Bunge LTD
Form 10-Q
November 09, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

OR

o **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 001-16625

BUNGE LIMITED

(Exact name of registrant as specified in its charter)

Bermuda	**98-0231912**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
50 Main Street, White Plains, New York	**10606**
(Address of principal executive offices)	(Zip Code)

(914) 684-2800
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 ý No o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes o No ý

As of November 2, 2006, the number of common shares issued and outstanding of the registrant was:

Common shares, par value $.01: 119,781,430

BUNGE LIMITED

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

BUNGE LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(United States Dollars in Millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Net sales	$ 6,965	$ 6,248	$ 18,591	$ 17,624
Cost of goods sold	(6,480)	(5,841)	(17,534)	(16,405)
Gross profit	**485**	**407**	**1,057**	**1,219**
Selling, general and administrative expenses	(255)	(230)	(700)	(669)
Interest income	29	29	87	78
Interest expense	(66)	(56)	(194)	(163)
Foreign exchange gain	7	3	35	10
Other income (expense) net	3	11	7	16
Income from operations before income tax	**203**	**164**	**292**	**491**
Income tax (expense) benefit	(25)	18	(33)	(78)
Income from operations after tax	**178**	**182**	**259**	**413**
Minority interest	(19)	(22)	(38)	(59)
Equity in earnings of affiliates	10	10	36	27
Net income	**$ 169**	**$ 170**	**$ 257**	**$ 381**
Earnings per common share basic (Note 15):				
Net income per share	$ 1.41	$ 1.53	$ 2.15	$ 3.43
Earnings per common share diluted (Note 15):				
Net income per share	$ 1.40	$ 1.41	$ 2.13	$ 3.18

The accompanying notes are an integral part of these condensed consolidated financial statements.

BUNGE LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(United States Dollars in Millions, except share data)

	September 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 287	$ 354
Trade accounts receivable (less allowance of $219 and $180)	2,008	1,702
Inventories (Note 3)	3,430	2,769
Deferred income taxes	100	102
Other current assets (Note 5)	1,979	1,637
Total current assets	7,804	6,564
Property, plant and equipment, net	3,165	2,900
Goodwill (Note 6)	189	176
Other intangible assets	123	132
Investments in affiliates	637	585
Deferred income taxes	569	462
Other non-current assets	734	627
Total assets	$ 13,221	$ 11,446
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 771	$ 411
Current portion of long-term debt	156	178
Trade accounts payable	2,008	1,803
Deferred income taxes	41	38
Other current liabilities (Note 7)	1,313	1,187
Total current liabilities	4,289	3,617
Long-term debt	3,114	2,557
Deferred income taxes	146	145
Other non-current liabilities	577	576
Commitments and contingencies (Note 12)		
Minority interest in subsidiaries	381	325
Shareholders' equity:		
Common shares, par value $.01; authorized 240,000,000 shares; issued and outstanding: 2006 119,733,965 shares, 2005 119,184,696 shares	1	1
Additional paid-in capital	2,688	2,630
Retained earnings	2,110	1,907
Accumulated other comprehensive loss	(85)	(312)
Total shareholders' equity	4,714	4,226
Total liabilities and shareholders' equity	$ 13,221	$ 11,446

The accompanying notes are an integral part of these condensed consolidated financial statements.

BUNGE LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(United States Dollars in Millions)

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
OPERATING ACTIVITIES		
Net income	$ 257	$ 381
Adjustments to reconcile net income to cash used for operating activities:		
Foreign exchange gain on debt	(93)	(177)
Impairment of assets	20	
Bad debt expense	35	24
Depreciation, depletion and amortization	239	201
Increase (decrease) in allowance for recoverable taxes	1	(27)
Deferred income taxes	(50)	(80)
Minority interest	38	59
Equity in earnings of affiliates	(36)	(27)
Changes in operating assets and liabilities, excluding the effects of acquisitions:		
Trade accounts receivable	(236)	(99)
Inventories	(551)	(216)
Prepaid commodity purchase contracts	(111)	(60)
Secured advances to suppliers	258	148
Trade accounts payable	113	(68)
Advances on sales	(54)	39
Unrealized net (gain) loss on derivative contracts	(124)	74
Accrued liabilities	30	7
Other net	(284)	(229)
Net cash used for operating activities	(548)	(50)
INVESTING ACTIVITIES		
Payments made for capital expenditures	(315)	(342)
Investments in affiliates	(68)	(2)
Business acquisitions (net of cash acquired) and payments for intangible assets	(29)	(29)
Return of capital from affiliate	13	7
Related party loans	19	13
Proceeds from sale of investments	11	
Proceeds from disposal of property, plant and equipment	8	10
Net cash used for investing activities	(361)	(343)
FINANCING ACTIVITIES		
Net change in short-term debt	339	11
Proceeds from long-term debt	761	1,195
Repayment of long-term debt	(213)	(845)
Proceeds from sale of common shares	11	12
Dividends paid to shareholders	(54)	(46)
Dividends paid to minority interest	(16)	(51)
Net cash provided by financing activities	828	276
Effect of exchange rate changes on cash and cash equivalents	14	11

	Nine Months Ended September 30,	
Net decrease in cash and cash equivalents	(67)	(106)
Cash and cash equivalents, beginning of period	354	432
Cash and cash equivalents, end of period	$ 287	$ 326

The accompanying notes are an integral part of these condensed consolidated financial statements.

BUNGE LIMITED AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Bunge Limited and its subsidiaries (Bunge) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934, as amended (Exchange Act). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation have been included. The consolidated balance sheet at December 31, 2005 has been derived from Bunge's audited financial statements at that date. Operating results for the three and nine months ended September 30, 2006 are not necessarily indicative of the results to be expected for the year ending December 31, 2006. The financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2005 included in Bunge's 2005 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC).

Effective January 1, 2006, Bunge adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment* (SFAS No. 123R). See Note 14 of the notes to the condensed consolidated financial statements.

Reclassifications In the three months ended September 30, 2006, Bunge corrected its classification of interest on secured advances to suppliers by reclassifying amounts from cost of goods sold to net sales. The effect of this reclassification increased cost of goods sold and net sales by $17 million and $22 million in the three months ended September 30, 2006 and 2005, respectively, and $62 million and $75 million in the nine months ended September 30, 2006 and 2005, respectively. The correction does not affect gross profit, segment operating profit or net income. During the nine months ended September 30, 2006, certain earnings on investments in affiliates were reclassified from other income (expense) net to equity earnings in affiliates in the condensed consolidated statements of income. In addition, certain product lines were reclassified from the agribusiness segment to the edible oil products segment. As a result, amounts in Bunge's condensed consolidated statements of income and segment results for the three and nine months ended September 30, 2005 have been reclassified to conform to the current period presentation.

2. NEW ACCOUNTING STANDARDS

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108), to address diversity in practice in quantifying financial statement misstatements. SAB 108 requires utilizing a "dual-approach" to assess the quantitative effects of financial misstatements. This dual approach includes both an income statement focused assessment and a balance sheet focused assessment. SAB 108 allows a one-time transitional cumulative effect adjustment to retained earnings as of January 1, 2006 for errors that were not previously deemed material, but are material under the SAB 108 guidance. SAB 108 is effective for fiscal years ending after November 15, 2006. Bunge is currently evaluating the impact the adoption of SAB 108 will have on its consolidated financial statements.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (SFAS No. 158). SFAS No. 158 amends SFAS No. 87, *Employer's Accounting for Pensions*, SFAS No. 88, *Employer's Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, SFAS No. 106, *Employer's Accounting for Postretirement Benefits Other Than Pensions*, and SFAS No. 132 (R), *Employer's Disclosures about Pensions and Other Postretirement Benefits.* SFAS No. 158 requires an entity, which sponsors defined postretirement benefit plans, to: a) recognize in its statement of financial position an asset for a defined benefit postretirement plan's overfunded

BUNGE LIMITED AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

2. NEW ACCOUNTING STANDARDS (continued)

status or a liability for a plan's underfunded status, b) measure a defined benefit postretirement plan's assets and obligations that determine its funded status as of the end of the employer's fiscal year and c) recognize changes in the funded status of a defined benefit postretirement plan in comprehensive income in the year in which the changes occur. The requirement to recognize funded status of a defined benefit postretirement plan and the disclosure requirements are effective for fiscal years ending after December 15, 2006 for public companies. The requirement to measure a defined benefit postretirement plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. Bunge will recognize the funded status of its defined benefit postretirement plans and provide the required disclosures as of its December 31, 2006 fiscal year end. Bunge is currently evaluating the provisions of SFAS No. 158 to determine the potential impact the adoption will have on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, provides enhanced guidance for using fair value to measure assets and liabilities under current U.S. GAAP standards and expands the disclosure of the methods used and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other U.S. GAAP standards require (or permit) assets or liabilities to be measured at fair value. SFAS No. 157 does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Bunge is currently evaluating the provisions of SFAS No. 157 to determine the potential impact, if any, the adoption will have on its consolidated financial statements.

In July 2006, the FASB issued two related standards that address accounting for income taxes: FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), and FASB Staff Position (FSP) FAS 13-2, *Accounting for a Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction* (FSP FAS 13-2). Among other things, FIN 48 requires applying a "more likely than not" threshold to the recognition and derecognition of tax positions, while FSP FAS 13-2 requires a recalculation of returns on leveraged leases if there is a change or projected change in the timing of cash flows relating to income taxes generated by the leveraged lease. The new guidance will be effective for Bunge on January 1, 2007. Bunge is currently evaluating FIN 48 and FSP FAS 13-2 to determine the potential impact, if any, these standards will have on its consolidated financial statements. Prior periods will not be restated as a result of these required accounting changes.

In April 2006, the FASB issued FSP FIN No. 46(R)-6, *Determining the Variability to be Considered in Applying FASB Interpretation No. 46(R),* which addresses certain implementation issues related to FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities* (FIN 46(R)). FSP FIN No. 46(R)-6 is to be applied prospectively by a company to all entities with which a company first becomes involved and to all entities previously required to be analyzed under FIN 46(R) when a consideration event has occurred beginning the first day of the first reporting period beginning after June 2006. Retrospective application to the date of the initial application is permitted but not required; however, if elected, it must be completed no later than the end of the first annual reporting period ending after July 15, 2006. Bunge has elected to apply FSP FIN No. 46(R)-6 prospectively and has determined that there is no material impact to Bunge's consolidated financial statements as a result of this application.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140* (SFAS No. 156), which is effective for fiscal years beginning after September 15, 2006. SFAS No. 156 was issued to simplify the accounting for servicing rights and to reduce the volatility that results from using different measurement attributes. Bunge is currently evaluating SFAS No. 156 to determine the potential impact, if any, the adoption will have on its consolidated financial statements.

BUNGE LIMITED AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

2. NEW ACCOUNTING STANDARDS (continued)

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140* (SFAS No. 155), which is effective for fiscal years beginning after September 15, 2006. SFAS No. 155 was issued to clarify the application of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133) to beneficial interests in securitized financial assets and to improve the consistency of accounting for similar financial instruments, regardless of the form of the instruments. Bunge is currently evaluating SFAS No. 155 to determine the potential impact, if any, the adoption will have on its consolidated financial statements.

3. INVENTORIES

Inventories consist of the following:

(US$ in millions)	September 30, 2006	December 31, 2005
Agribusiness Readily marketable inventories at market value[1]	$ 2,121	$ 1,534
Fertilizer	581	421
Edible oils	274	375
Milling	55	73
Other[2]	399	366
Total	$ 3,430	$ 2,769

(1) Readily marketable inventories are agricultural commodities inventories that are readily convertible to cash because of their commodity characteristics, widely available markets and international pricing mechanisms.

(2) Other consists of agribusiness inventories, other than readily marketable inventories, carried at lower of cost or market.

4. INVESTMENTS IN AFFILIATES

During the nine months ended September 30, 2006, Bunge made investments in its unconsolidated affiliates, which consisted primarily of a $16 million cash acquisition of 25% of the outstanding shares of a company engaged in the production of edible oil products in Russia and a $35 million investment in Bunge's existing Brazilian port terminal joint ventures. Bunge accounts for these investments under the equity method.

BUNGE LIMITED AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

5. OTHER CURRENT ASSETS

Other current assets consist of the following:

(US$ in millions)	September 30, 2006	December 31, 2005
Prepaid commodity purchase contracts	$ 208	$ 93
Secured advances to suppliers	428	635
Unrealized gain on derivative contracts	486	196
Recoverable taxes	222	216
Marketable securities	9	9
Other	626	488
Total	$ 1,979	$ 1,637

6. GOODWILL

At September 30, 2006, the changes in the carrying value of goodwill by segment are as follows:

(US$ in millions)	Agribusiness	Edible Oil Products	Milling Products	Total
Balance, December 31, 2005	$ 155	$ 13	$ 8	$ 176
Acquired goodwill(1)	11	2		13
Foreign exchange translation	13			13
Tax benefit on goodwill amortization(2)	(13)			(13)
Balance, September 30, 2006	$ 166	$ 15	$ 8	$ 189

(1) During the nine months ended September 30, 2006, Bunge acquired two soybean crushing and refining businesses in China for approximately $23 million in cash. As a result of these acquisitions, Bunge recognized $11 million as goodwill, which it allocated to its agribusiness segment.

(2) Bunge's Brazilian subsidiary's tax deductible goodwill is in excess of its book goodwill. For financial reporting purposes, the tax benefits attributable to the excess tax goodwill are first used to reduce recorded goodwill and then to reduce intangible assets prior to recognizing any income tax benefit in the condensed consolidated statements of income.

7. OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

(US$ in millions)	September 30, 2006	December 31, 2005
Accrued liabilities	$ 647	$ 669
Unrealized loss on derivative contracts	402	264
Advances on sales	148	202
Other	116	52
Total	$ 1,313	$ 1,187

(US$ in millions)	September 30, 2006	December 31, 2005

8. IMPAIRMENT AND RESTRUCTURING CHARGES

Impairment In the nine months ended September 30, 2006, Bunge recorded a pretax non-cash impairment charge of $18 million and $2 million in its agribusiness and edible oil products segments, respectively, relating to write-downs of three less efficient oilseed processing, refining and bottling facilities in Brazil. Declining results of operations at these facilities, which resulted from adverse operating conditions in the Brazilian agribusiness industry, competition from Argentina and the strength of the Brazilian currency, led management to permanently close these three facilities. The fair values of land and equipment at these three facilities were determined with the assistance of a third-party valuation. Bunge has recorded these impairment charges in cost of goods sold in the condensed consolidated statements of income for the nine months ended September 30, 2006.

BUNGE LIMITED AND SUBSIDIARIES
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8. IMPAIRMENT AND RESTRUCTURING CHARGES (continued)

Restructuring In the nine months ended September 30, 2006, Bunge recorded restructuring charges of $4 million related to its South American agribusiness and fertilizer operations. These charges consisted of termination benefit costs of $1 million and $2 million in the agribusiness and fertilizer segments, respectively, and environmental costs of $1 million in the agribusiness segment. In the agribusiness segment, termination costs for the nine months ended September 30, 2006 related to termination benefit obligations associated with approximately 400 plant employees and the environmental expense related to the closure of the three oilseed processing, refining and bottling facilities noted above. In the fertilizer segment, termination costs for the nine months ended September 30, 2006 related to the termination of approximately 100 administrative employees in connection with Bunge's cost reduction programs. These restructuring costs were associated with Bunge's 2005 corporate restructuring program which was designed to streamline costs and rationalize the corporate structure in these segments. Funding for these costs is provided by cash flows from operations. All termination benefit obligations were paid as of September 30, 2006. The environmental costs are accrued in other non-current liabilities in the condensed consolidated balance sheet at September 30, 2006. The restructuring and environmental costs for the agribusiness segment were recorded in cost of goods sold and the restructuring costs for the fertilizer segment were recorded in selling, general and administrative expense in the condensed consolidated statement of income for the nine months ended September 30, 2006.

9. LONG-TERM DEBT AND FINANCIAL INSTRUMENTS

The interest rate swaps used by Bunge as derivative hedging instruments have been recorded at fair value in other liabilities in the condensed consolidated balance sheet with changes in fair value recorded currently in earnings. Additionally, the carrying amount of the associated debt is adjusted through earnings for changes in the fair value due to changes in interest rates. Ineffectiveness, as defined in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), is recognized to the extent that these two adjustments do not offset. As of September 30, 2006, Bunge recognized no ineffectiveness related to its interest rate swap hedging instruments. The derivatives Bunge entered into for hedge purposes are assumed to be perfectly effective under the shortcut method of SFAS No. 133. The differential between the fixed and variable rates to be paid or received on changes in interest rates is recorded as an adjustment to interest expense. The interest rate differential on the swaps settles in cash every six months until expiration.

During the three months ended June 30, 2006, Bunge entered into various interest rate swap agreements with a notional amount of $200 million maturing in 2013 for the purpose of managing its interest rate exposure associated with $200 million principal amount of 5.875% senior notes due 2013. In the three months ended September 30, 2006, Bunge terminated these interest rate swap agreements and recognized a settlement gain on the termination of approximately $3 million. This gain will be amortized to earnings over the remaining life of the 5.875% senior notes due 2013. Bunge had accounted for the interest rate swap agreements as fair value hedges in accordance with SFAS No. 133.

The following table summarizes Bunge's outstanding interest rate swap agreements accounted for as fair value hedges as of September 30, 2006.

	Maturity				Fair Value Loss
(US$ in millions)	2008	2014	2015	Total	September 30, 2006
Receive fixed/pay variable notional amount	$ 500	$ 500	$ 400	$ 1,400	$ (45)
Weighted average variable rate payable[(1)]	6.031%	6.502%	5.577%		
Weighted average fixed rate receivable	4.375%	5.35%	5.10%		

(1) Interest is payable in arrears based on six-month LIBOR plus a spread.

BUNGE LIMITED AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

9. LONG-TERM DEBT AND FINANCIAL INSTRUMENTS (continued)

Bunge recognized approximately $3 million and $12 million of interest expense in the condensed consolidated statement of income in the three months and nine months ended September 30, 2006, respectively, relating to its outstanding interest rate swap agreements.

Certain of Bunge's operations are subject to risk from exchange rate fluctuations in connection with anticipated sales in foreign currencies. To minimize this risk, during the nine months ended September 30, 2006, a combination of foreign exchange contracts and zero cost collars were purchased and designated as cash flow hedges in accordance with SFAS No. 133. Accordingly, changes in fair values of outstanding cash flow hedge derivatives that are highly effective are recorded in other comprehensive income, until net income is affected by the variability of cash flows of the hedged transaction. In most cases, amounts recorded in other comprehensive income will be released to net income some time after the maturity of the related derivative. Results of hedges related to sales in foreign currencies are recorded in net sales in the condensed consolidated statement of income for the three and nine months ended September 30, 2006. As of September 30, 2006, approximately $250 million of anticipated foreign currency denominated sales have been hedged with the underlying derivative contracts settling at various dates beginning in October 2006 through December 2007. At September 30, 2006, the fair value of contracts expected to settle within the next 18 months, which is recorded in other current assets, approximated $6 million. The change in the fair value of the contracts designated as cash flow hedges is recorded as a component of other comprehensive income and was approximately $4 million, net of income taxes, as of September 30, 2006. The change in the fair value will be reclassified into earnings when the anticipated sales occur with approximately $2 million, net of tax, expected to be released to earnings in 2006. The ineffective portion of these hedges was not material. Bunge assesses, both at the inception of the hedge and on an on-going basis, whether the derivatives that are used in hedge transactions are highly effective in offsetting changes in cash flow hedged items.

In connection with Bunge's commodities activities, Bunge enters into ocean freight derivatives to manage its exposure to ocean freight price volatility. The ocean freight derivatives are recognized in other current assets and liabilities in the consolidated balance sheets at fair value. In the three months ended September 30, 2006, a substantial portion of these ocean freight derivatives were designated as fair value hedges of Bunge's unrecognized firm commitment to purchase time on ocean freight vessels in accordance with SFAS No. 133. Changes in the fair value of the ocean freight derivatives that are qualified, designated and highly effective as a fair value hedge, along with the gain or loss on the hedged firm commitment to purchase time on ocean freight vessels that is attributable to the hedged risk, are recorded currently in cost of goods sold. There was no net gain or loss recognized in the condensed consolidated statement of income for the three and nine months ended September 30, 2006 due to hedge ineffectiveness.

10. RELATED PARTY TRANSACTIONS

Bunge purchased soybeans, related soybean commodity products and other commodity products from its unconsolidated joint ventures (primarily The Solae Company and its other North American joint ventures), which totaled $113 million and $135 million for the three months ended September 30, 2006 and 2005, respectively, and $259 million and $332 million for the nine months ended September 30, 2006 and 2005, respectively. Bunge also sold soybean commodity products and other commodity products to its North American and certain European joint ventures, which totaled $46 million and $58 million for the three months ended September 30, 2006 and 2005, respectively, and $99 million and $96 million for the nine months ended September 30, 2006 and 2005, respectively. Bunge believes these transactions were recorded at values similar to those with third parties.

BUNGE LIMITED AND SUBSIDIARIES
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(Unaudited)

11. EMPLOYEE BENEFIT PLANS

	Pension Benefits Three Months Ended September 30,		Pension Benefits Nine Months Ended September 30,	
(US$ in millions)	**2006**	**2005**	**2006**	**2005**
Service cost	$ 3	$ 3	$ 9	$ 7
Interest cost	5	5	15	13
Expected return on plan assets	(5)	(4)	(15)	