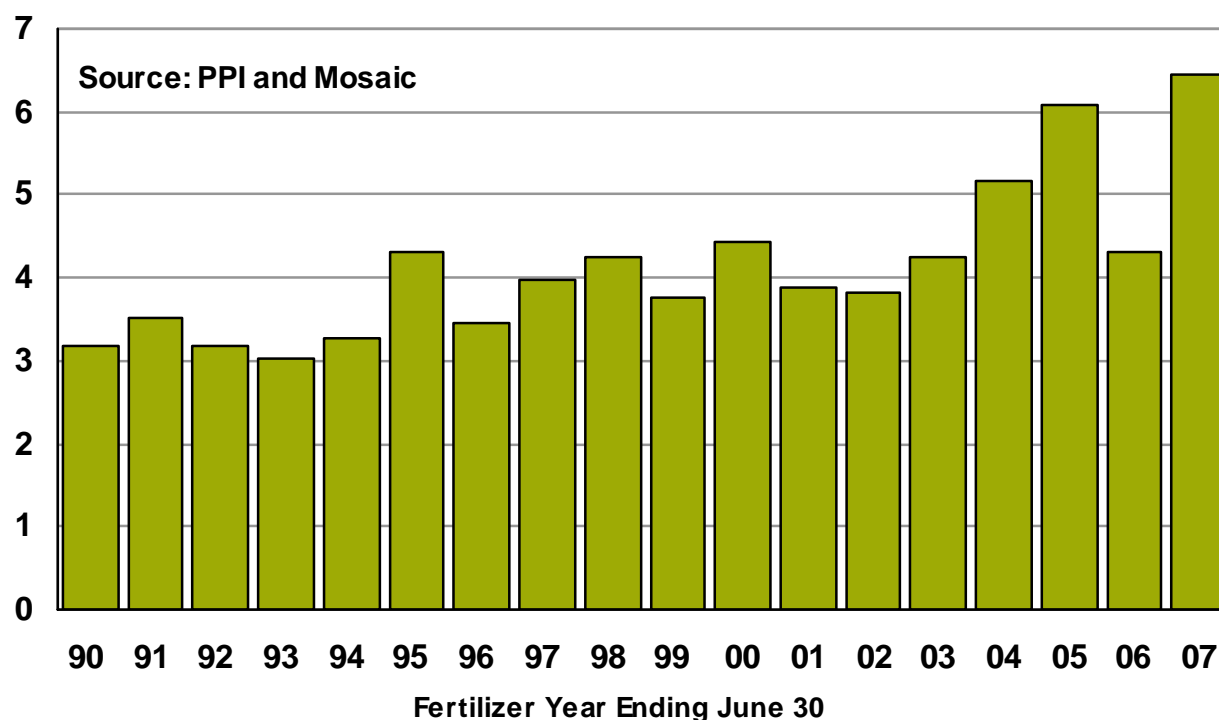
*A significant rally in oilseed prices is good news for Brazilian soybean and western Canadian canola farmers.*

# The Supply Shock (from Uralkali's October 2006 Prospectus and press releases)

- The loss of Uralkali's Berezniki I mine due to flooding reduces global potash supply by 1.2 to 1.4 million tonnes KCL
- The Berezniki I mine produced 1.38 million tonnes KCL in 2005
  - ✓ 26% of the 5.38 million tonnes produced by Uralkali in 2005
  - ✓ 2.5% of world output in 2005
- We estimate Uralkali will produce 4.2 to 4.4 million tonnes in 2006
  - ✓ first half 2006 output totaled 1.91 million tonnes KCL
  - ✓ that was down from 2.68 million a year earlier
  - ✓ mines likely ran at high rates following 2006 contract settlements
- Completion of a fourth line at the Berezniki III mill may boost annual capacity by 550,000 tonnes KCL by the end of 2006
  - ✓ or from 5.60 million to 6.15 million before the loss of Berezniki I
  - ✓ or to 4.75 million after the loss of Berezniki I
  - ✓ That assumes there is sufficient lifting capacity at the Berezniki II and IV mines and no rail line damage or logistical bottlenecks

# Canadian exports projected to increase 50% in 06/07

## MST K<sub>2</sub>O Canadian Potash Exports to Offshore Destinations

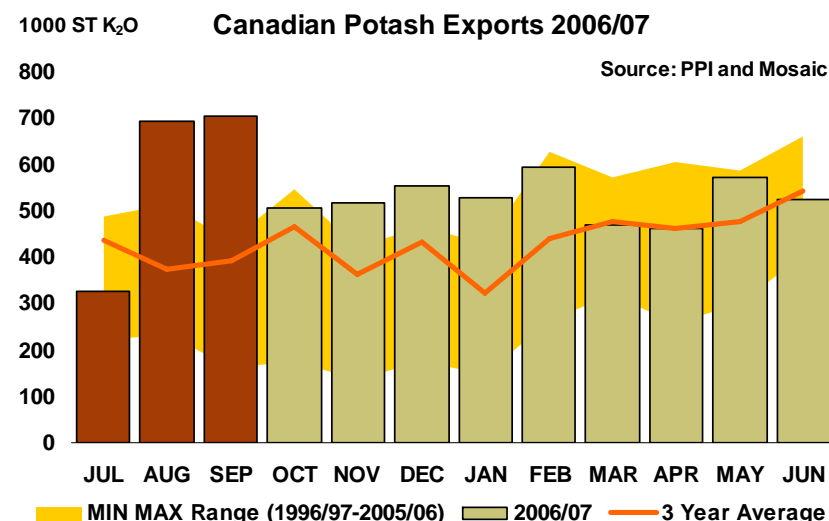
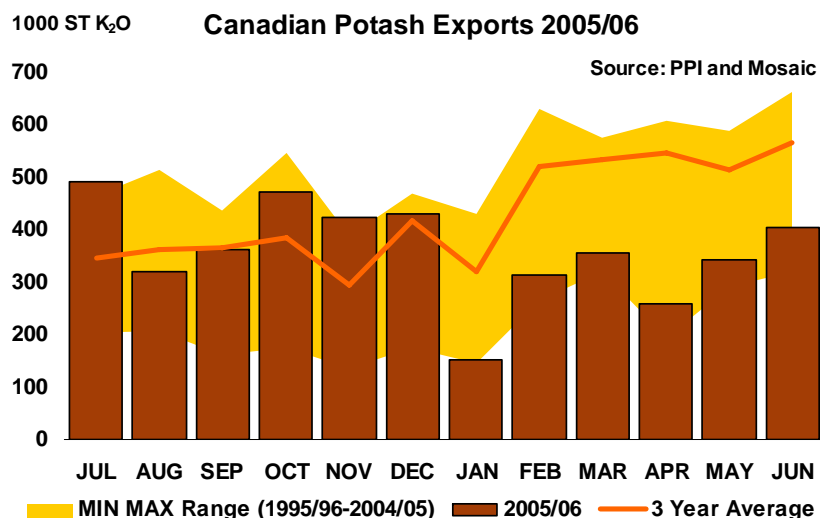


Canadian offshore exports plunged 29% or 1.8 million tons during the 2005/06 fertilizer year due to a build-up of distribution pipeline stocks the year before, poor farm economics in Brazil and long delays in settling 2006 contracts with key Chinese and Indian customers.

Canadian offshore exports in 2006/07 are forecast to rebound 50% to a record 6.5 million tons K<sub>2</sub>O due to a combination of factors including catch-up shipments during the last half of 2006, increasingly good demand prospects in 2007 and the loss of Uralkali's Berezniki I mine.

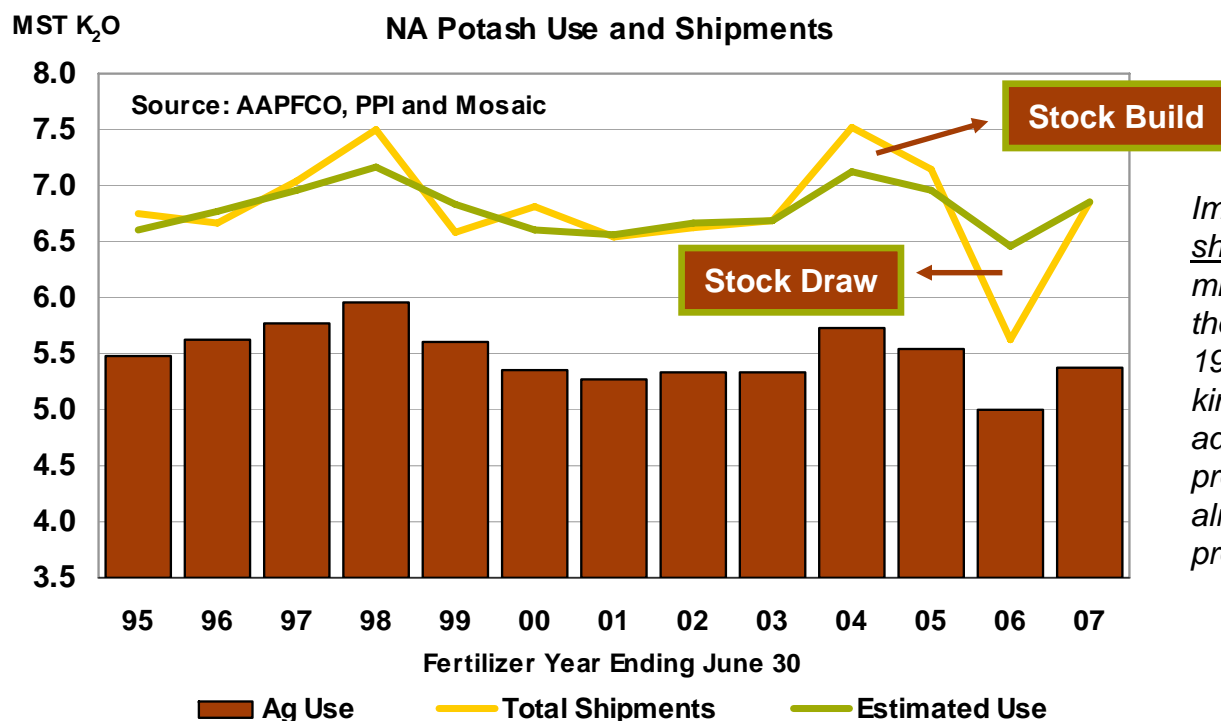
Projected exports are 25% greater than the three-year average and 37% greater than the five-year average.

# Canadian offshore shipments have picked-up!



*Canadian offshore exports during the first three months of the fertilizer year were up 48% from a year earlier. Canadian exports are projected to increase 50% during the 2006/07 fertilizer year. Record exports in August and September and heavy export lineups deep into the 2007 first calendar quarter make that forecast look achievable. Offshore shipments are projected to remain at high levels due to the combination of good demand prospects and the loss of the Uralkali Berezniki I mine.*

# Domestic shipments set to rebound in 2006/07



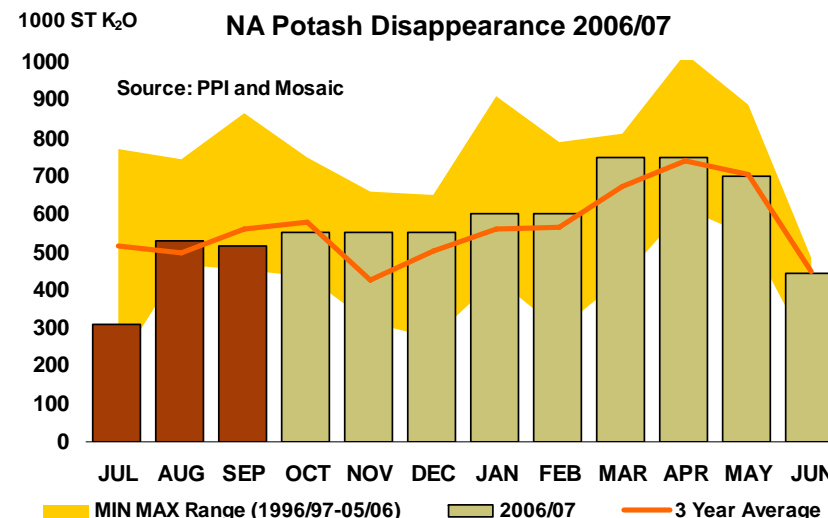
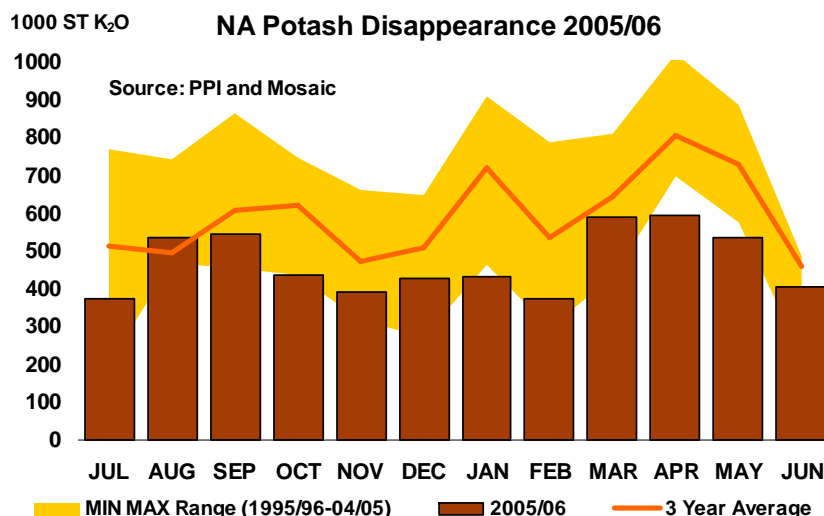
*Implied North American potash shipments declined 22% to just 5.6 million tons K<sub>2</sub>O in 2005/06. That was the lowest domestic volume since 1982/83 when a special payment-in-kind program unexpectedly pulled an additional 49 million acres out of production on top of the 29 million already idled as a result of U.S. farm programs.*

*We estimate that U.S. potash use dropped nine to ten percent last year due to the shift from corn to soybeans and a decline in application rates. A major de-stocking of a full domestic distribution pipeline accounted for the rest of the decline in shipments in 2005/06.*

*We forecast that U.S. potash use will rebound seven to eight percent in 2006/07 as a result of a large increase in projected corn acreage (to 85 million) and a partial recovery in application rates. As a result, NA shipments are projected to increase 22% to 6.8 million tons K<sub>2</sub>O in 2006/07. That looks like a huge jump, but shipments of 6.8 million tons K<sub>2</sub>O are right in line with the 10-year average if you exclude the last three years of extraordinarily high and low shipments.*

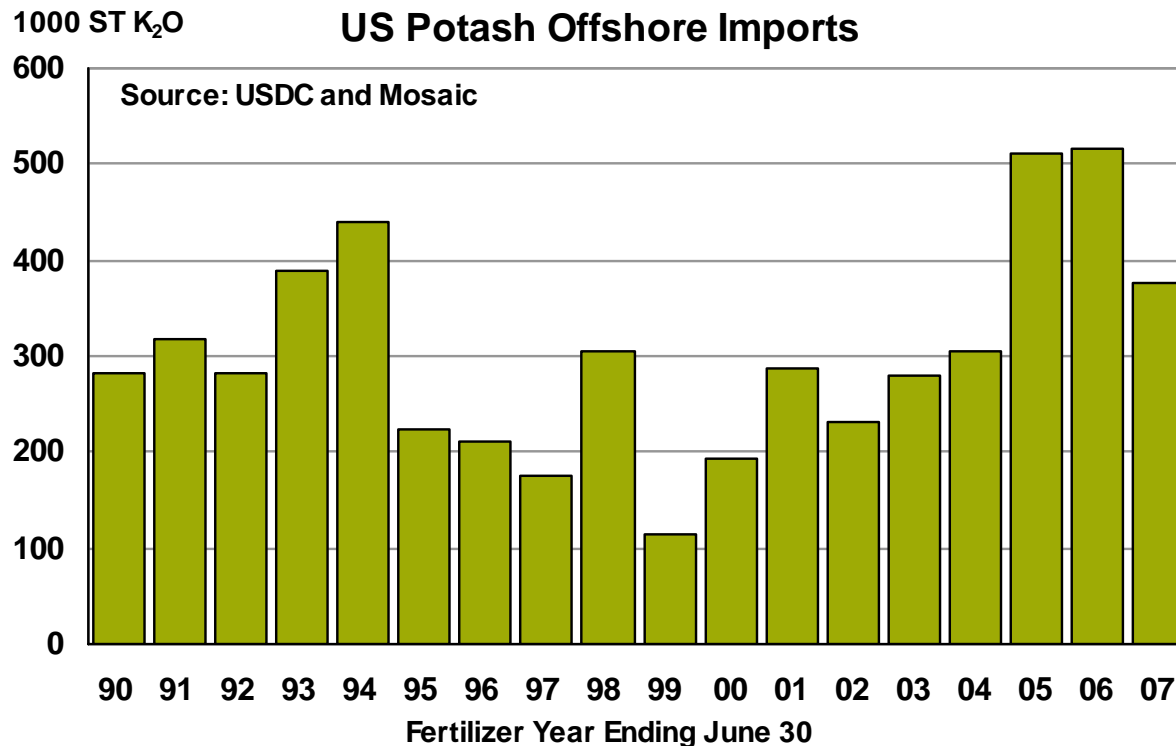


# Domestic shipments are forecast to rebound 22%



Domestic shipments in 2006/07 are expected to pick-up accelerate from the slow pace of last year. U.S. potash use is forecast to increase seven to eight percent and shipments are projected to just equal use (i.e. no change in low pipeline stocks). Domestic shipments are projected to rebound 22% or about 1.2 million tons K<sub>2</sub>O in 2006/07. Shipments during the first three months of the fertilizer year (Jul-Sep) were off 7% from last year, but monthly shipments for the remainder of the fertilizer year that just equal or slightly exceed the three year average for the month are sufficient to reach a 22% gain from the low levels of last year.

# U.S. imports are projected to decline this year

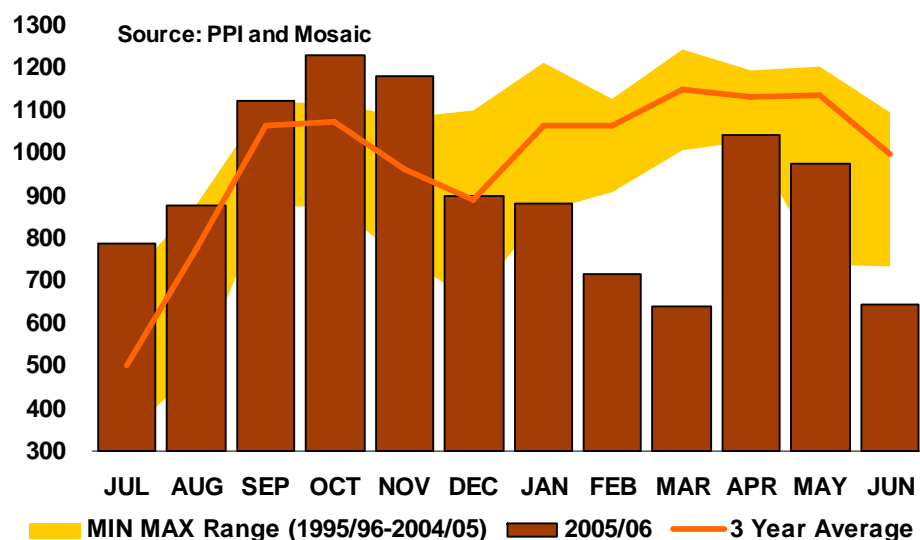


*U.S. potash imports from offshore origins are forecast to decline this year due to the recent flooding of the Uralkali Berezniki I mine.*

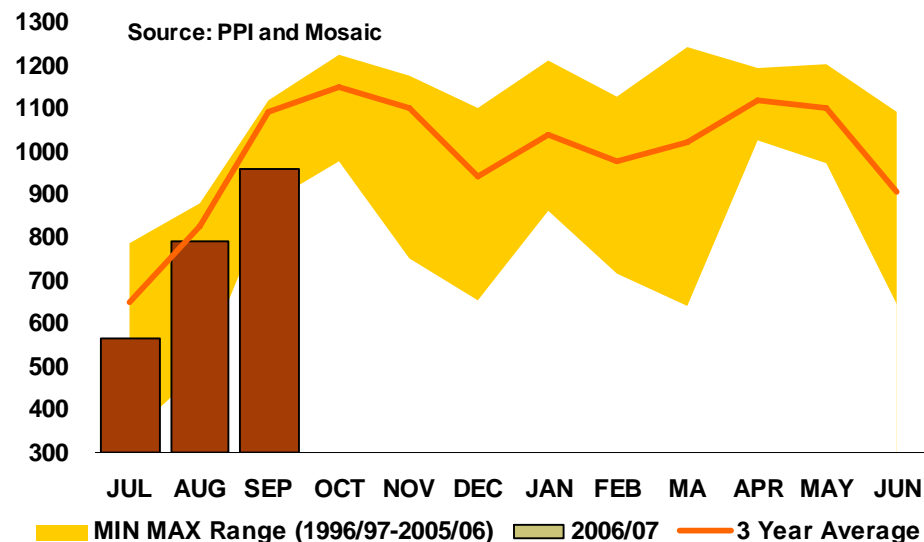
*Although this mine produces only standard grade product, we expect blend grade production may also be impacted by the loss of about 25% of overall  $K_2O$  output.*

# NA production is off 17% so far this year

1000 ST K<sub>2</sub>O NA Potash Production 2005/06

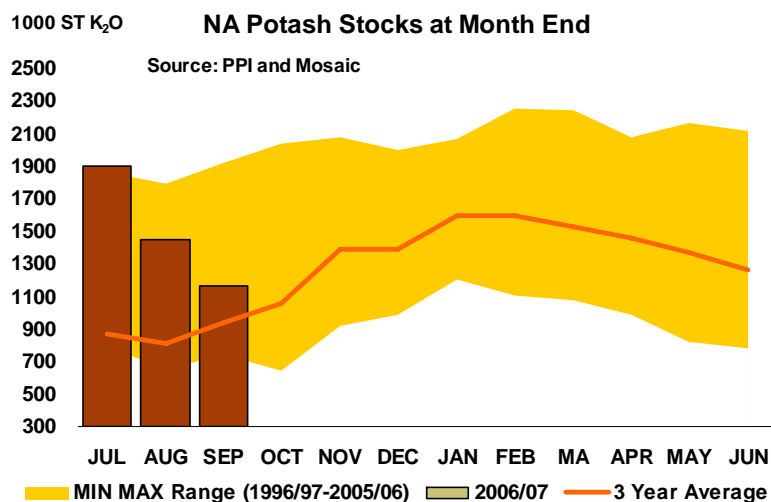
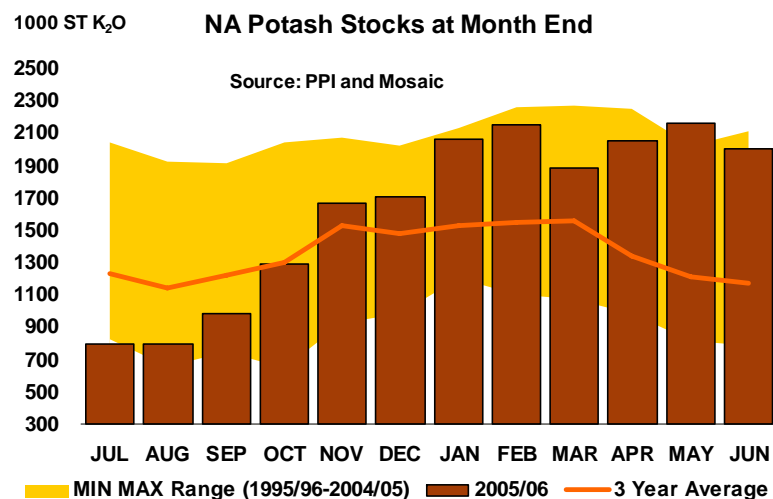
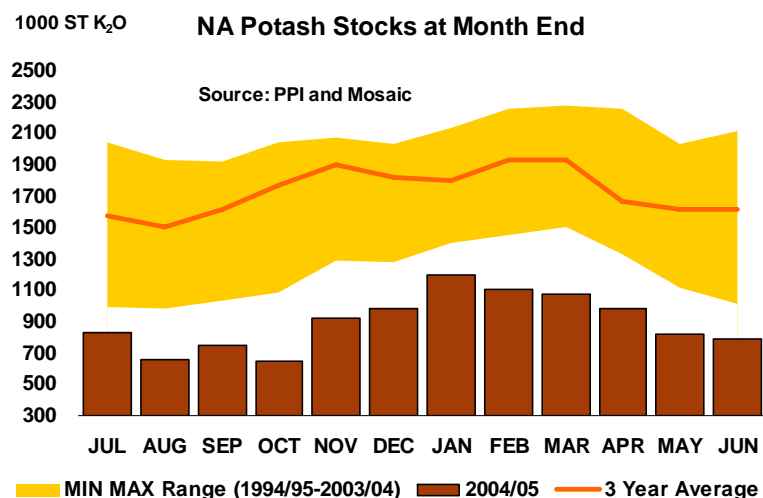
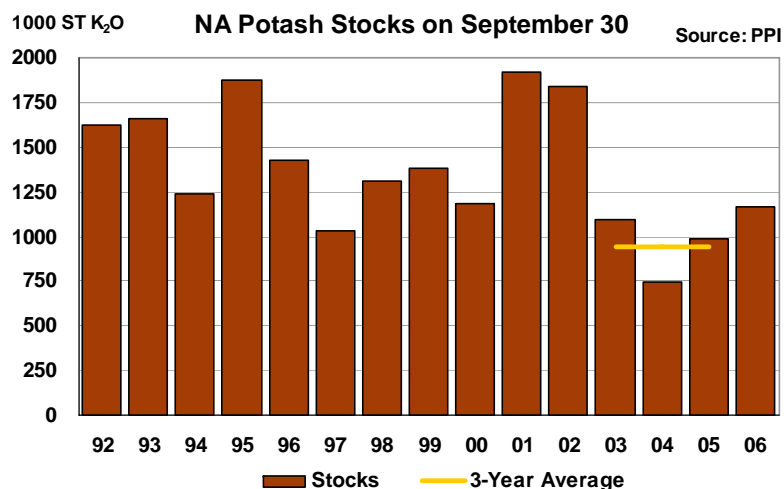


1000 ST K<sub>2</sub>O NA Potash Production 2006/07



North American production during the first three months of the fertilizer year is off 17% from a year ago. We estimate that North American producers will have to boost output more than 15% this year in order to meet projected offshore and domestic demand.

# North American Producer Stocks



# Factors to Watch

- Grain prices
- North American potash shipments
- Brazilian demand
- Additional supply losses resulting indirectly from the flooding of the Berezniki I mine
- 2007 contract negotiations with India and China
- The start-up of Canadian mine expansions

# Take-Aways

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