POTASH CORP OF SASKATCHEWAN INC
Form 10-Q
August 05, 2005

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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 June 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	**N/A**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
122 1st Avenue South Saskatoon, Saskatchewan, Canada	**S7K 7G3**
(Address of principal executive offices)	*(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 þ NO o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

YES þ NO o

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

As at July 31, 2005, Potash Corporation of Saskatchewan Inc. had 108,655,940 Common Shares outstanding.

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PART I. FINANCIAL INFORMATION
ITEM 1. *FINANCIAL STATEMENTS*

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

	June 30, 2005	December 31, 2004
Assets		
Current assets		
Cash and cash equivalents	**$ 423.3**	$ 458.9
Accounts receivable	**373.7**	352.6
Inventories (Note 3)	**390.1**	396.8
Prepaid expenses and other current assets	**34.6**	35.3
	1,221.7	1,243.6
Property, plant and equipment	**3,107.2**	3,098.9
Other assets (Note 4)	**745.0**	650.2
Intangible assets	**36.4**	37.1
Goodwill	**97.0**	97.0
	$5,207.3	$5,126.8
Liabilities		
Current liabilities		
Short-term debt	**$ 93.3**	$ 93.5
Accounts payable and accrued charges	**586.3**	599.9
Current portion of long-term debt	**10.2**	10.3
	689.8	703.7
Long-term debt	**1,258.1**	1,258.6
Future income tax liability	**527.5**	499.4
Accrued post-retirement/post-employment benefits	**211.9**	193.4
Accrued environmental costs and asset retirement obligations	**83.0**	81.2
Other non-current liabilities and deferred credits	**19.6**	4.9
	2,789.9	2,741.2
Contingencies and Guarantees (Notes 15 and 16, respectively)		
Shareholders Equity		
Share capital (Note 5)	**1,425.3**	1,408.4
Unlimited authorization of common shares without par value; issued and outstanding 108,642,994 and 110,630,503 at June 30,		

2005 and December 31, 2004, respectively		
Unlimited authorization of first preferred shares; none outstanding		
Contributed surplus	**28.6**	275.7
Retained earnings	**963.5**	701.5
	2,417.4	2,385.6
	$5,207.3	$5,126.8

(See Notes to the Condensed Consolidated Financial Statements)

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 June 30		Six Months Ended June 30	
	2005	**2004**	**2005**	**2004**
Sales (Note 10)	**$1,057.3**	$833.7	**$1,978.7**	$1,562.1
Less: Freight	**67.4**	68.9	**134.6**	127.0
Transportation and distribution	**32.1**	31.3	**61.0**	54.3
Cost of goods sold	**613.0**	562.8	**1,179.8**	1,086.1
Gross Margin	**344.8**	170.7	**603.3**	294.7
Selling and administrative	**54.9**	25.4	**84.2**	51.6
Provincial mining and other taxes	**44.2**	29.3	**82.6**	44.4
Provision for PCS Yumbes S.C.M. (Note 7)		5.9		5.9
Foreign exchange gain	**(6.1)**	(9.9)	**(12.0)**	(18.1)
Other income (Note 13)	**(13.9)**	(9.2)	**(33.9)**	(16.1)
	79.1	41.5	**120.9**	67.7
Operating Income	**265.7**	129.2	**482.4**	227.0
Interest Expense	**20.6**	20.9	**41.3**	43.0
Income Before Income Taxes	**245.1**	108.3	**441.1**	184.0
Income Taxes (Note 8)	**80.9**	35.7	**145.6**	60.7
Net Income	**$ 164.2**	$ 72.6	**295.5**	123.3
Retained Earnings, Beginning of Period			**701.5**	462.8
Dividends			**(33.5)**	(27.0)
Retained Earnings, End of Period			**$ 963.5**	$ 559.1
Net Income Per Share (Note 9)				
Basic	**$ 1.50**	$ 0.68	**$ 2.68**	$ 1.15
Diluted	**$ 1.46**	$ 0.67	**$ 2.61**	$ 1.14
Dividends Per Share	**$ 0.15**	$ 0.13	**$ 0.30**	$ 0.25

(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 June 30		Six Months Ended June 30	
	2005	**2004**	**2005**	**2004**
Operating Activities				
Net income	**$ 164.2**	$ 72.6	**$ 295.5**	$ 123.3
Adjustments to reconcile net income to cash provided by operating activities				
Depreciation and amortization	**62.4**	63.9	**122.0**	123.6
Stock-based compensation	**23.0**	2.8	**24.0**	5.6
Loss (gain) on disposal of long-term assets	**3.5**	(0.3)	**5.5**	(0.3)
Foreign exchange on future income tax	**(2.8)**	(4.9)	**(4.0)**	(7.8)
Provision for future income tax	**8.1**	9.3	**14.6**	24.3
Share of earnings of equity investees	**(13.4)**	(3.9)	**(26.5)**	(7.7)
Dividends received from equity investees	**12.1**	4.6	**12.1**	4.6
Provision for PCS Yumbes S.C.M.		5.9		5.9
Other long-term liabilities	**13.8**	0.5	**19.0**	5.9
Subtotal of adjustments	**106.7**	77.9	**166.7**	154.1
Changes in non-cash operating working capital				
Accounts receivable	**35.5**	(23.3)	**(28.0)**	9.6
Inventories	**11.3**	29.7	**9.6**	3.1
Prepaid expenses and other current assets	**6.7**	18.2	**0.5**	6.9
Accounts payable and accrued charges	**24.0**	7.7	**19.6**	20.1
Subtotal of changes in non-cash operating working capital	**77.5**	32.3	**1.7**	39.7
Cash provided by operating activities	**348.4**	182.8	**463.9**	317.1
Investing Activities				
Additions to property, plant and equipment	**(74.5)**	(33.0)	**(131.3)**	(49.4)
Investment in Arab Potash Company (APC)	**(18.6)**		**(18.6)**	
Investment in Israel Chemicals Ltd. (ICL)	**(74.9)**		**(74.9)**	
Proceeds from disposal of long-term assets	**0.9**	0.7	**8.4**	0.7
Proceeds from sale of shares of PCS Yumbes S.C.M.			**5.2**	
Other assets and intangible assets		3.5	**(0.1)**	4.3
Cash used in investing activities	**(167.1)**	(28.8)	**(211.3)**	(44.4)
Cash before financing activities	**181.3**	154.0	**252.6**	272.7

Financing Activities				
Repayment of long-term debt obligations	**(0.4)**	(0.3)	**(0.6)**	(0.5)
(Repayment of) proceeds from short-term debt obligations	**(1.0)**	33.5	**(0.2)**	(84.8)
Dividends	**(16.7)**	(13.5)	**(33.2)**	(27.0)
Repurchase of common shares	**(235.1)**		**(317.4)**	
Issuance of common shares	**16.2**	21.6	**63.2**	41.4
Cash (used in) provided by financing activities	**(237.0)**	41.3	**(288.2)**	(70.9)
(Decrease) Increase in Cash and Cash Equivalents	**(55.7)**	195.3	**(35.6)**	201.8
Cash and Cash Equivalents, Beginning of Period	**479.0**	11.2	**458.9**	4.7
Cash and Cash Equivalents, End of Period	**$ 423.3**	$206.5	**$ 423.3**	$206.5
Supplemental cash flow disclosure				
Interest paid	**$ 29.5**	$ 30.2	**$ 40.7**	$ 43.6
Income taxes paid	**$ 31.9**	$ 9.0	**$ 107.4**	$ 15.2

(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 Six Months Ended June 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 principal operating subsidiaries:

- 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 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 in shareholders equity called other comprehensive income (OCI).

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 (defined as 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

	June 30, 2005	**December 31, 2004**
Finished product	**$172.1**	$181.8
Materials and supplies	**95.2**	97.7
Raw materials	**44.1**	50.3
Work in process	**78.7**	67.0
	$390.1	$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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5. Share Capital

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. 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 second quarter of 2005, the company repurchased for cancellation 2,519,100 common shares under the program, at a net cost of $219.6 and an average price per share of $87.17. The repurchase resulted in a reduction of share capital of $32.8, and the excess net cost over the average book value of the shares of $186.8 has been recorded as a reduction of contributed surplus. Year to date, a total of 3,653,300 shares have been repurchased at a net cost of $317.4 and an average price per share of $86.89, resulting in a reduction of share capital of $47.5 and reduction of contributed surplus of $269.9.

6. Plant Shutdowns 2003

In June 2003, the company indefinitely shut down its Memphis, Tennessee plant and suspended production of ammonia and nitrogen solutions at its Geismar, Louisiana facilities due to high US natural gas costs and low product margins. The operations have not been restarted. 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 $12.1 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 June 30, 2005. Such costs will be recognized and recorded in the period in which they are incurred.

The company also ceased operations at its phosphate feed plant at Kinston, North Carolina in 2003. The Kinston property was sold in 2004 for nominal proceeds.

No additional significant costs were incurred in connection with the plant shutdowns in the first six 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		12.1
	118.8	130.9
Phosphate Segment		
Employee termination and related benefits	0.6	0.6
Writedown of parts inventory	0.3	0.3
Asset impairment charges	4.0	4.0
	4.9	4.9
	$123.7	$135.8

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7. Provision for PCS Yumbes S.C.M. 2004

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 six month periods ended June 30, 2005 approximates 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 June 30, 2005 of 109,636,000 (2004 107,046,000). Basic net income per share for the year to date is calculated on the weighted average shares issued and outstanding for the six months ended June 30, 2005 of 110,365,000 (2004 106,866,000). 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 June 30, 2005 were 112,436,000 (2004 108,642,000) and for the year to date were 113,406,000 (2004 108,230,000).

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 which approximate market value. The accounting policies of the segments are the same as those described in Note 1.

	Three Months Ended June 30, 2005				
	Potash	**Phosphate**	**Nitrogen**	**All Others**	**Consolidated**
Sales	**$401.6**	**$291.3**	**$364.4**	**$**	**$1,057.3**
Freight	**37.5**	**20.0**	**9.9**		**67.4**
Transportation and distribution	**9.5**	**8.8**	**13.8**		**32.1**
Net sales third party	**354.6**	**262.5**	**340.7**		
Cost of goods sold	**131.3**	**240.4**	**241.3**		**613.0**
Gross margin	**223.3**	**22.1**	**99.4**		**344.8**
Depreciation and amortization	**18.3**	**24.0**	**17.5**	**2.6**	**62.4**
Inter-segment sales	**2.4**	**4.7**	**28.7**		

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	Three Months Ended June 30, 2004				
	Potash	Phosphate	Nitrogen	All Others	Consolidated
Sales	$316.4	$236.9	$280.4	$	$833.7
Freight	41.2	16.1	11.6		68.9
Transportation and distribution	12.5	7.4	11.4		31.3
Net sales third party	262.7	213.4	257.4		
Cost of goods sold	141.3	207.7	213.8		562.8
Gross margin	121.4	5.7	43.6		170.7
Depreciation and amortization	19.9	21.4	20.3	2.3	63.9
Inter-segment sales	0.7	3.4	22.3		

	Six Months Ended June 30, 2005				
	Potash	Phosphate	Nitrogen	All Others	Consolidated
Sales	**$753.7**	**$555.8**	**$669.2**	**$**	**$1,978.7**
Freight	**74.7**	**39.8**	**20.1**		**134.6**
Transportation and distribution	**18.6**	**16.9**	**25.5**		**61.0**
Net sales third party	**660.4**	**499.1**	**623.6**		
Cost of goods sold	**260.9**	**460.0**	**458.9**		**1,179.8**
Gross margin	**399.5**	**39.1**	**164.7**		**603.3**
Depreciation and amortization	**36.4**	**46.1**	**34.6**	**4.9**	**122.0**
Inter-segment sales	**4.4**	**8.9**	**48.5**		

	Six Months Ended June 30, 2004				
	Potash	Phosphate	Nitrogen	All Others	Consolidated
Sales	$540.1	$454.5	$567.5	$	$1,562.1
Freight	74.7	31.8	20.5		127.0
Transportation and distribution	21.2	12.7	20.4		54.3
Net sales third party	444.2	410.0	526.6		
Cost of goods sold	256.1	405.2	424.8		1,086.1
Gross margin	188.1	4.8	101.8		294.7
Depreciation and amortization	36.8	41.9	40.2	4.7	123.6
Inter-segment sales	3.6	6.5	44.1		

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 10 years. Options will vest, if at all, based on achievement of certain corporate performance measures over a three-year period. As of June 30, 2005, options to purchase a total of 1,188,500 common shares have been granted under the plan.

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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 six month periods ended June 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.

	Three Months Ended June 30		Six Months Ended June 30	
	2005	**2004**	**2005**	**2004**
Net income as reported	**$164.2**	$72.6	**$295.5**	$123.3
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	**15.4**	2.2	**16.1**	4.4
Less: Total stock-based employee compensation expense determined under fair value based method for all option awards, net of related tax effects	**(15.4)**	(3.2)	**(16.1)**	(6.4)
Net income pro forma[(1)]	**$164.2**	$71.6	**$295.5**	$121.3

[(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	**$1.50**	$0.68	**$2.68**	$1.15
Pro forma	**$1.50**	$0.67	**$2.68**	$1.14
Diluted net income per share				
As reported	**$1.46**	$0.67	**$2.61**	$1.14
Pro forma	**$1.46**	$0.66	**$2.61**	$1.12

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

Defined Benefit Pension Plans	Three Months Ended June 30		Six Months Ended June 30	
	2005	**2004**	**2005**	**2004**
Service cost	**$ 3.4**	$ 3.5	**$ 7.0**	$ 7.0
Interest cost	**7.8**	7.5	**15.6**	15.0
Expected return on plan assets	**(9.5)**	(8.4)	**(18.4)**	(16.8)
Net amortization	**1.3**	1.1	**3.0**	2.2
Net expense	**$ 3.0**	$ 3.7	**$ 7.2**	$ 7.4

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Other Post-Retirement Plans	Three Months Ended June 30 2005	2004	Six Months Ended June 30 2005	2004
Service cost	**$1.4**	$1.4	**$ 2.8**	$ 2.8
Interest cost	**3.3**	3.5	**6.6**	7.0
Net amortization	**0.4**	0.4	**0.8**	0.8
Net expense	**$5.1**	$5.3	**$10.2**	$10.6

For the three months ended June 30, 2005, the company contributed $5.5 to its defined benefit pension plans and $1.9 to its other post-retirement plans. Contributions for the six months ended June 30, 2005 were $8.3 to the company s defined benefit pension plans and $4.2 to its other post-retirement plans. Total 2005 contributions to these and the company s defined contribution savings plans are not expected to differ significantly from the amounts previously disclosed in the company s consolidated financial statements for the year ended December 31, 2004.

13. Other Income

	Three Months Ended June 30 2005	2004	Six Months Ended June 30 2005	2004
Share of earnings of equity investees	**$13.4**	$3.9	**$26.5**	$ 7.7
Dividend income		2.2	**3.1**	2.2
Other	**0.5**	3.1	**4.3**	6.2
	$13.9	$9.2	**$33.9**	$16.1

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 six months of 2005 or 2004.

Mining Risk

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

Investment in APC

The terms of a shareholders agreement with Jordan Investment Company (JIC) 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 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 for review and approval, and selection of a remedy is projected to occur in the second half of 2005. 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 groundwater recovery and treatment system. No change to management s estimate of accrued costs was required as at June 30, 2005 as a result of approval of the remedial action plan.

In 2003, USEPA notified PCS Nitrogen that it considers PCS Nitrogen to be a potentially responsible party with respect to the Columbia Nitrogen site in Charleston, South Carolina. In March 2005, the USEPA released for public comment a range of remedial alternatives and a proposed remedy for this site. PCS Nitrogen will continue to monitor these and other developments with respect to the Columbia Nitrogen site. PCS Nitrogen will also continue to assert to USEPA and others 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 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.

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

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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 June 30, 2005, the maximum potential amount of future (undiscounted) payments under significant guarantees provided to third parties approximated $214.2, 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 June 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 $57.5 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. 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 that will remain in effect until the revised plans are accepted.

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.

Long-term investments: The company s investment in ICL is stated at cost. US GAAP requires that this investment 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.

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.

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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.

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.

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.

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 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.

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.

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.

Income taxes: 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.

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. All share and per-share data have been retroactively adjusted to reflect the stock split described in Note 18.

	Three Months Ended June 30		**Six Months Ended June 30**	
	2005	**2004**	**2005**	**2004**
Net income as reported Canadian GAAP	**$ 164.2**	$ 72.6	**$ 295.5**	$ 123.3
Items increasing or decreasing reported net income				
Cash flow hedge ineffectiveness	**0.8**		**1.0**	
Depreciation and amortization	**2.1**	2.1	**4.2**	4.2
Accretion of asset retirement obligations				3.3
Deferred income taxes related to the above adjustments	**(1.0)**	(0.7)	**(1.7)**	(2.7)
Net income US GAAP	**$ 166.1**	$ 74.0	**$ 299.0**	$ 128.1
Basic weighted average shares outstanding US GAAP	**109,636,000**	107,046,000	**110,365,000**	106,866,000
Diluted weighted average shares outstanding US GAAP	**112,436,000**	108,642,000	**113,406,000**	108,230,000
Basic net income per share US GAAP	**$ 1.52**	$ 0.69	**$ 2.71**	$ 1.20
Diluted net income per share US GAAP	**$ 1.48**	$ 0.68	**$ 2.64**	$ 1.18

	June 30, 2005	December 31, 2004
Total assets as reported Canadian GAAP	**$5,207.3**	$5,126.8
Items increasing (decreasing) reported total assets		
Inventory	**3.1**	(3.0)
Other current assets	**3.6**	2.6
Available-for-sale securities (unrealized holding gain)	**240.8**	161.7
Fair value of derivative instruments	**168.5**	66.5
Property, plant and equipment	**(122.3)**	(126.5)
Post-retirement and post-employment benefits	**11.7**	11.7
Intangible asset relating to additional minimum pension liability	**9.6**	9.6
Goodwill	**(46.7)**	(46.7)
Total assets US GAAP	**$5,475.6**	$5,202.7

	June 30, 2005	December 31, 2004
Total shareholders equity as reported Canadian GAAP	**$2,417.4**	$2,385.6
Items increasing (decreasing) reported shareholders equity		
Accumulated other comprehensive income, net of related income taxes	**222.2**	96.8
Foreign currency translation adjustment	**20.9**	20.9
Provision for asset impairment	**(218.0)**	(218.0)
Depreciation and amortization	**49.0**	44.8
Cash flow hedge ineffectiveness	**3.6**	2.6
Post-retirement and post-employment benefits	**11.7**	11.7
Deferred income taxes relating to the above adjustments	**28.7**	30.4
Shareholders equity US GAAP	**$2,535.5**	$2,374.8

	Six Months Ended June 30	
	2005	2004
Net income US GAAP	**$299.0**	$128.1
Other comprehensive income		
Change in unrealized holding gain on available-for-sale securities	**79.1**	55.5
Change in gains and losses on derivatives designated as cash flow hedges	**131.0**	43.5
Reclassification to income of gains and losses on cash flow hedges	**(22.9)**	(25.8)
Deferred income taxes related to other comprehensive income	**(61.8)**	(24.2)

Other comprehensive income, net of related income taxes	**125.4**	49.0
Comprehensive income US GAAP	**$424.4**	$177.1

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

	June 30, 2005	**December 31, 2004**
Unrealized gains and losses on available-for-sale securities	**$159.7**	$106.7
Gains and losses on derivatives designated as cash flow hedges	**119.8**	47.4
Additional minimum pension liability	**(36.4)**	(36.4)
Foreign currency translation adjustment	**(20.9)**	(20.9)
Accumulated other comprehensive income US GAAP	**$222.2**	$ 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, FASB issued SFAS No. 123 (revised 2004), Share-Based Payment , which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation . SFAS No. 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees , and amends SFAS No. 95, Statement of Cash Flows . Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. To assist in the implementation of the new standard, the SEC issued SAB No. 107, Share-Based Payment . While SAB No. 107 addresses a wide range of issues, the largest area of focus is valuation methodologies and the selection of assumptions. Notably, SAB No. 107 lays out simplified methods for developing certain assumptions. In addition to providing the SEC staff s interpretive guidance on SFAS No. 123(R), SAB No. 107 addresses the interaction of SFAS No. 123(R) with existing SEC guidance (e.g., the interaction with the SEC s guidance dealing with non-GAAP disclosures). The compliance date for SFAS No. 123(R) has been amended such that the standard will be effective for the first fiscal year beginning after June 15, 2005. As of the required effective date, all public entities will apply this standard using a modified version of prospective application. Under that transition method, compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date, and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date. For periods before the required effective date, entities may elect to apply a modified version of retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods by SFAS No. 123. 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 to determine the potential impact, if any, on its consolidated financial statements.

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.

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. As a result of Issue No. 04-6, the Emerging Issues Committee in Canada discussed developing an Abstract on the accounting for stripping costs (in particular, whether such costs incurred during the production phase of a mine are a betterment to the mineral resource) and requested that staff develop this view for further discussion at its August 2005 meeting. 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 changes the requirements for the accounting and reporting of a change in accounting principle. SFAS No. 154 eliminates the requirement to include the cumulative effect of changes in accounting principle in the income statement in the period of change. Instead, it 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. The cumulative effect of the change is reflected in the carrying value of assets and liabilities as of the first period presented and the offsetting adjustments are recorded to opening retained earnings. Each period presented is adjusted to reflect the period specific effects of applying the change. Although retrospective application is similar to restating prior periods, SFAS No. 154 gives the treatment a new name to differentiate it from restatement for the correction of an error. Under SFAS No. 154, a change in accounting estimate continues to be accounted for in the period of change, and future periods if necessary. A correction of an error continues to be reported by restating prior period financial statements as of the beginning of the first period presented. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted. The standard does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase. 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 investment in ICL is classified as available-for-sale. The fair market value of this investment at June 30, 2005 was $408.6 and the unrealized holding gain was $240.8.

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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 six month periods ended June 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.

	Three Months Ended June 30		Six Months Ended June 30	
	2005	**2004**	**2005**	**2004**
Net income as reported under US GAAP	**$166.1**	$74.0	**$299.0**	$128.1
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	**15.4**	2.2	**16.1**	4.4
Less: Total stock-based employee compensation expense determined under fair value based method for all option awards, net of related tax effects	**(15.4)**	(3.2)	**(16.1)**	(6.4)
Net income pro forma under US GAAP [1]	**$166.1**	$73.0	**$299.0**	$126.1

(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 under US GAAP				
As reported	**$1.52**	$0.69	**$2.71**	$1.20
Pro forma	**$1.52**	$0.68	**$2.71**	$1.18
Diluted net income per share under US GAAP				
As reported	**$1.48**	$0.68	**$2.64**	$1.18
Pro forma	**$1.48**	$0.67	**$2.64**	$1.17

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 second quarter of 2005, a gain of $14.2 (2004 $15.3) was recognized in cost of goods sold. On a year-to-date basis, the gain was $22.9 (2004 $25.8). Of the deferred gains at quarter-end, approximately $52.7 will be reclassified to cost of goods sold within the next 12 months. The fair value of the company s gas hedging contracts at June 30, 2005 was $168.5 (2004 $77.1).

Fair Value Hedges

At June 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 June 30, 2005 was a liability of $nil (2004 $12.6).

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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.

19. Subsequent Event

On July 27, 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 listed on The Hong Kong Stock Exchange.

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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 August 4, 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.

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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 June 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 second quarter of 2005 was 9 percent, exceeding the DJBMI return of -9 percent as well as our sector average return of 8 percent for the same quarter. Our 15-percent return for the six months ended June 30, 2005 exceeded the DJBMI of -7 percent, though not our sector average of 24 percent. Our three-year average return at 191 percent significantly exceeds the DJBMI three-year average return of 17 percent, though below our sector average of 222 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 7 percent for the second quarter of 2005, while realized prices were 49 percent higher in the second quarter of 2005 compared to second-quarter 2004. Year over year potash sales volumes increased 4 percent at 49 percent higher realized prices. Compared to the 2004 annual average, realized prices increased 34 percent during the six months ended June 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 5 percent while White Springs increased 2 percent during the second 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 accidents, no damage to the environment.	Reduce recordable and lost-time injury rates by 10 percent.	Recordable and lost time injury rates to June 30, 2005 were 0.32 and 2.24, respectively, compared to the targets of 0.20 and 1.72. This represents an improvement over the quarter ended March 31, 2005 at which time the recordable and lost time injury rates were 0.40 and 2.55, respectively.

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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 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 or loss 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 second quarter of 2005 was in the range of $1.00 to $1.25 per share, and was updated in June to reflect expectations of $1.40 to $1.50 per share. The final result, reflecting strong price and volume performance in all three nutrients, was net income of $164.2 million, or $1.46 per share.

Overview of Actual Results

Operations

	Three Months Ended June 30				**Six Months Ended June 30**			
(Dollars millions except per-share amounts)	**2005**	**2004**	**Dollar Change**	**% Change**	**2005**	**2004**	**Dollar Change**	**% Change**
Sales	**$1,057.3**	$833.7	$223.6	27	**$1,978.7**	$1,562.1	$416.6	27
Freight	**67.4**	68.9	(1.5)	(2)	**134.6**	127.0	7.6	6
Transportation and distribution	**32.1**	31.3	0.8	3	**61.0**	54.3	6.7	12
Cost of goods sold	**613.0**	562.8	50.2	9	**1,179.8**	1,086.1	93.7	9
Gross margin	**$ 344.8**	$170.7	$174.1	102	**$ 603.3**	$ 294.7	$308.6	105
Operating income	**$ 265.7**	$129.2	$136.5	106	**$ 482.4**	$ 227.0	$255.4	113
Net income	**$ 164.2**	$ 72.6	$ 91.6	126	**$ 295.5**	$ 123.3	$172.2	140
Net income per share basic	**$ 1.50**	$ 0.68	$ 0.82	121	**$ 2.68**	$ 1.15	$ 1.53	133
Net income per share diluted	**$ 1.46**	$ 0.67	$ 0.79	118	**$ 2.61**	$ 1.14	$ 1.47	129

Tight supply and demand in potash has made product availability the primary concern for many customers, reducing Canadian producer inventories from their five-year average by approximately 2 million tonnes, to a total of 1.1 million tonnes. This continued to drive up prices in offshore and North American markets in the second quarter of 2005. Improved potash results accounted for 59 percent of the increase in second-quarter gross margin compared to the corresponding quarter last year. Our nitrogen business contributed 32 percent of the gross margin improvement quarter over quarter. Continued curtailments at North American nitrogen facilities, along with strong offshore demand that is limiting the growth of ammonia imports, tightened nitrogen fundamentals. These factors, supported by higher North American natural gas prices, raised nitrogen prices, reinforcing the value of lower-cost gas at PotashCorp s

Trinidad operations. World demand for phosphate fertilizer grew as well, as an early summer fill and the potential for higher prices led to increased second-quarter sales volumes. India and Pakistan increased their demand in the quarter, which led to a tightening of the DAP market. As a result, ending inventories for US DAP producers as of June 30, 2005 were 11 percent below the five-year average while prices rose.

Second quarter net income was $164.2 million, or $1.46 per share, as compared to $72.6 million, or $0.67 per share, in the corresponding period in 2004. The higher quarterly earnings were a result of higher realized prices in all three nutrients, most particularly potash. On a year-to-date basis, net income increased $172.2 million to $295.5 million, or $2.61 per share, led by a gross margin increase of 105 percent.

First-half potash sales volumes rose year over year, although second-quarter sales volumes declined compared to the same period last year. In North America, customers shifted their purchases to the first quarter of 2005, resulting in second-quarter sales volumes below last year s second quarter when customers purchased large volumes in advance of announced price increases. Realized prices rose quarter over quarter and year over year. Increased consumption is tightening supply and demand fundamentals after more than two decades of oversupply in the potash market. With the rest of the industry now operating at or near capacity, the company is benefiting by increasing year-over-year production and capturing a significant share of global demand growth.

Potash gross margin increased $101.9 million, or 84 percent, quarter over quarter despite a 7 percent decrease in sales volumes, as average realized prices increased 49 percent. Potash gross margin grew by 112 percent, or $211.4 million, year over year as a result of higher realized prices and sales volumes of 49 percent and 4 percent, respectively. Despite higher operating rates for the second quarter and the first half of 2005, product costs were relatively flat on a per tonne basis due to the impact of a stronger Canadian dollar compared to corresponding periods in 2004.

High US natural gas prices discouraged the startup of previously curtailed nitrogen capacity in the US. Nitrogen gross margin rose 128 percent to $99.4 million quarter over quarter and 62 percent, or $62.9 million, year over year, reflecting higher prices in both Trinidad and the US. Trinidad provided 57 percent of gross margin for the second quarter and 61 percent for the first half of 2005. The company s US natural gas hedging activities contributed $14.2 million to the second-quarter gross margin and $22.9 million for the first half of 2005 compared to $15.3 million and $25.8 million, respectively, last year.

Phosphate gross margin was $22.1 million in the second quarter of 2005 compared to $5.7 million in last year s second quarter, led by high-margin industrial product sales. Phosphate gross margin increased from $4.8 million in the first half of 2004 to $39.1 million in the second half of 2005. Phosphate performance improved quarter over quarter and year over year due to increased sales volumes at higher realized prices for all phosphate products, lower sulfur costs and higher production rates. These effects were partially offset by higher ammonia input costs in the first half of 2005 compared to the corresponding period in 2004.

Selling, administrative, provincial mining and other tax expenses increased by $44.4 million quarter over quarter and $70.8 million year over year principally due to higher mining taxes associated with the increased potash prices and margins, and the accelerated recognition of compensation expense associated with performance stock options granted during the second quarter of 2005.

The weakening of the Canadian dollar by $0.02 at June 30, 2005 compared to December 31, 2004 and March 31, 2005 contributed to foreign exchange gains of $6.1 million quarter over quarter and $12.0 million year over year. This compares to gains of $9.9 million and $18.1 million for the corresponding periods in 2004 when the Canadian dollar weakened by $0.05 and $0.03, respectively.

Balance Sheet

Total assets were $5,207.3 million at June 30, 2005, up $80.5 million or 2 percent over December 31, 2004. Total liabilities increased $48.7 million from December 31, 2004 to $2,789.9 million at June 30, 2005, and total shareholders equity increased $31.8 million during the same period to $2,417.4 million.

The largest contributors to the increase in assets during the first half of 2005 were accounts receivable, cash, and other assets. Accounts receivable increased 6 percent compared to December 31, 2004, as a result of a 22 percent increase in sales in the second quarter of 2005 compared to the fourth quarter of 2004. The company s accounts receivable turnover ratio improved during the same period. Cash decreased $35.6 million relative to December 31, 2004. Strong first-half earnings provided the basis for cash inflows from operating activities of $463.9 million. We also received $63.2 million from the issuance of common shares (primarily due to the exercise of stock options). Cash inflows were more than offset by additions to property plant and equipment of $131.3 million (including key expansion projects in all three nutrients), dividend payments of

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$33.2 million and common share repurchases of $317.4 million. The company also made additional investments in Arab Potash Company (APC) and Israel Chemicals Ltd. (ICL) of $18.6 million and $74.9 million, respectively, which was the primary cause of the increase in other assets at June 30, 2005 compared to December 31, 2004.

Share capital and retained earnings increased at June 30, 2005 compared to December 31, 2004, while contributed surplus declined. Share capital at June 30, 2005 was $16.9 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 $47.5 million under our normal course issuer bid. Our share repurchase program also had the effect of decreasing contributed surplus by $269.9 million compared to December 31, 2004. Net earnings for the six months ended June 30, 2005 of $295.5 million increased retained earnings while dividends declared of $33.5 million reduced the balance, for a net increase of $262.0 million at June 30, 2005 compared to December 31, 2004.

Business Segment Review

Note 10 to the unaudited interim 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 June 30								
	Dollars (millions)			Tonnes (thousands)			Average Price per Tonne[1]		
	2005	**2004**	**% Change**	**2005**	**2004**	**% Change**	**2005**	**2004**	**% Change**
Sales	**$401.6**	$316.4	27						
Freight	**37.5**	41.2	(9)						
Transportation and distribution	**9.5**	12.5	(24)						
	$354.6	$262.7	35						
Net Sales									
North American	**$155.7**	$117.5	33	**973**	1,119	(13)	**$159.98**	$104.99	52
Offshore	**196.0**	138.2	42	**1,427**	1,474	(3)	**$137.31**	$ 93.77	46
	351.7	255.7	38	**2,400**	2,593	(7)	**$146.54**	$ 98.61	49
Miscellaneous products	**2.9**	7.0	(59)						
	354.6	262.7	35	**2,400**	2,593	(7)	**$147.75**	$101.31	46
Cost of goods sold	**131.3**	141.3	(7)				**$ 54.71**	$ 54.49	
Gross margin	**$223.3**	$121.4	84				**$ 93.04**	$ 46.82	99

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	Six Months Ended June 30								
	Dollars (millions)			Tonnes (thousands)			Average Price per Tonne[1]		
	2005	2004	% Change	2005	2004	% Change	2005	2004	% Change
Sales	**$753.7**	$540.1	40						
Freight	**74.7**	74.7							
Transportation and distribution	**18.6**	21.2	(12)						
	$660.4	$444.2	49						
Net Sales									
North American	**$284.6**	$191.6	49	**1,895**	1,901		**$150.19**	$100.78	49
Offshore	**368.8**	229.5	61	**2,828**	2,640	7	**$130.40**	$ 86.93	50
	653.4	421.1	55	**4,723**	4,541	4	**$138.34**	$ 92.73	49
Miscellaneous products	**7.0**	23.1	(70)						
	660.4	444.2	49	**4,723**	4,541	4	**$139.83**	$ 97.82	43
Cost of goods sold	**260.9**	256.1	2				**$ 55.24**	$ 56.40	(2)
Gross margin	**$399.5**	$188.1	112				**$ 84.59**	$ 41.42	104

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

Rising demand for potash, combined with tight supply, resulted in higher prices and stable sales volumes for PotashCorp compared to the corresponding periods in the prior year for both the second quarter and first half of 2005. Potash provided $223.3 million, or 65 percent, of total gross margin for the quarter. This was 84 percent higher than the $121.4 million potash gross margin in the second quarter of 2004. The higher prices also improved gross margin as a percentage of net sales to 63 percent from 46 percent, quarter over quarter. Total sales increased $85.2 million quarter over quarter and net sales increased $91.9 million. On a year-over-year basis, potash provided $399.5 million, or 66 percent, of total gross margin, representing an increase of 112 percent from the $188.1 million gross margin for the six months ended June 30, 2004. The gross margin percentage for potash increased from 42 percent of net sales to 60 percent year over year.