

POTASH CORP OF SASKATCHEWAN INC

Form 10-Q

November 08, 2005

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2005

OR

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

**Commission File Number 1-10351
POTASH CORPORATION OF SASKATCHEWAN INC.
(Exact name of registrant as specified in its charter)**

Canada
*(State or other jurisdiction of
incorporation or organization)*

N/A
*(I.R.S. Employer
Identification No.)*

**122 1st Avenue South
Saskatoon, Saskatchewan, Canada**
(Address of principal executive offices)

S7K 7G3
(Zip Code)

306-933-8500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 is an accelerated filer (as defined in Exchange Act Rule 12b-2).

YES NO

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).

YES NO

As at October 31, 2005, Potash Corporation of Saskatchewan Inc. had 106,820,371 Common Shares outstanding.

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Potash Corporation of Saskatchewan Inc.
Condensed Consolidated Statements of Financial Position
(in millions of US dollars except share amounts)
(unaudited)

	September 30, 2005	December 31, 2004
Assets		
Current assets		
Cash and cash equivalents	\$ 328.0	\$ 458.9
Accounts receivable	416.6	352.6
Inventories (Note 3)	432.3	396.8
Prepaid expenses and other current assets	49.2	35.3
	1,226.1	1,243.6
Property, plant and equipment	3,173.4	3,098.9
Other assets (Note 4)	844.7	650.2
Intangible assets	35.6	37.1
Goodwill	97.0	97.0
	\$5,376.8	\$5,126.8
Liabilities		
Current liabilities		
Short-term debt	\$ 94.7	\$ 93.5
Accounts payable and accrued charges	840.8	599.9
Current portion of long-term debt	10.2	10.3
	945.7	703.7
Long-term debt	1,257.8	1,258.6
Future income tax liability	534.3	499.4
Accrued post-retirement/post-employment benefits	214.1	193.4
Accrued environmental costs and asset retirement obligations	84.7	81.2
Other non-current liabilities and deferred credits	19.3	4.9
	3,055.9	2,741.2
Contingencies and Guarantees (Notes 15 and 16, respectively)		
Shareholders Equity		
Share capital (Note 5)	1,425.7	1,408.4
Unlimited authorization of common shares without par value; issued and outstanding 107,145,871 and 110,630,503 at		

September 30, 2005 and December 31, 2004, respectively

Unlimited authorization of first preferred shares; none outstanding		
Contributed surplus (Note 5)		275.7
Retained earnings (Note 5)	895.2	701.5
	2,320.9	2,385.6
	\$5,376.8	\$5,126.8

(See Notes to the Condensed Consolidated Financial Statements)

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Potash Corporation of Saskatchewan Inc.
Condensed Consolidated Statements of Operations and Retained Earnings
(in millions of US dollars except per-share amounts)
(unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
Sales (Note 10)	\$938.0	\$815.7	\$2,916.7	\$2,377.8
Less: Freight	59.9	51.2	194.5	178.2
Transportation and distribution	29.8	23.6	90.8	77.9
Cost of goods sold	568.8	551.5	1,748.6	1,637.6
Gross Margin	279.5	189.4	882.8	484.1
Selling and administrative	31.8	32.2	116.0	83.8
Provincial mining and other taxes	28.8	23.1	111.4	67.5
Provision for PCS Yumbes S.C.M. (Note 7)				5.9
Foreign exchange loss	24.4	20.1	12.4	2.0
Other income (Note 13)	(20.4)	(19.1)	(54.3)	(35.2)
	64.6	56.3	185.5	124.0
Operating Income	214.9	133.1	697.3	360.1
Interest Expense	20.4	20.8	61.7	63.8
Income Before Income Taxes	194.5	112.3	635.6	296.3
Income Taxes (Note 8)	64.2	37.1	209.8	97.8
Net Income	\$130.3	\$ 75.2	425.8	198.5
Retained Earnings, Beginning of Period			701.5	462.8
Premium Paid on Repurchase of Common Shares (Note 5)			(182.9)	
Dividends			(49.2)	(43.2)
Retained Earnings, End of Period			\$ 895.2	\$ 618.1
Net Income Per Share (Note 9)				
Basic	\$ 1.20	\$ 0.69	\$ 3.88	\$ 1.85
Diluted	\$ 1.17	\$ 0.68	\$ 3.79	\$ 1.82
Dividends Per Share	\$ 0.15	\$ 0.15	\$ 0.45	\$ 0.40

(See Notes to the Condensed Consolidated Financial Statements)

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Potash Corporation of Saskatchewan Inc.
Condensed Consolidated Statements of Cash Flow
(in millions of US dollars)
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2005	2004	2005	2004
Operating Activities				
Net income	\$ 130.3	\$ 75.2	\$ 425.8	\$ 198.5
Adjustments to reconcile net income to cash provided by operating activities				
Depreciation and amortization	59.0	55.6	181.0	179.2
Stock-based compensation	1.7	2.8	25.7	8.4
Loss (gain) on disposal of long-term assets	0.2	(0.3)	5.7	(0.6)
Foreign exchange on future income tax	14.0	13.6	10.0	5.8
Provision for future income tax	6.4	9.9	21.0	34.2
Share of earnings of equity investees	(16.8)	(12.0)	(43.3)	(19.7)
Dividends received from equity investees	6.5		18.6	4.6
Provision for PCS Yumbes S.C.M.				5.9
Other long-term liabilities	3.6	(4.2)	22.6	1.7
Subtotal of adjustments	74.6	65.4	241.3	219.5
Changes in non-cash operating working capital				
Accounts receivable	(42.8)	(18.7)	(70.8)	(9.1)
Inventories	(43.5)	13.4	(33.9)	16.5
Prepaid expenses and other current assets	(14.7)	(18.5)	(14.2)	(11.6)
Accounts payable and accrued charges	212.2	51.8	231.8	71.9
Subtotal of changes in non-cash operating working capital	111.2	28.0	112.9	67.7
Cash provided by operating activities	316.1	168.6	780.0	485.7
Investing Activities				
Additions to property, plant and equipment	(120.6)	(43.9)	(251.9)	(93.3)
Investment in Arab Potash Company (APC)			(18.6)	
Investment in Israel Chemicals Ltd. (ICL)			(74.9)	
Investment in Sinochem Hong Kong Holdings Limited	(97.4)		(97.4)	
Proceeds from disposal of long-term assets	0.6	0.5	9.0	1.2
Proceeds from sale of shares of PCS Yumbes S.C.M.			5.2	
Other assets and intangible assets	4.7	0.3	4.6	4.6
Cash used in investing activities	(212.7)	(43.1)	(424.0)	(87.5)
Cash before financing activities	103.4	125.5	356.0	398.2

Financing Activities				
Repayment of long-term debt obligations	(0.3)	(0.2)	(0.9)	(0.7)
Proceeds from (repayment of) short-term debt obligations	1.4	3.5	1.2	(81.3)
Dividends	(16.2)	(12.8)	(49.4)	(39.8)
Repurchase of common shares	(213.5)		(530.9)	
Issuance of common shares	29.9	58.2	93.1	99.6
Cash (used in) provided by financing activities	(198.7)	48.7	(486.9)	(22.2)
(Decrease) Increase in Cash and Cash Equivalents	(95.3)	174.2	(130.9)	376.0
Cash and Cash Equivalents, Beginning of Period	423.3	206.5	458.9	4.7
Cash and Cash Equivalents, End of Period	\$ 328.0	\$380.7	\$ 328.0	\$380.7
Supplemental cash flow disclosure				
Interest paid	\$ 14.1	\$ 11.4	\$ 54.8	\$ 55.0
Income taxes paid	\$ 19.0	\$ 6.8	\$ 126.4	\$ 22.1

(See Notes to the Condensed Consolidated Financial Statements)

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Potash Corporation of Saskatchewan Inc.
Notes to the Condensed Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2005
(in millions of US dollars except share and per-share amounts)
(unaudited)

1. Significant Accounting Policies

Basis of Presentation

With its subsidiaries, Potash Corporation of Saskatchewan Inc. (PCS) together known as PotashCorp or the company except to the extent the context otherwise requires forms an integrated fertilizer and related industrial and feed products company. The company's accounting policies are in accordance with accounting principles generally accepted in Canada (Canadian GAAP). These policies are consistent with accounting principles generally accepted in the United States (US GAAP) in all material respects except as outlined in Note 17. The accounting policies used in preparing these interim condensed consolidated financial statements are consistent with those used in the preparation of the 2004 annual consolidated financial statements, except as disclosed in Note 2.

These interim condensed consolidated financial statements include the accounts of PCS and its subsidiaries; however, they do not include all disclosures normally provided in annual consolidated financial statements and should be read in conjunction with the 2004 annual consolidated financial statements. In management's opinion, the unaudited financial statements include all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly such information. Interim results are not necessarily indicative of the results expected for the fiscal year.

Principles of Consolidation

The consolidated financial statements include the accounts of the company and its direct and indirect principal operating subsidiaries as listed below:

- PCS Sales (Canada) Inc.
- PCS Joint Venture, L.P. (PCS Joint Venture)
- PCS Sales (USA), Inc.
- PCS Phosphate Company, Inc.
- PCS Purified Phosphates
- White Springs Agricultural Chemicals, Inc. (White Springs)
- PCS Nitrogen, Inc. (PCS Nitrogen)
 - PCS Nitrogen Fertilizer, L.P.
 - PCS Nitrogen Ohio, L.P.
 - PCS Nitrogen Trinidad Limited
- PCS Cassidy Lake Company
- PCS Fosfatos do Brasil Ltda.

Recent Accounting Pronouncements

Comprehensive Income, Equity, Financial Instruments and Hedges

In January 2005, the CICA issued Section 1530, Comprehensive Income , Section 3251, Equity , Section 3855, Financial Instruments Recognition and Measurement and Section 3865, Hedges . The new standards increase harmonization with US GAAP and will require the following:

Financial assets will be classified as either held-to-maturity, held-for-trading or available-for-sale.

Held-to-maturity classification will be restricted to fixed maturity instruments that the company intends and is able to hold to maturity and will be accounted for at amortized cost. Held-for-trading instruments will be recorded at fair value with realized and unrealized gains and losses reported in net

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income. The remaining financial assets will be classified as available-for-sale. These will be recorded at fair value with unrealized gains and losses reported in a new category of the Consolidated Statements of Financial Position under shareholders' equity called other comprehensive income (OCI); and

Derivatives will be classified as held-for-trading unless designated as hedging instruments. All derivatives, including embedded derivatives that must be separately accounted for, will be recorded at fair value on the Consolidated Statement of Financial Position. For derivatives that hedge the changes in fair value of an asset or liability, changes in the derivatives' fair value will be reported in net income and be substantially offset by changes in the fair value of the hedged asset or liability attributable to the risk being hedged. For derivatives that hedge variability in cash flows, the effective portion of the changes in the derivatives' fair value will be initially recognized in OCI and the ineffective portion will be recorded in net income. The amounts temporarily recorded in OCI will subsequently be reclassified to net income in the periods when net income is affected by the variability in the cash flows of the hedged item.

The guidance will apply for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption will be permitted only as of the beginning of a fiscal year. The impact of implementing these new standards is not yet determinable as it is highly dependent on fair values, outstanding positions and hedging strategies at the time of adoption.

2. Change in Accounting Policy***Consolidation of Variable Interest Entities***

Effective January 1, 2005, the company adopted revised CICA Accounting Guideline 15 (AcG-15), Consolidation of Variable Interest Entities. AcG-15 is harmonized in all material respects with US GAAP and provides guidance for applying consolidation principles to certain entities (called variable interest entities or VIEs) that are subject to control on a basis other than ownership of voting interests. An entity is a VIE when, by design, one or both of the following conditions exist: (a) total equity investment at risk is insufficient to permit that entity to finance its activities without additional subordinated support from other parties; (b) as a group, the holders of the equity investment at risk lack certain essential characteristics of a controlling financial interest. AcG-15 requires consolidation by a business of VIEs in which it is the primary beneficiary. The primary beneficiary is defined as the party that has exposure to the majority of the expected losses and/or expected residual returns of the VIE. The adoption of this guideline did not have a material impact on the company's consolidated financial statements.

3. Inventories

	September 30, 2005	December 31, 2004
Finished product	\$206.7	\$181.8
Materials and supplies	98.6	97.7
Raw materials	46.0	50.3
Work in process	81.0	67.0
	\$432.3	\$396.8

4. Other Assets

In June 2005, the company acquired (i) one million additional shares in APC for \$18.6; and (ii) 21 million additional shares in ICL for \$74.9. As a result of the purchases, the company's ownership interest in APC and ICL increased to approximately 28 percent and 10 percent, respectively. The company accounts for its investment in APC under the equity method and for ICL under the cost method.

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In July 2005, the company acquired a 9.99 percent interest in the ordinary shares of Sinochem Hong Kong Holdings Limited for cash consideration of \$97.1, plus transaction costs. Pursuant to a strategic investment agreement, the company also holds an option to acquire an additional 10.01 percent interest within three years of the acquisition. The price for the shares subject to the option will be determined by the prevailing market price at the time of exercise. Sinochem Hong Kong Holdings Limited, a vertically-integrated fertilizer enterprise in the People's Republic of China, is a subsidiary of Sinochem Corporation and is listed on The Hong Kong Stock Exchange. The company accounts for its investment in Sinochem Hong Kong Holdings Limited under the cost method.

5. Share Repurchase

On January 25, 2005, the Board of Directors of PCS authorized a share repurchase program of up to 5.5 million common shares (approximately 5 percent of the company's issued and outstanding common shares) through a normal course issuer bid. On September 22, 2005, the Board of Directors authorized an increase in the number of common shares sought under the share repurchase program. This amendment allows PotashCorp to repurchase up to 4.0 million additional common shares. Shares may be repurchased from time to time on the open market through February 14, 2006 at prevailing market prices. The timing and amount of purchases, if any, under the program will be dependent upon the availability and alternative uses of capital, market conditions and other factors.

During the third quarter of 2005, the company repurchased for cancellation 2,275,600 common shares under the program, at a net cost of \$243.9 and an average price per share of \$107.19. The repurchase resulted in a reduction of share capital of \$30.2, and the excess net cost over the average book value of the shares has been recorded as a reduction of contributed surplus of \$30.8 and a reduction of retained earnings of \$182.9. For the nine months ended September 30, 2005, a total of 5,928,900 shares were repurchased at a net cost of \$561.3 and an average price per share of \$94.68, resulting in a reduction of share capital of \$77.7, a reduction of contributed surplus of \$300.7, and a reduction of retained earnings of \$182.9.

6. Plant Shutdowns 2003

In June 2003, the company indefinitely shut down its Memphis, Tennessee plant and suspended production of certain products at its Geismar, Louisiana facilities due to high US natural gas costs and low product margins. The company determined that all employee positions pertaining to the affected operations would be eliminated and recorded \$4.8 in connection with costs of special termination benefits in 2003. No significant payments relating to the terminations remain to be made. Management expects to incur other shutdown-related costs of approximately \$10.3 should these nitrogen facilities be dismantled, and nominal annual expenditures for site security and other maintenance costs. The other shutdown-related costs have not been recorded in the consolidated financial statements as of September 30, 2005. Such costs will be recognized and recorded in the period in which they are incurred.

No additional significant costs were incurred in connection with the plant shutdowns in the first nine months of 2005. The following table summarizes, by reportable segment, the total costs incurred to date and the total costs expected to be incurred in connection with the plant shutdowns described above:

	Cumulative Costs Incurred to Date	Total Costs Expected to be Incurred
Nitrogen Segment		
Employee termination and related benefits	\$ 4.8	\$ 4.8
Writedown of parts inventory	12.4	12.4
Asset impairment charges	101.6	101.6
Other related exit costs		10.3
	\$ 118.8	\$ 129.1

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In December 2004, the company concluded the sale of 100 percent of its shares of PCS Yumbes to Sociedad Quimica y Minera de Chile S.A. (SQM). In the second quarter of 2004, the company recorded a writedown of \$5.9 for PCS Yumbes, relating primarily to certain mining machinery and equipment that was not to be transferred to SQM under the terms of the agreement. For measurement purposes, fair value was determined in reference to market prices for similar assets. The machinery and equipment was sold in 2005 for nominal proceeds.

8. Income Taxes

The company's consolidated income tax rate for each of the three month and nine month periods ended September 30, 2005 is approximately 33 percent (2004 33 percent).

9. Net Income Per Share

Basic net income per share for the quarter is calculated on the weighted average shares issued and outstanding for the three months ended September 30, 2005 of 108,164,000 (2004 108,232,000). Basic net income per share for the nine months ended September 30, 2005 is calculated on the weighted average shares issued and outstanding for the nine months ended September 30, 2005 of 109,623,000 (2004 107,325,000).

Diluted net income per share is calculated based on the weighted average number of shares issued and outstanding during the period. The denominator is: (i) increased by the total of the additional common shares that would have been issued assuming exercise of all stock options with exercise prices at or below the average market price for the period; and (ii) decreased by the number of shares that the company could have repurchased if it had used the assumed proceeds from the exercise of stock options to repurchase them on the open market at the average share price for the period. The weighted average number of shares outstanding for the diluted net income per share calculation for the three months ended September 30, 2005 was 111,102,000 (2004 111,174,000) and for the nine months ended September 30, 2005 was 112,460,000 (2004 109,340,000).

10. Segment Information

The company has three reportable business segments: potash, phosphate and nitrogen. These business segments are differentiated by the chemical nutrient contained in the product that each produces. Inter-segment sales are made under terms that approximate market value. The accounting policies of the segments are the same as those described in Note 1.

	Three Months Ended September 30, 2005				Consolidated
	Potash	Phosphate	Nitrogen	All Others	
Sales	\$313.4	\$291.9	\$332.7	\$	\$938.0
Freight	30.6	20.4	8.9		59.9
Transportation and distribution	8.5	10.3	11.0		29.8
Net sales third party	274.3	261.2	312.8		
Cost of goods sold	106.7	229.0	233.1		568.8
Gross margin	167.6	32.2	79.7		279.5
Depreciation and amortization	14.6	23.8	18.1	2.5	59.0
Inter-segment sales	0.5	2.5	26.2		

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	Three Months Ended September 30, 2004				Consolidated
	Potash	Phosphate	Nitrogen	All Others	
Sales	\$251.8	\$257.7	\$306.2	\$	\$815.7
Freight	23.0	19.7	8.5		51.2
Transportation and distribution	5.6	8.8	9.2		23.6
Net sales third party	223.2	229.2	288.5		
Cost of goods sold	102.4	228.6	220.5		551.5
Gross margin	120.8	0.6	68.0		189.4
Depreciation and amortization	13.4	21.3	18.5	2.4	55.6
Inter-segment sales	1.0	3.3	20.8		

	Nine Months Ended September 30, 2005				Consolidated
	Potash	Phosphate	Nitrogen	All Others	
Sales	\$1,067.1	\$847.7	\$1,001.9	\$	\$2,916.7
Freight	105.3	60.2	29.0		194.5
Transportation and distribution	27.1	27.2	36.5		90.8
Net sales third party	934.7	760.3	936.4		
Cost of goods sold	367.6	689.0	692.0		1,748.6
Gross margin	567.1	71.3	244.4		882.8
Depreciation and amortization	51.0	69.9	52.7	7.4	181.0
Inter-segment sales	4.9	11.4	74.7		

	Nine Months Ended September 30, 2004				Consolidated
	Potash	Phosphate	Nitrogen	All Others	
Sales	\$791.9	\$712.2	\$873.7	\$	\$2,377.8
Freight	97.7	51.5	29.0		178.2
Transportation and distribution	26.8	21.5	29.6		77.9
Net sales third party	667.4	639.2	815.1		
Cost of goods sold	358.5	633.8	645.3		1,637.6
Gross margin	308.9	5.4	169.8		484.1
Depreciation and amortization	50.2	63.2	58.7	7.1	179.2
Inter-segment sales	4.6	9.8	64.9		

11. Stock-based Compensation

The company has three stock option plans. On May 5, 2005, the company's shareholders approved the 2005 Performance Option Plan under which the company may, after February 28, 2005 and before January 1, 2006, issue up to 1,200,000 common shares pursuant to the exercise of options. Under the plan, the exercise price is the quoted market closing price of the company's common shares on the last trading day immediately preceding the date of grant and an option's maximum term is ten years. Options will vest, if at all, based on achievement of certain corporate performance measures over a three-year period. As of September 30, 2005, options to purchase a total of 1,188,500 common shares have been granted under the plan.

Prior to 2003, the company applied the intrinsic value based method of accounting for its stock option plans. Effective December 15, 2003, the company adopted the fair value based method of accounting for stock options prospectively to all employee awards granted, modified or settled after January 1, 2003. Since the company's stock option awards prior to 2003 vest over two years, the compensation cost included in the determination of net income for the three and nine month periods ended September 30, 2004 is less than that which would have been recognized if the fair value based method had been applied to all awards since the original effective date of CICA Section 3870, Stock-based Compensation and Other Stock-based Payments . The following table illustrates the effect on net income and the related per-share amount if the fair value based method had been applied to all outstanding and unvested awards in each period.

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	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
Net income as reported	\$130.3	\$75.2	\$425.8	\$198.5
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	1.1	2.2	17.2	6.6
Less: Total stock-based employee compensation expense determined under fair value based method for all option awards, net of related tax effects	(1.1)	(3.2)	(17.2)	(9.6)
Net income pro forma ⁽¹⁾	\$130.3	\$74.2	\$425.8	\$195.5

(1) Compensation expense under the fair value method is recognized over the vesting period of the related stock options. Accordingly, the pro forma results of applying this method may not be indicative of future results.

Basic net income per share				
As reported	\$ 1.20	\$0.69	\$ 3.88	\$ 1.85
Pro forma	\$ 1.20	\$0.69	\$ 3.88	\$ 1.82
Diluted net income per share				
As reported	\$ 1.17	\$0.68	\$ 3.79	\$ 1.82
Pro forma	\$ 1.17	\$0.67	\$ 3.79	\$ 1.79

In calculating the foregoing pro forma amounts, the fair value of each option grant was estimated as of the date of grant using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions:

	Year of Grant		
	2005	2003	2002
Expected dividend	\$ 0.60	\$ 0.50	\$ 0.50
Expected volatility	28%	27%	32%
Risk-free interest rate	3.86%	4.06%	4.13%
Expected life of options	6.5 years	8 years	8 years

The company did not grant any stock options during 2004.

12. Post-Retirement/Post-Employment Expenses

<i>Defined Benefit Pension Plans</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
Service cost	\$ 3.4	\$ 3.5	\$ 10.4	\$ 10.5
Interest cost	7.8	7.5	23.4	22.5
Expected return on plan assets	(9.5)	(8.4)	(27.9)	(25.2)

Net amortization	1.9	1.1	4.9	3.3
Net expense	\$ 3.6	\$ 3.7	\$ 10.8	\$ 11.1

<i>Other Post-Retirement Plans</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
Service cost	\$ 1.4	\$ 1.1	\$ 4.2	\$ 3.9
Interest cost	3.3	3.0	9.9	10.0
Net amortization	0.4	(0.3)	1.2	0.5
Net expense	\$ 5.1	\$ 3.8	\$ 15.3	\$ 14.4

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For the three months ended September 30, 2005, the company contributed \$6.4 to its defined benefit pension plans and \$1.5 to its other post-retirement plans. Contributions for the nine months ended September 30, 2005 were \$14.7 to the company's defined benefit pension plans and \$5.7 to its other post-retirement plans. Total 2005 contributions to the company's pension and other post-retirement plans are expected to approximate \$41.5.

13. Other Income

	Three Months		Nine Months	
	Ended September 30 2005	2004	Ended September 30 2005	2004
Share of earnings of equity investees	\$16.8	\$12.0	\$43.3	\$19.7
Dividend income	6.1	5.7	9.2	7.9
Other	(2.5)	1.4	1.8	7.6
	\$20.4	\$19.1	\$54.3	\$35.2

14. Seasonality

The company's sales of fertilizer can be seasonal. Typically, the second quarter of the year is when fertilizer sales will be highest, due to the North American spring planting season. However, planting conditions and the timing of customer purchases will vary each year and sales can be expected to shift from one quarter to another.

15. Contingencies***Canpotex***

PotashCorp is a shareholder in Canpotex Limited (Canpotex), which markets potash offshore. Should any operating losses or other liabilities be incurred by Canpotex, the shareholders have contractually agreed to reimburse Canpotex for such losses or liabilities in proportion to their productive capacity. There were no such operating losses or other liabilities during the first nine months of 2005 or 2004.

Mining Risk

In common with other companies in the industry, the company is unable to acquire insurance on its underground assets.

Investment in APC

The company is party to a shareholders agreement with Jordan Investment Company (JIC) with respect to its investment in APC. The terms of the shareholders agreement provide that, from October 17, 2006 to October 16, 2009, JIC may seek to exercise a put option (the Put) to require the company to purchase JIC's remaining common shares in APC. If the Put were exercised, the company's purchase price would be calculated in accordance with a specified formula based, in part, on future earnings of APC. The amount, if any, which the company may have to pay for JIC's remaining common shares if there were to be a valid exercise of the Put is not presently determinable.

Legal and Other Matters

In 1998, the company, along with other parties, was notified by the US Environmental Protection Agency (USEPA) of potential liability under the US federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) with respect to certain soil and groundwater conditions at a PCS Joint Venture blending facility in Lakeland, Florida and certain adjoining property. In 1999, PCS Joint Venture signed an Administrative Order on Consent with the USEPA pursuant to which PCS Joint Venture agreed to conduct a Remedial Investigation and Feasibility Study (RI/FS) of these conditions. PCS Joint Venture and another party are sharing the costs of the RI/FS. The draft feasibility study has been submitted

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for review and approval. The parties are reviewing comments of the USEPA and Florida Department of Environment on the draft feasibility study and anticipate responding to such comments in the first quarter of 2006. No final determination has yet been made of the nature, timing or cost of remedial action that may be needed, nor to what extent costs incurred may be recoverable from third parties.

In 1994, PCS Joint Venture responded to information requests from the USEPA and the Georgia Department of Natural Resources, Environmental Protection Division (GEPD) regarding conditions at its Moultrie, Georgia location. PCS Joint Venture believes that the lead-contaminated soil and groundwater found at the site is attributable to former operations at the site prior to PCS Joint Venture's ownership. In 2005, the GEPD approved a Corrective Action Plan to address environmental conditions at this location. As anticipated, the approved remedy requires some excavation and off-site disposal of impacted soil and installation of a groundwater recovery and treatment system. No change to management's estimate of accrued costs was required as of September 30, 2005 as a result of approval of the remedial action plan.

In 2003, the USEPA notified PCS Nitrogen that it considers PCS Nitrogen to be a potentially responsible party with respect to a former fertilizer blending operation in Charleston, South Carolina, known as the Planters Property or Columbia Nitrogen site, formerly owned by a company from whom PCS Nitrogen acquired certain other assets. In March 2005, the USEPA released for public comment a range of remedial alternatives and a proposed remedy for this site. In September 2005, Ashley II of Charleston, L.L.C., the current owner of the site, filed a petition in the United States District Court for the District of South Carolina seeking a declaratory judgment that PCS Nitrogen is liable to pay environmental response costs at the site and reimbursement of environmental response and other costs incurred and to be incurred by Ashley II of Charleston, L.L.C. PCS Nitrogen will continue to monitor these and other developments with respect to the site. PCS Nitrogen intends to vigorously defend its interests in this action. PCS Nitrogen will also continue to assert its position that it is not a responsible party and to work to identify former site owners and operators who would be responsible parties with respect to the site.

The USEPA announced an initiative to evaluate implementation within the phosphate industry of a particular exemption for mineral processing wastes under the hazardous waste program. In connection with this industry-wide initiative, the USEPA conducted hazardous waste compliance evaluation inspections at numerous phosphate operations including the company's Aurora, North Carolina plant. In September 2005, the USEPA notified the company of various alleged violations of the Resource Conservation and Recovery Act at its Aurora plant. The company is currently reviewing the notice from the USEPA. At this early stage, the company is unable to evaluate the extent of any exposure that it may have in this matter.

In September 2005, the Nebraska Department of Environmental Quality (NDEQ) issued a letter outlining proposed future investigation and remediation activities to address groundwater issues at a closed PCS Nitrogen plant site in LaPlatte, Nebraska. The letter is based on groundwater monitoring information that the company provided to NDEQ regularly over the past several years. Prior to receiving this NDEQ letter, the company believed that monitoring the natural degradation of the constituents in the groundwater would be sufficient. The company is reviewing the NDEQ letter. At this time, the company is unable to evaluate the extent of any exposure that it may have in this matter.

The company is also engaged in ongoing site assessment and/or remediation activities at a number of other facilities and sites. Based on current information, it believes that its future obligations with respect to these facilities and sites will not have a material adverse effect on the company's consolidated financial position or results of operations.

The breadth of the company's operations and the global complexity of tax regulations require assessments of uncertainties and judgments in estimating the ultimate taxes the company will pay. The final taxes paid are dependent upon many factors, including negotiations with taxing authorities in various jurisdictions, outcomes of tax litigation and resolution of disputes arising from federal, provincial, state and local tax audits. The resolution of these uncertainties and the associated final taxes may result in adjustments to the company's tax assets and tax liabilities.

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Various other claims and lawsuits are pending against the company in the ordinary course of business. While it is not possible to determine the ultimate outcome of such actions at this time, and there exist inherent uncertainties in predicting such outcomes, it is management's belief that the ultimate resolution of such actions will not have a material adverse effect on the company's consolidated financial position or results of operations.

16. Guarantees

In the normal course of operations, the company provides indemnifications that are often standard contractual terms to counterparties in transactions such as purchase and sale contracts, service agreements, director/ officer contracts and leasing transactions. These indemnification agreements may require the company to compensate the counterparties for costs incurred as a result of various events, including environmental liabilities and changes in (or in the interpretation of) laws and regulations, or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based upon the contract, the nature of which prevents the company from making a reasonable estimate of the maximum potential amount that it could be required to pay to counterparties. Historically, the company has not made any significant payments under such indemnifications and no amounts have been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees.

The company enters into agreements in the normal course of business that may contain features which meet the definition of a guarantee. Various debt obligations (such as overdrafts, lines of credit with counterparties for derivatives, and back-to-back loan arrangements) and other commitments (such as railcar leases) related to certain subsidiaries have been directly guaranteed by the company under such agreements with third parties. The company would be required to perform on these guarantees in the event of default by the guaranteed parties. No material loss is anticipated by reason of such agreements and guarantees. At September 30, 2005, the maximum potential amount of future (undiscounted) payments under significant guarantees provided to third parties approximated \$225.6, representing the maximum risk of loss if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged. At September 30, 2005, no subsidiary balances subject to guarantees were outstanding in connection with the company's cash management facilities, and the company had no liabilities recorded for other obligations other than subsidiary bank borrowings of approximately \$5.9, which are reflected in other long-term debt, and cash margins held of approximately \$168.7 to maintain derivatives, which are included in accounts payable and accrued charges.

The company has guaranteed the gypsum stack capping, closure and post-closure obligations of White Springs and PCS Nitrogen, in Florida and Louisiana, respectively, pursuant to the financial assurance regulatory requirements in those states. In February 2005, the Florida Environmental Regulation Commission approved certain modifications to the financial assurance requirements designed to ensure that responsible parties have sufficient resources to cover all closure and post-closure costs and liabilities associated with gypsum stacks in the state. The new requirements became effective in July 2005 and include financial strength tests that are more stringent than under previous law, including a requirement that gypsum stack closure cost estimates include the cost of treating process water. The company has met its financial assurance responsibilities as of September 30, 2005. Costs associated with the retirement of long-lived tangible assets have been accrued in the accompanying consolidated financial statements to the extent that a legal liability to retire such assets exists.

The environmental regulations of the Province of Saskatchewan require each potash mine to have decommissioning and reclamation (D&R) plans. In 2001, agreement was reached with the provincial government on the financial assurances for the D&R plans to cover an interim period to July 1, 2005. In October 2004, this interim period was extended to July 1, 2006. A government/ industry task force has been established to assess decommissioning options for all Saskatchewan potash producers and to produce mutually acceptable revisions to the plan schedules. The company has posted a Cdn \$2.0 letter of credit as collateral.

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During the period, the company entered into various other commercial letters of credit in the normal course of operations.

The company expects that it will be able to satisfy all applicable credit support requirements without disrupting normal business operations.

17. Reconciliation of Canadian and United States Generally Accepted Accounting Principles

Canadian GAAP varies in certain significant respects from US GAAP. As required by the US Securities and Exchange Commission (SEC), the effect of these principal differences on the company's interim consolidated financial statements is described and quantified below. For a complete discussion of US and Canadian GAAP differences, see Note 36 to the consolidated financial statements for the year ended December 31, 2004 in the company's 2004 Annual Report.

(a) Long-term investments: The company's investments in ICL and Sinochem Hong Kong Holdings Limited are stated at cost. US GAAP requires that these investments be classified as available-for-sale and be stated at market value with the difference between market value and cost reported as a component of OCI.

Certain of the company's investments in international entities are accounted for under the equity method. Accounting principles generally accepted in those foreign jurisdictions may vary in certain important respects from Canadian GAAP and in certain other respects from US GAAP. The company's share of earnings of these equity investees under Canadian GAAP has been adjusted for the significant effects of conforming to US GAAP.

(b) Property, plant and equipment and goodwill: The net book value of property, plant and equipment and goodwill under Canadian GAAP is higher than under US GAAP, as past provisions for asset impairment under Canadian GAAP were measured based on the undiscounted cash flow from use together with the residual value of the assets. Under US GAAP, they were measured based on fair value, which was lower than the undiscounted cash flow from use together with the residual value of the assets. Fair value for this purpose was determined based on discounted expected future net cash flows.

(c) Depreciation and amortization: Depreciation and amortization under Canadian GAAP is higher than under US GAAP, as a result of differences in the carrying amounts of property, plant and equipment and goodwill under Canadian and US GAAP.

(d) Asset retirement obligations: The company adopted SFAS No. 143, Accounting for Asset Retirement Obligations, for US GAAP purposes effective January 1, 2003. The equivalent Canadian standard was not adopted until January 1, 2004.

(e) Post-retirement and post-employment benefits: Under Canadian GAAP, when a defined benefit plan gives rise to an accrued benefit asset, a company must recognize a valuation allowance for the excess of the adjusted benefit asset over the expected future benefit to be realized from the plan asset. Changes in the pension valuation allowance are recognized in income. US GAAP does not specifically address pension valuation allowances and the US regulators have interpreted this to be a difference between Canadian and US GAAP. In light of these developments, a difference between Canadian and US GAAP has been recorded for the effects of recognizing a pension valuation allowance and the changes therein under Canadian GAAP.

The company's accumulated benefit obligation for its US pension plans exceeds the fair value of plan assets. US GAAP requires the recognition of an additional minimum pension liability in the amount of the excess of the unfunded accumulated benefit obligation over the recorded pension benefits liability. An offsetting intangible asset is recorded equal to the unrecognized prior service costs, with any difference recorded as a reduction of accumulated OCI. No similar requirement exists under Canadian GAAP.

(f) Foreign currency translation adjustment: The company adopted the US dollar as its functional and reporting currency on January 1, 1995. At that time, the consolidated financial statements were translated into US dollars at the December 31, 1994 year-end exchange rate using the translation of convenience method under Canadian GAAP. This translation method was not permitted under US GAAP. US GAAP required the comparative Consolidated Statements of Operations and Consolidated Statements of Cash Flow to be

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translated at applicable weighted-average exchange rates; whereas, the Consolidated Statements of Financial Position were permitted to be translated at the December 31, 1994 year-end exchange rate. The use of disparate exchange rates under US GAAP gave rise to a foreign currency translation adjustment. Under US GAAP, this adjustment is reported as a component of accumulated OCI.

(g) Derivative instruments and hedging activities: Under Canadian GAAP, derivatives used for non-trading purposes that do not qualify for hedge accounting are carried at fair value on the Consolidated Statements of Financial Position, with changes in fair value reflected in earnings. Derivatives embedded within instruments are generally not separately accounted for except for those related to equity-linked deposit contracts, which are not applicable to the company. Gains and losses on derivative instruments held within an effective hedge relationship are recognized in earnings on the same basis and in the same period as the underlying hedged items. There is no difference in accounting between Canadian and US GAAP in respect of derivatives that do not qualify for hedge accounting. Unlike Canadian GAAP, however, the company recognizes all of its derivative instruments (whether designated in hedging relationships or not, or embedded within hybrid instruments) at fair value on the Consolidated Statements of Financial Position for US GAAP purposes. Under US GAAP, the accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship. For strategies designated as fair value hedges, the effective portion of the change in the fair value of the derivative is offset in income against the change in fair value, attributed to the risk being hedged, of the underlying hedged asset, liability or firm commitment. For cash flow hedges, the effective portion of the changes in the fair value of the derivative is accumulated in OCI until the variability in cash flows being hedged is recognized in earnings in future accounting periods. For both fair value and cash flow hedges, if a derivative instrument is designated as a hedge and meets the criteria for hedge effectiveness, earnings offset is available, but only to the extent that the hedge is effective. Ineffective portions of fair value or cash flow hedges are recorded in earnings in the current period.

(h) Comprehensive income: Comprehensive income is recognized and measured under US GAAP pursuant to SFAS No. 130, Reporting Comprehensive Income. This standard defines comprehensive income as all changes in equity other than those resulting from investments by owners and distributions to owners. Comprehensive income is comprised of two components, net income and OCI. OCI refers to amounts that are recorded as an element of shareholders' equity but are excluded from net income because these transactions or events were attributed to changes from non-owner sources. As described in Note 1, Canadian standards relating to comprehensive income are not effective until fiscal years beginning on or after October 1, 2006.

(i) Income taxes related to the above adjustments: The income tax adjustment reflects the impact on income taxes of the US GAAP adjustments described above. Accounting for income taxes under Canadian and US GAAP is similar, except that income tax rates of enacted or substantively enacted tax law must be used to calculate future income tax assets and liabilities under Canadian GAAP; whereas only income tax rates of enacted tax law can be used under US GAAP.

(j) Income tax consequences of stock-based employee compensation: Under Canadian GAAP, the income tax benefit attributable to stock-based compensation that is deductible in computing taxable income but is not recorded in the consolidated financial statements as an expense of any period (the excess benefit) is considered to be a permanent difference. Accordingly, such amount is treated as an item that reconciles the statutory income tax rate to the company's effective income tax rate. Under US GAAP, the excess benefit is recognized as additional paid-in capital. During 2005, the company concluded that this US GAAP treatment had not been applied to stock options granted by the company prior to 2003. Consequently, the company has restated its US GAAP reconciliation below. For the nine months ended September 30, 2004, net income has decreased by \$6.0; basic net income per share has decreased by \$0.06 per share and diluted net income per share has decreased by \$0.05 per share; and comprehensive income has decreased by \$6.0. As at December 31, 2004, and for the 12 months then ended, additional paid-in capital has increased by \$21.6,

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retained earnings has decreased by \$5.7 and net income has decreased by \$15.9. Results for the three-month periods previously reported, within 2005 and 2004, have decreased as follows:

	June 30, 2005	March 31, 2005	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004
Net income as previously reported US GAAP	\$ 166.1	\$ 132.9	\$ 101.7	\$ 76.6	\$ 74.0	\$ 54.1
Net income as restated US GAAP	164.6	122.1	91.8	73.2	72.8	52.7
Diluted net income per share as previously reported US GAAP	1.48	1.16	0.90	0.69	0.68	0.50
Diluted net income per share as restated US GAAP	1.46	1.07	0.81	0.66	0.67	0.49

These adjustments did not have an effect on total assets, liabilities or shareholders' equity for any of the periods presented.

(k) Cash flow statements: US GAAP does not permit the use of certain subtotals within the classification of cash provided by operating activities, nor does it permit the subtotal of cash before financing activities.

The application of US GAAP, as described above, would have had the following effects on net income, net income per share, total assets, shareholders' equity and comprehensive income.

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 ⁽¹⁾	2005 ⁽¹⁾	2004 ⁽¹⁾
Net income as reported Canadian GAAP	\$ 130.3	\$ 75.2	\$ 425.8	\$ 198.5
Items increasing or decreasing reported net income				
Cash flow hedge ineffectiveness	0.5		1.5	
Depreciation and amortization	2.1	2.1	6.3	6.3
Accretion of asset retirement obligations				3.3
Share of earnings of equity investees	3.7		3.7	
Deferred income taxes related to the above adjustments	(2.0)	(0.7)	(3.7)	(3.4)
Income taxes related to stock-based compensation	(4.8)	(3.4)	(17.1)	(6.0)
Net income US GAAP	\$ 129.8	\$ 73.2	\$ 416.5	\$ 198.7
	108,164,000	108,232,000	109,623,000	107,325,000

Basic weighted average shares
outstanding US GAAP

Diluted weighted average shares outstanding US GAAP	111,102,000	111,174,000	112,460,000	109,340,000
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Basic net income per share US GAAP	\$ 1.20	\$ 0.68	\$ 3.80	\$ 1.85
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Diluted net income per share US GAAP	\$ 1.17	\$ 0.66	\$ 3.70	\$ 1.82
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⁽¹⁾ Restated as per Note 17(j).

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	September 30, 2005	December 31, 2004
Total assets as reported Canadian GAAP	\$5,376.8	\$5,126.8
Items increasing (decreasing) reported total assets		
Inventory	2.3	(3.0)
Other current assets	4.1	2.6
Available-for-sale securities (unrealized holding gain)	339.3	161.7
Fair value of derivative instruments	251.7	66.5
Property, plant and equipment	(120.2)	(126.5)
Post-retirement and post-employment benefits	11.7	11.7
Intangible asset relating to additional minimum pension liability	9.6	9.6
Investment in equity investees	4.8	
Goodwill	(46.7)	(46.7)
Total assets US GAAP	\$5,833.4	\$5,202.7

	September 30, 2005	December 31, 2004
Total shareholders equity as reported Canadian GAAP	\$2,320.9	\$2,385.6
Items increasing (decreasing) reported shareholders equity		
Accumulated other comprehensive income, net of related income taxes	344.3	96.8
Foreign currency translation adjustment	20.9	20.9
Provision for asset impairment	(218.0)	(218.0)
Depreciation and amortization	51.1	44.8
Cash flow hedge ineffectiveness	4.1	2.6
Post-retirement and post-employment benefits	11.7	11.7
Share of earnings of equity investees	3.7	
Deferred income taxes relating to the above adjustments	26.7	30.4
Shareholders equity US GAAP	\$2,565.4	\$2,374.8

	Nine Months Ended September 30	
	2005⁽¹⁾	2004⁽¹⁾
Net income US GAAP	\$ 416.5	\$198.7
Other comprehensive income		
Change in unrealized holding gain on available-for-sale securities	177.6	51.4

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Change in gains and losses on derivatives designated as cash flow hedges		226.7	65.5
Reclassification to income of gains and losses on cash flow hedges		(36.1)	(34.3)
Share of other comprehensive income of equity investees		1.1	
Deferred income taxes related to other comprehensive income		(121.8)	(27.2)
Other comprehensive income, net of related income taxes		247.5	55.4
Comprehensive income	US GAAP	\$ 664.0	\$254.1

(1) Restated as per Note 17(j).

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The balances related to each component of accumulated other comprehensive income, net of related income taxes, are as follows:

	September 30, 2005	December 31, 2004
Unrealized gains and losses on available-for-sale securities	\$225.7	\$106.7
Gains and losses on derivatives designated as cash flow hedges	175.1	47.4
Share of accumulated other comprehensive income of equity investees	0.8	
Additional minimum pension liability	(36.4)	(36.4)
Foreign currency translation adjustment	(20.9)	(20.9)
Accumulated other comprehensive income US GAAP	\$344.3	\$ 96.8

Supplemental US GAAP Disclosures*Recent Accounting Pronouncements*

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs*, to clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges, and to require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted. The company is reviewing the guidance to determine the potential impact, if any, on its consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123 (Revised 2004), *Share-Based Payment*, which requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense in the consolidated financial statements based on their fair values. SFAS No. 123(R) also modifies certain measurement and expense recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, including the requirement to estimate employee forfeitures each period when recognizing compensation expense and requiring that the initial and subsequent measurement of the cost of liability-based awards each period be based on the fair value (instead of the intrinsic value) of the award. As described below, the company previously elected to expense employee stock-based compensation using the fair value method prospectively for all awards granted or modified on or after January 1, 2003. The company plans to adopt SFAS No. 123(R) on January 1, 2006 using the modified prospective method and continues to review the standard and related guidance, including SEC Staff Accounting Bulletin No. 107, *Share-Based Payment* to determine the potential impact, if any, on its consolidated financial statements. The FASB has also recently issued two staff positions to assist in the adoption and implementation of the new standard. Under SFAS No. 123(R), awards (such as stock options) that initially qualify for equity classification subsequently could become subject to other accounting literature that would require the award to be reclassified as a liability when the rights conveyed by the award are no longer dependent upon the holder being an employee. The FASB has indefinitely deferred any reclassification unless the award is modified when the holder is no longer an employee. The FASB has also clarified that the grant date for purposes of accounting for stock-based compensation awards can be established prior to the communication of the key terms of the award to the recipient if certain conditions are met. This represents a change from the FASB's earlier informal view that a grant date does not occur until communication to the employee has occurred.

In March 2005, the FASB issued FSP FIN 46(R)-5, *Implicit Variable Interests Under FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities* to address whether a company has an implicit variable interest in a VIE or potential VIE when specific conditions exist. The guidance describes an implicit variable interest as an implied financial interest in an entity that changes with changes in the fair value of the entity's net assets exclusive of variable interests. An implicit variable interest acts the same as an explicit variable interest except it involves the

absorbing and/or receiving of variability indirectly from the entity (rather than directly). The guidance did not have a material impact on the company's consolidated financial statements.

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In March 2005, the FASB issued FIN No. 47, *Accounting for Conditional Asset Retirement Obligations*. FIN No. 47 clarifies that the term Conditional Asset Retirement Obligation as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The interpretation is effective no later than the end of fiscal years ending after December 15, 2005. The company is reviewing the interpretation to determine the potential impact, if any, on its consolidated financial statements.

In March 2005, the FASB ratified the consensus reached by the EITF on Issue No. 04-6, *Accounting for Stripping Costs Incurred During Production in the Mining Industry*, that stripping costs incurred during production are variable inventory costs that should be attributed to ore produced in that period as a component of inventory and recognized in cost of sales in the same period as related revenue. At its June 2005 meeting, the EITF agreed to clarify that its intention was that inventory produced would only include inventory extracted. The EITF reached a consensus to conform the transition guidance of Issue No. 04-6 to be consistent with SFAS No. 154, *Accounting Changes and Error Corrections*, to state that entities should recognize the cumulative effect of initially applying this consensus as a change to opening retained earnings in the period of adoption. The consensus will be effective for fiscal years beginning after December 15, 2005. The company is reviewing the guidance to determine the potential impact, if any, on its consolidated financial statements. The Emerging Issues Committee (EIC) in Canada has reached a tentative conclusion on the accounting for stripping costs that differs from the EITF consensus. Specifically, it has suggested that the activity of removing overburden and other mine waste minerals in the production phase represents a betterment to the mineral property and should be capitalized. This proposal is different from what will be required under US GAAP. The company is monitoring the developments and will determine the potential impact, if any, on its consolidated financial statements if and when related Canadian guidance is released.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, which requires that changes in accounting principle be retrospectively applied as of the beginning of the first period presented as if that principle had always been used, with the cumulative effect reflected in the carrying value of assets and liabilities as of the first period presented and the offsetting adjustments recorded to opening retained earnings. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 with early adoption permitted. The company is reviewing the guidance to determine the potential impact, if any, on its consolidated financial statements.

Available-for-Sale Security

The company's investments in ICL and Sinochem Hong Kong Holdings Limited are classified as available-for-sale. The fair market value of these investments at September 30, 2005 was \$604.5 and the unrealized holding gain was \$339.3.

Stock-based Compensation

Prior to 2003, the company applied the intrinsic value based method of accounting for its stock option plans under US GAAP. Effective December 15, 2003, the company adopted the fair value based method of accounting for stock options prospectively to all employee awards granted, modified or settled after January 1, 2003 pursuant to the transitional provisions of SFAS No. 148 *Accounting for Stock-Based Compensation Transition and Disclosure*. Since the company's stock option awards prior to 2003 vest over two years, the compensation cost included in the determination of net income for the three and nine month periods ended September 30, 2004 is less than that which would have been recognized if the fair value based method had been applied to all awards since the original effective date of SFAS No. 123, *Accounting for Stock-Based Compensation*. The following table illustrates the effect on net income and net income per share under US GAAP if the fair value based method had been applied to all outstanding and unvested awards in each period.

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	Three Months		Nine Months	
	Ended September 30 2005	2004 ⁽²⁾	Ended September 30 2005 ⁽²⁾	2004 ⁽²⁾
Net income as reported under US GAAP	\$129.8	\$73.2	\$416.5	\$198.7
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	1.1	2.2	17.2	6.6
Less: Total stock-based employee compensation expense determined under fair value based method for all option awards, net of related tax effects	(1.1)	(3.2)	(17.2)	(9.6)
Net income pro forma under US GAAP ⁽¹⁾	\$129.8	\$72.2	\$416.5	\$195.7

(1) Compensation expense under the fair value method is recognized over the vesting period of the related stock options. Accordingly, the pro forma results of applying this method may not be indicative of future results.

(2) Restated as per Note 17(j).

Basic net income per share under US GAAP				
As reported	\$1.20	\$0.68	\$3.80	\$1.85
Pro forma	\$1.20	\$0.67	\$3.80	\$1.82
Diluted net income per share under US GAAP				
As reported	\$1.17	\$0.66	\$3.70	\$1.82
Pro forma	\$1.17	\$0.65	\$3.70	\$1.79

Derivative Instruments and Hedging Activities**Cash Flow Hedges**

The company has designated its natural gas derivative instruments as cash flow hedges. The portion of gain or loss on derivative instruments designated as cash flow hedges that are effective at offsetting changes in the hedged item is reported as a component of accumulated OCI and then is reclassified into cost of goods sold when the product containing the hedged item is sold. Any hedge ineffectiveness is recorded in cost of goods sold in the current period. During the third quarter of 2005, a gain of \$13.2 (2004 \$8.4) was recognized in cost of goods sold. On a year-to-date basis, the gain was \$36.1 (2004 \$34.3). Of the deferred gains at quarter-end, approximately \$93.8 will be reclassified to cost of goods sold within the next 12 months. The fair value of the company's gas hedging contracts at September 30, 2005 was \$251.7 (2004 \$89.8).

Fair Value Hedges

At September 30, 2005, the company had receive-fixed, pay-variable interest rate swap agreements outstanding with total notional amounts of \$nil (2004 \$300.0). The fair value of the swaps outstanding at September 30, 2005 was a liability of \$nil (2004 \$0.7).

18. Comparative Figures

In the third quarter of 2004, the Board of Directors of PCS approved a split of the company's outstanding common shares on a two-for-one basis in the form of a stock dividend. All comparative share and per-share data have been retroactively adjusted to reflect the stock split.

Certain of the prior periods figures have been reclassified to conform with the current periods presentation.

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

The following discussion and analysis is the responsibility of management and is as of November 3, 2005. The Board of Directors carries out its responsibility for review of this disclosure principally through its audit committee, comprised exclusively of independent directors. The audit committee reviews and prior to its publication, approves, pursuant to the authority delegated to it by the Board of Directors, this disclosure. The term PCS refers to Potash Corporation of Saskatchewan Inc. and the terms we, us, our, PotashCorp and the company refer to PCS and, as applicable, PCS and its direct and indirect subsidiaries as a group. Additional information relating to the company, including our Annual Report on Form 10-K, can be found on SEDAR at www.sedar.com and on EDGAR at www.sec.gov/edgar.shtml.

POTASHCORP AND OUR BUSINESS ENVIRONMENT

PotashCorp has built a global business on the natural nutrients potash, phosphate and nitrogen. Our products serve three different markets: fertilizer, feed and industrial. We sell fertilizer to North American retailers, cooperatives and distributors that provide storage and application services to farmers, the end users. Our offshore customers are government agencies and private importers that tend to buy under contract, while spot sales are more prevalent in North America. Fertilizers are sold primarily for spring and fall application in both northern and southern hemispheres.

Transportation is an important part of the final purchase price for fertilizer so producers usually sell to the closest customers. In North America, we sell mainly on a delivered basis via rail, barge, truck and pipeline. Offshore customers purchase product either at the port where it is loaded or with freight included.

Potash, phosphate and nitrogen are also used as inputs for the production of animal feed and industrial products. Most feed and industrial sales are by contract and are more evenly distributed throughout the year than fertilizer sales.

POTASHCORP VISION

We envision PotashCorp as a long-term business enterprise providing superior value to all our stakeholders. To achieve this, we believe we need to be the sustainable gross margin leader in the products we sell and the markets we serve. Through our strategy, we attempt to minimize the natural volatility of our business. We strive for increased earnings and to outperform our peer group and other basic materials companies in total shareholder return, a key measure of any company's value.

We link our financial performance with areas of extended responsibility: the environment, our social and economic stakeholders. We focus on increased transparency to improve our relationships with all our stakeholders, believing this gives us a competitive advantage.

POTASHCORP STRATEGY

Our strategy is based on our commitment to seek earnings growth and quality. We reduce volatility by doing all we can to strengthen our potash business, hence our Potash First strategy. Our goal is to be the low-cost global potash supplier on a delivered basis into all key world markets. We supplement this potash strategy by leveraging our strengths in nitrogen with our lower-cost gas in Trinidad and our specialty phosphate products, particularly the industrial product, purified acid, produced in North Carolina.

In our day-to-day actions, we seek to maximize gross margin by focusing on the right blend of price, volumes and asset utilization. Our highest-margin products potash, purified phosphoric acid and Trinidad nitrogen products drive our strategy, and we strive to grow the business by enhancing our position as supplier of choice. We aim to build on our strengths by acquiring and maintaining low-cost, high-quality capacity that complements our existing assets and adds strategic value. Our sales, operating and investment decisions are based on our cash flow return materially exceeding cost of capital.

Table of Contents**KEY PERFORMANCE DRIVERS PERFORMANCE COMPARED TO GOALS**

Each year we set targets to advance our long-term goals and drive results. In 2004, we further developed key performance indicators to monitor our progress and measure success. As we drill down into the organization with these metrics, we believe:

management will focus on the most important things, which will be reinforced by having the relevant results readily accessible;
 employees will understand and be able to effectively monitor their contribution to the achievement of corporate goals; and
 we will be even more effective in meeting our targets.

Our long-term goals and 2005 targets are set out on pages 9 to 11 of our 2004 Annual Report. A summary of our progress against selected goals and representative annual targets is set out below.

Goal	Representative 2005 Annual Target	Performance to September 30, 2005
To continue to outperform our sector and other basic materials companies in total shareholder return.	Exceed total shareholder return performance for our sector and companies on the DJBMI for 2005 and three-year average.	PotashCorp's total shareholder return in the third quarter of 2005 was -2 percent, below the DJBMI return of 4 percent as well as our sector average return of 18 percent for the same quarter. Our 13-percent return for the nine months ended September 30, 2005 exceeded the DJBMI of 1 percent, though not our sector average of 46 percent. Our three-year average return of 205 percent significantly exceeds the DJBMI three-year average return of 56 percent, but is below our sector average of 315 percent.
To remain the leader and preferred supplier of potash, phosphate and nitrogen products worldwide.	Increase potash sales volumes by 5 percent at 25 percent higher realized prices.	Potash sales volumes decreased 6 percent, while realized prices were 36 percent higher in the third quarter of 2005 compared to third-quarter 2004. Year over year potash sales volumes increased 1 percent at 45 percent higher realized prices. Compared to the 2004 annual average, realized prices increased 38 percent during the nine months ended September 30, 2005.
To be the low-cost supplier in our industry.	Achieve rock costs at Aurora and White Springs 5 percent below 2004.	Rock costs at Aurora decreased 3 percent while White Springs increased 1 percent during the third quarter of 2005 compared to the corresponding period in 2004. On a year-over-year basis, rock costs decreased 2 percent at Aurora and increased 2 percent at White Springs. Compared to the 2004 annual average, Aurora and White Springs rock costs have decreased 2 and 1 percent, respectively.
To move closer to our goal of no harm to people, no	Reduce recordable and lost-time injury rates by	Cumulative recordable and lost-time injury rates at the end of each of first three quarters of 2005 were

accidents, no damage to the environment. 10 percent.

as follows:

March 31, 2005: 2.55 and 0.40, respectively

June 30, 2005: 2.20 and 0.32, respectively

September 30, 2005: 2.33 and 0.27, respectively
as compared to the targets of 1.72 and 0.20,
respectively.

Table of Contents**FINANCIAL OVERVIEW**

This discussion and analysis is based on the company's unaudited interim condensed consolidated financial statements reported under generally accepted accounting principles in Canada (Canadian GAAP). These principles differ in certain significant respects from accounting principles generally accepted in the United States. These differences are described and quantified in Note 17 to the unaudited interim condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q. All references to per-share amounts pertain to diluted net income per share. All comparative share and per-share data have been retroactively adjusted to reflect our two-for-one stock split effected by way of stock dividend in 2004. All amounts in dollars are expressed as US dollars unless otherwise indicated. Certain of the prior periods' figures have been reclassified to conform with the current periods' presentation.

For an understanding of trends, events, uncertainties and the effect of critical accounting estimates on our results and financial condition, the entire document should be read carefully together with our 2004 Annual Report.

Earnings Guidance

The company's guidance for earnings per share for the third quarter of 2005 was in the range of \$1.15 to \$1.35 per share, assuming a period end exchange rate of 1.20 Canadian dollars per US dollar. The final result was net income of \$130.3 million, or \$1.17 per share, based on an actual exchange rate of 1.1611 Canadian dollars per US dollar at September 30, 2005.

Overview of Actual Results*Operations*

(Dollars millions except per-share amounts)	Three Months Ended September 30				Nine Months Ended September 30			
	2005	2004	Dollar Change	% Change	2005	2004	Dollar Change	% Change
Sales	\$938.0	\$815.7	\$122.3	15	\$2,916.7	\$2,377.8	\$538.9	23
Freight	59.9	51.2	8.7	17	194.5	178.2	16.3	9
Transportation and distribution	29.8	23.6	6.2	26	90.8	77.9	12.9	17
Cost of goods sold	568.8	551.5	17.3	3	1,748.6	1,637.6	111.0	7
Gross margin	\$279.5	\$189.4	\$90.1	48	\$882.8	\$484.1	\$398.7	82
Operating income	\$214.9	\$133.1	\$81.8	61	\$697.3	\$360.1	\$337.2	94
Net income	\$130.3	\$75.2	\$55.1	73	\$425.8	\$198.5	\$227.3	115
Net income per share basic	\$1.20	\$0.69	\$0.51	74	\$3.88	\$1.85	\$2.03	110
Net income per share diluted	\$1.17	\$0.68	\$0.49	72	\$3.79	\$1.82	\$1.97	108

The continuing growth in prices for potash, phosphate and nitrogen contributed to PotashCorp's third-quarter earnings of \$1.17 per share, the second-highest in company history. This is 72 percent more than the \$0.68 earned in last year's third quarter and trails only the \$1.46 per share earned in the second quarter of 2005. These results were achieved despite a stronger-than-expected Canadian dollar. The quarterly results were also reduced by a year-over-year decrease in potash sales volumes to Brazil, and some impact from hurricanes in the US Gulf region.

Gross margin of \$279.5 million was up 48 percent from \$189.4 million in last year's third quarter and raised year-to-date gross margin to \$882.8 million, surpassing the \$681.4 million gross margin for all of 2004. Potash

contributed \$46.8 million of the third quarter improvement, with higher product prices offsetting lower volumes. The phosphate segment added another \$31.6 million of the gross margin increase, also primarily due to higher product prices. Nitrogen, also on the back of stronger prices, contributed the remaining \$11.7 million of the gross margin improvement. For the nine months ended September 30, 2005, potash represented \$258.2 million of the improvement while the nitrogen segment contributed another \$74.6 million and the phosphate segment the remaining \$65.9 million.

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Cash flow from operations increased 87 percent quarter over quarter to \$316.1 million. A portion of the funds was used to complete the repurchase of 5.5 million outstanding common shares under our normal course issuer bid by September 1, 2005, and begin the purchase of up to 4 million additional shares. Our equity investments in Arab Potash Company (APC) and Sociedad Quimica y Minera de Chile S.A. (SQM), along with dividends received from Israel Chemicals Ltd. (ICL), added \$22.9 million to earnings for the third quarter of 2005, a 29-percent increase over the same period last year.

Selling and administrative expenses were virtually flat quarter over quarter and increased \$32.2 million year over year primarily due to the recognition of compensation expense associated with performance stock options granted during the second quarter of 2005. Provincial mining and other taxes expense increased by \$5.7 million quarter over quarter and \$43.9 million year over year principally due to higher mining taxes associated with the increased potash prices.

The period-end translation of Canadian-dollar denominated monetary items on the Consolidated Statement of Financial Position contributed to net foreign exchange losses of \$24.4 million in the third quarter of 2005 and \$12.4 million in the first nine months of the year. The impact of the change in the Canadian dollar relative to the US dollar combined with the company's currency hedging activities was more significant for the quarter and the nine months ended September 30, 2005, than it was for the comparable periods in 2004 where foreign exchange losses of \$20.1 million and \$2.0 million, respectively, were recognized.

Balance Sheet

Total assets were \$5,376.8 million at September 30, 2005, up \$250.0 million or 5 percent over December 31, 2004. Total liabilities increased \$314.7 million from December 31, 2004 to \$3,055.9 million at September 30, 2005, and total shareholders' equity decreased \$64.7 million during the same period to \$2,320.9 million.

The largest contributors to the change in assets during the first nine months of 2005 were accounts receivable, fixed assets and other assets (primarily intercorporate investments). Accounts receivable increased 18 percent compared to December 31, 2004, primarily as a result of the timing of a 16-percent increase in sales in the month of September 2005 compared to December 2004. Total cash declined \$130.9 million from December 31, 2004, primarily due to (i) common share repurchases of \$530.9 million, (ii) additions to property plant and equipment of \$251.9 million (including key expansion projects in all three nutrients), (iii) dividend payments of \$49.4 million, and (iv) additional investments in APC and ICL of \$18.6 million and \$74.9 million, respectively, and an initial investment in Sinochem Hong Kong Holdings Limited of \$97.4 million.

The increase in liabilities was largely attributable to an increase of \$240.9 million in accounts payable, of which \$139.5 million related to higher hedging margin deposits associated with higher natural gas prices at September 30, 2005 compared to December 31, 2004. Current income taxes payable increased \$61.4 million and future income taxes payable increased \$34.9 million compared to December 31, 2004, due to substantially higher profits in all nutrients.

Share capital and retained earnings increased at September 30, 2005 compared to December 31, 2004, while contributed surplus was reduced to \$nil. Share capital at September 30, 2005 was \$17.3 million higher than December 31, 2004 as a result of the issuance of common shares arising from stock option exercises and our dividend reinvestment plan, offset by common share repurchases of \$77.7 million under our share repurchase program. Our share repurchase program also had the effect of decreasing contributed surplus by \$300.7 million and decreasing retained earnings by \$182.9 million compared to December 31, 2004. Net earnings for the nine months ended September 30, 2005 of \$425.8 million increased retained earnings while dividends declared of \$49.2 million and the impact of the share repurchase program reduced the balance, for a net increase in retained earnings of \$193.7 million at September 30, 2005 compared to December 31, 2004.

Table of Contents**Business Segment Review**

Note 10 to the unaudited interim condensed consolidated financial statements provides information pertaining to our business segments. Management includes net sales in segment disclosures in the consolidated financial statements pursuant to Canadian GAAP, which requires segmentation based upon our internal organization and reporting of revenue and profit measures derived from internal accounting methods. Net sales (and the related per-tonne amounts) are primary revenue measures we use and review in making decisions about operating matters on a business segment basis. These decisions include assessments about potash, phosphate and nitrogen performance and the resources to be allocated to these segments. We also use net sales (and the related per-tonne amounts) for business planning and monthly forecasting. Net sales are calculated as sales revenues less freight, transportation and distribution expenses. The following is based on selected measures as used and reviewed by management.

*Potash***Three Months Ended September 30**

	Dollars (millions)			Tonnes (thousands)			Average per Tonne ⁽¹⁾		
	2005	2004	% Change	2005	2004	% Change	2005	2004	% Change
Sales	\$ 313.4	\$251.8	24						
Freight	30.6	23.0	33						
Transportation and distribution	8.5	5.6	52						
	\$ 274.3	\$223.2	23						
Net Sales									
North American	\$ 120.6	\$ 62.8	92	714	557	28	\$169.08	\$112.83	50
Offshore	151.9	150.1	1	1,075	1,346	(20)	\$141.28	\$111.55	27
	272.5	212.9	28	1,789	1,903	(6)	\$152.34	\$111.92	36
Miscellaneous products	1.8	10.3	(83)						
	274.3	223.2	23	1,789	1,903	(6)	\$153.33	\$117.29	31
Cost of goods sold	106.7	102.4	4				\$ 59.64	\$ 53.81	11
Gross margin	\$ 167.6	\$120.8	39				\$ 93.69	\$ 63.48	48

Nine Months Ended September 30

	Dollars (millions)			Tonnes (thousands)			Average per Tonne ⁽¹⁾		
	2005	2004	% Change	2005	2004	% Change	2005	2004	% Change
Sales	\$1,067.1	\$791.9	35						
Freight	105.3	97.7	8						

Transportation and distribution	27.1	26.8	1						
	\$ 934.7	\$667.4	40						
Net Sales									
North American	\$ 405.2	\$254.4	59	2,608	2,458	6	\$155.36	\$103.51	50
Offshore	520.7	379.6	37	3,904	3,986	(2)	\$133.39	\$ 95.25	40
	925.9	634.0	46	6,512	6,444	1	\$142.19	\$ 98.40	45
Miscellaneous products	8.8	33.4	(74)						
	934.7	667.4	40	6,512	6,444	1	\$143.54	\$103.57	39
Cost of goods sold	367.6	358.5	3				\$ 56.45	\$ 55.63	1
Gross margin	\$ 567.1	\$308.9	84				\$ 87.09	\$ 47.94	82

(1) Rounding differences may occur due to the use of whole dollars in per-tonne calculations.

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Highlights

Tight global potash supply resulted in higher realized prices for PotashCorp compared to the corresponding periods in the prior year for both the third quarter and first nine months of 2005, contributing the majority of the change in gross margin. According to IFA statistics, overall world demand for potash was up 3.6 percent for the first six months of 2005.

Gross margin as a percentage of net sales increased to 61 percent, a 13-percent improvement quarter over quarter and consistent with our 2005 second-quarter results.

We produced 1.7 million tonnes in the third quarter of 2005 and ended the period with total inventories of approximately 440,000 tonnes, down 100,000 tonnes from levels at the end of the second quarter of this year. North American potash inventories ended the quarter at 22 percent below their five-year average.

Sales and Cost of Goods Sold

The largest sales and cost of goods sold contributors to the \$46.8 million increase in gross margin quarter over quarter were as follows:

Realized price increases in the North American market contributed \$38.3 million to the increase while higher prices in the offshore market added an additional \$31.2 million. North American realized prices rose 50 percent, or \$56 per tonne, as all announced price increases are now being realized. Offshore prices climbed \$30 per tonne largely due to price increases in India and 40 percent lower ocean freight rates.

Prices in the North American market were \$28 per tonne, or 20 percent, higher than offshore prices. The gap between the two markets is due to offshore customers purchasing under long-term contracts that lag behind North American spot-market increases. The difference also reflects product mix, as North American customers prefer granular products that command a premium over standard products, which are more typically consumed offshore.

North American potash sales volumes rose 28 percent, but were mostly offset by a 21-percent decline in our offshore potash sales volumes supplied to Canpotex Limited (Canpotex), the offshore marketing agent for Saskatchewan potash producers. In North America, Saskatchewan competitors were product-constrained, enabling PotashCorp to increase its market share in North America by 25 percent. Shipments by Canpotex declined as adverse weather conditions in Southeast Asia, including both drought and flooding, hurt consumption. The strengthening of the Brazilian real relative to the US dollar accompanied by lower soybean prices reduced margins for Brazilian farmers and limited their credit availability, leading to fewer acres being planted and in turn a decrease in imports. In addition, China made significant purchases earlier in the year which led to lower third-quarter 2005 sales volumes there. These decreases were partially offset by higher shipments to India and a rise in shipments to other Latin American countries resulting from strong demand.

Higher cost of goods sold negatively impacted the change in gross margin as natural gas costs climbed. This rise in natural gas raised the cash cost of potash production by \$0.70 per tonne. Further, a stronger Canadian dollar negatively impacted cost of goods sold by more than \$4.00 per tonne.

The most significant sources of the \$258.2 million gross margin increase year over year were the following sales and cost of goods sold factors:

Higher realized prices for offshore sales contributed \$161.4 million, \$140.3 million of which represented higher realized prices on sales to Canpotex while a further \$21.1 million was realized on offshore sales from the company's New Brunswick operation. Higher North American realized prices contributed \$130.4 million to the increase, as price increases announced through the year were realized.

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As Saskatchewan competitors were product-constrained throughout the year, PotashCorp increased its market share in North America by 14 percent and as a result, higher North American sales volumes added to gross margin. These increases were partially offset by a decrease in offshore sales volumes which negatively impacted gross margin, largely due to a decline in sales volumes to Brazil. While Canpotex sales to India and China rose due to demand growth, these were partially offset by a decline in sales volumes to Indonesia, Vietnam and Brazil.

The company produced 6.5 million tonnes as the expansion at Rocanville and additional shifts at Lanigan and Allan increased production from 5.9 million tonnes in the first nine months of 2004, resulting in higher operating efficiencies. Costs on a per-tonne basis were slightly higher however as a result of higher energy costs and a stronger Canadian dollar. The Canadian dollar, which strengthened in the first nine months of 2005 compared to the same period last year, negatively impacted cost of goods sold by over \$3.25 per tonne.

*Phosphate***Three Months Ended September 30**

	Dollars (millions)			Tonnes (thousands)			Average per Tonne ⁽¹⁾		
	2005	2004	% Change	2005	2004	% Change	2005	2004	% Change
Sales	\$291.9	\$257.7	13						
Freight	20.4	19.7	4						
Transportation and distribution	10.3	8.8	17						
	\$261.2	\$229.2	14						
Net Sales									
Fertilizer liquids	\$ 58.0	\$ 38.9	49	266	194	37	\$217.93	\$200.73	9
Fertilizer solids	86.3	85.7	1	369	439	(16)	\$233.77	\$194.97	20
Feed	52.9	49.5	7	198	232	(15)	\$266.82	\$213.52	25
Industrial	60.4	52.5	15	174	156	12	\$347.51	\$337.11	3
	257.6	226.6	14	1,007	1,021	(1)	\$255.81	\$221.94	15
Miscellaneous	3.6	2.6	38						
	\$261.2	\$229.2	14	1,007	1,021	(1)	\$259.35	\$224.54	16
Cost of goods sold	229.0	228.6					\$227.37	\$223.95	2
Gross margin	\$ 32.2	\$ 0.6	n/m				\$ 31.98	\$ 0.59	n/m

Nine Months Ended September 30

	Dollars (millions)		Tonnes (thousands)		Average per Tonne ⁽¹⁾	
	2005	2004	2005	2004	2005	2004

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			%				%			%
			Change				Change			Change
Sales	\$847.7	\$712.2	19							
Freight	60.2	51.5	17							
Transportation and distribution	27.2	21.5	27							
	\$760.3	\$639.2	19							
Net Sales										
Fertilizer liquids	\$151.0	\$100.4	50	687	473	45	\$219.73	\$212.04	4	
Fertilizer solids	260.3	243.1	7	1,163	1,221	(5)	\$223.74	\$199.04	12	
Feed	163.6	137.6	19	651	645	1	\$251.36	\$213.25	18	
Industrial	175.1	150.6	16	505	455	11	\$346.91	\$331.34	5	
	750.0	631.7	19	3,006	2,794	8	\$249.50	\$226.09	10	
Miscellaneous	10.3	7.5	37							
	\$760.3	\$639.2	19	3,006	2,794	8	\$252.93	\$228.75	11	
Cost of goods sold	689.0	633.8	9				\$229.21	\$226.82	1	
Gross margin	\$ 71.3	\$ 5.4	n/m				\$ 23.72	\$ 1.93	n/m	

(1) Rounding differences may occur due to the use of whole dollars in per-tonne calculations.

n/m = not meaningful

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Highlights

The hurricanes which struck the US Gulf region disrupted production of phosphate products, reinforcing an already tight supply situation in the US market place. This contributed to price increases in phosphate fertilizers. Increasing prices for feed reflected previously posted price announcements.

Higher sulfur and ammonia raw material input costs pushed up phosphate fertilizer prices, protecting product margins. The industry's sulfur and ammonia costs were impacted by the hurricanes as availability of each was limited.

Higher-valued industrial phosphate represented almost half of phosphate gross margin at \$15.2 million for the third quarter of 2005 and 62 percent for the first nine months of the year.

Sales and Cost of Goods Sold

The largest sales and cost of goods sold contributors to the \$31.6 million increase in gross margin quarter over quarter were as follows:

Tight supply led to significant price increases in most product categories, favorably impacting net sales by \$36.4 million. The realized price of solid fertilizers jumped 20 percent (\$39 per tonne) as a result of recent industry production curtailments tightening supply, and contributed \$13.5 million to the net sales increase. In feed, the company benefited from tighter North American supplies and higher North American prices, resulting in a net sales increase of \$10.8 million. Phosphate fertilizers have benefited from strong demand resulting in liquid fertilizer realized prices adding \$9.2 million to gross margin. Price increases in the Indian market were a major contributor to overall favorable offshore price realizations, but higher prices in the North American market were also achieved.

Sales volumes were relatively flat, though there was a marked change in product mix. Liquid fertilizer sales volumes were 37 percent higher as India increased purchases. These were more than offset by declines in solid fertilizer and feed sales volumes. Solid fertilizer volumes dropped 16 percent largely because of slower sales to Brazil. In feed, volumes were down 15 percent due to a decrease in demand and an increase in imports.

Cost of goods sold per tonne increased as higher raw material input costs more than offset the positive effect of operating rate efficiencies and change in product mix. The company benefited from operating rate efficiencies as P₂O₅ production levels increased 16 percent. Cost of feed sales decreased as savings were gained from a product mix shift from dical/monocal to Black SPA, for which the cost is lower, and from production rationalization decisions and efficiencies. Cost of solid fertilizer sales increased, primarily due to the 4 percent higher per tonne average ammonia cost unfavorably impacting gross margin by \$1.1 million. An increase in sulfur costs, which unfavorably impacted cost of goods sold by \$1.6 million, and other reductions in period costs realized in third-quarter 2004, contributed to the increase in cost of goods sold.

The \$65.9 million improvement in gross margin year over year was largely attributable to the following sales and cost of goods sold components:

Price improvements in all categories added \$74.8 million, the largest growth being attributable to solid fertilizer volumes which benefited from tight supply causing realized prices to increase, and feed volumes where the company has profited from a growing offshore market and tightening supply due to industry curtailments that occurred during 2004 (contributing \$25.0 million and \$24.9 million to the increase, respectively). Realized prices 4 percent higher at volumes 45 percent higher for liquid fertilizer products equated to an additional \$13.1 million and \$37.7 million, respectively, in net sales while industrial phosphate sales volumes grew 11 percent, adding \$13.6 million to net sales as a result of strong market demand.

Cost of goods sold rose \$55.2 million, largely attributable to the 8-percent increase in sales volume. A 10-percent increase in P₂O₅ production levels allowed the company to benefit from operating rate

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efficiencies; however, year over year changes in asset retirement obligations negatively impacted gross margin, as did 7 percent higher ammonia prices which reduced gross margin by \$5.1 million.

*Nitrogen***Three Months Ended September 30**

	Dollars (millions)			Tonnes (thousands)			Average per Tonne ⁽¹⁾		
	2005	2004	% Change	2005	2004	% Change	2005	2004	% Change
Sales	\$ 332.7	\$306.2	9						
Freight	8.9	8.5	5						
Transportation and distribution	11.0	9.2	20						
	\$ 312.8	\$288.5	8						
Net Sales									
Ammonia	\$ 104.6	\$104.7		375	392	(4)	\$278.60	\$266.96	4
Urea	100.8	72.2	40	356	324	10	\$283.04	\$222.72	27
Nitrogen solutions/ Nitric acid/ Ammonium nitrate	66.0	55.8	18	441	419	5	\$149.61	\$133.49	12
Purchased	34.4	49.4	(30)	118	204	(42)	\$291.95	\$241.90	21
	305.8	282.1	8	1,290	1,339	(4)	\$237.05	\$210.68	13
Miscellaneous	7.0	6.4	9						
	\$ 312.8	\$288.5	8	1,290	1,339	(4)	\$242.43	\$215.52	12
Fertilizer	\$ 131.5	\$102.8	28	524	476	10	\$250.88	\$216.04	16
Non-fertilizer	181.3	185.7	(2)	766	863	(11)	\$236.65	\$215.24	10
	312.8	288.5	8	1,290	1,339	(4)	\$242.43	\$215.52	12
Cost of goods sold	233.1	220.5	6				\$180.65	\$164.74	10
Gross margin	\$ 79.7	\$ 68.0	17				\$ 61.78	\$ 50.78	22

Nine Months Ended September 30

	Dollars (millions)			Tonnes (thousands)			Average per Tonne ⁽¹⁾		
	2005	2004	% Change	2005	2004	% Change	2005	2004	% Change
Sales	\$1,001.9	\$873.7	15						

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Freight	29.0	29.0							
Transportation and distribution	36.5	29.6	23						
	\$ 936.4	\$815.1	15						
Net Sales									
Ammonia	\$ 343.2	\$325.2	6	1,263	1,308	(3)	\$271.65	\$248.63	9
Urea	283.6	188.0	51	1,046	887	18	\$270.93	\$211.87	28
Nitrogen solutions/ Nitric acid/ Ammonium nitrate	204.0	175.5	16	1,370	1,345	2	\$148.91	\$130.63	14
Purchased	86.4	109.5	(21)	314	461	(32)	\$275.30	\$237.31	16
	917.2	798.2	15	3,993	4,001		\$229.70	\$199.50	15
Miscellaneous	19.2	16.9	14						
	\$ 936.4	\$815.1	15	3,993	4,001		\$234.47	\$203.75	15
Fertilizer									