

POTASH CORP OF SASKATCHEWAN INC
Form 10-Q
November 03, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

☐ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended September 30, 2015

OR

☐ **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)

122 1 Avenue South

Saskatoon, Saskatchewan, Canada

(Address of principal executive offices)

N/A

(I.R.S. Employer

Identification No.)

S7K 7G3

(Zip Code)

306-933-8500

(Registrant's telephone number, including area code)

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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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes No

As at September 30, 2015, Potash Corporation of Saskatchewan Inc. had 834,948,893 Common Shares outstanding.

Part I. Financial Information

Item 1. Financial Statements

Condensed Consolidated Statements of Income

Unaudited

In millions of US dollars except as otherwise noted

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Sales (Note 2)	\$ 1,529	\$ 1,641	\$ 4,925	\$ 5,213
Freight, transportation and distribution	(128)	(141)	(380)	(465)
Cost of goods sold	(896)	(911)	(2,662)	(2,847)
Gross Margin	505	589	1,883	1,901
Selling and administrative expenses	(52)	(49)	(172)	(172)
Provincial mining and other taxes	(79)	(52)	(264)	(175)
Share of earnings of equity-accounted investees	32	20	103	85
Dividend income	7	7	38	100
Impairment of available-for-sale investment				(38)
Other income (Note 3)	8	5	11	36
Operating Income	421	520	1,599	1,737
Finance costs	(49)	(47)	(148)	(142)
Income Before Income Taxes	372	473	1,451	1,595
Income taxes (Note 4)	(90)	(156)	(382)	(466)
Net Income	\$ 282	\$ 317	\$ 1,069	\$ 1,129
Net Income per Share				
Basic	\$ 0.34	\$ 0.38	\$ 1.28	\$ 1.34
Diluted	\$ 0.34	\$ 0.38	\$ 1.28	\$ 1.33
Weighted Average Shares Outstanding				
Basic	834,850,000	829,506,000	833,573,000	840,837,000
Diluted	837,454,000	835,835,000	837,377,000	847,429,000

(See Notes to the Condensed Consolidated Financial Statements)

Condensed Consolidated Statements of Comprehensive (Loss) Income

Unaudited

In millions of US dollars

	Three Months Ended September 30		Nine Months Ended September 30	
(Net of related income taxes)	2015	2014	2015	2014
Net Income	\$ 282	\$ 317	\$ 1,069	\$ 1,129
Other comprehensive loss				
Items that have been or may be subsequently reclassified to net income:				
Available-for-sale investments ⁽¹⁾				
Net fair value loss during the period	(450)	(229)	(391)	(194)
Cash flow hedges				
Net fair value loss during the period ⁽²⁾	(21)	(6)	(42)	(7)
Reclassification to income of net loss ⁽³⁾	13	7	39	20
Other	(3)	(1)	(7)	3
Other Comprehensive Loss	(461)	(229)	(401)	(178)
Comprehensive (Loss) Income	\$ (179)	\$ 88	\$ 668	\$ 951

(1) Available-for-sale investments are comprised of shares in Israel Chemicals Ltd., Sinofert Holdings Limited and other.

(2) Cash flow hedges are comprised of natural gas derivative instruments and treasury lock derivatives and were net of income taxes of \$11 (2014 \$3) for the three months ended September 30, 2015 and \$23 (2014 \$4) for the nine months ended September 30, 2015.

(3) Net of income taxes of \$(7) (2014 \$(3)) for the three months ended September 30, 2015 and \$(21) (2014 \$(11)) for the nine months ended September 30, 2015.

(See Notes to the Condensed Consolidated Financial Statements)

Condensed Consolidated Statements of Cash Flow

Unaudited

In millions of US dollars

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Operating Activities				
Net income	\$ 282	\$ 317	\$ 1,069	\$ 1,129
Adjustments to reconcile net income to cash provided by operating activities (Note 5)	223	266	652	821
Changes in non-cash operating working capital (Note 5)	(147)	(9)	(6)	(49)
Cash provided by operating activities	358	574	1,715	1,901
Investing Activities				
Additions to property, plant and equipment	(280)	(303)	(802)	(726)
Other assets and intangible assets	(53)	(2)	(68)	(12)
Cash used in investing activities	(333)	(305)	(870)	(738)
Financing Activities				
Proceeds from long-term debt obligations			494	737
Repayment of long-term debt obligations	(502)		(502)	(500)
Proceeds from (repayment of) short-term debt obligations	414	55	(122)	14
Dividends	(313)	(281)	(899)	(857)
Repurchase of common shares				(1,065)
Issuance of common shares		2	42	32
Cash used in financing activities	(401)	(224)	(987)	(1,639)
(Decrease) Increase in Cash and Cash Equivalents	(376)	45	(142)	(476)
Cash and Cash Equivalents, Beginning of Period	449	107	215	628
Cash and Cash Equivalents, End of Period	\$ 73	\$ 152	\$ 73	\$ 152
Cash and cash equivalents comprised of:				
Cash	\$ 39	\$ 63	\$ 39	\$ 63
Short-term investments	34	89	34	89
	\$ 73	\$ 152	\$ 73	\$ 152

(See Notes to the Condensed Consolidated Financial Statements)

Condensed Consolidated Statements of Changes in Equity

Unaudited

In millions of US dollars

			Accumulated Other Comprehensive Income			Total Accumulated Other Comprehensive Income	Retained Earnings	Total Equity ⁽¹⁾
	Share Capital	Contributed Surplus	Net unrealized gain on available-for-sale investments	Net loss on derivatives designated as cash flow hedges	Other			
Balance December 31, 2014	\$ 1,632	\$ 234	\$ 623	\$ (119)	\$ (1)	\$ 503	\$ 6,423	\$ 8,792
Net income							1,069	1,069
Other comprehensive loss			(391)	(3)	(7)	(401)		(401)
Dividends declared							(957)	(957)
Effect of share-based compensation including issuance of common shares	56	(2)						54
Shares issued for dividend reinvestment plan	32							32
Balance September 30, 2015	\$ 1,720	\$ 232	\$ 232	\$ (122)	\$ (8)	\$ 102	\$ 6,535	\$ 8,589
Balance December 31, 2013	\$ 1,600	\$ 219	\$ 780	\$ (105)	\$ (2)	\$ 673	\$ 7,136	\$ 9,628
Net income							1,129	1,129
Other comprehensive (loss) income			(194)	13	3	(178)		(178)
Shares repurchased	(53)	(2)					(976)	(1,031)
Dividends declared							(873)	(873)
Effect of share-based compensation including issuance of common shares	43	12						55
Shares issued for dividend reinvestment plan	30							30
Balance September 30, 2014	\$ 1,620	\$ 229	\$ 586	\$ (92)	\$ 1	\$ 495	\$ 6,416	\$ 8,760

⁽¹⁾ All equity transactions were attributable to common shareholders.
(See Notes to the Condensed Consolidated Financial Statements)

Condensed Consolidated Statements of Financial Position

Unaudited

In millions of US dollars except as otherwise noted

As at	September 30, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	\$ 73	\$ 215
Receivables	822	1,029
Inventories (Note 6)	725	646
Prepaid expenses and other current assets	72	48
	1,692	1,938
Non-current assets		
Property, plant and equipment	12,907	12,674
Investments in equity-accounted investees	1,252	1,211
Available-for-sale investments	1,139	1,527
Other assets	280	232
Intangible assets	195	142
Total Assets	\$ 17,465	\$ 17,724
Liabilities		
Current liabilities		
Short-term debt and current portion of long-term debt	\$ 414	\$ 1,032
Payables and accrued charges	1,000	1,086
Current portion of derivative instrument liabilities	81	80
	1,495	2,198
Non-current liabilities		
Long-term debt (Note 7)	3,709	3,213
Derivative instrument liabilities	119	115
Deferred income tax liabilities	2,358	2,201
Pension and other post-retirement benefit liabilities	524	503
Asset retirement obligations and accrued environmental costs	568	589
Other non-current liabilities and deferred credits	103	113
Total Liabilities	8,876	8,932
Shareholders Equity		
Share capital (Note 8)	1,720	1,632
Contributed surplus	232	234
Accumulated other comprehensive income	102	503
Retained earnings	6,535	6,423
Total Shareholders Equity	8,589	8,792
Total Liabilities and Shareholders Equity	\$ 17,465	\$ 17,724

(See Notes to the Condensed Consolidated Financial Statements)

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Notes to the Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2015

Unaudited

In millions of US dollars except as otherwise noted

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. These unaudited interim condensed consolidated financial statements are based on International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS), and have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting. The accounting policies and methods of computation used in preparing these unaudited interim condensed consolidated financial statements are consistent with those used in the preparation of the company's 2014 annual consolidated financial statements.

These unaudited 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 company's 2014 annual consolidated financial statements. In management's opinion, the unaudited interim condensed consolidated financial statements include all adjustments necessary to fairly present such information. Interim results are not necessarily indicative of the results expected for the fiscal year.

These unaudited interim condensed consolidated financial statements were authorized by the audit committee of the Board of Directors for issue on November 3, 2015.

Standards, Amendments and Interpretations Not Yet Effective and Not Applied

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and amendments or interpretations to existing standards that were not yet effective and not applied as at September 30, 2015. The company does not anticipate early adoption of these standards at this time.

Standard	Description	Impact	Effective Date ⁽¹⁾
Amendments to IAS 1, Presentation of Financial	Issued to improve the effectiveness of presentation and disclosure in financial reports, with the objective of reducing immaterial note disclosures.	The company is reviewing the standard to determine the potential impact, if any.	January 1, 2016, applied prospectively.

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Amendments to IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets	Issued to clarify acceptable methods of depreciation and amortization.	The company is reviewing the standard to determine the potential impact, if any; however, no significant impact is anticipated.	January 1, 2016, applied prospectively.
Amendments to IFRS 11, Joint Arrangements	Issued to provide additional guidance on accounting for the acquisition of an interest in a joint operation.	The company is reviewing the standard to determine the potential impact, if any; however, no significant impact is anticipated.	January 1, 2016, applied prospectively.
IFRS 15, Revenue From Contracts With Customers	Issued to provide guidance on the recognition of revenue from contracts with customers, including multiple-element arrangements and transactions not previously addressed comprehensively, and enhance disclosures about revenue.	The company is reviewing the standard to determine the potential impact, if any.	January 1, 2018, applied retrospectively with certain limitations.
IFRS 9, Financial Instruments	Issued to replace IAS 39, providing guidance on the classification, measurement and disclosure of financial instruments and introducing a new hedge accounting model.	The company is reviewing the standard to determine the potential impact, if any.	January 1, 2018, applied retrospectively with certain exceptions.

(1) Effective date for annual periods beginning on or after the stated date.

2. Segment Information

The company has three reportable operating segments: potash, nitrogen and phosphate. These segments are differentiated by the chemical nutrient contained in the products that each produces. The accounting policies of the segments are the same as those described in Note 1 and are measured in a manner consistent with that of the financial statements. Inter-segment sales are made under terms that approximate market value. The company's operating segments have been determined based on reports reviewed by the Chief Executive Officer, assessed to be the company's chief operating decision-maker, that are used to make strategic decisions.

	Three Months Ended September 30, 2015				
	Potash	Nitrogen	Phosphate	All Others	Consolidated
Sales third party	\$ 603	\$ 460	\$ 466	\$	\$ 1,529
Freight, transportation and distribution third party	(55)	(23)	(50)		(128)
Net sales third party	548	437	416		
Cost of goods sold third party	(254)	(292)	(350)		(896)
Margin (cost) on inter-segment sales ⁽¹⁾		16	(16)		
Gross margin	294	161	50		505
Depreciation and amortization	(52)	(48)	(56)	(16)	(172)
Assets	9,678	2,560	2,369	2,858	17,465
Cash outflows for additions to property, plant and equipment	127	102	37	14	280

⁽¹⁾ Inter-segment net sales were \$25.

	Three Months Ended September 30, 2014				
	Potash	Nitrogen	Phosphate	All Others	Consolidated
Sales third party	\$ 633	\$ 562	\$ 446	\$	\$ 1,641
Freight, transportation and distribution third party	(64)	(30)	(47)		(141)
Net sales third party	569	532	399		
Cost of goods sold third party	(274)	(314)	(323)		(911)
Margin (cost) on inter-segment sales ⁽¹⁾		15	(15)		
Gross margin	295	233	61		589
Depreciation and amortization	(48)	(42)	(66)	(5)	(161)
Assets	9,452	2,282	2,403	3,224	17,361
Cash outflows for additions to property, plant and equipment	138	94	65	6	303

⁽¹⁾ Inter-segment net sales were \$25.

	Nine Months Ended September 30, 2015				
	Potash	Nitrogen	Phosphate	All Others	Consolidated
Sales third party	\$ 2,089	\$ 1,501	\$ 1,335	\$	\$ 4,925

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Freight, transportation and distribution third party	(178)	(73)	(129)		(380)
Net sales third party	1,911	1,428	1,206		
Cost of goods sold third party	(772)	(905)	(985)		(2,662)
Margin (cost) on inter-segment sales ⁽¹⁾		41	(41)		
Gross margin	1,139	564	180		1,883
Depreciation and amortization	(170)	(141)	(181)	(25)	(517)
Assets	9,678	2,560	2,369	2,858	17,465
Cash outflows for additions to property, plant and equipment	341	285	127	49	802

(1) Inter-segment net sales were \$62.

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	Nine Months Ended September 30, 2014				
	Potash	Nitrogen	Phosphate	All Others	Consolidated
Sales third party	\$ 2,051	\$ 1,799	\$ 1,363	\$	\$ 5,213
Freight, transportation and distribution third party	(229)	(89)	(147)		(465)
Net sales third party	1,822	1,710	1,216		
Cost of goods sold third party	(832)	(979)	(1,036)		(2,847)
Margin (cost) on inter-segment sales ⁽¹⁾		45	(45)		
Gross margin	990	776	135		1,901
Depreciation and amortization	(165)	(128)	(234)	8	(519)
Assets	9,452	2,282	2,403	3,224	17,361
Cash outflows for additions to property, plant and equipment	365	209	141	11	726

⁽¹⁾ Inter-segment net sales were \$83.

3. Other Income

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2015	2014	2015	2014
Foreign exchange gain	\$ 24	\$ 7	\$ 36	\$
Legal settlements				17
Other (expenses) income	(16)	(2)	(25)	19
	\$ 8	\$ 5	\$ 11	\$ 36

4. Income Taxes

A separate estimated average annual effective tax rate was determined for each taxing jurisdiction and applied individually to the interim period pre-tax income of each jurisdiction.

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2015	2014	2015	2014
Income tax expense	\$ 90	\$ 156	\$ 382	\$ 466
Actual effective tax rate on ordinary earnings	27%	28%	27%	27%
Actual effective tax rate including discrete items				