

MOSAIC CO  
Form 10-Q  
November 01, 2016

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-32327

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The Mosaic Company  
(Exact name of registrant as specified in its charter)

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Delaware 20-1026454  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

3033 Campus Drive  
Suite E490

Plymouth, Minnesota 55441

(800) 918-8270

(Address and zip code of principal executive offices and registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 350,238,549 shares of Common Stock as of October 27, 2016.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## THE MOSAIC COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In millions, except per share amounts)

(Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net sales	\$1,952.2	\$2,105.5	\$5,300.7	\$6,732.1
Cost of goods sold	1,738.9	1,770.2	4,696.6	5,369.7
Gross margin	213.3	335.3	604.1	1,362.4
Selling, general and administrative expenses	66.9	76.6	229.6	266.3
Other operating expense	76.7	12.7	129.1	21.6
Operating earnings	69.7	246.0	245.4	1,074.5
Interest expense, net	(25.5 )	(24.2 )	(85.2 )	(79.0 )
Foreign currency transaction gain (loss)	(32.4 )	(48.6 )	70.2	(19.4 )
Other income (expense)	0.5	(1.1 )	0.3	(14.5 )
Earnings from consolidated companies before income taxes	12.3	172.1	230.7	961.6
Provision for (benefit from) income taxes	(30.1 )	10.1	(68.7 )	113.4
Earnings from consolidated companies	42.4	162.0	299.4	848.2
Equity in net earnings (loss) of nonconsolidated companies	(1.7 )	(1.3 )	(12.8 )	(1.9 )
Net earnings including noncontrolling interests	40.7	160.7	286.6	846.3
Less: Net earnings attributable to noncontrolling interests	1.5	0.7	0.7	0.9
Net earnings attributable to Mosaic	\$39.2	\$160.0	\$285.9	\$845.4
Basic net earnings per share attributable to Mosaic	\$0.11	\$0.45	\$0.82	\$2.35
Basic weighted average number of shares outstanding	350.1	354.3	350.4	360.5
Diluted net earnings per share attributable to Mosaic	\$0.11	\$0.45	\$0.81	\$2.33
Diluted weighted average number of shares outstanding	351.5	356.0	351.7	362.3

See Notes to Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net earnings including noncontrolling interest	\$40.7	\$160.7	\$286.6	\$846.3
Other comprehensive income (loss), net of tax				
Foreign currency translation, net of tax	(65.1 )	(509.3 )	257.4	(985.7 )
Net actuarial gain (loss) and prior service cost, net of tax	1.7	(1.6 )	5.0	3.6
Amortization of loss on interest rate swap, net of tax	0.6	0.7	1.9	2.0
Net loss on marketable securities held in trust fund	(0.7 )	—	(0.7 )	—
Other comprehensive income (loss)	(63.5 )	(510.2 )	263.6	(980.1 )
Comprehensive income (loss)	(22.8 )	(349.5 )	550.2	(133.8 )
Less: Comprehensive income (loss) attributable to noncontrolling interest	1.3	(2.2 )	2.9	(4.2 )
Comprehensive income (loss) attributable to Mosaic	\$(24.1)	\$(347.3)	\$547.3	\$(129.6)

See Notes to Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except per share amounts)

(Unaudited)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 653.5	\$ 1,276.3
Receivables, net	512.4	675.0
Inventories	1,500.1	1,563.5
Other current assets	783.2	628.6
Total current assets	3,449.2	4,143.4
Property, plant and equipment, net of accumulated depreciation of \$5,603.5 million and \$5,038.9 million, respectively	9,230.6	8,721.0
Investments in nonconsolidated companies	1,064.3	980.5
Goodwill	1,651.6	1,595.3
Deferred income taxes	789.0	691.9
Other assets	1,078.5	1,257.4
Total assets	\$ 17,263.2	\$ 17,389.5
Liabilities and Equity		
Current liabilities:		
Short-term debt	\$ 53.6	\$ 25.5
Current maturities of long-term debt	372.8	41.7
Structured accounts payable arrangements	223.7	481.7
Accounts payable	486.9	520.6
Accrued liabilities	802.4	977.5
Total current liabilities	1,939.4	2,047.0
Long-term debt, less current maturities	3,450.3	3,769.5
Deferred income taxes	1,061.5	977.4
Other noncurrent liabilities	937.7	1,030.6
Equity:		
Preferred Stock, \$0.01 par value, 15,000,000 shares authorized, none issued and outstanding as of September 30, 2016 and December 31, 2015	—	—
Class A Common Stock, \$0.01 par value, none authorized, issued and outstanding as of September 30, 2016, 194,203,987 shares authorized, none issued and outstanding as of December 31, 2015	—	—
Class B Common Stock, \$0.01 par value, none authorized, issued, and outstanding as of September 30, 2016, 87,008,602 shares authorized, none issued and outstanding as of December 31, 2015	—	—
Common Stock, \$0.01 par value, 1,000,000,000 shares authorized, 388,171,874 shares issued and 350,223,025 shares outstanding as of September 30, 2016, 387,697,547 shares issued and 352,515,256 shares outstanding as of December 31, 2015	3.5	3.5
Capital in excess of par value	19.3	6.4
Retained earnings	11,045.4	11,014.8
Accumulated other comprehensive income (loss)	(1,231.5)	(1,492.9)
Total Mosaic stockholders' equity	9,836.7	9,531.8
Noncontrolling interests	37.6	33.2

Total equity	9,874.3	9,565.0
Total liabilities and equity	\$ 17,263.2	\$ 17,389.5

See Notes to Condensed Consolidated Financial Statements

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THE MOSAIC COMPANY  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Nine months ended	
	September 30, 2016	September 30, 2015
Cash Flows from Operating Activities:		
Net earnings including noncontrolling interests	\$286.6	\$ 846.3
Adjustments to reconcile net earnings including noncontrolling interests to net cash provided by operating activities:		
Depreciation, depletion and amortization	545.7	554.8
Deferred and other income taxes	(127.9 )	(55.2 )
Equity in net loss (earnings) of nonconsolidated companies, net of dividends	30.1	26.7
Accretion expense for asset retirement obligations	30.0	23.7
Share-based compensation expense	26.5	35.9
Loss on write-down of long-lived asset	43.5	7.9
Unrealized (gain) loss on derivatives	(81.5 )	26.6
Loss on sale of fixed assets	12.1	18.2
Other	0.8	12.7
Changes in assets and liabilities, excluding effects of acquisition:		
Receivables, net	122.1	(59.1 )
Inventories	158.5	(42.8 )
Other current and noncurrent assets	40.3	(233.5 )
Accounts payable and accrued liabilities	(162.7 )	368.8
Other noncurrent liabilities	20.8	(10.3 )
Net cash provided by operating activities	944.9	1,520.7
Cash Flows from Investing Activities:		
Capital expenditures	(633.7 )	(702.2 )
Purchases of available-for-sale securities - restricted	(734.4 )	—
Proceeds from sale of available-for-sale securities - restricted	138.9	—
Restricted cash	587.5	(630.0 )
Proceeds from adjustment to acquisition of business	—	47.9
Investments in nonconsolidated companies	(244.0 )	(125.0 )
Investments in affiliate	(130.0 )	—
Return of investment from nonconsolidated companies	—	54.4
Other	3.3	6.0
Net cash used in investing activities	(1,012.4 )	(1,348.9 )
Cash Flows from Financing Activities:		
Payments of short-term debt	(333.7 )	(297.0 )
Proceeds from issuance of short-term debt	361.9	302.5
Payments of structured accounts payable arrangements	(603.7 )	(311.4 )
Proceeds from structured accounts payable arrangements	341.3	329.8
Payments of long-term debt	(43.0 )	(58.4 )
Proceeds from issuance of long-term debt	—	5.9
Proceeds from stock option exercises	3.8	5.3
Repurchases of stock	(75.0 )	(709.4 )
Cash dividends paid	(288.8 )	(287.8 )

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Other	3.1	(8.3	)
Net cash used in financing activities	(634.1	) (1,028.8	)
Effect of exchange rate changes on cash	78.8	(232.7	)
Net change in cash and cash equivalents	(622.8	) (1,089.7	)
Cash and cash equivalents - December 31	1,276.3	2,374.6	
Cash and cash equivalents - September 30	\$653.5	\$ 1,284.9	

See Notes to Condensed Consolidated Financial Statements

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THE MOSAIC COMPANY  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)  
 (In millions)  
 (Unaudited)

	Nine months ended	
	September 30, 2016	September 30, 2015
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest (net of amount capitalized of \$27.6 and \$25.9 for the nine months ended September, 30, 2016 and 2015, respectively)	\$66.6	\$ 68.1
Income taxes (net of refunds)	24.7	186.5

See Notes to Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(In millions, except per share amounts)

(Unaudited)

	Mosaic Shareholders						
	Shares	Dollars			Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interests
Common Stock	Common Stock	Excess of Par Value					
Balance as of December 31, 2014	367.5	\$3.7	\$4.2	\$11,168.9	\$ (473.7 )	\$ 17.5	\$10,720.6
Total comprehensive income (loss)	—	—	—	1,000.4	(1,019.2 )	(3.5 )	(22.3 )
Stock option exercises	0.6	—	5.3	—	—	—	5.3
Stock based compensation	—	—	27.9	—	—	—	27.9
Repurchases of stock	(15.6 )	(0.2 )	(30.2 )	(667.9 )	—	—	(698.3 )
Dividends (\$1.075 per share)	—	—	—	(486.6 )	—	—	(486.6 )
Dividends for noncontrolling interests	—	—	—	—	—	(0.8 )	(0.8 )
Equity from noncontrolling interests	—	—	—	—	—	20.0	20.0
Tax shortfall related to share based compensation	—	—	(0.8 )	—	—	—	(0.8 )
Balance as of December 31, 2015	352.5	\$3.5	\$6.4	\$11,014.8	\$ (1,492.9 )	\$ 33.2	\$9,565.0
Total comprehensive income (loss)	—	—	—	285.9	261.4	2.9	550.2
Stock option exercises	0.5	—	3.8	—	—	—	3.8
Stock based compensation	—	—	19.0	—	—	—	19.0
Repurchases of stock	(2.8 )	—	(9.5 )	(65.5 )	—	—	(75.0 )
Dividends (\$0.55 per share)	—	—	—	(189.8 )	—	—	(189.8 )
Dividends for noncontrolling interests	—	—	—	—	—	(0.7 )	(0.7 )
Equity from noncontrolling interests	—	—	—	—	—	2.2	2.2
Tax shortfall related to share based compensation	—	—	(0.4 )	—	—	—	(0.4 )
Balance as of September 30, 2016	350.2	\$3.5	\$19.3	\$11,045.4	\$ (1,231.5 )	\$ 37.6	\$9,874.3

See Notes to Condensed Consolidated Financial Statements

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THE MOSAIC COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tables in millions, except per share amounts and as otherwise designated)

(Unaudited)

1. Organization and Nature of Business

The Mosaic Company ("Mosaic", and, with its consolidated subsidiaries, "we", "us", "our", or the "Company") produces and markets 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 noncontrolling interest, including consolidated variable interest entities and investments accounted for by the equity method.

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. Included in the Phosphates segment is our 35% economic interest in a joint venture that owns the Miski Mayo Phosphate Mine in Peru and our 25% interest in the Ma'aden Wa'ad Al Shamal Phosphate Company (the "MWSPC") a joint venture to develop, own and operate integrated phosphate production facilities in the Kingdom of Saudi Arabia. Once operational, we will market approximately 25% of the MWSPC production.

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 the U.S. and Canada.

Our International Distribution business segment consists of sales offices, crop nutrient blending and bagging facilities, port terminals and warehouses in several key non-U.S. countries, including Brazil, Paraguay, India and China. Our International Distribution segment serves as a distribution outlet for our Phosphates and Potash segments, but also purchases and markets products from other suppliers.

Intersegment eliminations, unrealized mark-to-market gains/losses on derivatives, and debt expenses are included within Corporate, Eliminations and Other. See Note 15 of the Condensed Consolidated Financial Statements in this report for segment results.

2. Summary of Significant Accounting Policies

Statement Presentation and Basis of Consolidation

The accompanying unaudited Condensed Consolidated Financial Statements of Mosaic have been prepared on the accrual basis of accounting and in accordance with the requirements of the Securities and Exchange Commission ("SEC") for interim financial reporting. As permitted under these rules, certain footnotes and other financial information that are normally required by accounting principles generally accepted in the United States ("GAAP") can be condensed or omitted. The Condensed Consolidated Financial Statements included in this document reflect, in the opinion of our management, all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the results for the interim periods presented. The following notes should be read in conjunction with the accounting policies and other disclosures in the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2015 (the "10-K Report"). Sales, expenses, cash flows, assets and liabilities can and do vary during the year as a result of seasonality and other factors. Therefore, interim results are not necessarily indicative of the results to be expected for the full fiscal year.

The accompanying Condensed Consolidated Financial Statements include the accounts of Mosaic, its majority owned subsidiaries, and certain variable interest entities in which Mosaic is the primary beneficiary. Certain investments in companies where we do not have control but have the ability to exercise significant influence are accounted for by the equity method.



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 NOTES TO CONDENSED CONSOLIDATED  
 FINANCIAL STATEMENTS - (Continued)

### Accounting Estimates

Preparation of the Condensed Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting periods. The most significant estimates made by management relate to the estimates of fair value of acquired assets and liabilities, the recoverability of non-current assets including goodwill, the useful lives and net realizable values of long-lived assets, environmental and reclamation liabilities including asset retirement obligations ("ARO"), the costs of our employee benefit obligations for pension plans and postretirement benefits, income tax related accounts, including the valuation allowance against deferred income tax assets, inventory valuation and accruals for pending legal and environmental matters. Actual results could differ from these estimates.

### 3. Recently Issued Accounting Guidance

#### Recently Adopted Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued guidance which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying amount of the associated debt liability, consistent with the presentation of a debt discount. In August 2015, the FASB issued additional guidance which clarified that an entity may defer and present debt issuance costs related to a line-of-credit arrangement as an asset and subsequently amortize those costs ratably over the term of the arrangement, regardless of whether there are any outstanding borrowings on it. This guidance became effective for us beginning January 1, 2016 and has been implemented retroactively. Accordingly, we reclassified \$22.9 million of deferred financing fees against outstanding long-term debt accounts within the December 31, 2015 balance sheet. Our deferred financing fees of \$2.9 million related to our revolving credit facility will remain recorded as an asset.

In March 2016, the FASB issued guidance which simplifies several aspects of the accounting for share-based payment transactions, including certain income tax consequences, classifications on the statement of cash flows, and accounting for forfeitures. The guidance is effective for us beginning January 1, 2017, and early application is permitted. We adopted this standard in the second quarter of 2016 with an effective date of January 1, 2016. The effect of this adoption was not significant to our consolidated balance sheets, statements of earnings or statements of cash flows.

#### Pronouncements Issued But Not Yet Adopted

In May 2014, the FASB issued guidance addressing how revenue is recognized from contracts with customers and related disclosures. This standard supersedes existing revenue recognition requirements and most industry-specific guidance. This standard was initially expected to be effective for us beginning January 1, 2017, and provides for either full retrospective adoption or a modified retrospective adoption by which the cumulative effect of the change is recognized in retained earnings at the date of initial application. In July 2015, the FASB approved the deferral of the effective date of this standard by one year, and allows for adoption either at January 1, 2017 or January 1, 2018. We intend to elect the deferred adoption date of January 1, 2018. We are currently evaluating the requirements of this guidance, and have not yet determined the implementation method nor the impact on our consolidated financial statements.

In January 2016, the FASB issued guidance which addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This guidance is effective for us beginning January 1, 2018, and early adoption is not permitted. We are currently evaluating the impact that this guidance will have on our consolidated financial statements.

In February 2016, the FASB issued guidance which requires recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This guidance is effective for us beginning

January 1, 2019, with early adoption permitted. The provisions of this guidance are to be applied using a modified retrospective approach, which requires application of the guidance for all periods presented. We are currently evaluating the impact that this guidance will have on our consolidated financial statements.



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 NOTES TO CONDENSED CONSOLIDATED  
 FINANCIAL STATEMENTS - (Continued)

## 4. Other Financial Statement Data

The following provides additional information concerning selected balance sheet accounts:

	September 30, 2016	December 31, 2015
<b>Other current assets</b>		
Final price deferred <sup>(a)</sup>	\$ 97.0	\$ 175.6
Income and other taxes receivable	256.5	249.4
Prepaid expenses	135.3	123.1
Restricted cash <sup>(b)</sup>	207.8	9.3
Other	86.6	71.2
	\$ 783.2	\$ 628.6
<b>Other assets</b>		
MRO inventory	\$ 117.8	\$ 118.1
Marketable securities held in trust <sup>(c)</sup>	602.1	—
Restricted cash <sup>(c)</sup>	58.1	851.4
Other	300.5	287.9
	\$ 1,078.5	\$ 1,257.4
<b>Accrued liabilities</b>		
Non-income taxes	\$ 38.2	\$ 24.9
Payroll and employee benefits	155.7	162.9
Asset retirement obligations	121.6	91.9
Customer prepayments	186.7	121.2
Future capital commitment	—	120.0
Other	300.2	456.6
	\$ 802.4	\$ 977.5
<b>Other noncurrent liabilities</b>		
Asset retirement obligations	\$ 730.1	\$ 749.7
Accrued pension and postretirement benefits	61.4	69.6
Unrecognized tax benefits	23.5	79.2
Other	122.7	132.1
	\$ 937.7	\$ 1,030.6

<sup>(a)</sup> Final price deferred is product that has shipped to customers, but the price has not yet been agreed upon. This has not been included in inventory as risk of loss has passed to our customers. Amounts in this account are based on inventory cost.

<sup>(b)</sup> Included in restricted cash, as of September 30, 2016, is approximately \$200 million held in trust, which is expected to be returned to us in the fourth quarter of 2016. See further discussion in Note 10 of our Notes to Condensed Consolidated Financial Statements.

<sup>(c)</sup> Included in restricted cash, as of December 31, 2015, was approximately \$630 million that was committed to be placed in trust following the effectiveness of the consent decrees discussed under "EPA RCRA Initiative" in Note 10 of our Notes to Condensed Consolidated Financial Statements and that was placed in trusts in August 2016 after the consent decrees became effective. The funds have been invested in marketable securities as discussed in Note 9 of our

Condensed Consolidated Financial Statements.

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THE MOSAIC COMPANY  
NOTES TO CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS - (Continued)

## 5. Earnings Per Share

The numerator for basic and diluted earnings per share ("EPS") is net earnings attributable to Mosaic. The denominator for basic EPS is the weighted average number of shares outstanding during the period. The denominator for diluted EPS also includes the weighted average number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued, unless the shares are anti-dilutive.

The following is a reconciliation of the numerator and denominator for the basic and diluted EPS computations:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net earnings attributable to Mosaic	\$39.2	\$160.0	\$285.9	\$845.4
Basic weighted average number of shares outstanding	350.1	354.3	350.4	360.5
Dilutive impact of share-based awards	1.4	1.7	1.3	1.8
Diluted weighted average number of shares outstanding	351.5	356.0	351.7	362.3
Basic net earnings per share attributable to Mosaic	\$0.11	\$0.45	\$0.82	\$2.35
Diluted net earnings per share attributable to Mosaic	\$0.11	\$0.45	\$0.81	\$2.33

A total of 2.6 million and 3.0 million shares of Common Stock subject to issuance upon exercise of stock options for the three and nine months ended September 30, 2016 and 1.6 million and 1.3 million shares for the three and nine months ended September 30, 2015, respectively, have been excluded from the calculation of diluted EPS as the effect would have been anti-dilutive.

## 6. Income Taxes

During the nine months ended September 30, 2016, gross unrecognized tax benefits decreased by \$74.4 million to \$24.2 million as a result of the resolution of audit activity. If recognized, approximately \$8.0 million of the \$24.2 million in unrecognized tax benefits would affect our effective tax rate and net earnings in future periods.

We recognize interest and penalties related to unrecognized tax benefits as a component of our income tax provision. We had accrued interest and penalties totaling \$1.7 million and \$17.1 million as of September 30, 2016 and December 31, 2015, respectively, that were included in other noncurrent liabilities in the Condensed Consolidated Balance Sheets.

For the three months ended September 30, 2016, tax expense specific to the period included a benefit of \$1.6 million, which primarily related to distributions from certain non-U.S. subsidiaries. For the nine months ended September 30, 2016, tax expense specific to the period included a benefit of \$60.7 million, which includes a domestic benefit of \$85.8 million related to the resolution of an Advanced Pricing Agreement, which is a tax treaty-based process, partially offset by a \$17.9 million expense related to distributions from certain non-U.S. subsidiaries and \$7.2 million of expense primarily related to changes in estimates from prior periods.

For the three and nine months ended September 30, 2016, our income tax rate was favorably impacted by the mix of earnings across the jurisdictions in which we operate and by a benefit associated with depletion when compared to the three and nine months ended September 30, 2015. Our income tax rate is lower in 2016 compared to 2015 because our deductions are relatively fixed in dollars, while our profitability has been reduced; therefore, the deductions are a larger percentage of income. In addition, for the three months ended September 30, 2016, the benefit from income taxes was favorably impacted by approximately \$28 million from the cumulative adjustment resulting from the change in our estimated annual tax rate.

For the nine months ended September 30, 2015, tax expense specific to the period included a benefit of \$40.5 million, which included a benefit of \$18.4 million related to the resolution of certain state tax matters, a benefit of \$14.6 million primarily related to changes in estimates associated with an Advanced Pricing Agreement, and a reduction in

the tax rate change for one of our equity method investments, resulting in a benefit of \$7.5 million.

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## 7. Inventories

Inventories consist of the following:

	September 30, 2016	December 31, 2015
Raw materials	\$ 51.6	\$ 68.1
Work in process	366.0	435.9
Finished goods	1,003.9	991.0
Operating materials and supplies	78.6	68.5
	\$ 1,500.1	\$ 1,563.5

## 8. Goodwill

The changes in the carrying amount of goodwill, by reporting unit, are as follows:

	Phosphates	Potash	International Distribution	Total
Balance as of December 31, 2015	\$ 492.4	\$984.7	\$ 118.2	\$1,595.3
Foreign currency translation	—	49.4	6.9	56.3
Balance as of September 30, 2016	\$ 492.4	\$1,034.1	\$ 125.1	\$1,651.6

We review goodwill for impairment annually in October or at any time events or circumstances indicate that the carrying value may not be fully recoverable, which is based on our accounting policy and GAAP. We continue to monitor events and circumstances in 2016 and we do not believe there has been a triggering event that would indicate it is more likely than not that a goodwill impairment loss has been incurred, although declining selling prices and forecasted selling prices have likely reduced the excess fair value in our reporting units.

## 9. Marketable Securities Held in Trusts

In August 2016, Mosaic deposited \$630 million into two trust funds (together, the "RCRA Trusts") created to provide additional financial assurance for the estimated costs of closure and long term care of our Florida and Louisiana phosphogypsum management systems, as described further in Note 10 of our Notes to Condensed Consolidated Financial Statements. Funds held in each RCRA Trust can be drawn by the applicable governmental authority in the event we cannot perform our closure and long term care obligations. Our actual Gypstack Closure Costs are generally expected to be paid by us in the normal course of our Phosphates business. The investments held by the RCRA Trusts are managed by independent investment managers with discretion to buy, sell, and invest pursuant to the objectives and standards set forth in the related trust agreements.

The RCRA Trusts hold investments in marketable debt securities classified as available-for-sale and are carried at fair value. As a result, unrealized gains and losses are included in other comprehensive income until realized, unless it is determined that the carrying value of an investment is impaired on an other-than-temporary basis. There were no other-than-temporary impairment write-downs on available-for-sale securities during the three and nine months ended September 30, 2016.

We review the fair value hierarchy classification on a quarterly basis. Changes in the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. We determine the fair market values of our available-for-sale securities and certain other assets based on the fair value hierarchy described below:

Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.



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Level 2: Values based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Values generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The estimated fair value of the investments in the RCRA Trusts is as follows:

	September 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Level 1				
Cash and cash equivalents	\$27.9	\$ —	\$ —	\$27.9
Level 2				
Corporate debt securities	203.5	—	(0.4 )	203.1
Municipal bonds	138.1	0.1	(0.4 )	137.8
U.S. government bonds	258.4	0.1	(0.1 )	258.4
Total	\$627.9	\$ 0.2	\$ (0.9 )	\$627.2

There were no investments in available-for-sale securities as of December 31, 2015.

The following table shows the gross unrealized losses and fair values of the RCRA Trusts' available-for-sale securities that have been in a continuous unrealized loss position deemed to be temporary as of September 30, 2016.

	September 30, 2016	
	Less than 12 months <sup>(a)</sup>	
	Fair Value	Gross Unrealized Losses
Corporate debt securities	\$135.8	\$ (0.4 )
Municipal bonds	45.9	(0.4 )
U.S. government bonds	218.6	(0.1 )
Total	\$400.3	\$ (0.9 )

<sup>(a)</sup> Represents the aggregate of the gross unrealized losses that have been in a continuous unrealized loss position as of September 30, 2016.

The following table summarizes the balance by contractual maturity of the available-for-sale debt securities invested by the RCRA Trusts as of September 30, 2016. Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations before the underlying contracts mature.

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	September 30, 2016
Due in one year or less	\$ 82.3
Due after one year through five years	151.0
Due after five years through ten years	354.3
Due after ten years	11.7
Total debt securities	\$ 599.3

Realized losses, which were determined on a specific identification basis, were \$0.1 million for the three and nine months ended September 30, 2016, respectively. Realized gains were immaterial for the three and nine months ended September 30, 2016.

#### 10. Contingencies

We have described below judicial and administrative proceedings to which we are subject.

We have contingent environmental liabilities that arise principally from three sources: (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. At facilities currently or formerly owned by our subsidiaries or their predecessors, the historical use and handling of regulated chemical substances, crop and animal nutrients and additives and by-product or process tailings have resulted in soil, surface water and/or groundwater contamination. Spills or other releases of regulated substances, subsidence from mining operations and other incidents arising out of operations, including accidents, have occurred previously at these facilities, and potentially could occur in the future, possibly requiring us to undertake or fund cleanup or result in monetary damage awards, fines, penalties, other liabilities, injunctions or other court or administrative rulings. In some instances, pursuant to consent orders or agreements with governmental agencies, we are undertaking certain remedial actions or investigations to determine whether remedial action may be required to address contamination. 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 consideration established accruals of approximately \$78.0 million and \$25.6 million as of September 30, 2016 and December 31, 2015, respectively, 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 or as a result of other environmental, health and safety matters. Below is a discussion of the more significant environmental matters.

**New Wales Water Loss Incident.** In August 2016, a sinkhole developed under one of the two cells of the active phosphogypsum stack at our New Wales facility in Polk County, Florida, resulting in process water from the stack draining into the sinkhole. The incident was reported to the Florida Department of Environmental Protection (“FDEP”) and the U.S. Environmental Protection Agency (“EPA”) and we continued to provide FDEP with information regarding our actions in response to the incident, which include ongoing recovery of impacted groundwater and extensive and frequent sampling of monitoring wells on our property and, upon request, voluntary sampling of residential drinking water wells in the community. In connection with this incident, on October 24, 2016 our subsidiary, Mosaic Fertilizer, LLC (“Mosaic Fertilizer”), entered into a consent order (the “Order”) with the FDEP, under which Mosaic Fertilizer agreed to, among other things:

- submit to FDEP a remediation plan to close the sinkhole and upon approval, implement the plan;
- install additional groundwater monitoring wells and perform additional on- and off-site groundwater monitoring;



in the event monitored off-site water does not comply with applicable standards as a result of the incident, perform site assessment and rehabilitation and provide drinking water or water treatment services until compliance is achieved or a permanent alternative water supply provided;

• operate an existing recovery well and install and maintain a standby recovery well;

• provide financial assurance of no less than \$40 million, which we expect to provide without the need for any expenditure of corporate funds through satisfaction of a financial strength test and Mosaic parent guarantee, to

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support off-site monitoring and sinkhole remediation costs and, if needed, the costs to support rehabilitation and other activities if monitored off-site water does not comply with applicable standards as a result of the incident; evaluate the risk of potential future sinkhole formation at the New Wales facility and at Mosaic Fertilizer's active Gypstack operations at the Bartow, Riverview and Plant City facilities with recommendations to address any identified issues; and

reimburse agreed cost of regulators in connection with the incident.

The Order did not require payment of civil penalties relating to the incident and is effective, provided that it is subject to challenge during a 21-day public review period.

While there are uncertainties in estimating the total costs that may be incurred to comply with our responsibilities under the Order, we currently estimate that the cost to complete and implement the sinkhole closure remediation plan will be approximately \$56 million and that we will incur additional costs of approximately \$4 million to comply with the remaining obligations described above. These costs and related accruals have been recorded at September 30, 2016. Additional expenditures could be required in the future for additional remediation or other measures in connection with the sinkhole, if the Order is challenged, or if FDEP or EPA were to request additional measures to address risks presented by the Gypstack, and these expenditures could be material. In addition, we are unable to predict at this time what, if any, impact the New Wales water loss incident will have on future Florida permitting efforts.

Also in connection with the water loss incident, on September 22, 2016, Nicholas Bohn, Natasha McCormick and Eric Weckman, individually and on behalf of all others similarly situated, filed a putative class action complaint against Mosaic and Mosaic Fertilizer, LLC in the United States District Court for the Middle District of Florida, alleging that defendants' storage, management and operation of the phosphogypsum stack at the New Wales facility gives rise to actionable claims by the plaintiffs and the putative plaintiff class based on theories of negligence, nuisance and strict liability. Plaintiffs seek class certification, damages for alleged diminution in real property values, unspecified punitive damages and attorney's fees and costs, and injunctive relief including implementation of a mandatory water well testing protocol and installation or funding of permanent filtration devices on any private water well testing positive for constituents associated with the New Wales water loss incident. We believe that the plaintiffs' allegations are without merit and intend to defend vigorously against them. At this stage of the proceedings, we cannot predict the outcome of this litigation, estimate the potential amount or range of loss or determine whether it will have a material effect on our results of operations, liquidity or capital resources.

EPA RCRA Initiative. In 2003, the EPA Office of Enforcement and Compliance Assurance announced that it would be targeting facilities in mineral processing industries, including phosphoric acid producers, for a thorough review under the U.S. Resource Conservation and Recovery Act ("RCRA") and related state laws. Mining and processing of phosphate rock generates residual materials that must be managed both during the operation of a facility and upon a facility's closure. Certain solid wastes generated by our phosphate operations may be subject to regulation under RCRA and related state laws. EPA rules exempt "extraction" and "beneficiation" wastes, as well as 20 specified "mineral processing" wastes, from the hazardous waste management requirements of RCRA. Accordingly, certain of the residual materials which our phosphate operations generate, as well as process wastewater from phosphoric acid production, are exempt from regulation as hazardous wastes under RCRA. However, the generation and management of other solid wastes from phosphate operations may be subject to hazardous waste regulation if the waste is deemed to exhibit a "hazardous waste characteristic." As part of its initiative, we understand that EPA has inspected all or nearly all facilities in the U.S. phosphoric acid production sector, including ours, to ensure compliance with applicable RCRA regulations and to address any "imminent and substantial endangerment" found by EPA under RCRA. In addition to EPA's inspections, our phosphates concentrates facilities have entered into consent orders to perform analyses of existing environmental data, to perform further environmental sampling as may be necessary, and to

assess whether the facilities pose a risk of harm to human health or the surrounding environment.

We received Notices of Violation ("NOVs") from EPA related to the handling of hazardous waste at our Riverview (September 2005), New Wales (October 2005), Mulberry (June 2006), Green Bay (August 2006) and Bartow (September 2006) facilities in Florida. EPA issued similar NOVs to our competitors, including with respect to the Plant City facility acquired in our March 2014 acquisition of the Florida phosphate assets and assumption of certain liabilities (the "CF Phosphate Assets Acquisition") of CF Industries, Inc. ("CF"), and referred the NOVs to the U.S. Department of Justice ("DOJ") for further enforcement.

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On September 30, 2015, we and Mosaic Fertilizer, reached agreements with EPA, the DOJ, the FDEP and the Louisiana Department of Environmental Quality (the "LDEQ") on the terms of two consent decrees to resolve claims relating to our management of certain waste materials onsite at our Riverview, New Wales, Mulberry, Green Bay, South Pierce and Bartow fertilizer manufacturing facilities in Florida and our Faustina and Uncle Sam facilities in Louisiana. The consent decrees do not cover the Plant City, Florida phosphate concentrates facility that we acquired as part of the CF Phosphate Assets Acquisition (the "Plant City Facility"). As discussed below, a separate consent decree was previously entered into with EPA and the FDEP with respect to RCRA compliance at Plant City.

The consent decrees (collectively, the "2015 Consent Decrees") became effective on August 5, 2016 and require the following:

- Payment of a cash penalty of approximately \$8 million, in the aggregate, which was made in August 2016.

- Payment of up to \$2.2 million to fund specific environmental projects unrelated to our facilities, of which approximately \$1.0 million was paid in August 2016.

- Modification of certain operating practices and undertaking certain capital improvement projects over a period of several years that are expected to result in capital expenditures likely to exceed \$200 million in the aggregate.

- Provision of additional financial assurance for the estimated costs of closure and long term care ("Gypstack Closure Costs") of our phosphogypsum management systems ("Gypstacks"). For financial reporting purposes, we recognize our estimated asset retirement obligations ("ARO"), including Gypstack Closure Costs, at their present value. This present value determined for financial reporting purposes is reflected on our Consolidated Balance Sheets in accrued liabilities and other noncurrent liabilities. As of December 31, 2015, the undiscounted amount of our Gypstack Closure Costs ARO, determined using the assumptions used for financial reporting purposes, was approximately \$1.7 billion and the present value of our Gypstack Closure Costs ARO reflected in our Consolidated Balance Sheet was approximately \$535 million. In August 2016 we deposited cash, in the total amount of \$630 million, into the RCRA Trusts, which amount is expected to increase over time with reinvestment of earnings. The amount deposited corresponds to a material portion of our estimated Gypstack Closure Costs ARO. At December 31, 2015 and September 30, 2016, amounts to be held or held in the RCRA Trusts, (including reinvested earnings) are included in other assets on our Condensed Consolidated Balance Sheets. We will also issue a \$50 million letter of credit in 2017 to further support our financial assurance obligations under the Florida 2015 Consent Decree. In addition, we have agreed to guarantee the difference between the amounts held in each RCRA Trust (including earnings) and the estimated closure and long-term care costs. Our actual Gypstack Closure Costs are generally expected to be paid by us in the normal course of our Phosphates business over a period that may not end until three decades or more after a Gypstack has been closed.

As part of the CF Phosphate Assets Acquisition, we assumed certain ARO related to Gypstack Closure Costs at both the Plant City Facility and a closed Florida phosphate concentrates facility in Bartow, Florida (the "Bonnie Facility") that we acquired. Associated with these assets are two related financial assurance arrangements for which we became responsible and that hold in trust the estimated Gypstack Closure Costs for these facilities, pursuant to federal or state law, which the government can draw against in the event we cannot perform such closure activities. One is a trust (the "Plant City Trust") established to meet the requirements under a consent decree with EPA and the FDEP with respect to RCRA compliance at Plant City that also satisfies Florida financial assurance requirements at that site. The other is a trust fund (the "Bonnie Facility Trust") established to meet the requirements under Florida financial assurance regulations (the "Florida Financial Assurance Requirement") that apply to the Bonnie Facility. In the CF Phosphate Assets Acquisition, we deposited \$189.2 million into the Plant City Trust as a substitute for funds that CF had deposited into trust. Based on our updated closure cost estimates, an additional \$7 million was added to the Plant City Trust in the fourth quarter of 2014 and an additional \$1.7 million was deposited in the third quarter of 2015 to correspond to that site's then estimated Gypstack Closure Costs. In addition, in July 2014, the FDEP approved our

funding of \$14.5 million into the Bonnie Facility Trust, which substituted funds that CF had deposited into an escrow account. We have since deposited an additional \$6 million at various times into the Bonnie Facility Trust. Both financial assurance funding obligations require estimates of future expenditures that could be impacted by refinements in scope, technological developments, new information, cost inflation, changes in regulations, discount rates and the timing of activities. We are also permitted to satisfy our financial assurance obligations with respect to the Bonnie and Plant City Facilities by means of alternative credit support, including surety bonds or letters of credit. In

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September 2016 we arranged for the delivery of a surety bond to EPA in the face amount of approximately \$260 million (the "Plant City Bond"), reflecting our updated closure cost estimates, as a substitute for the financial assurance provided through the Plant City Trust. Following agreement by EPA to this substitution, it will direct the trustee to release to Mosaic the approximately \$200 million held in the Plant City Trust, which will then become unrestricted cash. We expect that to occur in the fourth quarter of 2016. Under our current approach to satisfying applicable requirements, additional financial assurance would be required in the future if increases in cost estimates exceed the face amount of the Plant City Bond or the amount held in the Bonnie Facility Trust.

At September 30, 2016, the aggregate amount of AROs associated with the Plant City Facility and the Bonnie Facility included in our consolidated balance sheet was \$92.5 million. The aggregate amount held in the Plant City Trust and the Bonnie Facility Trust exceeds the aggregate amount of AROs associated with the Plant City Facility and the Bonnie Facility because the amount required to be held in the Plant City Trust represents the aggregate undiscounted estimated amount to be paid by us in the normal course of our Phosphates business over a period that may not end until three decades or more after the Gypstack has been closed, while the AROs included in our Consolidated Balance Sheet reflect the discounted present value of those estimated amounts. As part of the acquisition, we also assumed ARO related to land reclamation.

EPA EPCRA Initiative. In July 2008, DOJ sent a letter to major U.S. phosphoric acid manufacturers, including us, stating that EPA's ongoing investigation indicates apparent violations of Section 313 of the Emergency Planning and Community Right-to-Know Act ("EPCRA") at their phosphoric acid manufacturing facilities. Section 313 of EPCRA requires annual reports to be submitted with respect to the use or presence of certain toxic chemicals. DOJ and EPA also stated that they believe that a number of these facilities have violated Section 304 of EPCRA and Section 103 of the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") by failing to provide required notifications relating to the release of hydrogen fluoride from the facilities. The letter did not identify any specific violations by us or assert a demand for penalties against us. We cannot predict at this time whether EPA and DOJ will initiate an enforcement action over this matter, what its scope would be, or what the range of outcomes of such a potential enforcement action might be.

Florida Sulfuric Acid Plants. On April 8, 2010, EPA Region 4 submitted an administrative subpoena to us under Section 114 of the Federal Clean Air Act (the "CAA") regarding compliance of our Florida sulfuric acid plants with the "New Source Review" requirements of the CAA. The request received by Mosaic appears to be part of a broader EPA national enforcement initiative focusing on sulfuric acid plants. On June 16, 2010, EPA issued an NOV to CF (the "CF NOV") with respect to "New Source Review" compliance at the Plant City Facility's sulfuric acid plants and the allegations in that NOV were not resolved before our 2014 acquisition of the Plant City Facility. CF has agreed to indemnify us with respect to any penalty EPA may assess as a result of the allegations in that NOV. We are negotiating the terms of a settlement with EPA that would resolve both the violations alleged in the CF NOV, and violations which EPA may contend, but have not asserted, exist at the sulfuric acid plants at our other facilities in Florida. Based on the current status of the negotiations, we expect that our commitments will include an agreement to reduce our sulfur dioxide emissions over the next five years to comply with a sulfur dioxide ambient air quality standard enacted by EPA in 2010. In the event we are unable to finalize agreement on the terms of the settlement, we cannot predict at this time whether EPA and DOJ will initiate an enforcement action with respect to "New Source Review" compliance at our Florida sulfuric acid plants other than the Plant City Facility or what its scope would be, or what the range of outcomes might be with respect to such a potential enforcement action or with respect to the CF NOV.

Other Environmental Matters. Superfund and equivalent state statutes impose liability without regard to fault or to the legality of a party's conduct on certain categories of persons who are considered to have contributed to the release of "hazardous substances" into the environment. Under Superfund, or its various state analogues, one party may, under

certain circumstances, be required to bear more than its proportionate share of cleanup costs at a site where it has liability if payments cannot be obtained from other responsible parties. Currently, certain of our subsidiaries are involved or concluding involvement at several Superfund or equivalent state sites. Our remedial liability from these sites, alone or in the aggregate, currently is not expected to have a material 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.

We believe that, pursuant to several indemnification agreements, our subsidiaries are entitled to at least partial, and in many instances complete, indemnification for the costs that may be expended by us or our subsidiaries to remedy

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environmental issues at certain facilities. These agreements address issues that resulted from activities occurring prior to our acquisition of facilities or businesses from parties including, but not limited to, ARCO (BP); Beatrice Fund for Environmental Liabilities; Conoco; Conserv; Estech, Inc.; Kaiser Aluminum & Chemical Corporation; Kerr-McGee Inc.; PPG Industries, Inc.; The Williams Companies; CF; and certain other private parties. Our subsidiaries have already received and anticipate receiving amounts pursuant to the indemnification agreements for certain of their expenses incurred to date as well as future anticipated expenditures. We record potential indemnifications as an offset to the established accruals when they are realizable or realized.

#### MicroEssentials® Patent Lawsuit

On January 9, 2009, John Sanders and Specialty Fertilizer Products, LLC filed a complaint against Mosaic, Mosaic Fertilizer, LLC, Cargill, Incorporated and Cargill Fertilizer, Inc. in the United States District Court for the Western District of Missouri (the "Missouri District Court"). The complaint alleges that our production of MicroEssentials® SZ, one of several types of the MicroEssentials® value-added ammoniated phosphate crop nutrient products that we produce, infringes on a patent held by the plaintiffs since 2001 and which would expire in 2018. Plaintiffs have since asserted that other MicroEssentials® products also infringe the patent. Plaintiffs seek to enjoin the alleged infringement and to recover an unspecified amount of damages and attorneys' fees for past infringement. Our answer to the complaint responds that the plaintiffs' patent is not infringed, is invalid and is unenforceable because the plaintiffs engaged in inequitable conduct during the prosecution of the patent.

Through an order entered by the court on September 25, 2014, Cargill was dismissed as a defendant, and the two original plaintiffs were replaced by a single plaintiff, JLSMN LLC, an entity to whom the patents were transferred. The Missouri District Court stayed the lawsuit pending an ex parte reexamination of plaintiff's current patent claims by the U.S. Patent and Trademark Office (the "PTO"). That ex parte reexamination has now ended. On September 12, 2012, however, Shell Oil Company ("Shell") filed an additional reexamination request which in part asserted that the claims as amended and added in connection with the ex parte reexamination are unpatentable. On October 4, 2012, the PTO issued an Ex Parte Reexamination Certificate in which certain claims of the plaintiff's patent were cancelled, disclaimed and amended, and new claims were added. Following the PTO's grant of Shell's request for an inter parties reexamination, on December 11, 2012, the PTO issued an initial rejection of all of plaintiff's remaining patent claims. On September 12, 2013, the PTO reversed its initial rejection of the plaintiff's remaining patent claims and allowed them to stand. Shell appealed the PTO's decision, and on June 7, 2016, the Patent Trial and Appeal Board, the highest appellate authority within the PTO, issued a final decision holding that all claims initially allowed to the plaintiff by the PTO examiner should instead have been found invalid. On July 18, 2016, plaintiff appealed the Patent Trial and Appeal Board's decision to the United States Court of Appeals for the Federal Circuit. The Patent Trial and Appeal Board's decision, if affirmed by the Federal Circuit Court of Appeals, would result in no remaining claims against us. The stay in the Missouri District Court litigation is expected to remain in place during the appellate proceedings. We believe that the plaintiff's allegations are without merit and intend to defend vigorously against them. At this stage of the proceedings, we cannot predict the outcome of this litigation, estimate the potential amount or range of loss or determine whether it will have a material effect on our results of operations, liquidity or capital resources.

#### Brazil Tax Contingencies

Our Brazilian subsidiary is engaged in a number of judicial and administrative proceedings relating to various non-income tax matters. We estimate that our maximum potential liability with respect to these matters is approximately \$101 million. Approximately \$72 million of the maximum potential liability relates to a Brazilian federal value added tax, PIS and Cofins, tax credit cases for the period from 2004 to 2013; while the majority of the remaining amount relates to various other non-income tax cases such as value-added taxes. Based on Brazil legislation and the current status of similar tax cases involving unrelated taxpayers, we believe we have recorded adequate accruals, which are immaterial, for the probable liability with respect to these Brazilian judicial and administrative



proceedings.

**Other Claims**

We also have certain other contingent liabilities with respect to judicial, administrative and arbitration proceedings and claims of third parties, including tax matters, arising in the ordinary course of business. We do not believe that any of these

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contingent liabilities will have a material adverse impact on our business or financial condition, results of operations, and cash flows.

#### 11. Accounting for Derivative Instruments and Hedging Activities

We periodically enter into derivatives to mitigate our exposure to foreign currency risks and the effects of changing commodity prices. We record all derivatives on the Condensed Consolidated Balance Sheets at fair value. The fair value of these instruments is determined by using quoted market prices, third party comparables, or internal estimates. We net our derivative asset and liability positions when we have a master netting arrangement in place. Changes in the fair value of the foreign currency and commodity derivatives are immediately recognized in earnings because we do not apply hedge accounting treatment to these instruments. As of September 30, 2016 and December 31, 2015, the gross asset position of our derivative instruments was \$17.7 million and \$6.8 million, respectively, and the gross liability position of our liability instruments was \$9.4 million and \$79.3 million, respectively.

Unrealized gains and (losses) on foreign currency exchange contracts used to hedge cash flows related to the production of our products are included in cost of goods sold in the Condensed Consolidated Statements of Earnings. Unrealized gains and (losses) on commodities contracts are also recorded in cost of goods sold in the Condensed Consolidated Statements of Earnings. Unrealized gains or (losses) on foreign currency exchange contracts used to hedge cash flows that are not related to the production of our products are included in the foreign currency transaction gain/(loss) caption in the Condensed Consolidated Statements of Earnings.

As of September 30, 2016 and December 31, 2015, the following is the total absolute notional volume associated with our outstanding derivative instruments:

(in millions of Units)			September 30, December 31,	
Derivative Instrument	Derivative Category	Unit of Measure	2016	2015
Foreign currency derivatives	Foreign currency	US Dollars	1,060.8	1,230.6
Interest rate derivatives	Interest rate	US Dollars	—	175.0
Natural gas derivatives	Commodity	MMbtu	12.5	32.4

#### Credit-Risk-Related Contingent Features

Certain of our derivative instruments contain provisions that are governed by International Swap and Derivatives Association agreements with the counterparties. These agreements contain provisions that allow us to settle for the net amount between payments and receipts, and also state that if our debt were to be rated below investment grade, certain counterparties could request full collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position as of September 30, 2016 and December 31, 2015, was \$4.7 million and \$53.4 million, respectively. We have no cash collateral posted in association with these contracts. If the credit-risk-related contingent features underlying these agreements were triggered on September 30, 2016, we would have been required to post \$2.6 million of collateral assets, which are either cash or U.S. Treasury instruments, to the counterparties.

#### Counterparty Credit Risk

We enter into foreign exchange and certain commodity and interest rate derivatives, primarily with a diversified group of highly rated counterparties. We continually monitor our positions and the credit ratings of the counterparties involved and limit the amount of credit exposure to any one party. While we may be exposed to potential losses due to the credit risk of non-performance by these counterparties, material losses are not anticipated. We closely monitor the credit risk associated with our counterparties and customers and to date have not experienced material losses.

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## 12. Fair Value Measurements

Following is a summary of the valuation techniques for assets and liabilities recorded in our Consolidated Balance Sheets at fair value on a recurring basis:

**Foreign Currency Derivatives**-The foreign currency derivative instruments that we currently use are forward contracts and zero-cost collars, which typically expire within eighteen months. Most of the valuations are adjusted by a forward yield curve or interest rates. In such cases, these derivative contracts are classified within Level 2. Some valuations are based on exchange-quoted prices, which are classified as Level 1. Changes in the fair market values of these contracts are recognized in the Condensed Consolidated Financial Statements as a component of cost of goods sold in our Corporate, Eliminations and Other segment, or foreign currency transaction (gain) loss. As of September 30, 2016 and December 31, 2015, the gross asset position of our foreign currency derivative instruments was \$16.6 million and \$5.7 million, respectively, and the gross liability position of our foreign currency derivative instruments was \$5.5 million and \$59.6 million, respectively.

**Commodity Derivatives**-The commodity contracts primarily relate to natural gas. The commodity derivative instruments that we currently use are forward purchase contracts, swaps, and three-way collars. The natural gas contracts settle using NYMEX futures or AECO price indexes, which represent fair value at any given time. The contracts' maturities and settlements are scheduled for future months and settlements are scheduled to coincide with anticipated gas purchases during those future periods. Quoted market prices from NYMEX and AECO are used to determine the fair value of these instruments. These market prices are adjusted by a forward yield curve and are classified within Level 2. Changes in the fair market values of these contracts are recognized in the Condensed Consolidated Financial Statements as a component of cost of goods sold in our Corporate, Eliminations and Other segment. As of September 30, 2016 and December 31, 2015, the gross asset position of our commodity derivative instruments was \$1.1 million and \$1.0 million, respectively, and the gross liability position of our commodity instruments was \$2.9 million and \$16.7 million, respectively.

**Financial Instruments**

The carrying amounts and estimated fair values of our financial instruments are as follows:

	September 30,		December 31,	
	2016	2015	2015	2015
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$653.5	\$653.5	\$1,276.3	\$1,276.3
Receivables, net	512.4	512.4	675.0	675.0
Accounts payable	486.9	486.9	520.6	520.6
Structured accounts payable arrangements	223.7	223.7	481.7	481.7
Short-term debt	53.6	53.6	25.5	25.5
Long-term debt, including current portion	3,823.1	4,110.7	3,811.2	3,860.4

For cash and cash equivalents, receivables, net, accounts payable, structured accounts payable arrangements, and short-term debt, the carrying amount approximates fair value because of the short-term maturity of those instruments. The fair value of long-term debt, including the current portion, is estimated using quoted market prices for the publicly registered notes and debentures, classified as Level 1 and Level 2, respectively, within the fair value hierarchy, depending on the market liquidity of the debt.

## 13. Share Repurchases

In February of 2014, our Board of Directors authorized a \$1 billion share repurchase program ("2014 Repurchase Program"), allowing the Company to repurchase Class A Shares or shares of our Common Stock ("Common Stock"), through direct buybacks or in open market transactions. During the nine months ended September 30, 2015, under the

2014 Repurchase Program, 2,560,277 shares of Common Stock were repurchased in the open market for an aggregate of approximately \$123.3 million. In total, 18,339,060 shares of stock were repurchased under the 2014 Repurchase program

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for an aggregate total of \$850.6 million. The remaining authorized amount of \$149.4 million was terminated in connection with the authorization of the 2015 Repurchase Program discussed below.

On May 14, 2015, our Board of Directors authorized a new \$1.5 billion share repurchase program ("2015 Repurchase Program"), with no set expiration date, allowing the Company to repurchase shares of our Common Stock, through open market purchases, accelerated share repurchase arrangements, privately negotiated transactions or otherwise. During 2015, we repurchased 1,891,620 shares of Common Stock in the open market under the 2015 Repurchase Program for approximately \$74.9 million.

In May 2015 and February 2016, under the 2015 Repurchase Program, we entered into separate accelerated share repurchase transactions ("ASRs") with financial institutions to repurchase shares of our Common Stock for up-front payments of \$500 million and \$75 million, respectively. For each ASR, the total number of shares ultimately delivered, and therefore the average price paid per share, were determined at the end of the ASR's purchase period based on the volume-weighted average price of our Common Stock during that period, less an agreed discount. The shares received were retired in the period they were delivered, and each up-front payment is accounted for as a reduction to shareholders' equity in our Condensed Consolidated Balance Sheet in the period the payment was made. Neither ASR was dilutive to our earnings per share calculation from its execution date through its settlement date. The unsettled portion of each ASR during that period met the criteria to be accounted for as a forward contract indexed to our Common Stock and qualified as an equity transaction. Additional information relating to each ASR is shown below:

	Settlement Date	Shares Delivered	Average Price Per Share	ASR Amount
May 2015 ASR	July 28, 2015	11,106,847	\$45.02	\$500.0 million
February 2016 ASR	March 29, 2016	2,766,558	\$27.11	\$75.0 million

As of September 30, 2016, 15,765,025 shares of Common Stock have been repurchased under the 2015 Repurchase Program for an aggregate total of approximately \$650 million, bringing the remaining amount that could be repurchased under this program to \$850 million.

The extent to which we repurchase our shares and the timing of any such repurchases depend on a number of factors, including market and business conditions, the price of our shares, and corporate, regulatory and other considerations.

#### 14. Related Party Transactions

We enter into transactions and agreements with certain of our non-consolidated companies from time to time. As of September 30, 2016 and December 31, 2015, the net amount due to our non-consolidated companies totaled \$80.9 million and \$26.4 million, respectively.

The Condensed Consolidated Statements of Earnings included the following transactions with our non-consolidated companies:

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Transactions with non-consolidated companies included in net sales	\$179.4	\$227.2	\$467.8	\$849.3
Transactions with non-consolidated companies included in cost of goods sold	125.8	211.8	453.3	608.0



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15. Business Segments

The reportable segments are determined by management based upon factors such as products and services, production processes, technologies, market dynamics, and for which segment financial information is available for our chief operating decision maker.

For a description of our business segments see Note 1 to the Condensed Consolidated Financial Statements in this report. We evaluate performance based on the operating earnings of the respective business segments, which includes certain allocations of corporate selling, general and administrative expenses. The segment results may not represent the actual results that would be expected if they were independent, stand-alone businesses. Intersegment eliminations, including profit on intersegment sales, mark-to-market gains/losses on derivatives, debt expenses and our legacy Argentina and Chile results are included within Corporate, Eliminations and Other.

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Segment information for the three and nine months ended September 30, 2016 and 2015 was as follows:

	Phosphates	Potash	International Distribution	Corporate, Eliminations and Other	Total
<b>Three months ended September 30, 2016</b>					
Net sales to external customers	\$ 676.7	\$422.4	\$ 848.2	\$ 4.9	\$1,952.2
Intersegment net sales <sup>(a)</sup>	252.9	5.7	0.3	(258.9)	) —
Net sales	929.6	428.1	848.5	(254.0)	) 1,952.2
Gross margin <sup>(a)</sup>	101.3	39.8	70.6	1.6	213.3
Canadian resource taxes	—	14.6	—	—	14.6
Gross margin (excluding Canadian resource taxes)	101.3	54.4	70.6	1.6	227.9
Operating earnings (loss)	6.2	6.8	50.3	6.4	69.7
Depreciation, depletion and amortization expense	84.2	76.6	4.1	7.8	172.7
Capital expenditures	89.4	98.6	4.8	3.6	196.4
<b>Three months ended September 30, 2015</b>					
Net sales to external customers	\$ 791.2	\$485.5	\$ 824.3	\$ 4.5	\$2,105.5
Intersegment net sales <sup>(a)</sup>	241.2	6.0	0.3	(247.5)	) —
Net sales	1,032.4	491.5	824.6	(243.0)	) 2,105.5
Gross margin <sup>(a)</sup>	198.9	96.9	60.5	(21.0)	) 335.3
Canadian resource taxes	—	59.1	—	—	59.1
Gross margin (excluding Canadian resource taxes)	198.9	156.0	60.5	(21.0)	) 394.4
Operating earnings (loss)	157.2	65.7	44.0	(20.9)	) 246.0
Depreciation, depletion and amortization expense	96.0	75.1	3.3	6.5	180.9
Capital expenditures	117.5	118.7	4.1	5.0	245.3
<b>Nine months ended September 30, 2016</b>					
Net sales to external customers	\$ 2,162.5	\$ 1,267.8	\$ 1,848.4	\$ 22.0	\$5,300.7
Intersegment net sales <sup>(a)</sup>	652.5	11.4	0.8	(664.7)	) —
Net sales	2,815.0	1,279.2	1,849.2	(642.7)	) 5,300.7
Gross margin <sup>(a)</sup>	266.3	190.9	87.0	59.9	604.1
Canadian resource taxes	—	71.0	—	—	71.0
Gross margin (excluding Canadian resource taxes)	266.3	261.9	87.0	59.9	675.1
Operating earnings (loss)	35.7	110.9	34.9	63.9	245.4
Depreciation, depletion and amortization expense	284.3	231.7	11.4	18.3	545.7
Capital expenditures	291.3	309.7	16.7	16.0	633.7
<b>Nine months ended September 30, 2015</b>					
Net sales to external customers	\$ 2,942.9	\$ 1,865.3	\$ 1,899.7	\$ 24.2	\$6,732.1
Intersegment net sales <sup>(a)</sup>	646.8	9.2	1.2	(657.2)	) —
Net sales	3,589.7	1,874.5	1,900.9	(633.0)	) 6,732.1
Gross margin <sup>(a)</sup>	716.5	633.7	109.5	(97.3)	) 1,362.4
Canadian resource taxes	—	192.1	—	—	192.1
Gross margin (excluding Canadian resource taxes)	716.5	825.8	109.5	(97.3)	) 1,554.5



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Operating earnings (loss)	607.0	528.6	54.6	(115.7	) 1,074.5
Depreciation, depletion and amortization expense	288.7	236.1	10.7	19.3	554.8
Capital expenditures	374.2	301.6	13.9	12.5	702.2
Total Assets					
As of September 30, 2016	\$ 7,768.3	\$8,086.6	\$ 1,634.8	\$ (226.5	) \$17,263.2
As of December 31, 2015	8,369.8	8,363.9	1,695.6	(1,039.8	) 17,389.5

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(a) Certain intercompany sales within the Phosphates segment are recognized as revenue before the final price is determined. During the three and nine months ended September 30, 2015 these transactions had the effect of increasing Phosphate segment revenues and gross margin by \$101.8 million and \$26.3 million, respectively. There were no intersegment sales of this type outstanding at September 30, 2016. Revenues and cost of goods sold on these Phosphates sales are eliminated in the "Corporate and Other" category similar to all other intercompany transactions.

## 16. Guarantee

## Guarantee of Payments

Mosaic has entered into an agreement (as amended to date, the "Bridge Loan") to provide bridge funding to Gulf Marine Solutions, LLC ("GMS") to finance the purchase and construction of two articulated tug and barge units (the "ATBs") intended to transport anhydrous ammonia, primarily for Mosaic's operations. In May 2016, the parties agreed to increase the Bridge Loan from \$75 million to \$185 million. GMS is a wholly owned subsidiary of Gulf Sulphur Services Ltd., LLLP ("Gulf Sulphur Services"), an entity in which Mosaic owns a 50% equity interest and which is operated by Mosaic's joint venture partner. Mosaic's joint venture partner is arranging for construction of the ATBs, utilizing funds borrowed from GMS, and will enter into a long-term transportation contract with a subsidiary of Mosaic to transport anhydrous ammonia. During the quarter ended June 30, 2016, at Mosaic's instruction, Mosaic's joint venture partner notified the barge builder of its election under the construction contract to cancel construction of the second barge unit, resulting in a charge of \$43.5 million that is included in other operating expense for the nine months ended September 30, 2016. Construction of the first barge unit and the two tugs will continue as planned. At September 30, 2016, \$137.0 million was outstanding under the Bridge Loan, and GMS had received additional loans from Gulf Sulphur Services in the aggregate amount of \$52.0 million for the ATB project, which are included in long-term debt in our Condensed Consolidated Balance Sheets. These loans obtained by GMS were in turn lent to Mosaic's joint venture partner for use in constructing the ATBs. The parties are seeking third-party financing for the ATB project, with proceeds to be utilized to repay outstanding Bridge Loans and loans from Gulf Sulphur Services. In connection with the ATB project, Mosaic has also agreed to guarantee up to \$100 million of payment obligations to the barge builder. The guarantee will remain in effect until final payment under the construction agreement. Beginning in the quarter ended December 31, 2015, we determined we are the primary beneficiary of GMS, a variable interest entity, and have consolidated its balance sheet and statement of earnings within our consolidated financial statements in our Phosphates segment.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the material under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Annual Report on Form 10-K of The Mosaic Company filed with the Securities and Exchange Commission for the year ended December 31, 2015 (the "10-K Report") and the material under Item 1 of Part I of this report.

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 we mean long ton(s), which are the equivalent of 2,240 pounds. In the following tables, 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 and nine months ended September 30, 2016 and 2015:

	Three months ended				Nine months ended			
	September 30,		2016-2015		September 30,		2016-2015	
(in millions, except per share data)	2016	2015	Change	Percent	2016	2015	Change	Percent
Net sales	\$1,952.2	\$2,105.5	\$(153.3)	(7 )%	\$5,300.7	\$6,732.1	\$(1,431.4)	(21