POTASH CORP OF SASKATCHEWAN INC
Form 10-Q
May 02, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the Quarterly Period Ended March 31, 2012

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	**N/A**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
122 st1 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 ¨

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 þ	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Yes ¨ No þ

As at April 30, 2012, Potash Corporation of Saskatchewan Inc. had 858,930,147 Common Shares outstanding.

Part I. Financial Information

Item 1. Financial Statements

Potash Corporation of Saskatchewan Inc.

Condensed Consolidated Statements of Financial Position

(in millions of US dollars)

(unaudited)

As at	March 31, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	$ 417	$ 430
Receivables	1,218	1,195
Inventories (Note 2)	728	731
Prepaid expenses and other current assets	62	52
	2,425	2,408
Non-current assets		
Property, plant and equipment	10,150	9,922
Investments in equity-accounted investees	1,259	1,187
Available-for-sale investments (Note 3)	2,387	2,265
Other assets	303	360
Intangible assets	118	115
Total Assets	$ 16,642	$ 16,257
Liabilities		
Current liabilities		
Short-term debt and current portion of long-term debt (Note 4)	$ 1,250	$ 832
Payables and accrued charges	978	1,295
Current portion of derivative instrument liabilities	75	67
	2,303	2,194
Non-current liabilities		
Long-term debt (Note 4)	3,457	3,705
Derivative instrument liabilities	198	204
Deferred income tax liabilities	1,094	1,052
Pension and other post-retirement benefit liabilities	576	552
Asset retirement obligations and accrued environmental costs	560	615
Other non-current liabilities and deferred credits	94	88
Total Liabilities	8,282	8,410
Shareholders Equity		
Share capital (Note 5)	1,486	1,483
Contributed surplus	320	291
Accumulated other comprehensive income	937	816
Retained earnings	5,617	5,257
Total Shareholders Equity	8,360	7,847
Total Liabilities and Shareholders Equity	$ 16,642	$ 16,257

Contingencies and Other Matters (Note 10)

(See Notes to the Condensed Consolidated Financial Statements)

1 PotashCorp 2012 First Quarter Quarterly Report on Form 10-Q

Potash Corporation of Saskatchewan Inc.

Condensed Consolidated Statements of Income

(in millions of US dollars except per-share amounts)

(unaudited)

	Three Months Ended March 31	
	2012	**2011**
Sales (Note 6)	$ 1,746	$ 2,204
Freight, transportation and distribution	(104)	(149)
Cost of goods sold	(944)	(959)
Gross Margin	698	1,096
Selling and administrative expenses	(57)	(75)
Provincial mining and other taxes	(28)	(34)
Share of earnings of equity-accounted investees	75	51
Other expenses	(3)	(13)
Operating Income	685	1,025
Finance Costs	(34)	(50)
Income Before Income Taxes	651	975
Income Taxes (Note 7)	(160)	(243)
Net Income	$ 491	$ 732
Net Income per Share (Note 8)		
Basic	$ 0.57	$ 0.86
Diluted	$ 0.56	$ 0.84
Dividends Declared per Share	$ 0.14	$ 0.07

(See Notes to the Condensed Consolidated Financial Statements)

Potash Corporation of Saskatchewan Inc.

Condensed Consolidated Statements of Comprehensive Income

(in millions of US dollars)

(unaudited)

	Three Months Ended March 31	
(Net of related income taxes)	**2012**	**2011**
Net Income	$ 491	$ 732
Other comprehensive income (loss)		
Net increase (decrease) in net unrealized gain on available-for-sale investments[(1)] (Note 3)	122	(271)
Net actuarial loss on defined benefit plans[(2)]	(11)	
Net (loss) gain on derivatives designated as cash flow hedges[(3)]	(13)	13
Reclassification to income of net loss on cash flow hedges[(4)]	12	14
Other		(2)
Other Comprehensive Income (Loss)	110	(246)
Comprehensive Income	$ 601	$ 486

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

(2) Net of income taxes of $4 (2011 $NIL).

(3) Cash flow hedges are comprised of natural gas derivative instruments, and are net of income taxes of $8 (2011 $(8)).

(4) Net of income taxes of $(8) (2011 $(8)).
(See Notes to the Condensed Consolidated Financial Statements)

Potash Corporation of Saskatchewan Inc.

Condensed Consolidated Statements of Cash Flow

(in millions of US dollars)

(unaudited)

	Three Months Ended March 31	
	2012	**2011**
Operating Activities		
Net income	$ 491	$ 732
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	128	124
Share-based compensation	16	14
Realized excess tax benefit related to share-based compensation	2	12
Provision for deferred income tax	52	75
Undistributed earnings of equity-accounted investees	(73)	(51)
Other long-term liabilities and miscellaneous	9	(7)
Subtotal of adjustments	134	167
Changes in non-cash operating working capital		
Receivables	49	(213)
Inventories	26	(27)
Prepaid expenses and other current assets	(14)	
Payables and accrued charges	(314)	31
Subtotal of changes in non-cash operating working capital	(253)	(209)
Cash provided by operating activities	372	690
Investing Activities		
Additions to property, plant and equipment	(476)	(441)
Purchase of non-current investments	(1)	
Other assets and intangible assets	(19)	
Cash used in investing activities	(496)	(441)
Financing Activities		
Proceeds from (repayments of) short-term debt obligations	168	(253)
Dividends	(59)	(28)
Issuance of common shares	2	18
Cash provided by (used in) financing activities	111	(263)
Decrease in Cash Position	(13)	(14)
Cash Position, Beginning of Period	430	412
Cash Position, End of Period	$ 417	$ 398
Cash position comprised of:		
Cash	$ 37	$ 82
Short-term investments	380	391
Cash and cash equivalents	417	473
Bank overdraft (included in short-term debt)		(75)
	$ 417	$ 398
Supplemental cash flow disclosure		
Interest paid	$ 38	$ 41
Income taxes paid	$ 316	$ 175

(See Notes to the Condensed Consolidated Financial Statements)

Potash Corporation of Saskatchewan Inc.

Condensed Consolidated Statements of Changes in Equity

(in millions of US dollars)

(unaudited)

			Equity Attributable to Common Shareholders[1]						
			Accumulated Other Comprehensive Income						
	Share Capital	Contributed Surplus	Net unrealized gain on available-for-sale investments	Net loss on derivatives designated as cash flow hedges	Net actuarial loss on defined benefit plans	Other	Total Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
Balance December 31, 2011	$ 1,483	$ 291	$ 982	$ (168)	$ [2]	$ 2	$ 816	$ 5,257	$ 7,847
Net income								491	491
Other comprehensive income (loss)			122	(1)	(11)		110		110
Effect of share-based compensation		30							30
Dividends declared								(120)	(120)
Issuance of common shares	3	(1)							2
Transfer of actuarial losses on defined benefit plans					11		11	(11)	
Balance March 31, 2012	$ 1,486	$ 320	$ 1,104	$ (169)	$ [2]	$ 2	$ 937	$ 5,617	$ 8,360

(1) All equity transactions are attributable to common shareholders.

(2) Any amounts incurred during a period are closed out to retained earnings at each period-end. Therefore, no balance exists in the reserve at beginning or end of period.

			Equity Attributable to Common Shareholders[1]						
			Accumulated Other Comprehensive Income						
	Share Capital	Contributed Surplus	Net unrealized gain on available-for-sale investments	Net loss on derivatives designated as cash flow hedges	Net actuarial loss on defined benefit plans	Other	Total Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
Balance December 31, 2010	$ 1,431	$ 308	$ 2,563	$ (177)	$ [2]	$ 8	$ 2,394	$ 2,552	$ 6,685
Net income								732	732
Other comprehensive (loss) income			(271)	27		(2)	(246)		(246)
Effect of share-based compensation		51							51
Dividends declared								(60)	(60)
Issuance of common shares	18								18
Balance March 31, 2011	$ 1,449	$ 359	$ 2,292	$ (150)	$ [2]	$ 6	$ 2,148	$ 3,224	$ 7,180

(1) All equity transactions are attributable to common shareholders.

(2) Any amounts incurred during a period are closed out to retained earnings at each period-end. Therefore, no balance exists in the reserve at beginning or end of period.

(See Notes to the Condensed Consolidated Financial Statements)

Potash Corporation of Saskatchewan Inc.

Notes to the Condensed Consolidated Financial Statements

For the Three Months Ended March 31, 2012

(in millions of US dollars except 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 is an integrated provider of fertilizer, industrial and animal feed products. These unaudited interim condensed consolidated financial statements are based on International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting. The accounting policies used in preparing these unaudited interim condensed consolidated financial statements are consistent with those used in the preparation of the 2011 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 2011 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 May 2, 2012.

Recent Accounting Pronouncements

The following new standards and amendments or interpretations to existing standards have been published and are mandatory for future periods as noted below:

IFRS 9, Financial Instruments

In November 2009, the IASB issued guidance on the classification and measurement of financial assets. Under IFRS 9, financial assets will generally be measured initially at fair value plus particular transaction costs, and subsequently at either amortized cost or fair value. In October 2010, the IASB issued additions to IFRS 9 relating to accounting for financial liabilities. Under the new requirements, an entity choosing to measure a financial liability at fair value will

present the portion of any change in its fair value due to changes in the entity s own credit risk in other comprehensive income (OCI), rather than within net income. In December 2011, the IASB issued amendments which modify the requirements for transition from IAS 39 to IFRS 9. The modifications introduce new disclosure requirements and eliminate the requirement to restate prior periods to reflect the new presentation. The standard is to be applied prospectively and will be effective for periods commencing on or after January 1, 2015, with earlier application permitted. The company is reviewing the standard to determine the potential impact, if any, on its consolidated financial statements.

IFRS 10, Consolidated Financial Statements

In May 2011, the IASB issued guidance establishing principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 (which supersedes IAS 27 and Standing Interpretations Committee (SIC) 12) builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The standard is to be applied retrospectively, in most circumstances, and will be effective for annual periods commencing on or after January 1, 2013, with earlier application permitted. The company is reviewing the standard to determine the potential impact, if any, on its consolidated financial statements.

IFRS 11, Joint Arrangements

In May 2011, the IASB issued guidance establishing principles for financial reporting by parties to a joint arrangement. IFRS 11 (which supersedes IAS 31 and SIC 13) requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved, either a joint operation or a joint venture, by assessing its rights and obligations arising from the arrangement. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated and under IFRS 11, equity accounting is mandatory for participants in joint ventures. The standard is to be applied prospectively and will be effective for annual periods commencing on or after January 1, 2013, with earlier application permitted. The company is reviewing the standard to determine the potential impact, if any, on its consolidated financial statements.

IFRS 12, Disclosure of Interests in Other Entities

In May 2011, the IASB issued guidance relating to the disclosure requirements of interests in other entities. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interest in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is to be applied prospectively and is effective for annual periods commencing on or after January 1, 2013, with earlier application permitted. The company is reviewing the standard to determine the potential impact, if any, on its consolidated financial statements.

IFRS 13, Fair Value Measurement

In May 2011, the IASB issued guidance establishing a single source for fair value measurement. IFRS 13 defines fair value, sets out a framework for measuring fair value and introduces consistent requirements for disclosures on fair value measurements. It does not determine when an asset, a liability or an entity s own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value, with limited exceptions. The standard is to be applied prospectively and will be effective for annual periods commencing on or after January 1, 2013, with earlier application permitted. The company is reviewing the standard to determine the potential impact, if any, on its consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements

In June 2011, the IASB issued amendments to IAS 1 requiring items within OCI that may be reclassified to the profit or loss section of the income statement to be grouped together. The amendments are to be applied retrospectively and will be effective for annual periods commencing on or after July 1, 2012, with earlier application permitted. The company is reviewing these amendments to determine the potential impact, if any, on its consolidated financial statements.

Amendments to IAS 19, Employee Benefits

In June 2011, the IASB issued amendments to IAS 19 relating to the recognition and measurement of post-employment defined benefit expense and termination benefits, and to the disclosures for all employee benefits. The amendments will require remeasurements (actuarial gains and losses and the actual return on plan assets) to be recognized immediately in OCI and all service cost and interest income (expense) to be recognized immediately in net income. Interest income (expense) will be calculated by applying the discount rate to the net defined benefit asset (liability). The amendments are to be applied retrospectively, except for changes to the carrying value of assets that include capitalized employee benefit costs, which are to be applied prospectively. The

amendments will be effective for annual periods commencing on or after January 1, 2013, with earlier application permitted. The company is reviewing these amendments to determine the potential impact, if any, on its consolidated financial statements.

Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities and IFRS 7, Disclosures

In December 2011, the IASB issued amendments to IAS 32 and IFRS 7 as part of its offsetting project. The amendments clarify certain items regarding offsetting financial assets and financial liabilities and also address common disclosure requirements. The amendments are to be applied retrospectively and will be effective for annual periods commencing on or after January 1, 2013 for IFRS 7 and January 1, 2014 for IAS 32, with earlier application permitted. If IAS 32 is early adopted, the disclosures required by the amendments to IFRS 7 must be provided. The company is reviewing these amendments to determine the potential impact, if any, on its consolidated financial statements.

IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine

In October 2011, the International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 20 clarifying the requirements for accounting for stripping costs in the production phase of a surface mine. This interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. The interpretation will be effective for annual periods commencing on or after January 1, 2013, with earlier application permitted. The company is reviewing this interpretation to determine the potential impact, if any, on its consolidated financial statements.

2. Inventories

	March 31, 2012	December 31, 2011
Finished products	$ 384	$ 395
Intermediate products	94	98
Raw materials	95	91
Materials and supplies	155	147
	$ 728	$ 731

3. Available-for-Sale Investments

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity instruments classified as available-for-sale, for which unrealized gains and losses are generally recognized in OCI, a significant or prolonged decline in the fair value of the investment below its cost may be evidence that the asset is impaired. If objective evidence of impairment were to exist, the impaired amount (i.e., the unrealized loss) would be recognized in net income; any subsequent reversals would be recognized in OCI and would not flow back into net income.

At March 31, 2012, the company assessed whether there was objective evidence that its investment in Sinofert Holdings Limited (Sinofert) was impaired. The fair value of the investment, recorded in the consolidated statements of financial position, was $378 compared to the cost of $579. Factors considered in assessing impairment included the length of time and extent to which fair value had been below cost, and current financial and market conditions specific to Sinofert and the Chinese equity markets.

The company concluded that objective evidence of impairment did not exist as at March 31, 2012 and, as a result, the unrealized holding loss of $201 was included in accumulated OCI. Impairment will be assessed again in future reporting periods if the fair value is below cost.

4. Long-Term Debt

At March 31, 2012, the company classified as current the $250 aggregate principal amount of 4.875 percent senior notes due March 1, 2013.

5. Share Capital

Authorized

The company is authorized to issue an unlimited number of common shares without par value and an unlimited number of first preferred shares. The common shares are not redeemable or convertible. The first preferred shares may be issued in one or more series with rights and conditions to be determined by the Board of Directors. No first preferred shares have been issued.

Issued

	Number of Common Shares	Consideration
Balance December 31, 2011	858,702,991	$ 1,483
Issued under option plans	191,500	2
Issued for dividend reinvestment plan	27,156	1
Balance March 31, 2012	858,921,647	$ 1,486

6. Segment Information

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

	Three Months Ended March 31, 2012				
	Potash	**Phosphate**	**Nitrogen**	**All Others**	**Consolidated**
Sales	$ 583	$ 613	$ 550	$	$ 1,746
Freight, transportation and distribution	(34)	(41)	(29)		(104)
Net sales third party	549	572	521		
Cost of goods sold	(222)	(420)	(302)		(944)
Gross margin	327	152	219		698
Depreciation and amortization	(30)	(60)	(35)	(3)	(128)

Inter-segment sales			42		

	Three Months Ended March 31, 2011				
	Potash	Phosphate	Nitrogen	All Others	Consolidated
Sales	$ 1,109	$ 549	$ 546	$	$ 2,204
Freight, transportation and distribution	(83)	(43)	(23)		(149)
Net sales third party	1,026	506	523		
Cost of goods sold	(283)	(356)	(320)		(959)
Gross margin	743	150	203		1,096
Depreciation and amortization	(42)	(47)	(33)	(2)	(124)
Inter-segment sales			38		

7. Income Taxes

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

For the three months ended March 31, 2012, the company s income tax expense was $160 (2011 $243). The actual effective tax rate including discrete items for the three months ended March 31, 2012 was 25 percent (2011 25 percent). Total discrete tax adjustments that impacted the rate in the three months ended March 31, 2012 resulted in an income tax recovery of $2 compared to an income tax recovery of $23 in the same period last year. The significant item recorded in first-quarter 2011 was a current tax recovery of $21 for previously paid withholding taxes.

Income tax balances within the consolidated statements of financial position were comprised of the following:

Income Tax Assets (Liabilities)	Statements of Financial Position Location	March 31, 2012	December 31, 2011
Current income tax assets:			
Current	Receivables	$ 104	$ 21
Non-current	Other assets	122	117
Deferred income tax assets	Other assets	28	19
Total income tax assets		$ 254	$ 157
Current income tax liabilities:			
Current	Payables and accrued charges	$ (64)	$ (271)
Non-current	Other non-current liabilities and deferred credits	(92)	(85)
Deferred income tax liabilities	Deferred income tax liabilities	(1,094)	(1,052)
Total income tax liabilities		$ (1,250)	$ (1,408)

8. Net Income per Share

Basic net income per share for the quarter is calculated on the weighted average number of shares issued and outstanding for the three months ended March 31, 2012 of 858,788,000 (2011 854,033,000).

Diluted net income per share is calculated based on the weighted average number of shares issued and outstanding during the period. The denominator is: (1) increased by the total of the additional common shares that would have been issued assuming the exercise of all stock options with exercise prices at or below the average market price for the period; and (2) 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. For performance-based stock option plans, the number of contingently issuable common shares included in the calculation is based on the number of shares, if any, that would be issuable if the end of the reporting period were the end of the performance period and the effect were dilutive. The weighted average number of shares outstanding for the diluted net income per share calculation for the three months ended March 31, 2012 was 876,098,000 (2011 876,467,000).

Excluded from the calculation of diluted net income per share were weighted average options outstanding of 2,502,200 relating to the

2011 and 2008 Performance Option Plans, as the options exercise prices were greater than the average market price of common shares for the period.

9. Seasonality

The company s sales of fertilizer can be seasonal. Typically, fertilizer sales are highest in the second quarter of the year, 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.

10. Contingencies and Other Matters

Canpotex

PCS is a shareholder in Canpotex Limited (Canpotex), which markets Saskatchewan potash offshore. Should any operating losses or other liabilities be incurred by Canpotex, the shareholders have contractually agreed to reimburse it for such losses or liabilities in proportion to each shareholder s productive capacity. Through March 31, 2012, there were no such operating losses or other liabilities.

Mining Risk

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

Legal and Other Matters

Significant environmental site assessment and/or remediation matters of note include the following:

The company, along with other parties, has been notified by the US Environmental Protection Agency (USEPA) of potential liability under the US Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) with respect to certain soil and groundwater conditions at a site in Lakeland, Florida that includes a former PCS Joint Venture fertilizer blending facility and certain surrounding properties. A Record of Decision (ROD) issued in September 2007 provides for a remedy that requires excavation of impacted soils and interim treatment of groundwater. The total remedy cost is estimated in the ROD to be $9. In September 2010, the USEPA approved the Remedial Design Report to address the soil contamination. While subject to final construction inspection by the USEPA, the soil remediation has been performed. Although PCS Joint Venture sold the Lakeland property in July 2006, PCS Joint Venture has retained the above-described remediation responsibilities and has indemnified the third-party purchaser for the costs of remediation and certain related items.

The USEPA has identified PCS Nitrogen, Inc. (PCS Nitrogen) as a potentially responsible party with respect to a former fertilizer blending operation in Charleston, South Carolina known as the Planters Property or Columbia Nitrogen site, formerly owned by a company from which PCS Nitrogen acquired certain other assets. The USEPA has requested reimbursement of $3 of previously incurred response costs and the performance or financing of future site investigation and response activities from PCS Nitrogen and other named potentially responsible parties. The current owner of the Planters Property filed a complaint against PCS Nitrogen in the United States District Court for the District of South Carolina seeking environmental response costs. The district court allocated 30 percent of the liability for response costs at the site to PCS Nitrogen, as well as a proportional share of any costs that cannot be recovered from another responsible party. PCS Nitrogen has filed a notice of appeal to the United States Court of Appeals for the Fourth Circuit. The ultimate amount of liability for PCS Nitrogen, if any, depends upon the final outcome of the litigation, the amount needed for remedial activities, the ability of other parties to pay and the availability of insurance.

PCS Phosphate has agreed to participate, on a non-joint and several basis, with parties to an Administrative Settlement Agreement with the USEPA (Settling Parties) in a removal action and the payment of certain other costs associated with PCB soil contamination at the Ward Superfund Site in Raleigh, North Carolina (Site), including reimbursement of past USEPA costs. The removal activities commenced in August 2007 and are estimated to cost $75. The Settling Parties have initiated CERCLA
contribution litigation against PCS Phosphate and more than 100 other entities. PCS Phosphate filed crossclaims and counterclaims seeking cost recovery. In addition to the removal action at the Site, the USEPA has investigated sediments downstream in what is called Operable Unit 1. In September 2008, the USEPA issued a final remedy for Operable Unit 1, with an estimated cost of $6. The USEPA issued a Unilateral Administrative Order (UAO) dated September 29, 2011 to a number of entities, requiring them to implement the remedy for Operable Unit 1. PCS Phosphate did not receive the UAO. At this time, the company is unable to evaluate the extent of any exposure that it may have for the matters addressed in the UAO and contribution litigation.

Pursuant to the 1996 Corrective Action Consent Order (the Order) executed between PCS Nitrogen Fertilizer, L.P., formerly known as Arcadian Fertilizer, L.P. (PCS Nitrogen Fertilizer) and the Georgia Department of Natural Resources, Environmental Protection Division (GEPD) in conjunction with PCS Nitrogen Fertilizer s purchase of real property located in Augusta, Georgia from the entity from which PCS Nitrogen Fertilizer previously leased such property, PCS Nitrogen Fertilizer agreed to perform certain activities to investigate and, if necessary, implement corrective measures for substances in soil and groundwater. The investigation has proceeded and the results have been presented to GEPD. Two interim corrective measures for substances in groundwater have been proposed by PCS Nitrogen Fertilizer and approved by GEPD. PCS Nitrogen Fertilizer will implement the approved interim corrective measures but it is unable to estimate with reasonable certainty the total cost of its corrective action obligations under the Order at this time.

In December 2009, during a routine inspection of a gypsum stack at the White Springs, Florida facility, a sinkhole was discovered that resulted in the loss of approximately 82 million gallons of water from the stack. The company is sampling production and monitoring wells on its property and drinking water wells on neighboring property to assess impacts. It incurred costs of $17 to address the sinkhole between the time of discovery and completion of remediation in July 2011. In December 2010, the company entered into a consent order with the Florida Department of Environmental Protection (FDEP) pursuant to which the company agreed to, among other things, remediate the sinkhole and perform additional monitoring of the groundwater quality and hydrogeologic conditions related to the sinkhole collapse. The company submitted, and FDEP is reviewing, the Remedial Summary Report for the sinkhole remediation. The company also entered into an

order on consent with the USEPA. In May 2011, the USEPA and the company s Board of Directors approved the company s proposal to implement certain mitigation measures to meet the goals of the USEPA order on consent.

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 does not believe that its future obligations with respect to these facilities and sites are reasonably likely to have a material adverse effect on its consolidated financial position or results of operations.

Other significant matters of note include the following:

The USEPA has an ongoing initiative to evaluate implementation within the phosphate industry of a particular exemption for mineral processing wastes under the hazardous waste program. In connection with this industry-wide initiative, the USEPA conducted inspections at numerous phosphate operations and notified the company of alleged violations of the US Resource Conservation and Recovery Act (RCRA) at its plants in Aurora, North Carolina; Geismar, Louisiana; and White Springs, Florida. The company has entered into RCRA 3013 Administrative Orders on Consent and has performed certain site assessment activities at all three plants. At this time, it does not know the scope of corrective action, if any, that may be required. The company continues to participate in settlement discussions with the USEPA but is uncertain if any resolution will be possible without litigation, or, if litigation occurs, what the outcome would be. At this time, it is unable to evaluate the extent of any exposure it may have in these matters.

The USEPA has begun an initiative to evaluate compliance with the Clean Air Act at sulfuric acid and nitric acid plants. In connection with this industry-wide initiative, it has sent requests for information to numerous facilities, including the company s plants in Augusta, Georgia; Aurora, North Carolina; Geismar, Louisiana; Lima, Ohio; and White Springs, Florida. The USEPA and the Louisiana Department of Environmental Quality have notified the company of various alleged violations of the Clean Air Act at its Geismar, Louisiana plant. The governments have demanded process changes and penalties that would cost approximately $34, but the company denies that it has any liability for the Geismar, Louisiana matter. The company is uncertain if any resolution will be possible without litigation, or, if litigation occurs, what the outcome would be. In July 2010, without alleging any specific violation of the Clean Air Act, the USEPA requested that the company meet and demonstrate compliance with the Clean Air Act for specified projects undertaken at the White Springs, Florida sulfuric acid plants. The company participated in such meeting but, at this time, is unable to evaluate if it has any exposure.

Significant portions of the company s phosphate reserves in Aurora, North Carolina are located in wetlands. Under the Clean Water Act, the company must obtain a permit from the US Army Corps of Engineers (the Corps) before mining in the wetlands. In January 2009, the Division of Water Quality of the North
Carolina Department of Natural Resources issued a certification under Section 401 of the Clean Water Act that mining of phosphate in excess of 30 years from lands owned or controlled by the company, including some wetlands, would not degrade water quality. Thereafter, in June 2009, the Corps issued the company a permit that will allow it to mine the phosphate deposits identified in the Section 401 certification. USEPA decided not to seek additional review of the permit. In March 2009, four environmental organizations (Pamlico-Tar River Foundation, North Carolina Coastal Federation, Environmental Defense Fund and Sierra Club, collectively, the petitioners), filed a Petition for a Contested Case Hearing before the North Carolina Office of Administrative Hearings (OAH), challenging the Section 401 certification. The company has intervened in this proceeding. On April 26, 2012, OAH granted summary judgment to the company and denied all of the claims asserted by the petitioners. The decision becomes final after review by the Environmental Management Commission where the petitioners would have to carry the burden of showing that the decision is clearly contrary to the preponderance of admissible evidence in the record.

There is no certainty as to the scope or timing of any final, effective requirements to control greenhouse gas emissions in the US or Canada. Canada has withdrawn from participation in the Kyoto Protocol, and the Canadian government previously announced its intention to coordinate greenhouse gas policies with the US. Although the US Congress has not passed any greenhouse gas emission control laws, the USEPA has adopted several rules to control such emissions using authority under existing environmental laws. In January 2011, the USEPA began phasing in requirements for projects that result in a significant increase in greenhouse gas emissions at the company s plants to obtain permits incorporating the best available control technology. The company is not aware of any projects at its facilities that would be subject to these requirements. Some Canadian provinces and US states are considering the adoption of greenhouse gas emission control requirements. In Saskatchewan, provincial regulations pursuant to the Management and Reduction of Greenhouse Gases Act, which impose a type of carbon tax to achieve a goal of a 20 percent reduction in greenhouse gas emissions by 2020 compared to 2006 levels, may become effective in 2012. The company is monitoring these developments, and, except as indicated above, their effect on its operations cannot be determined with certainty at this time.

In December 2010, the USEPA issued a final rule to restrict nutrient concentrations in surface waters in Florida to levels below those currently permitted to be discharged from the company s White Springs, Florida plant. The State of Florida has adopted rules for numeric nutrient criteria, subject to approval by the USEPA, which could substitute for the federal rules. Projected capital costs resulting from the USEPA rule could be in excess of

$100 for White Springs, and there is no guarantee that controls can be implemented which are capable of achieving compliance with the revised nutrient standards under all flow conditions. This estimate assumes that the rule survives court challenges and that none of the site-specific mechanisms for relief from the revised nutrient criteria are available to the plant. Various judicial challenges to both the state and federal rules have been filed, including one lawsuit against the federal rule by The Fertilizer Institute (TFI) and White Springs. In June 2011, TFI, White Springs and additional parties filed a Motion for Summary Judgment seeking, among other things, to vacate the USEPA rule. In September 2011, the USEPA filed its Motion for Summary Judgment seeking to uphold its rule. On February 18, 2012, the United States District Court for the Northern District of Florida (District Court) ruled on the summary judgment motions and upheld the USEPA numeric nutrient criteria for Florida s lakes and springs but rejected the criteria for Florida s streams and rivers as arbitrary and capricious. The effective date for the USEPA numeric nutrient criteria for lakes and streams is July 6, 2012. The company is evaluating the District Court s decision and continues to monitor the administrative challenges to the state rule. The state rule has been submitted to the USEPA for approval.
The prospects for implementation of either the federal or the state rule and the availability of the site-specific relief mechanisms under either rule are uncertain.

Between September and October 2008, the company and PCS Sales (USA), Inc. were named as defendants in eight similar antitrust complaints filed in US federal courts. Other potash producers are also defendants in these cases. Each of the separate complaints alleges conspiracy to fix potash prices, to divide markets, to restrict supply and to fraudulently conceal the conspiracy, all in violation of Section 1 of the Sherman Act. In September 2011, the United States Court of Appeals for the Seventh Circuit (Seventh Circuit) issued an opinion directing the trial court to dismiss certain of the plaintiffs claims. The plaintiffs petitioned for rehearing en banc, which was granted by the Seventh Circuit. Oral argument for the en banc hearing occurred in February 2012 and the parties are awaiting a decision.
The company and PCS Sales (USA), Inc. believe each of these eight private antitrust lawsuits is without merit and intend to defend them vigorously.

In addition, 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 inherent uncertainties exist in predicting such outcomes, it is the company s belief that the ultimate resolution of such actions is not reasonably likely to have a material adverse effect on its 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 taxes it will ultimately 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.

The company owns facilities that have been either permanently or indefinitely shut down. It expects to incur nominal annual expenditures for site security and other maintenance costs at certain of these facilities. Should the facilities be dismantled, certain other shutdown-related costs may be incurred. Such costs are not expected to have a material adverse effect on the company s consolidated financial position or results of operations and would be recognized and recorded in the period in which they are incurred.

11. Related Party Transactions

The company sells potash from its Saskatchewan mines for use outside Canada and the US exclusively to Canpotex, a potash export, sales and marketing company owned in equal shares by the three potash producers in the Province of Saskatchewan. Sales to Canpotex for the three months ended March 31, 2012 were $292 (2011 $481). At March 31, 2012, $249 (December 31, 2011 $291) was owing from Canpotex. Sales to Canpotex are at prevailing market prices and are settled on normal trade terms.

12. Comparative Figures

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

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis are the responsibility of management and are as of May 2, 2012. 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 this disclosure, pursuant to the authority delegated to it by the Board of Directors. 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. The company is a foreign private issuer under the rules and regulations of the US Securities and Exchange Commission (the SEC); however, it currently files voluntarily on the SEC s domestic forms.

PotashCorp and Our Business Environment

PotashCorp is an integrated producer of fertilizer, industrial and animal feed products. We are the world s largest fertilizer company by capacity, producing the three primary crop nutrients potash (K), phosphate (P) and nitrogen (N). Through our Canadian operations, we are responsible for about 20 percent of global potash capacity. In addition, we hold strategic investments in other potash-related businesses in South America, the Middle East and Asia. We complement our potash assets with focused positions in phosphate and nitrogen.

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 buy under contract and on the spot market; while spot market sales are more prevalent in North America, South America and Southeast Asia. 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 delivered with freight included directly to a specified location.

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 Strategy

We believe that our ability to deliver superior long-term financial returns is the cornerstone of establishing enduring value for all stakeholders. Strong financial performance rewards our shareholders and, at the same time, allows us to focus on our broader social and environmental responsibilities and contribute to the long-term prosperity of our customers, employees, suppliers and communities.

We devise strategies and set priorities in each of our nutrient segments that align with our company-wide goals, focusing on the areas that may best support these goals. While each of our nutrients is important to our success, we believe our unique leverage in potash provides the greatest opportunity for growth in the years ahead.

Our strategic approach in potash is to build on our position whenever value-enhancing opportunities arise and match production to market demand (to reduce downside risk and conserve the long-term value of our potash resources). Our strategic approach in phosphate is to optimize product mix (to maximize gross margin and reduce volatility) and focus on environmental initiatives that preserve habitat and promote natural biodiversity in surrounding areas (in order to support the long-term viability of our operations). Our strategic approach in nitrogen is to enhance gross margin and earnings stability by being a lower delivered cost supplier to the large US nitrogen market, supplemented with an emphasis on sales to industrial customers that value long-term secure supply, and to focus on initiatives to improve energy efficiency.

We seek to be the preferred supplier to high-volume, high-margin customers with the lowest credit risk. It is critical to our success that our customers recognize our ability to create value for them based on the price they pay for our products.

As we plan for our future, we carefully weigh our choices for use of our cash flow. We base investment decisions on cash flow return materially exceeding cost of capital, evaluating the best prospects for return on investment that match our strategy. Most of our recent capital expenditures have gone to investments to expand our own potash capacity; however, we also look to increase our existing offshore potash investments and seek other merger and acquisition opportunities related to this nutrient. In addition, we consider share repurchases and increased dividends as ways to maximize shareholder value over the long term.

Key Performance Drivers Performance Compared to Goals

In all areas of our business, we set goals and design strategies that focus on delivering sustainable value while appropriately balancing stakeholder interests. We demonstrate our accountability by tracking and reporting our progress against targets related to each goal. Our long-term goals and 2012 targets are set out on pages 31 to 42 of our 2011 Annual Report. A summary of our progress against selected goals and representative annual targets is set out below.

Goal	**Representative 2012 Annual Target**	**Performance to March 31, 2012**
Create superior long-term shareholder value.	Exceed total shareholder return performance for our sector and the DAXglobal Agribusiness Index.	PotashCorp s total shareholder return was 11 percent in the first three months of 2012 compared to our sector s weighted average return (based on market capitalization) of 13 percent and the DAXglobal Agribusiness Index weighted average return (based on market capitalization) of 12 percent.
Be the supplier of choice to the markets we serve.	Reduce the number of product tonnes involved in customer complaints below the prior three-year average.	First-quarter product tonnes involved in customer complaints fell 68 percent compared to the prior first-quarter three-year average.
Attract and retain talented, motivated and productive employees who are committed to our long-term goals.	Maintain an annual employee turnover rate (excluding retirements) of 5 percent or less.	Employee turnover rate (excluding retirements) on an annualized basis for the first three months of 2012 was 4 percent.
Achieve no harm to people.	Reduce total site severity injury rate by 35 percent from 2008 levels by the end of 2012.	Total site severity injury rate was 52 percent below the 2008 annual level for the first three months of 2012. It was 32 percent below the 2008 annual level for the first three months of 2011 and 44 percent below the 2008 annual level by the end of 2011.
	Reduce total site recordable injury rate to 1.30 (per 200,000 hours worked) or lower.	During the first quarter of 2012, total site recordable injury rate was 1.17.
Achieve no damage to the environment.	Reduce total reportable incidents (releases, permit excursions and spills) by 10 percent from 2011 levels.	Annualized total reportable incidents were up 100 percent during the first three months of 2012 compared to 2011 annual levels. Compared to the first three months of 2011, total reportable incidents were up 133 percent.

Financial Overview

This discussion and analysis are based on the company s unaudited interim condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q (financial statements in this Form 10-Q) reported under International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), unless otherwise stated. All references to per-share amounts pertain to diluted net income per share.

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 2011 Annual Report.

Earnings Guidance First Quarter 2012

	Company Guidance	Actual Results
Earnings per share	$ 0.55 $0.75	$ 0.56

Overview of Actual Results

	Three Months Ended March 31			
Dollars (millions) except per-share amounts	**2012**	**2011**	**Change**	**% Change**
Sales	$ 1,746	$ 2,204	$ (458)	(21)
Gross Margin	698	1,096	(398)	(36)
Operating Income	685	1,025	(340)	(33)
Net Income	491	732	(241)	(33)
Net Income per Share Diluted	0.56	0.84	(0.28)	(33)
Other Comprehensive Income (Loss)	110	(246)	356	n/m

n/m = not meaningful

Net income in the first quarter of 2012 was down compared to the first quarter of 2011 due primarily to lower potash sales volumes. First-quarter potash gross margin represented 47 percent of total gross margin (68 percent in the first quarter of 2011). Lower potash sales volumes offset the positive impact of higher prices and resulted in potash gross margin of $327 million for first-quarter 2012, well below the first-quarter record of $743 million generated in 2011. The strength of our diversified phosphate product offering offset general weakness in solid phosphate fertilizer. Nitrogen gross margin climbed to a first-quarter record of $219 million, exceeding the $203 million earned in the same period last year.

Buyers in all major potash markets were slow to commit to new purchases through most of the first quarter. Shipments from North American producers reflected this pause, declining 48 percent from the record level of last year s first quarter. While underlying consumption at the farm level was expected to be strong globally, most dealers chose to defer major purchasing decisions rather than build inventory. In North America, distributors felt little pressure to act quickly in light of elevated producer inventories and greater availability of offshore product. Offshore buyers slowed purchasing in the absence of new Chinese potash supply contracts and the deferral of shipments to India for previously contracted volumes with global suppliers. Although potash prices avoided the pricing volatility of solid phosphate fertilizer and nitrogen products in previous months, they pulled back slightly on limited demand and increased competitive pressures. In this environment, many buyers focused on consuming inventory and awaited greater certainty before committing to new purchases.

By quarter-end, the global potash market strengthened. China settled new supply contracts late in March including a contract between Canpotex Limited (Canpotex), the offshore marketing organization for Saskatchewan potash producers, and Sinofert Holdings Limited (Sinofert). After this development and the gathering momentum of the North American planting season, customers in most major markets were actively securing new supply to satisfy pent-up demand for potash.

The North American solid phosphate market was impacted by similar caution among dealers, as domestic shipments of solid fertilizers declined from first-quarter 2011 levels. Shipments to offshore markets more than offset weak North American demand, largely as a result of strong movement to India, which had been limited in the first quarter of last year due to the early completion of contract deliveries. The slower demand environment that carried over from late 2011 resulted in solid phosphate fertilizer prices lower than in the first quarter of last year.

In nitrogen, purchasing patterns were markedly better than those of the other nutrients. After the general slowdown in fertilizer markets late in 2011, nitrogen buyers moved quickly to place new orders buoyed by the prospect of large US corn plantings and concerned about product availability given a reduction in North American import volumes and certain unplanned domestic plant outages. These tight supply/demand fundamentals were most pronounced in urea, which pushed prices higher during the quarter.

Other significant factors that affected earnings in the first quarter of 2012 compared to the same period in 2011 were lower income taxes due to decreased earnings before taxes and higher earnings from equity-accounted investees. Other comprehensive income for the first quarter of 2012 was due to a rise in the fair value of our investment in Israel Chemicals Ltd. (ICL) and was partially offset by a decline in the fair value of our investment in Sinofert. In 2011, other comprehensive loss for the first quarter was the result of declines in the fair values of our investments in both ICL and Sinofert.

Balance Sheet

Property, plant and equipment increased primarily (72 percent) due to our previously announced potash capacity expansions and other potash projects. Available-for-sale investments rose due to the higher fair value of our investment in ICL, though the fair value of our investment in Sinofert declined (discussed further in Note 3 to the financial statements in this Form 10-Q). As at March 31, 2012, $386 million (December 31, 2011 $387 million) of our cash and cash equivalents were held in certain foreign subsidiaries. There are no current plans to repatriate these funds in a taxable manner.

Short-term debt and current portion of long-term debt increased as a result of classifying our senior notes due March 1, 2013 as current and the issuance of commercial paper. Payables and accrued charges fell due to reduced income taxes payable (as a result of payments made during the first three months of 2012), fewer trade payables and lower accrued payroll (employee bonuses accrued at year-end were paid out during the quarter), all of which was partially offset by a doubling of dividends payable.

Equity was impacted by net income, other comprehensive income (both discussed in more detail above) and dividends declared during the first three months of 2012.

Operating Segment Review

We report our results (including gross margin) in three business segments: potash, phosphate and nitrogen, as described in Note 6 to the financial statements in this Form 10-Q. Our reporting structure reflects how we manage our business and how we classify our operations for planning and measuring performance. Management includes net sales in segment disclosures in the unaudited interim condensed consolidated financial statements pursuant to IFRS, as issued by the IASB, which require segmentation based upon our internal organization and reporting of revenue and profit measures derived from internal accounting methods. As a component of gross margin, net sales (and the related per-tonne amounts) are the 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.

Our discussion of segment operating performance is set out below and includes nutrient product and/or market performance results where applicable to give further insight into these results.

Potash

	Three Months Ended March 31								
	Dollars (millions)			Tonnes (thousands)			Average per Tonne[1]		
	2012	2011	% Change	2012	2011	% Change	2012	2011	% Change
Manufactured product									
Net sales									
North America	$ 199	$ 466	(57)	400	1,092	(63)	$ 497	$ 427	16
Offshore	344	555	(38)	849	1,696	(50)	$ 406	$ 327	24
	543	1,021	(47)	1,249	2,788	(55)	$ 435	$ 366	19
Cost of goods sold	(218)	(280)	(22)				$ (175)	$ (100)	75
Gross margin	325	741	(56)				$ 260	$ 266	(2)
Other miscellaneous and purchased product gross margin[2]	2	2							