

SIS Strategic International Securities

Basic Materials

Agricultural Chemicals

The Mosaic Company

Initiation Report

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Rating Information

Sector Rating	Overweight
Current Price	\$40.79
Target YE	\$45
Long Term Growth	15%

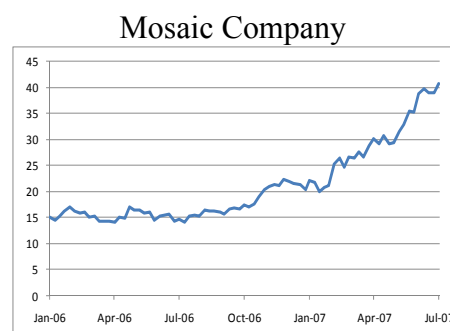
Trading Data

52 Wk Range	15.59-41
Market Cap.	17.96B
Shares Out.	439.5M
Dividend Yield	N/A
Ave. Daily Vol. (3M)	2,447,720
Float	152.6
Beta	0.98

Fundamental Data

EV/EBITDA	25.40
Enterprise Value	20.08B
Total Debt (mrq)	2.57B
Tot Debt/Equity (mrq)	0.707
Book Value	8.259

Price Performance Chart



Source: Reuters

*PLEASE REFER TO PAGE 12 OF THIS REPORT FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION STRATEGIC INTERNATIONAL SECURITIES 380 LEXINGTON AVE. NY, NY 10168.

Mosaic Company Initiation Report Overweight*

- We are initiating with an overweight rating and a price target of \$45. We are encouraged by: (1) the increased planting of corn which is a high user of fertilizer, and (2) the increase in farm incomes which is highly correlated to an increase in fertilizer use.
- We are projecting a 41% increase y/y in Sales due largely to a 35% increase in the price phosphate fertilizers which will substantially increase the profit margin for this segment.
- We are projecting net earnings for the quarter of \$0.45 for Q4 2007 and \$0.94 for the full year from a loss of $-(0.49)$ and a loss of $-(0.35)$ respectively.

Earnings and Revenues 2006 to 2007 with Q4 Estimates

Basic Earnings per share	Q1	Q2	Q3	Q4
2006	0.19	0.14	-0.19	-0.49
2007	0.26	0.15	0.1	.45E
Revenues	Q1	Q2	Q3	Q4
2006	1403.6	1497.5	1073.2	1331.5
2007	1288.6	1522	1278.7	1965E

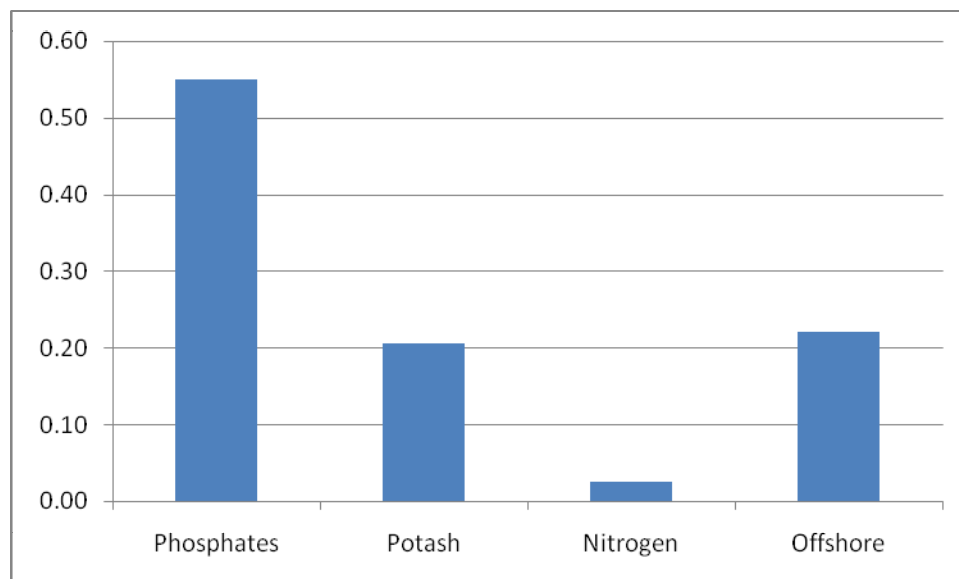
Analysis

I. Company Overview

We are initiating coverage of Mosaic Company (MOS) with an overweight rating, and a \$45 price target, with an expected trading range of \$33 to \$45. We expect that Mosaic will be a significant beneficiary of the positive events occurring in the agricultural industry resulting from the surge in production of corn related to ethanol as a substitute for gasoline. Acreage of corn crops are projected to be up 15% this year from last partially offset by a reduction of soybeans, cotton, and rice, with corn being a heavier user per acre of fertilizer, than the other crops. Mosaic is “the largest producer of processed phosphate products in the world...accounting for 19% of world output and 63% of U.S. production.

Mosaic is principally engaged in the sale of three fertilizer product lines: Phosphates, Potash, Nitrogen fertilizers with a 54.9%, 20.5%, and only 2.5% of their business coming from these three components respectively. The rest of their income comes from their offshore operations, with a segment of 22%.

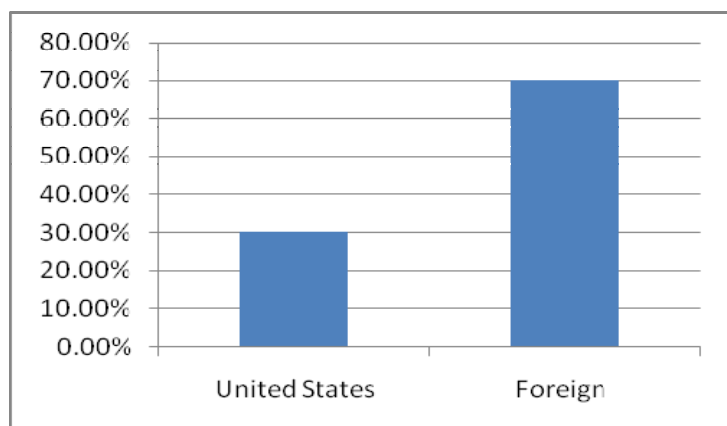
Table 1: Percent of Sales by Business Segment



Source: SISR and Company reports

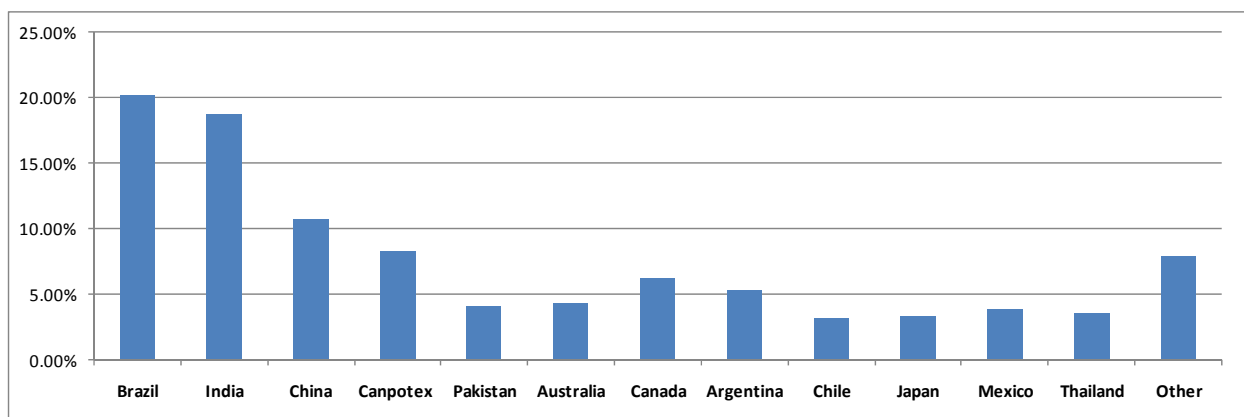
The designation offshore “consists of sales offices, fertilizer blending and bagging facilities, port terminals, and warehouses’ in several countries as well as production facilities in Brazil and China. Mosaic Corporation is an American company but 72% of its sales are to foreign countries, as shown in Table II.

Table II: United States Verses International Sales



Source: SISR and Company reports

Table III show the locations of these international sales with with the largest percentage coming from Brazil, China and India.



Source: SISR and Company reports

Conpotex is the offshore marketing company for Saskatchewan potash producers with Mosaic potash distributor with Mosaic having a 35.7% share of Canpotex shipments, and Potash Corporation supplying 55.8% of the shipments abroad.

II. Methodology: Economic Based Demand and Supply

A. Methodology

The method employed by all analysts at SIS is economic based seeking to understand the key drivers that can significantly affect total revenues which in turn affects net income and consequently the price of the equity in question. Our approach is an attempt to use external data, mostly economic, to forecast revenues. Once we have estimated company revenues we return to traditional analysis and use revenues to project earnings and consequently equity price. However, unlike most economic based research firms we do not care much about the top line economic numbers, in that we are exclusively concerned only with the cross sectional data at the industry level and in this instance agriculture.

B. Key Data and Drivers

In the fertilizer industry there is good economic data on:

1. The price of each product (PPI by fertilizer type)
2. Shipments of fertilizers in Dollars
3. Inventories of fertilizers in Dollars
4. World Consumption by type of Fertilizer in tones
5. World Production capacity by type of Fertilizer in tones

The price of the fertilizer product we believe is the most acute factor in the determination of the revenues for fertilizer companies. In recent years we have found all three substances have significant price increases, and interesting the price changes have not occurred at the same time. Dollar shipments and inventories are also very interesting because in recent years revenues have increased significantly for fertilizer companies while shipments in tonnage has remained relatively stable. Lastly, the developed western world has observed a rather stable agricultural market particularly with respect to the consumption of fertilizers, with the predominance of growth occurring in the developing world. As a consequence, most of the revenue growth has come from the developing regions of the world, most predominantly China, India, and Brazil.

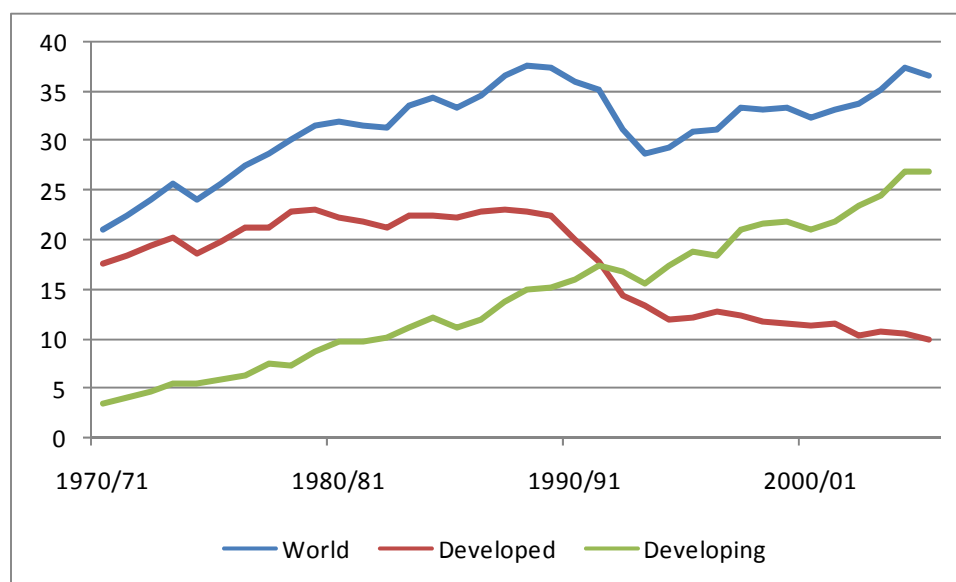
C. Ethanol Effect

Ethanol in many ways can be looked at as a wild card in a game of poker. It has totally altered the landscape for agriculture, certainly within the United States. Since the ethanol boom of last year there has been a significant increase in the price of corn, which has caused a crop rotation from beans to corn. With corn needing a greater amount of phosphate fertilizer for optimal growth we are finding a boom in phosphates and a major increase in usage as well as in price. It is possible that in the next few years, if this trend continues we will see the developed world no longer having the characteristics of mature incremental fertilizer growth but once again being a major growth area for fertilizer. These are the factors that this report will attempt to unpack in this initiation report for Mosaic Company. These issues will assist us in our valuation model for Mosaic, by providing a possible forecasting mode for fertilizer growth.

III. World Production and Consumption of Phosphate, Potash and Nitrogen Fertilizers

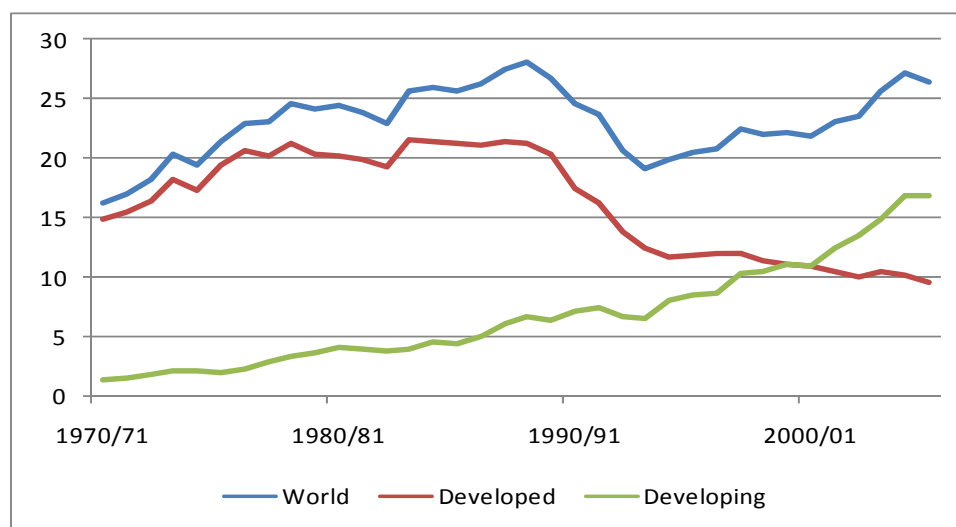
Over the past two decades the developing world has outpaced the rate of fertilizer consumption by the developed world, with the developed world being considered a mature market with only incremental growth. Whereas, the developing world has been exhibited expanding demand for all fertilizers types in recent decades. Tables IV to VII present these trends for Phosphate, Potash, Nitrogen, and All components respectively.

Table IV: World Phosphate Consumption



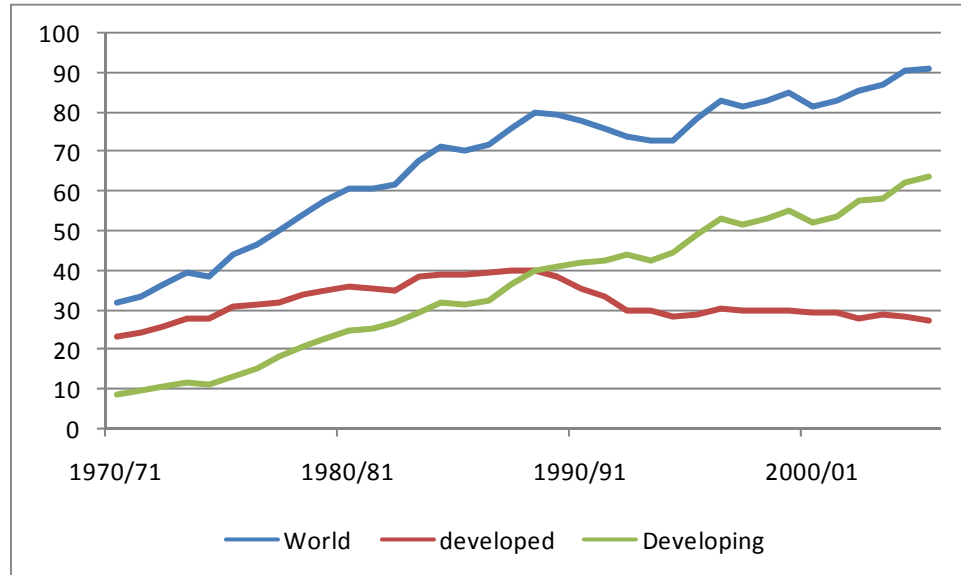
Source: International Fertilizer Association

Table V: World Potash Consumption



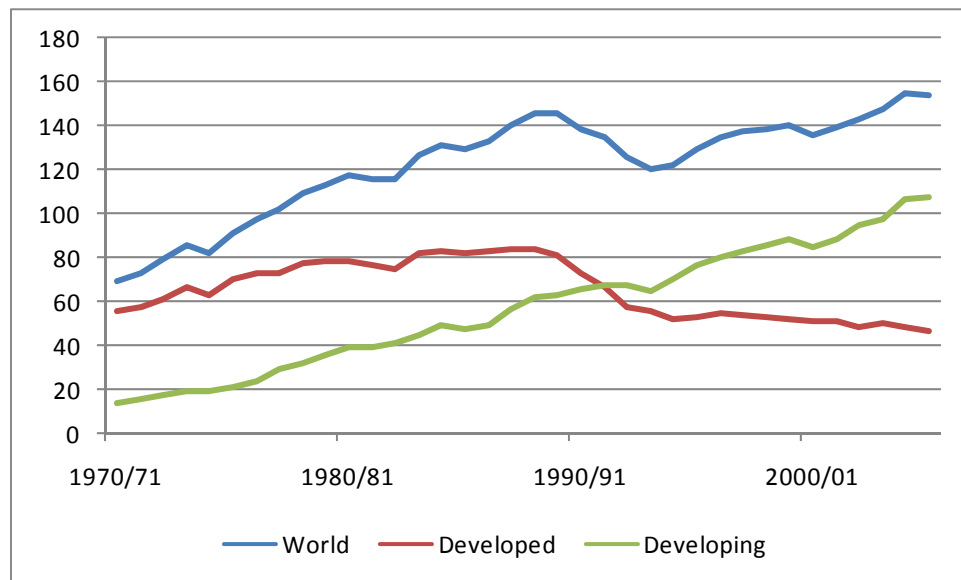
Source: International Fertilizer Association

Table VI: World Nitrogen Consumption



Source: International Fertilizer Association

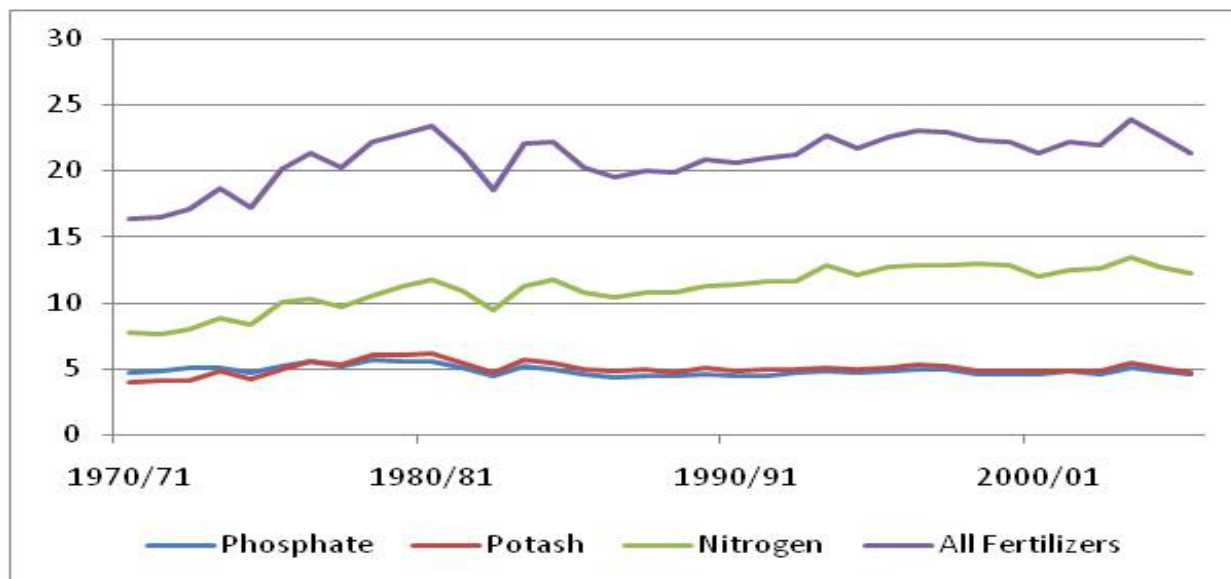
Table VI: World Consumption all Fertilizers



Source: International Fertilizer Association

Table VIII presents the consumption rate for the three types of fertilizer as well as the total for all fertilizers. What we find is that there has been a very gradual decline in fertilizer use in North America in the last decade. Phosphate, Potash, Nitrogen have all declined less than 1% per year for the past decade.

Table VIII: Fertilizer consumption in North America 1970 to 2006

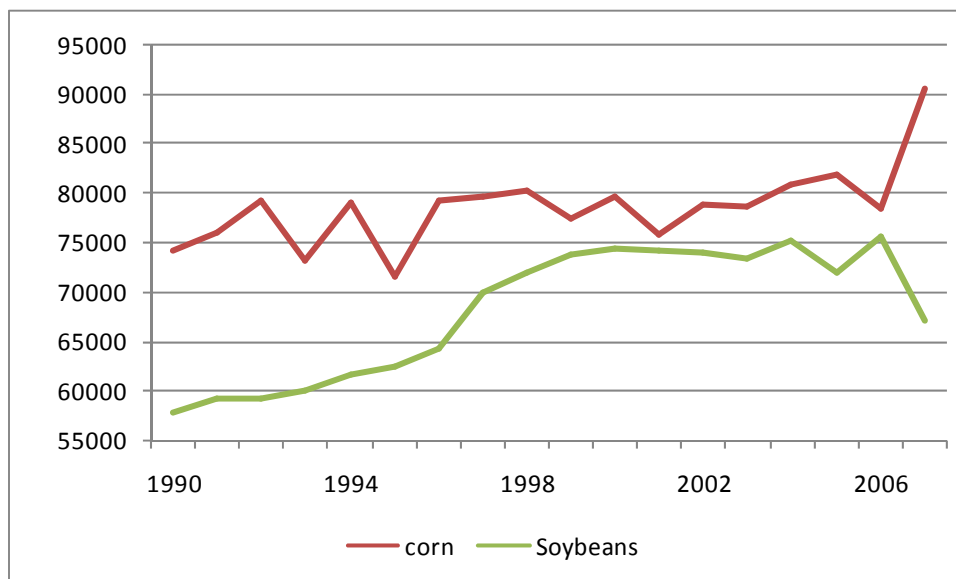


Source: International Fertilizer Associations

We believe that the situation in 2007 will be quite different than in past years with the expectation that 15% more corn acreage will be planted this year. According to the USDA “The increase in intended corn acres is partially offset by lower expected acres of soybeans, in the Corn Belt and Great Plains and fewer expected acres of cotton and rice in the Delta and southeast,” with corn being the biggest user of phosphates per acre.

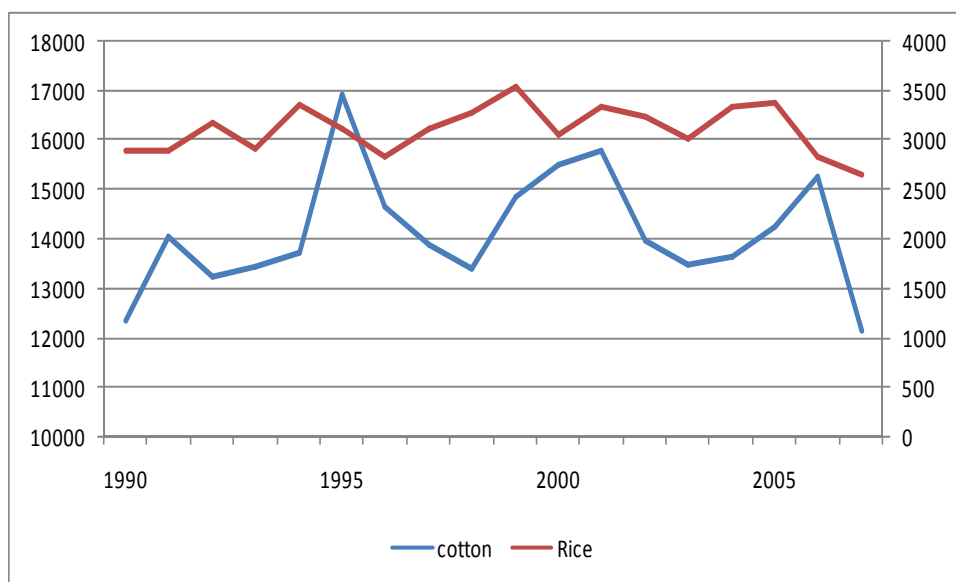
Tables IX and X indicate these trends in the expected planting of corn taking acreage away from soybeans, cotton, and rice. In this respect the use of phosphate fertilizer we expect would be increased given that on a per area basis corn uses the greatest amount of phosphate fertilizer as contrasted with the other crops.

Table IX: Actual and projected planting of Corn and Soybeans 1990 to 2007



Source: USDA and SIS

Table X: Actual and projected planting of Cotton and Rice 1990 to 2007



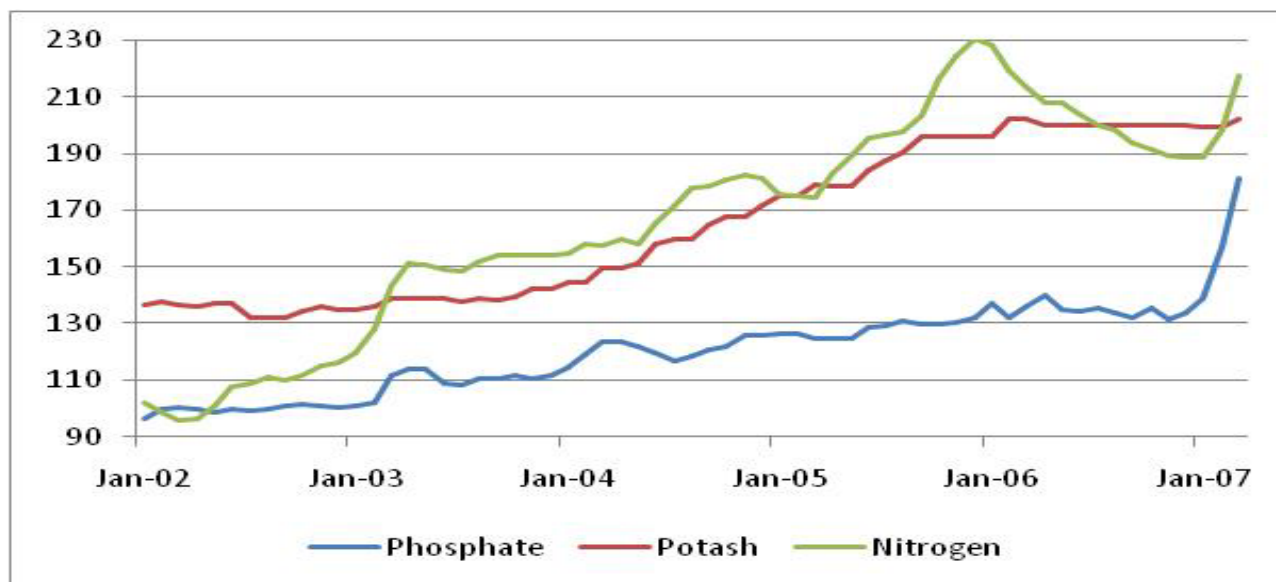
Source: USDA and SIS

Mosaic Company interestingly is the largest U.S. distributor of Phosphate fertilizer in the country with a 63% share of the market. It is believed that this increase in usage will greatly assist the bottom line for the Mosaic Company.

IV. Recent Change in the Price of Fertilizers (PPI Fertilizers)

The price of fertilizer has been the biggest single factor in increased revenues for fertilizer companies in the past few years. We have seen this phenomenon with respect to both the components of Potash and Nitrogen. From Table XI we observe that the price of Potash has increased quite dramatically since 2003 in large part because of the increased demand from China and contract price they were able to achieve in 2004 and 2005.

Table XI: PPI for Phosphates, Potash, and Nitrogen Fertilizers, January 2002 to March 2007



Source: Department of Labor and SISR

Nitrogen similarly has increased in large part because of the increase in natural gas a critical component of nitrogen fertilizer. Phosphate fertilizer in both these instances has been lagging, until the last two month when the price of phosphates have increased by over 30%, with potash saying relatively flat and nitrogen increasing about 16%.

From Table I we observe that Phosphates are the largest single segment for Mosaic Company and in this respect we find that it encompasses over 50% of the total revenues for Mosaic. With the significant price increase we would expect that this figure would increase to about 65% of their total revenue based on our current revenue estimates.

Valuation

I. Segment Analysis

Mosaic Company operates in 4 segments Phosphates, Potash, Nitrogen and Offshore, with the company breaking down sales by region and total tonnage by price in each of the respective segments.

A. Phosphate Segment

The Phosphate segment is currently the most interesting because beginning this quarter the price of phosphate fertilizer is up approximately 35%. The company also stated in their earning call on April 9, 2007 that they anticipated phosphate sales between 2.4 and 2.7 million tons for the quarter. This will be less than last year when they sold 3.06 million tones of phosphate fertilizer. The difference this year is that the price of phosphate fertilizer is 33% higher with limited additional costs of production; in fact it is likely that the cost of production will be less than the prior fiscal year due to the lower tonnage sold.

Phosphates	Q407 E	Q3 07	Q2 07	Q1 07	Q4 06	Q3 06	Q2 06	Q1 06
Net Sales								
North America	368.2	347.1	244.2	279.4	253.0	283.6	253.0	301.9
International	736.4	343.6	519.7	510.2	552.2	415.7	482.8	554.6
Total Sales	1104.6	690.7	763.9	789.6	805.2	699.3	735.8	856.5
Cost of goods sold	819.0	671.0	728.0	680.4	762.1	700.0	668.1	719.6
Gross Margin	285.6	19.7	35.9	109.2	43.1	-0.7	67.7	136.9
Sales Volume Tonnes								
Fertilizer	2420.0	1862.0	2090.0	2077.0	2941.0	1882.0	2159.0	2672.0
Feed	215.0	212.0	211.0	218.0	125.0	233.0	291.0	264.0
Total	2.6	2.1	2.3	2.3	3.1	2.1	2.5	2.9
Av price per tone (FOB plant)	332.0	246.0	243.0	251.0	245.0	246.0	249.0	240.0
Phosphates	2007 E	2006	2005					
Net Sales								
North America	1238.9	1092	770.9					
International	2109.9	2005.3	1541.6					
Total Sales	3348.8	3097.5	2312.5					
Cost of goods sold	2898.4	2849.8	2150					
Gross Margin	450.4	247.7	162.5					
Sales Volume Tonnes								
Fertilizer	18091	9654	8437					
Feed	1667	913	754					
Total	9.15	10.567	9.191					
Av price per ton (FOB plant)	268	245	222					

B. Potash Segment

For the potash segment we are looking for an expected tonnage of about 2.5 to 2.6 million tones of potash to be sold worldwide. There has been no real increase in price over the past 6 months for this component with the large increase occurring two years ago when China massively increased its international imports of Potash. The restocking of Potash fertilizer for China we expect to be almost complete by now given that the new contract with China and had been settled over 6 months ago and the period of no shipments from the Campotex is no long the situation. Comparables to Q1 08 and Q2 08 will be affected and will be considered when those projections become available.

Potash	Q4 07 E	Q3 07	Q2 07	Q1 07	Q4 06	Q3 06	Q2 06	Q1 06
Net Sales								
North America	338.4	244.0	231.9	182.4	228.9	146.5	231.3	160.6
International	152.0	98.7	120.2	107.7	100.5	82.1	98.9	107.1
Total Sales	490.4	342.7	352.1	290.1	329.4	228.6	330.2	267.7
Cost of goods sold	367.8	261.4	263.7	220.7	229.5	204.5	209.7	160.6
Gross Margin	122.6	81.3	88.4	69.4	99.9	24.1	120.5	107.1
Sales Volume Tonnes	2.6	1.8	2.0	1.7	1.7	1.3	1.9	1.6
Average price per tonne (FOB plant)	141.0	141.0	142.0	129.0	139.3	134.0	147.0	137.0
Potash	2007 E	2006	2005					
Net Sales								
North America	996.7	767.3	611.6					
International	478.6	388.6	257.8					
Total Sales	1475.3	1155.9	869.4					
Cost of goods sold	1113.6	804.3	623.3					
Gross Margin	361.7	351.6	246.1					
Gross Margin as a percent of net sales	0.2	0.3	28.3					
Sales Volume Tonnes	8.0	6.5	5453.0					
Average price per tonne (FOB plant)	138.3	140.0	124.0					

C. Nitrogen Segment

The Nitrogen segment is currently the least interesting for Mosaic Company in that it constitutes less than 5% of annual revenues and highly dependent on the price of natural gas. Mosaic does not have the long term contracts for natural gas that some of their competitors has and as a consequence are more susceptible to wide fluctuations in their cost basis. We are projecting a slight increase in sales to \$60 million and gross margins to \$8.4 million.

Nitrogen	Q407 E	Q3 07	Q2 07	Q1 07	Q4 06	Q3 06	Q2 06	Q1 06
Net Sales	60.0	48.9	25.8	21.1	52.3	31.7	35.2	24.2
Cost of goods sold	51.6	43.1	20.8	19.0	46.1	29.0	29.1	22.7
Gross Margin	8.4	5.8	5.0	2.1	6.2	2.7	6.1	1.5
Nitrogen	2007 E	2006	2005					
Net Sales	155.8	143.4	119.8					
Cost of goods sold	134.5	126.9	104.4					
Gross Margin	21.3	16.5	15.4					

D. Offshore Segment

The offshore segment while consisting of over 20% of revenues has historically has little variability in gross margins and as a consequence similarly has had little significant impact on changes in the financial condition of Mosaic Company in recent years.

Off Shore	Q407 E	Q3 07	Q2 07	Q1 07	Q4 06	Q3 06	Q2 06	Q1 06
Net Sales	310	242.9	499.9	303.9	245	186.1	467.8	340
Cost of goods sold	295.1	231.6	476.1	290.6	229.2	183.8	453.2	327.8
Gross Margin	14.9	11.3	23.8	13.3	15.8	2.3	14.6	12.2
Gross Margin as a percent of net sales	4.8	4.7	4.8	4.4	6.4	1.2	3.1	3.6
Off Shore	2007 E	2006	2005					
Net Sales	1356.7	1238.9	1228.9					
Cost of goods sold	1293.4	1194	1129.5					
Gross Margin	63.3	44.9	99.4					
Gross Margin as a percent of net sales	4.7	3.6	8.1					

E. Financial Statement for Mosaic 2006 and 2007 with Q4 Estimates

We have taken our estimates for each of the segments and build that into our estimates for the full year 2007 and our estimate for Q4 2007. We estimate that earnings per share will come at \$0.45 for the Q4 and \$0-.94 for the full year, on revenues of \$1.965 million for Q4 and \$6.054 million for the full year. These are both hefty increases both sequentially and y/y. The majority of the increase is a result of the price increase in phosphates that goes directly to the bottom line caused by the increased use of fertilizer due to the crop rotation to corn and greater farm income.

Financials Mosaic	Q407 E	Q307	Q2 07	Q1 07	Q4 06	Q3 06	Q2 06	Q1 06
Net Sales	1965	1278.7	1522	1288.6	1331.5	1073.2	1497.5	1403.6
Cost of Goods Sold	1532.7	1165.6	1361.5	1092.3	1165.3	1059.2	1289.1	1154.8
Gross Margins	430.3	113.1	160.5	196.3	166.2	14	208.4	248.8
Selling, general and admin expenses	82.2	78.8	70.4	65.7	54.5	61.8	68	57
Restructuring and other charges	0	0	0	-0.4	287.6			
Operating Earnings (Loss)	348.1	34.2	90.7	131.6	-269.7	44.2	139.3	192
Interest Expense	52	49.6	41.6	43.4	41.1	44.2	42.9	38.3
Foreign currency transaction (gain) loss	-21	-17.8	-19.8	-7.3	34.1	13.8	13.7	39
Gain on extinguishment of debt		33.9	0	0	0	0	0	0
Other income		-7.4	-6.7	18.5	5.2	-1.7	-3.8	-0.9
Earnings from consolidated companies before income taxes	317	43.7	75.6	114	-96.8	-100	86.5	115.6
Provision for income taxes	121	6.6	24.1	7.4	-18.2	-27.2	42.3	51.5
Earnings from consolidated companies	196	37.1	51.4	106.6		-73.5	44.2	64.1
Equity in net earnings of non-consolidated companies		5.5	15.4	3.9		2	12.9	14.2
Minority interests in net earnings of consolidated companies		0.4	-1	-1.5	0	-0.1	-2.1	-2.2
Net Earnings (loss)	196	42.2	65.9	109	-180.9	-71.6	55	76.1
Earnings available for common stockholders		42.2	65.9	109		-71.6	55	76.1
Preferred stock dividend		0	0	0		2.6	2.5	2.6
Basic earnings per share	0.45	0.10	0.15	0.26	-0.49	-0.19	0.14	0.19
Basic weighted average common shares outstanding	439.5	439.5	438.1	419.5	382.2	383.6	381.1	380
Financials Mosaic	2007 E	2006	2005					
Net Sales	6054.3	5305.8	4396.7					
Cost of Goods Sold	5152.1	4668.4	3871.2					
Gross Margins	900.2	637.4	525.5					
Selling, general and admin expenses	297.1	241.3	207					
Restructuring and other charges	-0.4	287.6	0					
Operating Earnings (Loss)	604.6	105.8	318.5					
Interest Expense	186.6	166.5	120.5					
Foreign currency transaction (gain) loss	-65.9	100.6	-13.9					
Gain on extinguishment of debt		0	0					
Other income	4.4	-1.2	-3.1					
Earnings from consolidated companies before income taxes	550.3	5.3	98.3					
Provision for income taxes	159.1	48.4	55.9					
Earnings from consolidated companies	391.1							
Equity in net earnings of non-consolidated companies								
Minority interests in net earnings of consolidated companies		-4.4	-4.9					
Net Earnings (loss)	413.1	-121.4	165.6					
Earnings available for common stockholders								
Preferred stock dividend								
Basic earnings per share	0.94	-0.35	0.46					
Basic weighted average common shares outstanding	439.5	382.2	360.4					

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Price Chart:

A price chart, with changes of ratings and price targets in prior periods, is included above, for all securities covered in this report.

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