

CF Industries Holdings, Inc.
Form 10-Q
August 07, 2012

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

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 001-32597

CF INDUSTRIES HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

20-2697511

(I.R.S. Employer
Identification No.)

**4 Parkway North, Suite 400
Deerfield, Illinois**

(Address of principal executive offices)

60015

(Zip Code)

(847) 405-2400

(Registrant's telephone number, including area code)

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 ☐

Edgar Filing: CF Industries Holdings, Inc. - Form 10-Q

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 ☐

(Do not check if a 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 ☒

62,697,305 shares of the registrant's common stock, \$0.01 par value per share, were outstanding at July 31, 2012.

Table of Contents

CF INDUSTRIES HOLDINGS, INC.

TABLE OF CONTENTS

PART I. Financial Information

<u>Item 1.</u>	<u>Financial Statements</u>	<u>1</u>
	<u>Consolidated Statements of Operations</u>	<u>2</u>
	<u>Consolidated Statements of Comprehensive Income</u>	<u>2</u>
	<u>Consolidated Balance Sheets</u>	<u>3</u>
	<u>Consolidated Statements of Equity</u>	<u>4</u>
	<u>Consolidated Statements of Cash Flows</u>	<u>5</u>
	<u>Notes to Unaudited Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>53</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>75</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>77</u>

PART II. Other Information

<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>78</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>78</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>78</u>

[Table of Contents](#)
CF INDUSTRIES HOLDINGS, INC.
PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	(in millions, except per share amounts)			
Net sales	\$ 1,735.6	\$ 1,801.7	\$ 3,263.2	\$ 2,975.7
Cost of sales	692.3	934.3	1,508.1	1,583.3
Gross margin	1,043.3	867.4	1,755.1	1,392.4
Selling, general and administrative expenses	41.3	31.7	75.1	62.7
Restructuring and integration costs		1.3		3.4
Other operating net	10.8	3.9	33.1	(27.1)
Total other operating costs and expenses	52.1	36.9	108.2	39.0
Equity in earnings of operating affiliates	13.8	14.2	29.3	25.7
Operating earnings	1,005.0	844.7	1,676.2	1,379.1
Interest expense	45.3	30.8	76.2	82.9
Interest income		(0.9)	(0.4)	(1.2)
Other non-operating net	(0.6)	(0.2)	(0.7)	(0.5)
Earnings before income taxes and equity in earnings of non-operating affiliates	960.3	815.0	1,601.1	1,297.9
Income tax provision	309.2	281.0	516.0	439.8
Equity in earnings of non-operating affiliates-net of taxes	27.2	9.8	24.9	18.3
Net earnings	678.3	543.8	1,110.0	876.4
Less: Net earnings attributable to noncontrolling interest	72.0	56.4	135.3	107.0
Net earnings attributable to common stockholders	\$ 606.3	\$ 487.4	\$ 974.7	\$ 769.4
Net earnings per share attributable to common stockholders:				
Basic	\$ 9.42	\$ 6.81	\$ 15.01	\$ 10.77
Diluted	\$ 9.31	\$ 6.75	\$ 14.81	\$ 10.66
Weighted average common shares outstanding:				
Basic	64.3	71.6	64.9	71.4
Diluted	65.2	72.2	65.8	72.2
Dividends declared per common share	\$ 0.40	\$ 0.10	\$ 0.80	\$ 0.20

See Accompanying Notes to Unaudited Consolidated Financial Statements.

[Table of Contents](#)

CF INDUSTRIES HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	(in millions)			
Net earnings	\$ 678.3	\$ 543.8	\$ 1,110.0	\$ 876.4
Other comprehensive income (loss):				
Foreign currency translation adjustment net of taxes	(5.5)	1.7	20.6	26.9
Unrealized gain (loss) on securities net of taxes	(0.3)	1.6	0.4	2.8
Defined benefit plans net of taxes	2.2	1.5	3.2	2.3
	(3.6)	4.8	24.2	32.0
Comprehensive income	674.7	548.6	1,134.2	908.4
Less: Comprehensive income attributable to the noncontrolling interest	71.6	56.6	135.4	107.9
Comprehensive income attributable to common stockholders	\$ 603.1	\$ 492.0	\$ 998.8	\$ 800.5

See Accompanying Notes to Unaudited Consolidated Financial Statements.

[Table of Contents](#)

CF INDUSTRIES HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
	June 30, 2012 (in millions, except share and per share amounts)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,383.0	\$ 1,207.0
Accounts receivable net	360.2	269.4
Inventories net	229.6	304.2
Other	23.9	18.0
Total current assets	1,996.7	1,798.6
Property, plant and equipment, net of accumulated depreciation, depletion and amortization of \$2,614.3 and \$2,447.5	3,700.8	3,736.0
Asset retirement obligation funds	147.6	145.4
Investments in and advances to affiliates	944.3	928.6
Investments in auction rate securities	55.5	70.9
Goodwill	2,064.5	2,064.5
Other assets	209.5	230.5
Total assets	\$ 9,118.9	\$ 8,974.5
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 334.4	\$ 327.7
Income taxes payable	1.3	128.5
Customer advances	121.0	257.2
Deferred income taxes	45.7	90.1
Distributions payable to noncontrolling interest		149.7
Other	52.9	78.0
Total current liabilities	555.3	1,031.2
Notes payable	4.8	4.8
Long-term debt	1,600.0	1,613.0
Deferred income taxes	1,017.3	956.8
Other noncurrent liabilities	441.3	435.8
Contingencies (Note 22)		
Equity:		
Stockholders' equity:		
Preferred stock \$0.01 par value, 50,000,000 shares authorized		
Common stock \$0.01 par value, 500,000,000 shares authorized, 2012 62,643,637 and 2011 71,935,838 shares issued	0.6	0.7
Paid-in capital	2,456.5	2,804.8
Retained earnings	2,637.5	2,841.0
Treasury stock at cost, 2012 0 shares and 2011 6,515,251 shares		(1,000.2)
Accumulated other comprehensive loss	(75.2)	(99.3)
Total stockholders' equity	5,019.4	4,547.0
Noncontrolling interest	480.8	385.9

Edgar Filing: CF Industries Holdings, Inc. - Form 10-Q

Total equity	5,500.2	4,932.9
Total liabilities and equity	\$ 9,118.9	\$ 8,974.5

See Accompanying Notes to Unaudited Consolidated Financial Statements.

[Table of Contents](#)

CF INDUSTRIES HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

	Common Stockholders							
	\$0.01 Par Value Common Stock	Treasury Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Non- controlling Interest	Total Equity
(in millions)								
Balance at December 31, 2010	\$ 0.7	\$	\$ 2,732.2	\$ 1,370.8	\$ (53.3)	\$ 4,050.4	\$ 383.0	\$ 4,433.4
Net earnings				769.4		769.4	107.0	876.4
Other comprehensive income								
Foreign currency translation adjustment net of taxes					26.0	26.0	0.9	26.9
Unrealized gain on securities net of taxes					2.8	2.8		2.8
Defined benefit plan net of taxes					2.3	2.3		2.3
Comprehensive income						800.5	107.9	908.4
Issuance of \$0.01 par value common stock under employee stock plans			8.6			8.6		8.6
Stock-based compensation expense			4.7			4.7		4.7
Excess tax benefit from stock-based compensation			18.6			18.6		18.6
Cash dividends (\$0.20 per share)				(14.3)		(14.3)		(14.3)
Declaration of distribution payable							(28.6)	(28.6)
Effect of exchange rates changes							1.0	1.0
Balance at June 30, 2011	\$ 0.7	\$	\$ 2,764.1	\$ 2,125.9	\$ (22.2)	\$ 4,868.5	\$ 463.3	\$ 5,331.8
Balance at December 31, 2011	\$ 0.7	\$ (1,000.2)	\$ 2,804.8	\$ 2,841.0	\$ (99.3)	\$ 4,547.0	\$ 385.9	\$ 4,932.9
Net earnings				974.7		974.7	135.3	1,110.0
Other comprehensive income								
Foreign currency translation adjustment net of taxes					20.5	20.5	0.1	20.6
Unrealized gain on securities net of taxes					0.4	0.4		0.4
Defined benefit plan net of taxes					3.2	3.2		3.2
Comprehensive income						998.8	135.4	1,134.2
Issuance of \$0.01 par value common stock under employee stock plans			5.4			5.4		5.4
Stock-based compensation expense			5.1			5.1		5.1
Excess tax benefit from stock-based compensation			15.4			15.4		15.4
Purchase of treasury stock		(500.0)				(500.0)		(500.0)
Retirement of treasury stock	(0.1)	1,500.2	(374.2)	(1,125.9)				
Cash dividends (\$0.80 per share)				(52.3)		(52.3)		(52.3)
Declaration of distribution payable							(39.3)	(39.3)
Effect of exchange rates changes							(1.2)	(1.2)
Balance at June 30, 2012	\$ 0.6	\$	\$ 2,456.5	\$ 2,637.5	\$ (75.2)	\$ 5,019.4	\$ 480.8	\$ 5,500.2

Edgar Filing: CF Industries Holdings, Inc. - Form 10-Q

See Accompanying Notes to Unaudited Consolidated Financial Statements.

[Table of Contents](#)

CF INDUSTRIES HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six months ended June 30,	
	2012	2011
	(in millions)	
Operating Activities:		
Net earnings	\$ 1,110.0	\$ 876.4
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, depletion and amortization	219.0	213.3
Deferred income taxes	13.2	25.8
Stock compensation expense	5.6	5.1
Excess tax benefit from stock-based compensation	(15.4)	(18.6)
Unrealized (gain) loss on derivatives	(21.7)	13.5
Loss (gain) on disposal of property, plant and equipment	3.6	(29.4)
Undistributed earnings of affiliates net	(22.0)	(52.6)
Changes in:		
Accounts receivable net	(89.6)	(178.7)
Margin deposits	0.9	4.3
Inventories net	76.4	(3.9)
Accrued income taxes	(110.8)	76.8
Accounts payable and accrued expenses	6.3	22.5
Customer advances	(136.2)	(30.4)
Other net	9.4	(2.0)
Net cash provided by operating activities	1,048.7	922.1
Investing Activities:		
Additions to property, plant and equipment	(157.8)	(105.5)
Proceeds from the sale of property, plant and equipment and non-core assets	7.2	47.5
Sales and maturities of short-term and auction rate securities	16.0	24.6
Deposits to asset retirement obligation funds	(2.2)	
Other net		31.3
Net cash used in investing activities	(136.8)	(2.1)
Financing Activities:		
Payments of long-term debt	(13.0)	(346.0)
Dividends paid on common stock	(52.3)	(14.3)
Distributions to noncontrolling interests	(193.3)	(28.6)
Purchase of treasury stock	(500.0)	
Issuances of common stock under employee stock plans	5.4	8.6
Excess tax benefit from stock-based compensation	15.4	18.6
Net cash used in financing activities	(737.8)	(361.7)
Effect of exchange rate changes on cash and cash equivalents	1.9	(0.4)
Increase in cash and cash equivalents	176.0	557.9
Cash and cash equivalents at beginning of period	1,207.0	797.7

Edgar Filing: CF Industries Holdings, Inc. - Form 10-Q

Cash and cash equivalents at end of period	\$ 1,383.0	\$ 1,355.6
--------------------------------------------	------------	------------

See Accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents

CF INDUSTRIES HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Background and Basis of Presentation

We are one of the largest manufacturers and distributors of nitrogen and phosphate fertilizer products in the world. Our operations are organized into two business segments the nitrogen segment and the phosphate segment. Our principal customers are cooperatives and independent fertilizer distributors. Our principal fertilizer products in the nitrogen segment are ammonia, granular urea, urea ammonium nitrate solution, or UAN, and ammonium nitrate, or AN. Our other nitrogen products include urea liquor, diesel exhaust fluid, or DEF, and aqua ammonia, which are sold primarily to our industrial customers. Our principal fertilizer products in the phosphate segment are diammonium phosphate, or DAP, and monoammonium phosphate, or MAP.

Our core market and distribution facilities are concentrated in the midwestern United States and other major agricultural areas of the U.S. and Canada. We also export nitrogen fertilizer products from our Donaldsonville, Louisiana manufacturing facilities and phosphate fertilizer products from our Florida phosphate operations.

The accompanying unaudited interim consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements for the year ended December 31, 2011, in accordance with accounting principles generally accepted in the United States for interim financial reporting. In the opinion of management, these statements reflect all adjustments, consisting only of normal and recurring adjustments that are necessary for the fair representation of the information for the periods presented. The unaudited interim consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. Operating results for any period presented apply to that period only and are not necessarily indicative of results for any future period.

These statements should be read in conjunction with our audited consolidated financial statements and related disclosures included in our Form 10-K filed with the SEC on February 27, 2012.

The preparation of the unaudited interim financial statements requires management to make use of estimates and assumptions that affect the reported amount of assets and liabilities, revenue and expenses and certain financial statement disclosures. Actual results could differ from these estimates. Significant estimates in these consolidated financial statements include net realizable value of inventories, the timing and ultimate settlement costs of asset retirement obligations, environmental remediation liabilities, environmental and litigation contingencies, the cost of sales incentives, useful lives of property and identifiable intangible assets, the evaluation of impairments of property, investments, identifiable intangible assets and goodwill, income tax and valuation reserves, allowances for doubtful accounts receivable, the measurement of the fair values of investments for which markets are not active, assumptions used in the determination of the funded status and annual expense of pension and postretirement employee benefit plans and the volatility and expected lives for stock compensation instruments granted to employees.

All references to "CF Holdings," "the Company," "we," "us" and "our" refer to CF Industries Holdings, Inc. and its subsidiaries, including CF Industries, Inc. (CF Industries), except where the context makes clear that the reference is only to CF Industries Holdings, Inc. itself and not its subsidiaries.

Table of Contents

CF INDUSTRIES HOLDINGS, INC.

2. Summary of Significant Accounting Policies

For a complete discussion of the Company's significant accounting policies, refer to our 2011 Annual Report on Form 10-K as of and for the year-ended December 31, 2011, filed with the SEC on February 27, 2012.

3. New Accounting Standards

Following are summaries of accounting pronouncements that either were adopted recently or may become applicable to our consolidated financial statements. It should be noted that the accounting standards references provided below reflect the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), and related Accounting Standards Updates (ASU).

Recently Adopted Pronouncements

In May 2011, the FASB issued a standard that is intended to improve comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. generally accepted accounting principles and International Financial Reporting Standards (ASU No. 2011-04). This standard clarifies the application of existing fair value measurement requirements including (1) the application of the highest and best use valuation premise, (2) the methodology to measure the fair value of an instrument classified in a reporting entity's stockholders' equity, (3) disclosure requirements for quantitative information on Level 3 fair value measurements and (4) guidance on measuring the fair value of financial instruments managed within a portfolio. In addition, the standard requires additional disclosures of the sensitivity of fair value to changes in unobservable inputs for Level 3 securities. This standard is effective for interim and annual reporting periods beginning after December 15, 2011. We adopted this standard in the first quarter of 2012 and its adoption did not have a material impact on our consolidated financial statements.

In June 2011, the FASB issued a standard that pertains to the presentation of comprehensive income (ASU No. 2011-05). This standard requires that comprehensive income be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The standard also requires entities to disclose on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net earnings. This standard no longer allows companies to present components of other comprehensive income only in the statement of equity. In December 2011, the FASB deferred the new requirement to present the reclassification components of other comprehensive income to the statement of operations by issuing ASU No. 2011-12. A new effective date for this requirement has not been set by the FASB. The remaining components of the original ASU No. 2011-05 are effective for interim and annual reporting periods beginning on or after December 15, 2011. We adopted this standard in the first quarter of 2012 and its adoption did not have a material impact on our consolidated financial statements.

In September 2011, the FASB issued a standard to simplify the process for determining goodwill impairment (ASU No. 2011-08). This standard gives an entity the option, as a first step, to assess qualitative factors in determining whether a two-step quantitative goodwill impairment test must be performed. If an assessment of qualitative factors leads to a determination that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then performing the two-step test is deemed unnecessary. This standard is effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We adopted this standard in the first quarter of 2012 and its adoption did not have a material impact on our consolidated financial statements.

Table of Contents

CF INDUSTRIES HOLDINGS, INC.

Recently Issued Pronouncements

In December 2011, the FASB issued a standard pertaining to disclosures about offsetting assets and liabilities (ASU No. 2011-11). This standard requires an entity to disclose information about offsetting and related arrangements, including financial instruments and derivative instruments and the effect these arrangements have on the entity's financial position. This standard is effective for disclosures in interim and annual reporting periods beginning on or after January 1, 2013. We have not determined the impact of this standard on our consolidated financial statement disclosures.

4. Noncontrolling Interests

Canadian Fertilizers Limited (CFL)

CFL owns a nitrogen fertilizer complex in Medicine Hat, Alberta, Canada and supplies fertilizer products to CF Industries, Inc. and Viterra Inc. (Vittera). CF Industries, Inc. owns 49% of CFL's voting common shares and 66% of CFL's nonvoting preferred shares. Vittera owns 34% of the voting common stock and non-voting preferred stock of CFL. The remaining 17% of the voting common stock is owned by GROWMARK, Inc. and La Coop fédérée. CFL is a variable interest entity which we consolidate in our financial statements. CFL's Medicine Hat complex is the largest nitrogen fertilizer complex in Canada, with two world-scale ammonia plants, a world-scale urea plant and on-site storage facilities for both ammonia and urea.

CFL's net sales for the three and six months ended June 30, 2012 were \$207.7 million and \$388.1 million, respectively. CFL's net sales for the three and six months ended June 30, 2011 were \$191.6 million and \$346.6 million, respectively. CFL's assets and liabilities at June 30, 2012 were \$373.3 million and \$324.0 million, respectively, and at December 31, 2011 were \$528.5 million and \$479.5 million, respectively.

CF Industries, Inc. operates the Medicine Hat facility pursuant to a management agreement and purchases approximately 66% of the facility's ammonia and urea production pursuant to a product purchase agreement. Both the management agreement and the product purchase agreement can be terminated by either CF Industries, Inc. or CFL upon a twelve-month notice. Vittera has the right, but not the obligation, to purchase the remaining 34% of the facility's ammonia and urea production under a similar product purchase agreement. To the extent that Vittera does not purchase its 34% of the facility's production, CF Industries, Inc. is obligated to purchase any remaining amounts. However, since 1995, Vittera has purchased at least 34% of the facility's production each year.

Under the product purchase agreements, both CF Industries, Inc. and Vittera pay the greater of operating cost or market price for purchases. The product purchase agreements also provide that CFL will distribute its net earnings to CF Industries, Inc. and Vittera annually based on their respective quantities of product purchased from CFL. The distributions to Vittera are reported as financing activities in the consolidated statements of cash flows, as we consider these payments to be similar to dividends. While general creditors of CFL do not have direct recourse to the general credit of CF Industries, Inc., the product purchase agreement does require CF Industries, Inc. to advance funds to CFL in the event that CFL is unable to meet its debts as they become due. The amount of each advance would be at least 66% of the deficiency and would be more in any year in which CF Industries, Inc. purchased more than 66% of Medicine Hat's production. A similar obligation also exists for Vittera. CF Industries, Inc. and Vittera currently manage CFL such that each party is responsible for its share of CFL's fixed costs and that CFL's production volume is managed to meet the parties' combined requirements. Based on the contractual arrangements, CF Industries, Inc. is the primary beneficiary of CFL as CF Industries, Inc. directs the activities that most significantly impact CFL's economic performance and receives at least 66% of the economic risks and rewards of CFL.

Table of Contents

CF INDUSTRIES HOLDINGS, INC.

In accordance with CFL's governing agreements, CFL's earnings are available for distribution to its members based on approval by CFL's shareholders. A portion of the amounts reported as noncontrolling interest in the consolidated statements of operations represent Viterra's 34% interest in the distributed and undistributed earnings of CFL, while a portion of the amounts reported as noncontrolling interest on our consolidated balance sheets represent the interests of Viterra and the holders of 17% of CFL's common shares.

Because CFL's functional currency is the Canadian dollar, consolidation of CFL results in a cumulative foreign currency translation adjustment, which is reported in other comprehensive income (loss).

Terra Nitrogen Company, L.P. (TNCLP)

TNCLP is a master limited partnership that owns a nitrogen manufacturing facility in Verdigris, Oklahoma. We own an aggregate 75.3% of TNCLP through general and limited partnership interests. Outside investors own the remaining 24.7% of the limited partnership. For financial reporting purposes, the assets, liabilities and earnings of the partnership are consolidated into our financial statements. The outside investors' limited partnership interests in the partnership have been recorded as part of noncontrolling interest in our consolidated financial statements. The noncontrolling interest represents the noncontrolling unitholders' interest in the equity of TNCLP. CF Industries is required to purchase all of TNCLP's fertilizer products at market prices as defined in the Amendment to the General and Administrative Services and Product Offtake Agreement, dated September 28, 2010.

TNCLP makes cash distributions to the general and limited partners based upon formulas defined within its Agreement of Limited Partnership. Cash available for distribution is defined in the agreement generally as all cash receipts less all cash disbursements, less certain reserves (including reserves for future operating and capital needs) established as the general partner determines in its reasonable discretion to be necessary or appropriate. Changes in working capital impact available cash, as increases in the amount of cash invested in working capital items (such as accounts receivable or inventory) reduce available cash, while declines in the amount of cash invested in working capital increase available cash. Cash distributions to the limited partners and general partner vary depending on the extent to which the cumulative distributions exceed certain target threshold levels set forth in the Agreement of Limited Partnership.

In each of the applicable quarters of 2012 and 2011, the minimum quarterly distributions were satisfied, which entitled us, as the general partner, to receive increased distributions on our general partner interests as provided for in the Agreement of Limited Partnership. The earnings attributed to our general partner interest in excess of the threshold levels for the six months ended June 30, 2012 and 2011, were \$116.7 million and \$105.1 million, respectively.

At June 30, 2012, Terra Nitrogen GP Inc. (TNGP), the general partner of TNCLP (and an indirect wholly-owned subsidiary of CF Industries), and its affiliates owned 75.3% of TNCLP's outstanding units. When not more than 25% of TNCLP's issued and outstanding units are held by non-affiliates of TNGP, TNCLP, at TNGP's sole discretion, may call, or assign to TNGP or its affiliates, TNCLP's right to acquire all such outstanding units held by non-affiliated persons. If TNGP elects to acquire all outstanding units, TNCLP is required to give at least 30 but not more than 60 days notice of TNCLP's decision to purchase the outstanding units. The purchase price per unit will be the greater of (1) the average of the previous 20 trading days' closing prices as of the date five days before the purchase is announced or (2) the highest price paid by TNGP or any of its affiliates for any unit within the 90 days preceding the date the purchase is announced.

Table of Contents
CF INDUSTRIES HOLDINGS, INC.

A reconciliation of the beginning and ending balances of noncontrolling interest and distributions payable to noncontrolling interests on our consolidated balance sheets is provided below.

	Six months ended June 30,					
	2012			2011		
	CFL	TNCLP	Total	CFL	TNCLP	Total
(in millions)						
Noncontrolling interest:						
Beginning balance	\$ 16.7	\$ 369.2	\$ 385.9	\$ 17.4	\$ 365.6	\$ 383.0
Earnings attributable to noncontrolling interest	100.1	35.2	135.3	72.0	35.0	107.0
Declaration of distributions payable		(39.3)	(39.3)		(28.6)	(28.6)
Effect of exchange rate changes	(1.1)		(1.1)	1.9		1.9
Ending balance	\$ 115.7	\$ 365.1	\$ 480.8	\$ 91.3	\$ 372.0	\$ 463.3
Distributions payable to noncontrolling interest:						
Beginning balance	\$ 149.7	\$	\$ 149.7	\$ 78.0	\$	\$ 78.0
Declaration of distributions payable		39.3	39.3		28.6	28.6
Distributions to noncontrolling interest	(154.0)	(39.3)	(193.3)		(28.6)	(28.6)
Effect of exchange rate changes	4.3		4.3	2.8		2.8
Ending balance	\$	\$	\$	\$ 80.8	\$	\$ 80.8

5. Fair Value Measurements

Our cash and cash equivalents, short-term investments and other investments consist of the following:

	June 30, 2012				December 31, 2011			
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in millions)							
Cash	\$ 50.0	\$	\$	\$ 50.0	\$ 99.8	\$	\$	\$ 99.8
U.S. federal government obligations	1,304.0			1,304.0	515.0			515.0
Other debt securities	29.0			29.0	592.2			592.2
Total cash and cash equivalents	\$ 1,383.0	\$	\$	\$ 1,383.0	\$ 1,207.0	\$	\$	\$ 1,207.0
Investments in auction rate securities	59.6		(4.1)	55.5	75.6		(4.7)	70.9
Asset retirement obligation funds	147.6			147.6	145.4			145.4
Nonqualified employee benefit trusts	21.3			21.3	20.3		(0.1)	20.2

Under our short-term investment policy, we may invest our cash balances, either directly or through mutual funds, in several types of investment-grade securities, including notes and bonds issued by governmental entities or corporations. Securities issued by governmental entities include those issued directly by the Federal government; those issued by state, local or other governmental entities; and those guaranteed by entities affiliated with governmental entities.

[Table of Contents](#)
CF INDUSTRIES HOLDINGS, INC.
Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present assets and liabilities included in our consolidated balance sheets at June 30, 2012 and December 31, 2011 that are recognized at fair value on a recurring basis, and indicates the fair value hierarchy utilized to determine such fair value:

	June 30, 2012			
	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
Cash and cash equivalents	\$ 1,383.0	\$ 1,383.0	\$	\$
Unrealized gains on natural gas derivatives	0.1		0.1	
Asset retirement obligation funds	147.6	147.6		
Investments in auction rate securities	55.5			55.5
Nonqualified employee benefit trusts	21.3	21.3		
Total assets at fair value	\$ 1,607.5	\$ 1,551.9	\$ 0.1	\$ 55.5
Unrealized losses on natural gas derivatives	\$ 52.6	\$	\$ 52.6	\$
Total liabilities at fair value	\$ 52.6	\$	\$ 52.6	\$

	December 31, 2011			
	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
Cash and cash equivalents	\$ 1,207.0	\$ 1,207.0	\$	\$
Unrealized gains on natural gas derivatives	0.5		0.5	
Asset retirement obligation funds	145.4	145.4		
Investments in auction rate securities	70.9			70.9
Nonqualified employee benefit trusts	20.2	20.2		
Total assets at fair value	\$ 1,444.0	\$ 1,372.6	\$ 0.5	\$ 70.9
Unrealized losses on natural gas derivatives	\$ 74.7	\$	\$ 74.7	\$
Total liabilities at fair value	\$ 74.7	\$	\$ 74.7	\$

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:

Cash and Cash Equivalents

At June 30, 2012 and December 31, 2011, our cash and cash equivalents consisted primarily of U.S. government obligations and money market mutual funds that invest in U.S. government obligations and other investment-grade securities.

Table of Contents

CF INDUSTRIES HOLDINGS, INC.

Natural Gas Derivatives

The derivative instruments that we currently use are primarily natural gas swap contracts. These contracts settle using primarily a NYMEX futures price index, which represents the basis for fair value at any given time. The contracts are traded in months forward and settlements are scheduled to coincide with anticipated gas purchases during those future periods. Quoted market prices are observable inputs used to determine the fair value of these instruments. See Note 18 Derivative Financial Instruments, for additional information.

Asset Retirement Obligation Funds

In order to meet financial assurance requirements associated with certain asset retirement obligations (AROs) in Florida, we maintain investments in an escrow account established for the benefit of the Florida Department of Environmental Protection (FDEP) and a trust established to comply with a 2010 Consent Decree with the U.S. Environmental Protection Agency (EPA) and the FDEP. The investments in the trust and escrow account are accounted for as available-for-sale securities. The fair values of these investments are based upon daily quoted prices representing the Net Asset Value (NAV) of the investments. See Note 9 Asset Retirement Obligations, for additional information regarding the trust and escrow accounts. The fair values of the ARO funds approximate their cost bases.

Investments in Auction Rate Securities

Auction rate securities (ARS) are primarily debt instruments with long-term maturities for which interest rates are expected to be reset periodically through an auction process, which typically occurred every 7 to 35 days. Because the traditional auction process for ARS generally has failed since early 2008, these securities are illiquid and we are not able to access the remaining funds until such time as auctions for these securities are successful, buyers are found outside the auction process, or the securities are redeemed by the issuers. During the second quarter of 2012, we redeemed \$16.0 million of our ARS at par.

As a result of the continuing market illiquidity and our judgment regarding the period of time that may elapse until the traditional auction process resumes or other effective market trading mechanisms develop, we classify these investments as noncurrent assets on our consolidated balance sheets. These ARS have maturities that range up to 35 years. As of June 30, 2012, the carrying values by range of maturity are as follows:

	(in millions)
Less than 1 year	\$
1 year up to 20 years	4.5
20 years up to 30 years	46.1
30 years up to 35 years	4.9
	\$ 55.5

We currently intend to hold our ARS until a market recovery occurs and, based on our current liquidity position, we do not believe it is likely that we will need to sell these securities prior to their recovery in value. Therefore, we expect to recover our amortized cost basis in the investments. As a result, our unrealized holding loss on these securities is classified as a temporary impairment and is reported in other comprehensive income (loss).

Table of Contents**CF INDUSTRIES HOLDINGS, INC.**

Our auction rate securities are accounted for as noncurrent available-for-sale securities. We are unable to use significant observable (Level 1 or Level 2) inputs to value these investments. Therefore, we use a mark-to-model approach that relies on discounted cash flows, market data and inputs derived from similar instruments to arrive at the fair value of these instruments. This model takes into account, among other variables, the base interest rate, credit spreads, downgrade risks and default/recovery risk, the estimated time required to work out the disruption in the traditional auction process and its effect on liquidity, and the effects of insurance and other credit enhancements. Due to the significant number of unobservable inputs that were used to value our auction rate securities, they are classified as Level 3 for purposes of the fair value disclosure requirements.

Nonqualified Employee Benefit Trusts

We maintain trusts associated with certain deferred compensation related to nonqualified employee benefits. The investments are accounted for as available-for-sale securities. The fair values of the trusts are based on daily quoted prices representing the NAV of the investments. These trusts are included on our consolidated balance sheet in other assets.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

The following table provides a reconciliation of changes in our consolidated balance sheet for our assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3). These assets currently consist of our investments in ARS. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset. It is reasonably possible that a change in the estimated fair value for instruments measured using Level 3 inputs could occur in the future.

	Investments in auction rate securities (in millions)
Fair value, December 31, 2011	\$ 70.9
Sales and redemptions	(16.0)
Unrealized loss included in other comprehensive loss	0.6
Fair value, June 30, 2012	\$ 55.5

Table of Contents**CF INDUSTRIES HOLDINGS, INC.****6. Net Earnings Per Share**

Net earnings per share were computed as follows:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	(in millions, except per share amounts)			
Net earnings attributable to common stockholders	\$ 606.3	\$ 487.4	\$ 974.7	\$ 769.4
Basic earnings per common share:				
Weighted average common shares outstanding	64.3	71.6	64.9	71.4
Net earnings attributable to common stockholders	\$ 9.42	\$ 6.81	\$ 15.01	\$ 10.77
Diluted earnings per common share:				
Weighted average common shares outstanding	64.3	71.6	64.9	71.4
Dilutive common shares stock options	0.9	0.6	0.9	0.8
Diluted weighted average shares outstanding	65.2	72.2	65.8	72.2
Net earnings attributable to common stockholders	\$ 9.31	\$ 6.75	\$ 14.81	\$ 10.66

In the computation of diluted net earnings per common share, potentially dilutive stock options are excluded if the effect of their inclusion is anti-dilutive. For the three and six months ended June 30, 2012 and 2011, anti-dilutive stock options were insignificant.

In August 2011, our Board of Directors authorized a program to repurchase Company common stock for a total expenditure of up to \$1.5 billion plus program expenses (the 2011 Stock Repurchase Program). Repurchases under this program were authorized to be made from time to time in the open market, in privately negotiated transactions, or otherwise. In the third and fourth quarters of 2011, we repurchased 6.5 million shares for \$1.0 billion and during the second quarter of 2012, we repurchased an additional 3.1 million shares under the program for \$500.0 million. As a result of the repurchases in 2012, we completed the 2011 Stock Repurchase Program. The impact of the share repurchase program on weighted average shares outstanding is reflected in the table above. For additional information, see Note 20 Treasury Stock.

7. Pension and Other Postretirement Benefits

We maintain four funded defined benefit pension plans: two U.S. plans and two Canadian plans. Three of the four plans are closed to new employees. One of our Canadian plans remains open to new employees. We also provide group medical insurance benefits to certain retirees. The specific medical benefits provided to retirees vary by group and location.

Table of Contents
CF INDUSTRIES HOLDINGS, INC.

Net periodic benefit cost included the following components:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	(in millions)			
Pension Plans				
Service cost for benefits earned during the period	\$ 3.0	\$ 2.7	\$ 6.2	\$ 5.7
Interest cost on projected benefit obligation	8.6	8.8	17.2	17.9
Expected return on plan assets	(8.7)	(8.9)	(17.3)	(17.6)
Amortization of actuarial loss	2.3	1.5	4.9	3.0
Net periodic benefit cost	\$ 5.2	\$ 4.1	\$ 11.0	\$ 9.0
Retiree Medical				
Service cost for benefits earned during the period	\$ 0.7	\$ 0.6	\$ 1.5	\$ 1.3
Interest cost on projected benefit obligation	0.8	1.1	1.8	2.1
Amortization of transition obligation	0.1	0.1	0.2	0.2
Amortization of actuarial loss	0.1	0.3	0.4	0.5
Net periodic benefit cost	\$ 1.7	\$ 2.1	\$ 3.9	\$ 4.1

Our 2012 consolidated pension funding contributions are estimated to be approximately \$20.0 million, of which approximately \$4.7 million was funded in the first six months of 2012.

In addition to our qualified defined benefit pension plans, we also maintain nonqualified supplemental pension plans for highly compensated employees as defined under federal law. The expense recognized for these plans for the three and six months ended June 30, 2012 and 2011 was insignificant.

We have defined contribution plans covering substantially all employees. Under these plans, we contribute a fixed percentage of base salary to employees' accounts and match employee contributions up to specified limits. We contributed \$3.0 million and \$6.3 million to the plans for the three and six months ended June 30, 2012, respectively, and \$3.0 million and \$5.8 million to the plans for the three and six months ended June 30, 2011, respectively.

8. Other Operating Net

Details of other operating costs are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	(in millions)			
(Gain) loss on disposal of property, plant and equipment and non-core assets net	\$ (0.4)	\$ 1.8	\$ 3.6	\$ (30.9)
Engineering studies	5.4		11.8	
Bartow costs	0.8	1.0	1.6	1.8
Other	5.0	1.1	16.1	2.0
	\$ 10.8	\$ 3.9	\$ 33.1	\$ (27.1)

In February 2011, we sold four of our owned dry product warehouses to GROWMARK and realized a pre-tax gain of \$32.5 million, which is included in the first line in the table above.

Table of Contents**CF INDUSTRIES HOLDINGS, INC.**

Engineering studies provide detailed design work and cost estimates for certain proposed capital projects at our manufacturing complexes.

Bartow costs consist of provisions for AROs and site maintenance costs at our closed phosphate fertilizer facility in Bartow, Florida. The AROs involve costs of closure and post-closure maintenance and monitoring for the phosphogypsum stack systems. For additional information on our AROs, see Note 9 Asset Retirement Obligations.

Other includes losses on foreign currency transactions and environmental remediation costs associated with a closed facility.

9. Asset Retirement Obligations

ARO are legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or normal operation of such assets. Our AROs are primarily associated with phosphogypsum stack systems and mine reclamation in Florida.

The changes in our AROs from December 31, 2011 to June 30, 2012 are summarized below:

	(in millions)
Obligation at December 31, 2011	\$ 131.6
Accretion expense	4.8
Liabilities incurred	0.6
Expenditures	(3.6)
Obligation at June 30, 2012	\$ 133.4

Our phosphate operations in Florida are subject to regulations governing the construction, operation, closure and long-term maintenance of phosphogypsum stack systems and regulations concerning site reclamation for phosphate rock mines. Our liability for phosphogypsum stack costs includes the cost of stack closure at our Plant City, Florida phosphate fertilizer complex and the costs of cooling pond closure, post-closure monitoring, and ongoing water treatment at both Bartow and Plant City. The actual amounts to be spent will depend on factors such as the timing of activities, refinements in scope, technological developments, cost inflation and changes in regulations. It is possible that these factors could change at any time and impact the estimates. In addition to reclamation AROs arising from normal mining activity, AROs may increase in the future upon expansion of the Plant City phosphogypsum stack.

ARO are reported in accrued expenses and other noncurrent liabilities on our consolidated balance sheets, as follows:

	June 30, 2012	December 31, 2011
	(in millions)	
Current portion	\$ 14.0	\$ 13.8
Noncurrent portion	119.4	117.8
	\$ 133.4	\$ 131.6

In addition to various operational and environmental regulations related to our phosphate segment, we are also subject to financial assurance requirements related to the closure and maintenance of our phosphogypsum stack systems at both our Plant City, Florida phosphate fertilizer complex and our closed Bartow, Florida phosphate fertilizer complex. The financial assurance

Table of Contents**CF INDUSTRIES HOLDINGS, INC.**

requirements pertaining to our operations are outlined in two separate regulations. First, in 2010, we entered into a consent decree with the EPA and the FDEP with respect to our compliance with the Resource Conservation and Recovery Act (RCRA) at our Plant City complex (the Plant City Consent Decree). Second, the State of Florida financial assurance regulations (Florida Financial Assurance) apply to both our Plant City and Bartow complexes. Both of these regulations allow the use of a funding mechanism as a means of complying with the financial assurance requirements associated with the closure, long-term maintenance, and monitoring costs for the phosphogypsum stacks, as well as costs incurred to manage the water contained in the stack system upon closure. We have established a trust account for the benefit of the EPA and FDEP and an escrow account for the benefit of the FDEP to meet these financial assurance requirements. On our consolidated balance sheet, these are collectively referred to as "Asset retirement obligation funds" (ARO funds). We expect to deposit approximately \$50.0 million in 2012, which will fully fund the trust account for the Plant City Consent Decree and we expect to fund the remaining \$2.0 million in the State of Florida Financial Assurance escrow account by 2016. Both financial assurance funding obligations require estimates of future expenditures that could be impacted by the timing of activities, refinements in scope, technological developments, cost inflation, discount rates and change in regulations. Additional funding will be required in the future if increases in cost estimates exceed investment earnings in the trust or escrow accounts. At June 30, 2012 and December 31, 2011, the balance in the ARO funds was \$147.6 million and \$145.4 million, respectively.

10. Interest Expense

Interest expense consisted of the following:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	(in millions)			
Interest on borrowings	\$ 28.1	\$ 28.0	\$ 56.1	\$ 57.8
Fees on financing agreements	20.0	3.5	25.1	28.4
Interest capitalized and other	(2.8)	(0.7)	(5.0)	(3.3)
	\$ 45.3	\$ 30.8	\$ 76.2	\$ 82.9

The fees on financing agreements for the three months and six months ended June 30, 2012 includes \$15.2 million of accelerated amortization of deferred fees related to the termination of a credit agreement in May 2012. Refer to Note 17 Financing Agreements, for additional information. The fees on financing agreements for the six months ended June 30, 2011 includes \$19.9 million of accelerated amortization of debt issuance costs recognized upon repayment in full of a senior secured term loan.

[Table of Contents](#)**CF INDUSTRIES HOLDINGS, INC.****11. Income Taxes**

Our income tax provision for the three months ended June 30, 2012 was \$309.2 million on pre-tax income of \$960.3 million, or an effective tax rate of 32.2%, compared to an income tax provision of \$281.0 million on pre-tax income of \$815.0 million, or an effective tax rate of 34.5%, for the three months ended June 30, 2011. The effective tax rate for the second quarter of 2012 based on pre-tax income exclusive of earnings attributable to noncontrolling interest was 34.8% compared to 37.0% in the second quarter of 2011. The decline in the effective tax rate exclusive of earnings attributable to noncontrolling interests was driven primarily by higher state taxes in the prior year. The effective tax rate based on pre-tax income differs from our effective tax rate based on pre-tax income exclusive of earnings attributable to noncontrolling interest, as our consolidated income tax provision does not include tax provisions on the earnings attributable to noncontrolling interests in TNCLP and CFL, which record no income tax provisions.

For additional information concerning the income tax matters noted above, see Note 13 Income Taxes, to our audited consolidated financial statements included in our 2011 Annual Report on Form 10-K filed with the SEC on February 27, 2012.

12. Restructuring and Integration Costs

There were no restructuring and integration costs incurred during the three and six months ended June 30, 2012. During the three and six months ended June 30, 2011, we incurred \$1.3 million and \$3.4 million, respectively, of restructuring and integration costs related to our 2010 acquisition of Terra Industries Inc. The restructuring costs included employee termination benefits and the integration costs included consulting and other professional fees.

The following table summarizes the activity and balance in our restructuring reserve for the six months ended June 30, 2012 and 2011:

	Six months ended June 30,	
	2012	2011
	(in millions)	
Reserve balance beginning	\$ 2.0	\$ 2.9
Employee termination expense		1.8
Cash payments	(1.0)	(2.8)
Reserve balance ending	\$ 1.0	\$ 1.9

13. Inventories Net

Inventories net consist of the following:

	June 30, 2012	December 31, 2011
	(in millions)	
Fertilizer	\$ 167.6	\$ 245.2
Raw materials, spare parts and supplies	62.0	59.0
	\$ 229.6	\$ 304.2

Table of Contents**CF INDUSTRIES HOLDINGS, INC.****14. Equity Method Investments**

Equity method investments consist of the following:

	June 30, 2012	December 31, 2011
Operating equity method investments	\$ 399.4	\$ 413.1
Non-operating equity method investments	544.9	515.5
Investments in and advances to affiliates	\$ 944.3	\$ 928.6

Operating Equity Method Investments

Our equity method investments included in operating earnings consist of: (1) a 50% ownership interest in Point Lisas Nitrogen Limited (PLNL), which operates an ammonia production facility in the Republic of Trinidad and Tobago; and (2) a 50% interest in an ammonia storage joint venture located in Houston, Texas. We include our share of the net earnings from these investments as an element of earnings from operations because these operations provide additional production and storage capacity to our operations and are integrated with our other supply chain and sales activities in the nitrogen segment.

The combined results of operations and financial position for our operating equity method investments are summarized below:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	(in millions)			
Condensed statement of operations information:				
Net sales	\$ 103.7	\$ 76.5	\$ 181.2	\$ 156.3
Net earnings	\$ 38.0	\$ 26.2	\$ 62.5	\$ 53.7
Equity in earnings of operating affiliates	\$ 13.8	\$ 14.2	\$ 29.3	\$ 25.7

	June 30, 2012	December 31, 2011
	(in millions)	
Condensed balance sheet information:		
Current assets	\$ 98.6	\$ 126.6
Long-term assets	159.4	147.2
Total assets	\$ 258.0	\$ 273.8
Current liabilities	\$ 46.5	\$ 41.1
Long-term liabilities	21.6	24.2
Equity	189.9	208.5
Total liabilities and equity	\$ 258.0	\$ 273.8

The carrying value of these investments at June 30, 2012 was \$399.4 million, which was \$304.4 million more than our share of the affiliates' book value. The excess is primarily attributable to the purchase accounting impact of our acquisition of the investment in PLNL and reflects primarily the revaluation of property, plant and equipment, the value of an exclusive natural gas contract and

Table of Contents
CF INDUSTRIES HOLDINGS, INC.

goodwill. The increased basis for property, plant and equipment and the gas contract are being depreciated over a remaining period of approximately 22 years and 12 years, respectively. Our equity in earnings of operating affiliates is different from our ownership interest in income reported by the unconsolidated subsidiaries due to amortization of basis differences.

We have transactions in the normal course of business with PLNL reflecting our obligation to purchase 50% of the ammonia produced by PLNL at current market prices. We purchased ammonia from PLNL of \$47.7 million and \$86.2 million for the three and six months ended June 30, 2012, respectively, and \$34.6 million and \$70.6 million for the three and six months ended June 30, 2011, respectively.

Non-Operating Equity Method Investments

Our non-operating equity method investments consist of: (1) a 50% ownership of KEYTRADE AG (Keytrade), a fertilizer trading company headquartered near Zurich, Switzerland; and (2) a 50% ownership in GrowHow UK Limited (GrowHow), which operates nitrogen production facilities in the United Kingdom. We account for these investments as non-operating equity method investments, and do not include the net earnings of these investments in earnings from operations since these operations do not provide additional capacity to us, nor are these operations integrated within our supply chain.

The combined results of operations and financial position of our non-operating equity method investments are summarized below:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	(in millions)			
Condensed statement of operations information:				
Net sales	\$ 858.6	\$ 751.1	\$ 1,497.0	\$ 1,281.4
Net earnings	\$ 60.7	\$ 26.8	\$ 62.7	\$ 50.0
Equity in earnings of non-operating affiliates net of taxes	\$ 27.2	\$ 9.8	\$ 24.9	\$ 18.3

	June 30, 2012	December 31, 2011
	(in millions)	
Condensed balance sheet information:		
Current assets	\$ 607.0	\$ 504.2
Long-term assets	286.7	293.4
Total assets	\$ 893.7	\$ 797.6
Current liabilities	\$ 380.0	\$ 339.5
Long-term liabilities	141.4	149.4
Equity	372.3	308.7
Total liabilities and equity	\$ 893.7	\$ 797.6

In conjunction with our investment in Keytrade, we provided financing to Keytrade in the form of subordinated notes that mature on September 30, 2017 and bear interest at LIBOR plus 1.00 percent. At June 30, 2012 and December 31, 2011, the amount of the outstanding advances to Keytrade on our consolidated balance sheets was \$12.4 million. For each of the six month periods ended June 30, 2012 and 2011, we recognized interest income on advances to Keytrade of \$0.1 million. The carrying value of our advances to Keytrade approximates fair value.

Table of Contents**CF INDUSTRIES HOLDINGS, INC.**

Excluding the advances to Keytrade, the carrying value of our non-operating equity method investments at June 30, 2012 was \$532.5 million, which was \$346.4 million more than our share of the affiliates' book value. The excess is primarily attributable to the purchase accounting impact of our acquisition of the investments in GrowHow and Keytrade and reflects primarily the revaluation of property, plant and equipment, identifiable intangibles and goodwill. The increased basis for property, plant and equipment and identifiable intangibles are being depreciated over remaining periods ranging from 2 to 14 years. Our equity in earnings of non-operating affiliates-net of taxes is different than our ownership interest in their net earnings due to the amortization of basis differences.

At June 30, 2012, the amount of our consolidated retained earnings that represents our undistributed earnings of non-operating equity method investments is \$31.4 million.

15. Plant Turnaround Costs

Scheduled inspections, replacements and overhauls of plant machinery and equipment at our continuous process manufacturing facilities are referred to as plant turnarounds. The expenditures related to turnarounds are capitalized into property, plant and equipment when incurred. The following is a summary of plant turnaround activity for the six months ended June 30, 2012 and 2011:

	Six months ended June 30,	
	2012	2011
	(in millions)	
Net capitalized turnaround costs:		
Beginning balance	\$ 54.8	\$ 66.8
Additions	21.1	5.5
Depreciation	(15.1)	(14.0)
Effect of exchange rate changes	0.1	0.6
Ending balance	\$ 60.9	\$ 58.9

Scheduled replacements and overhauls of plant machinery and equipment include the dismantling, repair or replacement and installation of various components including piping, valves, motors, turbines, pumps, compressors, heat exchangers and the replacement of catalysts when a full plant shutdown occurs. Scheduled inspections are also conducted during full plant shutdowns, including required safety inspections which entail the disassembly of various components such as steam boilers, pressure vessels and other equipment requiring safety certifications. Internal employee costs and overhead are not considered turnaround costs and are not capitalized.

16. Goodwill and Other Intangible Assets

The following table shows the carrying amount of goodwill by business segment at June 30, 2012 and December 31, 2011:

	Nitrogen	Phosphate	Total
Balance by segment	\$ 2,063.6	\$ 0.9	\$ 2,064.5

Table of Contents**CF INDUSTRIES HOLDINGS, INC.**

The identifiable intangibles and carrying values are shown below. The Company's intangible assets are presented in other assets on our consolidated balance sheets.

	At June 30, 2012			At December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
	(in millions)					
Intangible assets:						
Customer Relationships	\$ 50.0	\$ (6.3)	\$ 43.7	\$ 50.0	\$ (4.9)	\$ 45.1
TerraCair Brand	10.0	(2.2)	7.8	10.0	(1.7)	8.3
Total intangible assets	\$ 60.0	\$ (8.5)	\$ 51.5	\$ 60.0	\$ (6.6)	\$ 53.4

Amortization expense of our identifiable intangibles was \$1.0 million for both the three months ended June 30, 2012 and 2011, respectively, and was \$1.9 million for both the six months ended June 30, 2012 and 2011, respectively.

Total estimated amortization expense for the remainder of 2012 and the five succeeding fiscal years is as follows:

	Estimated Amortization Expense (in millions)
Remainder of 2012	\$ 1.9
2013	3.8
2014	3.8
2015	3.8
2016	3.8
2017	3.8
	\$ 20.9

17. Financing Agreements

Long-term debt consisted of the following:

	June 30, 2012	December 31, 2011
	(in millions)	
Unsecured senior notes:		
6.875% due 2018	\$ 800.0	\$ 800.0
7.125% due 2020	800.0	800.0
7.0% due 2017		13.0
	\$ 1,600.0	\$ 1,613.0
Less: Current portion		
Noncurrent	\$ 1,600.0	\$ 1,613.0

Credit Agreement

Until May 1, 2012, we maintained a senior secured revolving credit facility under an agreement, dated April 5, 2010 and amended and restated August 3, 2011 (the 2010 Credit Agreement), that

Table of Contents

CF INDUSTRIES HOLDINGS, INC.

provided up to \$500 million in borrowings. The obligations of CF Industries under the 2010 Credit Agreement were guaranteed by the Company and certain direct and indirect wholly-owned subsidiaries of the Company (collectively, the Guarantors). The obligations of CF Industries and the Guarantors under the 2010 Credit Agreement were secured by senior liens on substantially all of the assets of CF Industries and the Guarantors, subject to certain exceptions.

On May 1, 2012, the Company terminated the 2010 Credit Agreement and all of the guarantees and liens on the assets of the Company and its subsidiaries that secured obligations under the 2010 Credit Agreement were released. Immediately after terminating the 2010 Credit Agreement, the Company, as a guarantor, and CF Industries, as borrower, entered into a \$500 million senior unsecured credit agreement, dated May 1, 2012 (the 2012 Credit Agreement), which provides for a revolving credit facility of up to \$500 million with a maturity of five years.

Borrowings under the 2012 Credit Agreement bear interest at a variable rate based on an applicable margin over LIBOR or a base rate and may be used for working capital, capital expenditures, acquisitions, share repurchases and other general purposes. The 2012 Credit Agreement requires that the Company maintain a minimum interest coverage ratio and not exceed a maximum total leverage ratio, and includes other customary terms and conditions, including customary events of default and covenants.

All obligations under the 2012 Credit Agreement are unsecured. Currently the Company is the only guarantor of CF Industries' obligations under the 2012 Credit Agreement. Certain of CF Industries' material domestic subsidiaries will be required to become guarantors under the 2012 Credit Agreement only if such subsidiary were to guarantee other debt for borrowed money (subject to certain exceptions) of the Company or CF Industries in excess of \$250 million. Currently, no such subsidiary guarantees debt for borrowed money in excess of \$250 million.

At June 30, 2012, there was \$491.2 million of available credit under the 2012 Credit Agreement (net of outstanding letters of credit), and there were no borrowings outstanding.

Senior Notes due 2018 and 2020

On April 23, 2010, CF Industries issued \$800 million aggregate principal amount of 6.875% senior notes due May 1, 2018 (the 2018 Notes) and \$800 million aggregate principal amount of 7.125% senior notes due May 1, 2020 (the 2020 Notes and, together with the 2018 Notes, the Notes). The Notes pay interest semiannually on May 1 and November 1 and are redeemable at CF Industries' option, in whole at any time or in part from time to time, at specified make-whole redemption prices.

The indentures governing the Notes contain customary events of default and covenants that limit, among other things, the ability of the Company and its subsidiaries, including CF Industries, to incur liens on certain properties to secure debt. In the event of specified changes of control involving the Company or CF Industries, they also require CF Industries to offer to repurchase the Notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest.

Under the supplemental indentures governing the Notes, the Notes are to be guaranteed by the Company and each of the Company's current and future subsidiaries (other than CF Industries) that from time to time is a borrower or guarantor under the 2010 Credit Agreement, or any renewal, replacement or refinancing thereof, including the 2012 Credit Agreement. Upon the termination of the 2010 Credit Agreement, the guarantees of the subsidiaries of the Company securing obligations under the 2010 Credit Agreement were released. As a result, the subsidiaries were automatically released from their guarantees of the Notes. In the event that a subsidiary of the Company, other than CF Industries, becomes a borrower or a guarantor under the 2012 Credit Agreement, such subsidiary would be required to become a guarantor of the Notes.

Table of Contents

CF INDUSTRIES HOLDINGS, INC.

At June 30, 2012, the carrying value of the Notes was \$1.6 billion and the fair value was approximately \$1.9 billion.

Terra Senior Notes

At December 31, 2011, \$13.0 million of Terra 7% Senior Notes due 2017 (2017 Notes) were outstanding. In the second quarter of 2012, we redeemed the remaining outstanding 2017 Notes for cash. This redemption did not have a material impact on our consolidated financial results.

Notes Payable

From time to time, CFL receives advances from CF Industries and from CFL's noncontrolling interest holder to finance major capital expenditures. The advances outstanding are evidenced by unsecured promissory notes due December 31, 2013 and bear interest at market rates. The amount shown as notes payable represents the advances payable to CFL's noncontrolling interest holder. The carrying value of notes payable approximates their fair value.

18. Derivative Financial Instruments

We use natural gas in the manufacture of nitrogen fertilizer products. We manage the risk of changes in gas prices through the use of physical gas supply contracts and derivative financial instruments covering periods of generally less than 18 months. We use natural gas derivative instruments primarily to lock in a substantial portion of our margin on sales under our Forward Pricing Program. Our natural gas acquisition policy also allows us to establish derivative positions that are associated with anticipated natural gas requirements unrelated to our Forward Pricing Program.

The derivative instruments that we currently use are primarily natural gas swap contracts. These contracts settle using primarily a NYMEX futures price index, which represents fair value at any given time. The contracts are entered into with respect to gas to be consumed in the future and settlements are scheduled to coincide with anticipated gas purchases used to manufacture nitrogen products during those future periods.

We report derivatives on our consolidated balance sheet at fair value with changes in fair value recognized immediately in earnings, unless the normal purchase and sale exemption applies. We use natural gas derivatives primarily as an economic hedge of gas price risk, but without the application of hedge accounting. Accordingly, changes in the fair value of the derivatives are recorded in cost of sales as the changes occur. Cash flows related to natural gas derivatives are reported as operating activities.

The effect of derivatives in our consolidated statements of operations is shown below. All amounts arise from natural gas derivatives that are not designated as hedging instruments, with resulting gains and losses recorded in cost of sales.

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	(in millions)			
Realized gains (losses)	\$ (54.2)	\$ 0.9	\$ (102.4)	\$ (8.7)
Unrealized mark-to-market gains (losses)	77.6	(14.2)	21.7	(13.5)
Net derivative gains (losses)	\$ 23.4	\$ (13.3)	\$ (80.7)	\$ (22.2)

Table of Contents**CF INDUSTRIES HOLDINGS, INC.**

The fair values of derivatives on our consolidated balance sheets are shown below. All amounts arise from natural gas derivatives that are not designated as hedging instruments. For additional information on derivative fair values, see Note 5 Fair Value Measurements.

	June 30, 2012	December 31, 2011
	(in millions)	
Unrealized gains in other current assets	\$ 0.1	\$ 0.5
Unrealized losses in other current liabilities	(52.6)	(74.7)
Net unrealized derivative losses	\$ (52.5)	\$ (74.2)

As of June 30, 2012 and December 31, 2011, we had open financial derivative contracts for 74.4 million MMBtus and 156.3 million MMBtus, respectively, of natural gas. For the six months ended June 30, 2012, we used derivatives to cover approximately 71% of our natural gas consumption.

Natural gas derivatives involve the risk of dealing with counterparties and their ability to meet the terms of the contracts. The counterparties to our natural gas derivatives are either large oil and gas companies or large financial institutions. Cash collateral is deposited with or received from counterparties when predetermined unrealized gain or loss thresholds are exceeded. At both June 30, 2012 and December 31, 2011, we had no cash collateral on deposit with counterparties for derivative contracts.

As of June 30, 2012 and December 31, 2011, the aggregate fair value of the derivative instruments with credit-risk-related contingent features in a net liability position was \$52.6 million and \$74.7 million, respectively, for which we had no cash collateral on deposit with these counterparties.

For derivatives that are in net asset positions, we are exposed to credit loss from nonperformance by the counterparties. At June 30, 2012 and December 31, 2011, our exposure to credit loss from nonperformance by counterparties to derivative instruments was insignificant. We control our credit risk through the use of multiple counterparties, individual credit limits, monitoring procedures, cash collateral requirements and master netting arrangements.

The master netting arrangements with respect to our derivative instruments also contain credit-risk-related contingent features that require us to maintain a minimum net worth level and certain financial ratios. If we fail to meet these minimum requirements, the counterparties to derivative instruments that are in net liability positions could require daily cash settlement of unrealized losses or some other form of credit support.

19. Stock-Based Compensation

We grant stock-based compensation awards under the CF Industries Holdings, Inc. 2009 Equity and Incentive Plan (the Plan). The awards granted to date are nonqualified stock options and restricted stock. The cost of employee services received in exchange for the awards is measured based on the fair value of the award on the grant date and is recognized as expense on a straight-line basis over the period during which the employee is required to provide the services.

Table of Contents
CF INDUSTRIES HOLDINGS, INC.

A summary of stock option activity under the Plan at June 30, 2012 is presented below:

	Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2011	1,215,083	\$ 53.95	\$ 111.4
Granted	3,600	177.42	
Exercised	(269,573)	19.87	42.6
Forfeited	(6,348)	112.37	
Outstanding at June 30, 2012	942,762	63.78	122.5
Exercisable at June 30, 2012	641,956	42.23	97.3

Cash received from stock option exercises for the six months ended June 30, 2012 was \$5.4 million.

A summary of restricted stock activity under the Plan at June 30, 2012 is presented below:

	Shares	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2011	112,571	\$ 100.83
Granted	4,977	173.27
Vested	(7,961)	127.25
Outstanding at June 30, 2012	109,587	102.20

Stock-based compensation cost is recorded primarily in selling, general and administrative expense. The following table summarizes stock-based compensation costs and related income tax benefits:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	(in millions)			
Stock-based compensation expense	\$ 2.5	\$ 2.3	\$ 5.1	\$ 4.7
Income tax benefit	(1.0)	(0.8)	(1.9)	(1.7)
Stock-based compensation expense, net of income taxes	\$ 1.5	\$ 1.5	\$ 3.2	\$ 3.0

As of June 30, 2012, pre-tax unrecognized compensation cost, net of estimated forfeitures, was \$7.9 million for stock options, which will be recognized over a weighted average period of 1.8 years, and \$4.7 million for restricted stock, which will be recognized over a weighted average period of 1.6 years.

An excess tax benefit is generated when the realized tax benefit from the vesting of restricted stock, or a stock option exercise, exceeds the previously recognized deferred tax asset. Excess tax benefits are required to be reported as a financing cash inflow rather than as a reduction of taxes paid. Excess tax benefits for the three and six months ended June 30, 2012 were \$6.0 million and \$15.4 million, respectively. Excess tax benefits for the three and six months ended June 30, 2011 were \$12.6 million and \$18.6 million, respectively.

In addition to our expense associated with the Plan, TNCLP also recognizes stock-based compensation (income) expense for phantom units provided to non-employee directors of TNGP. The

Table of Contents**CF INDUSTRIES HOLDINGS, INC.**

(income) expense resulting from these market based liability awards amounted to (\$0.1) million and \$0.5 million for the three and six months ended June 30, 2012, respectively. Stock compensation expense reported in our consolidated statements of operations and consolidated statements of cash flows includes this phantom unit (income) expense.

20. Treasury Stock

In August 2011, our Board of Directors authorized a program to repurchase Company common stock for a total expenditure of up to \$1.5 billion plus program expenses (the 2011 Stock Repurchase Program). Repurchases under this program were authorized to be made from time to time in the open market, in privately negotiated transactions, or otherwise. In the third and fourth quarters of 2011, we repurchased 6.5 million shares for \$1.0 billion and during the second quarter of 2012, we repurchased an additional 3.1 million shares under the program for \$500.0 million. As a result of the repurchases in 2012, we completed the 2011 Stock Repurchase Program. In June 2012, our Board of Directors approved a resolution to retire all 9.6 million shares of repurchased stock, and as of June 30, 2012, all repurchased shares had been retired.

21. Accumulated Other Comprehensive Loss

Changes to accumulated other comprehensive loss and the impact on other comprehensive loss are as follows:

	Foreign Currency Translation Adjustment	Unrealized Gain (Loss) on Securities	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)
	(in millions)			
Balance at December 31, 2010	\$ 22.4	\$ (4.9)	\$ (70.8)	\$ (53.3)
Unrealized holding gain on securities		4.7		4.7
Reclassification to net earnings		(0.2)	4.0	3.8
Effect of exchange rate changes and deferred taxes	26.0	(1.7)	(1.7)	22.6
Balance at June 30, 2011	\$ 48.4	\$ (2.1)	\$ (68.5)	\$ (22.2)
Balance at December 31, 2011	\$ 15.4	\$ (3.0)	\$ (111.7)	\$ (99.3)
Unrealized holding gain on securities		1.0		1.0
Reclassification to net earnings		(0.9)	5.8	4.9
Effect of exchange rate changes and deferred taxes	20.5	0.3	(2.6)	18.2
Balance at June 30, 2012	\$ 35.9	\$ (2.6)	\$ (108.5)	\$ (75.2)

22. Contingencies**Litigation**

From time to time, we are subject to ordinary, routine legal proceedings related to the usual conduct of our business, including proceedings regarding public utility and transportation rates, environmental matters, taxes and permits relating to the operations of our various plants and facilities. Based on the information available as of the date of this filing, we believe that the ultimate outcome of these matters will not have a material adverse effect on our consolidated financial position or results of operations.

Table of Contents

CF INDUSTRIES HOLDINGS, INC.

Environmental

Florida Environmental Matters

Clean Air Act Investigation

On March 19, 2007, the Company received a letter from the EPA under Section 114 of the Federal Clean Air Act requesting information and copies of records relating to compliance with New Source Review, New Source Performance Standards, and National Emission Standards for Hazardous Air Pollutants at the Plant City facility. The Company provided the requested information to the EPA in late 2007. The EPA initiated this same process in relation to numerous other sulfuric acid plants and phosphoric acid plants throughout the nation, including other facilities in Florida.

The Company received a Notice of Violation (NOV) from the EPA by letter dated June 16, 2010. The NOV alleges the Company violated the Prevention of Significant Deterioration (PSD) Clean Air Act regulations relating to certain projects undertaken at the Plant City facility's sulfuric acid plants. This NOV further alleges that the actions that are the basis for the alleged PSD violations also resulted in violations of Title V air operating permit regulations. Finally, the NOV alleges that the Company failed to comply with certain compliance dates established by hazardous air pollutant regulations for phosphoric acid manufacturing plants and phosphate fertilizer production plants. The Company had an initial meeting with the EPA to discuss these alleged violations. This matter has been referred to the United States Department of Justice (DOJ). The Company does not know at this time if it will settle this matter prior to initiation of formal legal action.

We cannot estimate the potential penalties, fines or other expenditures, if any, that may result from the Clean Air Act NOV and, therefore, we cannot determine if the ultimate outcome of this matter will have a material impact on the Company's financial position, results of operations or cash flows.

EPCRA/CERCLA Investigation

Pursuant to a letter from the DOJ dated July 28, 2008 that was sent to representatives of the major U.S. phosphoric acid manufacturers, including CF Industries, the DOJ stated that it and the EPA believe that apparent violations of Section 313 of the Emergency Planning and Community Right-to-Know Act (EPCRA), which requires annual reports to be submitted with respect to the use of certain toxic chemicals, have occurred at all of the phosphoric acid facilities operated by these manufacturers. The letter also states that the DOJ and the EPA believe that most 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 these facilities. The letter did not specifically identify alleged violations at our Plant City, Florida complex or assert a claim for a specific amount of penalties. The EPA submitted an information request to the Company on February 11, 2009, as a follow-up to the July 2008 letter. The Company provided information in response to the agency's inquiry on May 14 and May 29, 2009.

By letter dated July 6, 2010, the EPA issued a NOV to the Company alleging violations of EPCRA and CERCLA. The Company had an initial meeting with the EPA to discuss these alleged violations. The Company does not know at this time if it will settle this matter prior to initiation of formal legal action.

Table of Contents

CF INDUSTRIES HOLDINGS, INC.

We do not expect that penalties or fines, if any, that may arise out of the EPCRA/CERCLA matter will have a material impact on the Company's financial position, results of operations or cash flows.

Federal and State Numeric Nutrient Criteria Regulation

On August 18, 2009, the EPA entered into a consent decree with certain environmental groups with respect to the promulgation of numeric criteria for nitrogen and phosphorous in surface waters in Florida. The consent decree was approved by a Federal district court judge on November 16, 2009. The EPA adopted final numeric nutrient criteria for Florida lakes and inland flowing waters on November 14, 2010. On February 18, 2012, the Court upheld parts of the numeric nutrient criteria regulation, but found that the EPA had not adequately justified the criteria for streams and therefore concluded that the adoption of such criteria was arbitrary and capricious. The Court ordered the EPA to issue proposed or final numeric nutrient criteria for streams by May 21, 2012 (subject to the EPA seeking an extension of such time period pursuant to the terms of the 2009 consent decree). Subsequently, the Court granted the EPA's motion to allow the EPA to propose numeric nutrient criteria for streams by November 30, 2012 and to finalize such criteria by August 30, 2013. Depending on the developments discussed herein, federal or state numeric water quality criteria for lakes and inland flowing waters could result in substantially more stringent nitrogen and phosphorous limits in wastewater discharge permits for our mining, manufacturing and distribution operations in Florida.

On July 6, 2012, the EPA issued a final rule delaying the effective date of federal criteria for lakes and inland flowing waters (excluding the criteria found arbitrary and capricious by the Court) until January 6, 2013. The purpose of this delay is to allow the EPA time to evaluate numeric nutrient criteria approved by the State of Florida.

In December 2011, the State of Florida proposed its own numeric nutrient criteria for surface waters. The nitrogen and phosphorous criteria in the proposed rule are substantially identical to the federal rule, but the state proposal includes biological verification as a component of the criteria and adopts existing nutrient Total Maximum Daily Loads (TMDL) as applicable numeric criteria. The impact of these modifications could be to provide more flexibility with respect to nitrogen and phosphorous limits in wastewater discharge permits so long as such discharges do not impair the biological health of receiving water bodies. Environmental groups filed a challenge to the proposed state rule, and a hearing was held with the Florida Division of Administrative Hearings from February 27 through March 5, 2012. On June 8, 2012, the administrative law judge upheld the State's regulation. Florida submitted its rule package to the EPA for review on June 13, 2012. If the state regulation is approved by the EPA, the EPA would then withdraw the federal numeric criteria.

The 2009 consent decree also requires the EPA to develop numeric nutrient criteria for Florida coastal and estuarine waters. On July 13, 2012, the Court approved a motion by the EPA allowing it to propose numeric nutrient criteria for these waters by November 30, 2012 and to finalize such criteria by September 30, 2013. The extent to which the February 18, 2012 decision will impact this proposed rule is unclear. The numeric criteria promulgated by the State of Florida, discussed above, include criteria for coastal and estuarine waters and, if approved by the EPA, would also supplant federal standards for such water bodies.

The federal/state numeric nutrient criteria rulemaking is not yet complete. Nonetheless, more stringent limits on wastewater discharge permits could increase our costs and limit our operations and, therefore, could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Table of Contents

CF INDUSTRIES HOLDINGS, INC.

Louisiana Environmental Matters

Clean Air Act Section 185 Fee

Our Donaldsonville Nitrogen Complex is located in a five-parish region near Baton Rouge, Louisiana that, as of 2005, was designated as being in "severe" nonattainment with respect to the national ambient air quality standard (NAAQS) for ozone (the 1-hour ozone standard) pursuant to the Federal Clean Air Act (the Act). Section 185 of the Act requires states, in their state implementation plans, to levy a fee (Section 185 fee) on major stationary sources (such as the Donaldsonville facility) located in a severe nonattainment area that did not meet the 1-hour ozone standard by November 30, 2005. The fee was to be assessed for each calendar year (beginning in 2006) until the area achieved compliance with the ozone NAAQS.

Prior to the imposition of Section 185 fees, the EPA adopted a new ozone standard (the 8-hour ozone standard) and rescinded the 1-hour ozone standard. The Baton Rouge area was designated as a "moderate" nonattainment area with respect to the 8-hour ozone standard. However, because Section 185 fees had never been assessed prior to the rescission of the 1-hour ozone standard (rescinded prior to the November 30, 2005 ozone attainment deadline), the EPA concluded in a 2004 rulemaking implementing the 8-hour ozone standard that the Act did not require states to assess Section 185 fees. As a result, Section 185 fees were not assessed against CF Industries and other companies located in the Baton Rouge area.

In 2006, the federal D.C. Circuit Court of Appeals rejected the EPA's position and held that Section 185 fees were controls that must be maintained and fees should have been assessed under the Act. In January 2008, the U.S. Supreme Court declined to accept the case for review, making the appellate court's decision final.

In July 2011, the EPA approved a revision to Louisiana's air pollution program that eliminated the requirement for Baton Rouge area companies to pay Section 185 fees, based on Baton Rouge's ultimate attainment of the 1-hour standard through permanent and enforceable emissions reductions. EPA's approval of the Louisiana air program revision became effective on August 8, 2011. However, a recent decision by the federal D.C. Circuit Court of Appeals struck down a similar, but perhaps distinguishable, EPA guidance document regarding alternatives to Section 185 fees. At this time, the viability of EPA's approval of Louisiana's elimination of Section 185 fees is uncertain. Regardless of the approach ultimately adopted by the EPA, we expect that it is likely to be challenged by the environmental community, the states, and/or affected industries. Therefore, the costs associated with compliance with the Act cannot be determined at this time, and we cannot reasonably estimate the impact on the Company's financial position, results of operations or cash flows.

Clean Air Act Information Request

On February 26, 2009, the Company received a letter from the EPA under Section 114 of the Act requesting information and copies of records relating to compliance with New Source Review and New Source Performance Standards at the Donaldsonville facility. The Company has completed the submittal of all requested information. There has been no further contact from the EPA regarding this matter.

Other

CERCLA/Remediation Matters

From time to time, we receive notices from governmental agencies or third parties alleging that we are a potentially responsible party at certain cleanup sites under CERCLA or other environmental

Table of Contents

CF INDUSTRIES HOLDINGS, INC.

cleanup laws. In 2002 and in 2009, we were asked by the current owner of a former phosphate mine and processing facility that we are alleged to have operated in the late 1950s and early 1960s located in Georgetown Canyon, Idaho, to contribu