POTASH CORP OF SASKATCHEWAN INC
Form 10-Q
August 06, 2009

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2009

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 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 o NO o

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 o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

YES o NO þ

As at July 31, 2009, Potash Corporation of Saskatchewan Inc. had 295,730,685 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, 2009	December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	**$ 371.3**	$ 276.8
Accounts receivable	**998.9**	1,189.9
Inventories (Note 2)	**658.4**	714.9
Prepaid expenses and other current assets	**191.9**	79.2
Current portion of derivative instrument assets	**0.4**	6.4
	2,220.9	2,267.2
Derivative instrument assets	**9.9**	11.5
Property, plant and equipment	**5,492.7**	4,812.2
Investments	**3,173.1**	2,750.7
Other assets	**250.4**	288.7
Intangible assets	**20.5**	21.5
Goodwill	**97.0**	97.0
	$ 11,264.5	$ 10,248.8
Liabilities		
Current liabilities		
Short-term debt and current portion of long-term debt (Note 3)	**$ 735.7**	$ 1,324.1
Accounts payable and accrued charges	**590.7**	1,183.6
Current portion of derivative instrument liabilities	**84.7**	108.1
	1,411.1	2,615.8
Long-term debt (Note 4)	**3,082.1**	1,739.5
Derivative instrument liabilities	**100.3**	120.4

Future income tax liability	**769.8**	794.2
Accrued pension and other post-retirement benefits	**266.0**	253.4
Accrued environmental costs and asset retirement obligations	**133.6**	133.4
Other non-current liabilities and deferred credits	**2.7**	3.2
	5,765.6	5,659.9
Contingencies and Guarantees (Notes 15 and 16, respectively)		
Shareholders Equity		
Share capital	**1,415.2**	1,402.5
Unlimited authorization of common shares without par value; issued and outstanding 295,552,385 and 295,200,987 at June 30, 2009 and December 31, 2008, respectively		
Unlimited authorization of first preferred shares; none outstanding		
Contributed surplus	**145.8**	126.2
Accumulated other comprehensive income	**1,099.4**	657.9
Retained earnings	**2,838.5**	2,402.3
	5,498.9	4,588.9
	$ 11,264.5	$ 10,248.8

(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	
	2009	**2008**	**2009**	**2008**
Sales (Note 8)	**$ 856.0**	$ 2,621.0	**$ 1,778.5**	$ 4,511.6
Less: Freight	**38.9**	103.4	**76.5**	205.8
Transportation and distribution	**37.7**	33.3	**64.7**	65.6
Cost of goods sold	**608.8**	1,047.0	**1,237.1**	1,946.9
Gross Margin	**170.6**	1,437.3	**400.2**	2,293.3
Selling and administrative	**53.4**	79.7	**96.8**	126.9
Provincial mining and other taxes	**(18.1)**	163.0	**14.9**	262.4
Foreign exchange loss (gain)	**37.9**	1.9	**7.7**	(25.8)
Other income (Note 11)	**(188.4)**	(103.3)	**(223.4)**	(115.2)
	(115.2)	141.3	**(104.0)**	248.3
Operating Income	**285.8**	1,296.0	**504.2**	2,045.0
Interest Expense (Note 12)	**26.5**	15.7	**49.7**	26.9
Income Before Income Taxes	**259.3**	1,280.3	**454.5**	2,018.1
Income Taxes (Note 6)	**72.2**	375.2	**(40.9)**	547.0
Net Income	**$ 187.1**	$ 905.1	**495.4**	1,471.1
Retained Earnings, Beginning of Period			**2,402.3**	2,279.6
Repurchase of Common Shares			**-**	(1,981.7)
Dividends			**(59.2)**	(62.8)
Retained Earnings, End of Period			**$ 2,838.5**	$ 1,706.2

Net Income Per Share (Note 7)								
Basic	**$**	**0.63**	$	2.91	**$**	**1.68**	$	4.70
Diluted	**$**	**0.62**	$	2.82	**$**	**1.63**	$	4.54
Dividends Per Share	**$**	**0.10**	$	0.10	**$**	**0.20**	$	0.20

(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	
	2009	**2008**	**2009**	**2008**
Operating Activities				
Net income	**$ 187.1**	$ 905.1	**$ 495.4**	$ 1,471.1
Adjustments to reconcile net income to cash provided by operating activities				
Depreciation and amortization	**70.1**	83.9	**144.1**	163.8
Stock-based compensation	**20.1**	25.1	**22.6**	27.9
Loss (gain) on disposal of property, plant and equipment	**0.9**	(6.9)	**1.4**	(6.8)
Gain on disposal of auction rate securities	**(115.3)**	-	**(115.3)**	-
Provision for auction rate securities	**-**	0.7	**-**	43.8
Foreign exchange on future income tax	**11.7**	(4.6)	**(2.1)**	(9.3)
Provision for (recovery of) of future income tax	**41.4**	47.4	**(75.1)**	26.8
Undistributed earnings of equity investees	**69.1**	(1.1)	**31.2**	(24.5)
Derivative instruments	**3.5**	(1.9)	**(41.8)**	(19.0)
Other long-term liabilities	**16.1**	7.7	**27.2**	7.1
Subtotal of adjustments	**117.6**	150.3	**(7.8)**	209.8
Changes in non-cash operating working capital				
Accounts receivable	**54.5**	(283.5)	**191.9**	(494.9)
Inventories	**0.5**	(106.2)	**61.1**	(229.3)
Prepaid expenses and other current assets	**(26.8)**	0.8	**(53.6)**	(23.4)
Accounts payable and accrued charges	**(396.6)**	228.1	**(652.0)**	403.6
Subtotal of changes in non-cash operating working capital	**(368.4)**	(160.8)	**(452.6)**	(344.0)
Cash (used in) provided by operating activities	**(63.7)**	894.6	**35.0**	1,336.9
Investing Activities				

Additions to property, plant and equipment		**(399.6)**		(237.9)		**(765.7)**		(434.4)
Purchase of long-term investments		**-**		(76.7)		**-**		(251.2)
Proceeds from disposal of property, plant and equipment		**15.5**		9.3		**15.8**		9.6
Proceeds from disposal of auction rate securities		**132.5**		-		**132.5**		-
Other assets and intangible assets		**0.7**		(17.4)		**(10.5)**		(21.4)
Cash used in investing activities		**(250.9)**		(322.7)		**(627.9)**		(697.4)
Cash before financing activities		**(314.6)**		571.9		**(592.9)**		639.5
Financing Activities								
Proceeds from long-term debt obligations		**1,795.0**		-		**2,555.0**		-
Repayment of and finance costs on long-term debt obligations		**(1,538.8)**		(0.2)		**(2,229.2)**		(0.2)
Proceeds from short-term debt obligations		**196.4**		828.9		**411.5**		842.4
Dividends		**(29.0)**		(30.7)		**(58.7)**		(62.5)
Repurchase of common shares		**-**		(1,476.6)		**-**		(1,897.1)
Issuance of common shares		**7.2**		12.0		**8.8**		28.3
Cash provided by (used in) financing activities		**430.8**		(666.6)		**687.4**		(1,089.1)
Increase (Decrease) in Cash and Cash Equivalents		**116.2**		(94.7)		**94.5**		(449.6)
Cash and Cash Equivalents, Beginning of Period		**255.1**		364.6		**276.8**		719.5
Cash and Cash Equivalents, End of Period	**$**	**371.3**	$	269.9	**$**	**371.3**	$	269.9
Cash and cash equivalents comprised of:								
Cash	**$**	**56.1**	$	42.5	**$**	**56.1**	$	42.5
Short-term investments		**315.2**		227.4		**315.2**		227.4
	$	**371.3**	$	269.9	**$**	**371.3**	$	269.9
Supplemental cash flow disclosure								
Interest paid	**$**	**30.5**	$	22.8	**$**	**46.0**	$	37.1
Income taxes paid	**$**	**589.0**	$	227.1	**$**	**736.2**	$	385.6

(See Notes to the Condensed Consolidated Financial Statements)

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Potash Corporation of Saskatchewan Inc.

Condensed Consolidated Statements of Comprehensive Income
(in millions of US dollars)
(unaudited)

(Net of related income taxes)	Three Months Ended June 30 2009	Three Months Ended June 30 2008	Six Months Ended June 30 2009	Six Months Ended June 30 2008
Net income	**$ 187.1**	$ 905.1	**$ 495.4**	$ 1,471.1
Other comprehensive income				
Net increase in unrealized gains on available-for-sale securities(1)	**363.9**	820.6	**437.6**	969.6
Net gains (losses) on derivatives designated as cash flow hedges(2)	**16.4**	154.6	**(28.8)**	198.7
Reclassification to income of net losses (gains) on cash flow hedges(3)	**16.8**	(8.5)	**25.4**	(14.2)
Unrealized foreign exchange gains on translation of self-sustaining foreign operations	**7.4**	3.3	**7.3**	4.9
Other comprehensive income	**404.5**	970.0	**441.5**	1,159.0
Comprehensive income	**$ 591.6**	$ 1,875.1	**$ 936.9**	$ 2,630.1

(1) Available-for-sale securities are comprised of shares in Israel Chemicals Ltd. and Sinofert Holdings Limited and investments in auction rate securities. The amounts are net of income taxes of $(0.3) (2008 $155.8) for the three months ended June 30, 2009 and $26.5 (2008 $186.2) for the six months ended June 30, 2009.

(2) Cash flow hedges are comprised of natural gas derivative instruments, and are net of income taxes of $10.0 (2008 $62.3) for the three months ended June 30, 2009 and $(17.5) (2008 $81.2) for the six months ended June 30, 2009.

(3) Net of income taxes of $10.1 (2008 $(3.3)) for the three months ended June 30, 2009 and $15.4 (2008 $(5.8)) for the six months ended June 30, 2009.

Condensed Consolidated Statements of Accumulated Other Comprehensive Income
(in millions of US dollars)
(unaudited)

(Net of related income taxes)	**June 30, 2009**	**December 31, 2008**
Net unrealized gains on available-for-sale securities[1]	**$ 1,199.4**	$ 761.8
Net unrealized losses on derivatives designated as cash flow hedges[2]	**(104.0)**	(100.6)
Unrealized foreign exchange gains (losses) on translation of self-sustaining foreign operations	**4.0**	(3.3)
Accumulated other comprehensive income	**1,099.4**	657.9
Retained Earnings	**2,838.5**	2,402.3
Accumulated Other Comprehensive Income and Retained Earnings	**$ 3,937.9**	$ 3,060.2

[1] $1,349.8 before income taxes (2008 $885.7)

[2] $(165.8) before income taxes (2008 $160.2)

(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, 2009
(in millions of US dollars except share, per-share, percentage and ratio 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 18. The accounting policies used in preparing these unaudited interim condensed consolidated financial statements are consistent with those used in the preparation of the 2008 annual consolidated financial statements, except as described below.

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 2008 annual consolidated financial statements. In management s opinion, the unaudited interim condensed consolidated 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.

Change in Accounting Policy

Goodwill and Intangible Assets

In February 2008, the Canadian Institute of Chartered Accountants (CICA) issued amended accounting standards on goodwill and intangible assets, and research and development expenditures. The amended standards provide more specific guidance on the recognition of internally developed intangible assets, and require that research and development expenditures be evaluated against the same criteria as expenditures for intangible assets. The standards substantially harmonize Canadian standards with International Financial Reporting Standards (IFRSs) and apply retrospectively to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008.

Also in February 2008, the CICA withdrew and amended certain standards which the CICA concluded permitted deferral of costs that did not meet the definition of an asset. The amendments apply retrospectively to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008.

The implementation of these standards, which the company adopted effective January 1, 2009, did not have a material impact on the company s consolidated financial statements.

Recent Accounting Pronouncements

IFRSs

In April 2008 and March 2009, the CICA s Accounting Standards Board (AcSB) published exposure drafts on Adopting IFRSs in Canada . The exposure drafts propose to incorporate the IFRSs into the CICA Accounting Handbook effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. At this date, publicly accountable enterprises in Canada will be required to prepare financial statements in accordance with IFRSs. The exposure drafts make possible the early adoption of IFRSs by Canadian entities. The company is currently reviewing the standards to determine the potential impact on its consolidated financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the Emerging Issues Committee of the CICA (EIC) issued guidance on the implications of credit risk in determining fair value of an entity s financial assets and financial liabilities. The guidance clarifies that an entity s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments, for presentation and disclosure purposes. The conclusions of the EIC were effective from the date of issuance of the abstract and did not have any impact on the company s consolidated financial statements.

Business Combinations

In January 2009, the AcSB issued revised accounting standards in regards to business combinations with the intent of harmonizing those standards with IFRSs. The revised standards require the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establish the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; and disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. These standards apply prospectively to business combinations for which the acquisition date is after the beginning of the first annual reporting period beginning on or after January 1, 2011. The company is currently reviewing the standards to determine the impact, if any, on its consolidated financial statements.

Noncontrolling Interests in Consolidated Financial Statements

In January 2009, the AcSB issued accounting standards to require all entities to report noncontrolling (minority) interests as equity in consolidated financial statements. The standards eliminate the disparate treatment that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. These standards apply retrospectively effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The company is currently reviewing the standards to determine the impact, if any, on its consolidated financial statements.

Mining Exploration Costs

In March 2009, the EIC issued guidance to clarify when an enterprise may capitalize mining exploration costs and when and how impairment of exploration costs is determined. The guidance is effective for financial statements issued subsequent to its release. The conclusions of the EIC did not have any impact on the company s consolidated financial statements.

Financial Instrument Disclosure

In June 2009, the AcSB amended certain requirements related to financial instrument disclosure in response to amendments issued by the International Accounting Standards Board. The AcSB s amendments are consistent with its strategy to adopt IFRSs and to ensure the existing disclosure requirements for financial instruments are converged to IFRSs to the extent possible. The new disclosure standards require disclosure of fair values based on a fair value hierarchy as well as enhanced discussion and quantitative disclosure related to liquidity risk. The amended disclosure requirements are effective for annual financial statements relating to fiscal years ending after September 30, 2009 and as such the company will include the required disclosure in its annual financial statements for the year ending December 31, 2009.

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2. Inventories

	June 30, 2009	December 31, 2008
Finished products	**$ 336.2**	$ 421.8
Intermediate products	**163.0**	117.1
Raw materials	**45.7**	67.8
Materials and supplies	**113.5**	108.2
	$ 658.4	$ 714.9

During the three and six months ended June 30, 2009, inventories of $484.0 (2008 $1,026.5) and $1,001.8 (2008 $1,899.2), respectively, were expensed through cost of goods sold. Write-downs of finished products of $27.7 were included in cost of goods sold during the three months ended June 30, 2009 (2008 $NIL). During the six months ended June 30, 2009, write-downs of finished products of $40.2 were included in cost of goods sold (2008 $NIL). For the three and six months ended June 30, 2009, the company recorded reversals of previous write-downs of finished products in the amount of $NIL and $5.7, respectively (2008 $NIL). The carrying amount of inventory recorded at net realizable value was $110.4 at June 30, 2009 and $181.3 at December 31, 2008 with the remaining inventory recorded at cost.

3. Short-Term Debt and Current Portion of Long-Term Debt

	June 30, 2009	December 31, 2008
Commercial paper	**$ 735.4**	$ 324.8
Credit facility	**-**	1,000.0
	735.4	1,324.8
Current portion of long-term debt	**0.3**	0.2
Less net unamortized debt costs	**-**	(0.9)
	$ 735.7	$ 1,324.1

As of December 31, 2008, the company had a $1,000.0 364-day credit facility that was due on May 28, 2009, under which draws of $1,000.0 were classified as short-term debt. Effective January 21, 2009, the facility was amended to increase available borrowings to $1,500.0 and to extend the maturity date to May 28, 2010. The amount available under the credit facility was again increased on March 5, 2009 to $1,850.0. No amounts were outstanding on this credit facility at June 30, 2009.

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4. Long-Term Debt

	June 30, 2009	December 31, 2008
Senior Notes		
7.750% notes due May 31, 2011	**$ 600.0**	$ 600.0
4.875% notes due March 1, 2013	**250.0**	250.0
5.250% notes due May 15, 2014	**500.0**	-
6.500% notes due May 15, 2019	**500.0**	-
5.875% notes due December 1, 2036	**500.0**	500.0
Credit facilities	**750.0**	400.0
Other	**8.0**	8.2
	3,108.0	1,758.2
Less net unamortized debt costs	**(30.3)**	(22.8)
Add unamortized interest rate swap gains	**3.2**	3.9
	3,080.9	1,739.3
Less current maturities	**(0.3)**	(0.2)
Add current portion of amortization	**1.5**	0.4
	$ 3,082.1	$ 1,739.5

On May 1, 2009, the company closed the issuance of $500.0 of senior notes bearing interest of 5.25 percent due May 15, 2014 and $500.0 of senior notes bearing interest of 6.50 percent due May 15, 2019. The securities were issued under the company s US shelf registration statement filed on December 12, 2007. The company used the net proceeds to repay outstanding indebtedness under its revolving credit facilities and for general corporate purposes.

During the three months ended June 30, 2009, the company received proceeds from its long-term credit facilities of $795.0, and made repayments of $1,530.0 under these facilities. During the six months ended June 30, 2009, the company received proceeds of $1,555.0 and made repayments of $2,205.0 under these facilities.

The company also has three long-term revolving credit facilities that provide for unsecured advances. The first is a $750.0 facility that provides for unsecured advances through May 31, 2013. As of June 30, 2009, $750.0 (December 31, 2008 $220.0) of borrowings were outstanding under this facility. The second facility is a $180.0 facility entered into on December 22, 2008, with a maturity date of December 21, 2010. As at June 30, 2009, there were no borrowings outstanding (December 31, 2008 $180.0) under this facility. The third is the company s $1,850.0 facility as discussed in Note 3.

5. Capital Management

The company s objectives when managing its capital are to maintain financial flexibility while managing its cost of, and optimizing access to, capital. In order to achieve these objectives, the company s strategy, which was unchanged from 2008, was to maintain its investment grade credit rating.

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The company includes net debt and adjusted shareholders equity as components of its capital structure. The calculation of net debt, adjusted shareholders equity and adjusted capital are set out in the following table:

	June 30, 2009	December 31, 2008
Short-term debt and current portion of long-term debt	**$ 735.7**	$ 1,324.1
Long-term debt	**3,082.1**	1,739.5
Total debt	**3,817.8**	3,063.6
Less: cash and cash equivalents	**371.3**	276.8
Net debt	**3,446.5**	2,786.8
Shareholders equity	**5,498.9**	4,588.9
Less: accumulated other comprehensive income	**1,099.4**	657.9
Adjusted shareholders equity	**4,399.5**	3,931.0
Adjusted capital(1)	**$ 7,846.0**	$ 6,717.8

(1) Adjusted capital = (total debt cash and cash equivalents) + (shareholders equity accumulated other comprehensive income)

The company monitors capital on the basis of a number of factors, including the ratios of: adjusted earnings before interest expense, income taxes, depreciation and amortization, provision for auction rate securities, gain on disposal of auction rate securities and gain on sale of assets (adjusted EBITDA) to adjusted interest expense; net debt to adjusted EBITDA and net debt to adjusted capital. Adjusted EBITDA to adjusted interest expense and net debt to adjusted EBITDA are calculated utilizing twelve-month trailing adjusted EBITDA and adjusted interest expense.

	As At or For the 12 Months Ended	
	June 30, 2009	December 31, 2008
Components of ratios		

Adjusted EBITDA (twelve months ended)	**$ 3,310.4**	$ 5,030.0
Net debt	**$ 3,446.5**	$ 2,786.8
Adjusted interest expense (twelve months ended)	**$ 139.6**	$ 105.7
Adjusted capital	**$ 7,846.0**	$ 6,717.8
Ratios		
Adjusted EBITDA to adjusted interest expense(1)	**23.7**	47.6
Net debt to adjusted EBITDA(2)	**1.0**	0.6
Net debt to adjusted capital(3)	**43.9%**	41.5%

(1) Adjusted EBITDA to adjusted interest expense = adjusted EBITDA (twelve months ended) / adjusted interest expense (twelve months ended)

(2) Net debt to adjusted EBITDA = (total debt cash and cash equivalents) / adjusted EBITDA (twelve months ended)

(3) Net debt to adjusted capital = (total debt cash and cash equivalents) / (total debt cash and cash equivalents + total shareholders equity accumulated other comprehensive income)

The company monitors its capital structure and, based on changes in economic conditions, may adjust the structure through adjustments to the amount of dividends paid to shareholders, repurchase of shares, issuance of new shares or issuance of new debt.

The decrease in adjusted EBITDA to adjusted interest expense is a result of a decrease in adjusted EBITDA and an increase in adjusted interest expense due to increased long-term debt during the twelve months ending June 30, 2009. The net debt to adjusted EBITDA ratio increased as net debt increased due to the issuance of long-term debt and adjusted EBITDA decreased. Net debt to adjusted capital ratio increased due to the company issuing more long-term debt.

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The calculations of the twelve-month trailing net income, adjusted EBITDA, interest expense and adjusted interest expense are set out in the following tables:

	Twelve Months Ended June 30, 2009	Three Months Ended June 30, 2009	March 31, 2009	December 31, 2008	September 30, 2008	Twelve Months Ended December 31, 2008
Net income	**$ 2,519.5**	$ 187.1	$ 308.3	$ 788.0	$ 1,236.1	$ 3,495.2
Income taxes	**489.2**	72.2	(113.1)	66.8	463.3	1,077.1
Interest expense	**85.6**	26.5	23.2	20.6	15.3	62.8
Depreciation and amortization	**307.8**	70.1	74.0	80.4	83.3	327.5
Provision for auction rate securities	**45.0**	-	-	17.5	27.5	88.8
Gain on disposal of auction rate securities	**(115.3)**	(115.3)	-	-	-	-
Gain on sale of assets	**(21.4)**	-	-	-	(21.4)	(21.4)
Adjusted EBITDA	**$ 3,310.4**	$ 240.6	$ 292.4	$ 973.3	$ 1,804.1	$ 5,030.0

	Twelve Months Ended June 30, 2009	Three Months Ended June 30, 2009	March 31, 2009	December 31, 2008	September 30, 2008	Twelve Months Ended December 31, 2008
Interest expense	**$ 85.6**	$ 26.5	$ 23.2	$ 20.6	$ 15.3	$ 62.8
Interest capitalized to property, plant and equipment	**54.0**	17.2	12.8	10.8	13.2	42.9
Adjusted interest expense	**$ 139.6**	$ 43.7	$ 36.0	$ 31.4	$ 28.5	$ 105.7

6. Income Taxes

The company s income tax provision was $72.2 for the three months ended June 30, 2009 as compared to $375.2 for the same period last year. For the six months ended June 30, 2009, the company s income tax provision was a recovery of $40.9 (2008 an expense of $547.0). The effective tax rate for the three and six months ended June 30, 2009 was

28 percent and negative 9 percent, respectively compared to 29 percent and 27 percent for the three and six months ended June 30, 2008.

The provision for the six months ended June 30, 2009 included:

A future income tax recovery of $119.2 for a tax rate reduction resulting from an internal restructuring during the first quarter.

A current income tax recovery of $47.6 recorded in the first quarter that related to an increase in permanent deductions in the US from prior years. The recovery will have a positive impact on cash.

A future income tax provision of $24.4 related to a second-quarter functional currency election by the parent company for Canadian income tax purposes.

The benefit of a lower proportion of consolidated income earned in the higher-tax jurisdictions.

The provision for the six months ended June 30, 2008 included:

The benefit of a scheduled one and a half percentage point reduction in the Canadian federal income tax rate applicable to resource companies along with the elimination of the one percent surtax that became effective at the beginning of the year.

A future income tax recovery of $42.0 recorded during the first quarter that related to an increase in permanent deductions in the US from prior years.

No tax expense on the $25.3 gain recognized in the first quarter that resulted from the change in fair value of the forward purchase contract for shares in Sinofert Holdings Limited (Sinofert) as the gain was not taxable.

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7. 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, 2009 of 295,443,000 (2008 310,615,000). Basic net income per share for the six months ended June 30, 2009 is calculated based on the weighted average shares issued and outstanding for the period of 295,338,000 (2008 313,138,000).

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 exercise of all stock options for which performance conditions have been met and 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. The weighted average number of shares outstanding for the diluted net income per share calculation for the three months ended June 30, 2009 was 304,066,000 (2008 321,089,000) and for the six months ended June 30, 2009 was 303,736,000 (2008 323,716,000).

8. Segment Information

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

	Three Months Ended June 30, 2009				
	Potash	**Phosphate**	**Nitrogen**	**All Others**	**Consolidated**
Sales	**$ 210.7**	**$ 324.7**	**$ 320.6**	**$ -**	**$ 856.0**
Freight	**10.6**	**15.8**	**12.5**	**-**	**38.9**
Transportation and distribution	**11.6**	**12.5**	**13.6**	**-**	**37.7**
Net sales third party	**188.5**	**296.4**	**294.5**	**-**	
Cost of goods sold	**82.3**	**275.9**	**250.6**	**-**	**608.8**
Gross margin	**106.2**	**20.5**	**43.9**	**-**	**170.6**
Depreciation and amortization	**5.9**	**37.9**	**23.9**	**2.4**	**70.1**
Inter-segment sales	**-**	**-**	**15.0**	**-**	**-**

	Three Months Ended June 30, 2008				
	Potash	**Phosphate**	**Nitrogen**	**All Others**	**Consolidated**
Sales	$ 1,194.5	$ 782.0	$ 644.5	$ -	$ 2,621.0
Freight	60.3	29.8	13.3	-	103.4

Transportation and distribution	13.9	8.4	11.0	-	33.3
Net sales third party	1,120.3	743.8	620.2	-	
Cost of goods sold	233.9	402.9	410.2	-	1,047.0
Gross margin	886.4	340.9	210.0	-	1,437.3
Depreciation and amortization	24.0	35.7	22.3	1.9	83.9
Inter-segment sales	-	10.5	40.6	-	-

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	Six Months Ended June 30, 2009				
	Potash	**Phosphate**	**Nitrogen**	**All Others**	**Consolidated**
Sales	**$ 479.9**	**$ 654.6**	**$ 644.0**	**$ -**	**$ 1,778.5**
Freight	**17.3**	**34.0**	**25.2**	**-**	**76.5**
Transportation and distribution	**15.2**	**20.9**	**28.6**	**-**	**64.7**
Net sales third party	**447.4**	**599.7**	**590.2**	**-**	
Cost of goods sold	**174.6**	**570.4**	**492.1**	**-**	**1,237.1**
Gross margin	**272.8**	**29.3**	**98.1**	**-**	**400.2**
Depreciation and amortization	**13.4**	**76.9**	**49.2**	**4.6**	**144.1**
Inter-segment sales	**-**	**-**	**20.8**	**-**	**-**

	Six Months Ended June 30, 2008				
	Potash	**Phosphate**	**Nitrogen**	**All Others**	**Consolidated**
Sales	$ 1,990.7	$ 1,295.2	$ 1,225.7	$ -	$ 4,511.6
Freight	115.6	61.9	28.3	-	205.8
Transportation and distribution	25.3	16.4	23.9	-	65.6
Net sales third party	1,849.8	1,216.9	1,173.5	-	
Cost of goods sold	448.8	720.0	778.1	-	1,946.9
Gross margin	1,401.0	496.9	395.4	-	2,293.3
Depreciation and amortization	46.8	68.3	44.9	3.8	163.8
Inter-segment sales	-	14.7	82.6	-	-

Assets

	Potash	**Phosphate**	**Nitrogen**	**All Others**	**Consolidated**
Assets at June 30, 2009	$ 3,912.6	$ 2,273.3	$ 1,582.8	$ 3,495.8	$ 11,264.5
Assets at December 31, 2008	3,350.0	2,283.0	1,593.6	3,022.2	10,248.8
Change in assets	562.6	(9.7)	(10.8)	473.6	1,015.7
Additions to property, plant and equipment	536.8	173.3	44.5	11.1	765.7

9. Stock-Based Compensation

On May 7, 2009, the company s shareholders approved the 2009 Performance Option Plan under which the company may, after February 20, 2009 and before January 1, 2010, issue options to acquire up to 1,000,000 common shares. Under the plan, the exercise price shall not be less than 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. In general, options will vest, if at all, according to a schedule based on the three-year average excess of the company s consolidated cash flow return on investment over weighted average cost of capital. As of June 30, 2009, options to purchase a total of 641,400 common shares have been granted under the plan. The weighted average fair value of options granted was $42.42 per share, estimated as of the date of grant using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions:

Expected dividend	$	0.40
Expected volatility		48%
Risk-free interest rate		2.53%
Expected life of options		5.9 years

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10. Pension and Other Post-Retirement Expenses

Defined Benefit Pension Plans

	Three Months Ended June 30 2009	Three Months Ended June 30 2008	Six Months Ended June 30 2009	Six Months Ended June 30 2008
Service cost	**$ 4.3**	$ 3.8	**$ 8.6**	$ 7.6
Interest cost	**11.1**	10.0	**22.2**	20.0
Expected return on plan assets	**(9.6)**	(12.8)	**(19.2)**	(25.8)
Net amortization and change in valuation allowance	**7.3**	2.9	**14.4**	5.0
Net expense	**$ 13.1**	$ 3.9	**$ 26.0**	$ 6.8

Other Post-Retirement Plans

	Three Months Ended June 30 2009	Three Months Ended June 30 2008	Six Months Ended June 30 2009	Six Months Ended June 30 2008
Service cost	**$ 1.6**	$ 1.4	**$ 3.1**	$ 2.8
Interest cost	**4.2**	4.0	**8.3**	8.0
Net amortization	**0.2**	0.2	**0.3**	0.3
Net expense	**$ 6.0**	$ 5.6	**$ 11.7**	$ 11.1

For the three months ended June 30, 2009, the company contributed $8.5 to its defined benefit pension plans, $3.8 to its defined contribution pension plans and $2.3 to its other post-retirement plans. Contributions for the six months ended June 30, 2009 were $14.2 to its defined benefit pension plans, $12.2 to its defined contribution pension plans and $4.7 to its other post-retirement plans. Total 2009 contributions to these plans are not expected to differ significantly from the amounts previously disclosed in Note 15 to the consolidated financial statements for the year ended December 31, 2008 in the company s 2008 financial review annual report.

11. Other Income

	Three Months Ended June 30		Six Months Ended June 30	

	2009	2008	2009	2008
Share of earnings of equity investees	**$ 29.8**	$ 60.3	**$ 67.7**	$ 83.7
Dividend income	**40.4**	33.7	**40.4**	33.7
Gain on disposal of auction rate securities	**115.3**	-	**115.3**	-
Other	**2.9**	10.0	**-**	16.3
Gain on forward purchase contract for shares in Sinofert	**-**	-	**-**	25.3
Provision for auction rate securities	**-**	(0.7)	**-**	(43.8)
	$ 188.4	$ 103.3	**$ 223.4**	$ 115.2

In April 2009, the company recognized a gain on the disposal of auction rate securities of $115.3 due to the settlement of a claim the company filed in an arbitration proceeding against an investment firm that purchased auction rate securities for the company s account without the company s authorization. The investment firm paid the company the full par value of $132.5 in exchange for the transfer of the auction rate securities to the investment firm. The company retained all interest paid and accrued on these securities through the date of the transfer of the securities to the investment firm. The company was also reimbursed by the investment firm for $3.0 of the company s legal costs. Prior to the settlement, the company had recognized in net income a loss of $115.3 related to these unauthorized securities placed in its account.

12. Interest Expense

	Three Months Ended June 30		Six Months Ended June 30	
	2009	**2008**	**2009**	**2008**
Interest expense on				
Short-term debt	**$ 9.4**	$ 4.6	**$ 13.7**	$ 6.3
Long-term debt	**40.1**	23.6	**73.8**	47.3
Interest capitalized to property, plant and equipment	**(17.2)**	(10.5)	**(30.0)**	(18.9)
Interest income	**(5.8)**	(2.0)	**(7.8)**	(7.8)
	$ 26.5	$ 15.7	**$ 49.7**	$ 26.9

13. Financial Instruments and Related Risk Management

The company is exposed in varying degrees to a variety of financial risks from its use of financial instruments: credit risk, liquidity risk and market risk. The source of risk exposure and how each is managed is described in Note 28 to the consolidated financial statements for the year ended December 31, 2008 in the company s 2008 financial review annual report.

Credit Risk

The company is exposed to credit risk on its cash and cash equivalents, accounts receivable and derivative instrument assets. The company was also exposed to credit risk on auction rate securities prior to the disposal of such securities in connection with the April 2009 settlement of the company s arbitration claim. The maximum exposure to credit risk, as represented by the carrying amount of the financial assets, was:

	June 30, 2009	December 31, 2008
Cash and cash equivalents	**$ 371.3**	$ 276.8
Accounts receivable	**998.9**	1,189.9
Derivative instrument assets	**10.3**	17.9
Auction rate securities	**-**	17.2

The aging of trade receivables that were past due but not impaired was as follows:

	June 30, 2009	December 31, 2008

1 30 days	**$**	**11.5**	$	33.3
31 60 days		**0.6**		8.7
Greater than 60 days		**3.4**		1.7
	$	**15.5**	$	43.7

A reconciliation of the accounts receivable allowance for doubtful accounts is as follows:

	As At and For the Six Months Ended June 30, 2009		**As At and For the Year Ended December 31, 2008**	
Balance beginning of period	**$**	**7.7**	$	5.9
Provision for receivables impairment		**0.7**		5.0
Receivables written off during the period as uncollectible (primarily related to offshore receivables)		**-**		(3.2)
Balance end of period	**$**	**8.4**	$	7.7

Of total accounts receivable at June 30, 2009, $482.6 related to non-trade accounts, $90.0 related to margin deposits on derivative instruments and $234.6 represented amounts receivable from Canpotex Limited (Canpotex). The company sells potash from its Saskatchewan mines for use outside Canada and the US exclusively to Canpotex. Sales to Canpotex are at prevailing market prices and are settled on normal trade terms. There were no

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amounts past due or impaired relating to the amounts owing to the company from Canpotex or the non-trade accounts receivable. Certain receivables of Canpotex relating to Brazilian customers totaling $40.5 were overdue at June 30, 2009 and payment schedules have been agreed to for payment.

Liquidity Risk

Liquidity risk arises from the company s general funding needs and in the management of the company s assets, liabilities and optimal capital structure. The company manages its liquidity risk to maintain sufficient liquid financial resources to fund its operations and meet its commitments and obligations in a cost-effective manner. In managing its liquidity risk, the company has access to a range of funding options. The table below outlines the company s available debt instruments:

		June 30, 2009	
	Total Amount	Amount Outstanding and Committed	Amount Available
Credit facilities	$ 2,780.0(1)	$ 1,487.9(1)	$ 1,292.1(1)
Line of credit	75.0	30.5(2)	44.5

(1) The amount available under the $750.0 commercial paper program is limited to the availability of backup funds under the credit facilities. Included in the amount outstanding and committed is $737.9 of commercial paper. Per the terms of the agreements, the commercial paper outstanding and committed, as applicable, is based on the US dollar balance or equivalent thereof in lawful money of other currencies at the time of issue; therefore, subsequent changes in the exchange rate applicable to Canadian dollar denominated commercial paper have no impact on this balance.

(2) Letters of credit committed.

On December 12, 2007, the company filed a US shelf registration statement under which it may issue and sell up to $1,000.0 of additional debt securities subject to market conditions.

The company has an unsecured line of credit available for short-term financing (net of letters of credit of $30.5 and direct borrowings of NIL) in the amount of $44.5 at June 30, 2009 (December 31, 2008 $55.0). The line of credit is renewable in June 2010.

As at June 30, 2009, interest rates ranged from 0.24 percent to 1.86 percent on outstanding commercial paper denominated in Canadian dollars and 0.45 percent to 1.63 percent on outstanding commercial paper denominated in US dollars. Interest rates on borrowings under the credit facilities ranged from 0.76 percent to 0.83 percent on LIBOR rate loans with one base rate loan at 3.75 percent.

The table below presents a maturity analysis of the company s financial liabilities based on the expected cash flows from the date of the balance sheet to the contractual maturity date. The amounts are the contractual undiscounted cash flows.

Carrying

	Amount of Liability at June 30, 2009	Contractual Cash Flows	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years
Short-term debt obligations(1)	$ 735.4	$ 739.8	$ 739.8	$ -	$ -	$ -
Accounts payable and accrued charges(2)	483.3	483.3	483.3	-	-	-
Long-term debt obligations(1)	3,108.0	4,557.9	157.8	875.1	1,699.5	1,825.5
Derivative financial instrument liabilities						
Foreign currency forward contracts	13.7					
Outflow		443.5	443.5	-	-	-
Inflow		(429.8)	(429.8)	-	-	-
Natural gas hedging derivatives	171.3	179.0	70.6	58.5	16.3	33.6
	$ 4,511.7	$ 5,973.7	$ 1,465.2	$ 933.6	$ 1,715.8	$ 1,859.1

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(1) Contractual cash flows include contractual interest payments related to debt obligations. Interest rates on variable rate debt are based on prevailing rates at June 30, 2009.

(2) Excludes taxes, accrued interest, deferred revenues and current portions of accrued environmental costs and asset retirement obligations and accrued pension and other post-retirement benefits. This also excludes derivative financial instrument liabilities which have been presented separately.

Market Risk

Market risk is the risk that financial instrument fair values will fluctuate due to changes in market prices. The significant market risks to which the company is exposed are foreign exchange risk, interest rate risk and price risk (related to commodity and equity securities).

Foreign Exchange Risk

The following table shows the company s exposure to exchange risk and the pre-tax effects on income and other comprehensive income (OCI) of reasonably possible changes in the relevant foreign currency. This analysis assumes all other variables remain constant.

	Carrying Amount of Asset (Liability) at June 30, 2009	Foreign Exchange Risk			
		5% increase in US$		5% decrease in US$	
		Income	OCI	Income	OCI
Cash and cash equivalents denominated in Canadian dollars	$ 15.3	$ (0.8)	$ -	$ 0.8	$ -
Accounts receivable denominated in Canadian dollars	9.5	(0.5)	-	0.5	-
Available-for-sale investments					
Israel Chemical Ltd. denominated in New Israeli Shekels	1,426.3	-	(71.3)	-	71.3
Sinofert denominated in Hong Kong dollars	782.7	-	(39.1)	-	39.1
Short-term debt denominated in Canadian dollars	(511.4)	25.6	-	(25.6)	-
Accounts payable denominated in Canadian dollars	(137.1)	6.9	-	(6.9)	-
Derivative instruments					
Foreign currency forward contracts	(13.6)	(21.5)	-	21.5	-

As at June 30, 2009, the company had entered into foreign currency forward contracts to sell US dollars and receive Canadian dollars in the notional amount of $440.0 (December 31, 2008 $873.0) at an average exchange rate of 1.1260 (December 31, 2008 1.1522) per US dollar. The company had also entered into other small forward contracts. Maturity dates for all forward contracts are within 2009.

Interest Rate Risk

The following table shows the company s exposure to interest rate risk and the pre-tax effects on net income and other comprehensive income of reasonably possible changes in the relevant interest rates. This analysis assumes all other variables remain constant.

	Carrying Amount of Asset (Liability) at June 30, 2009	Interest Rate Risk			
		1% decrease in interest rates		1% increase in interest rates	
		Income	OCI	Income	OCI
Fixed rate instruments					
Long-term debt obligations[1]	$ (2,352.1)	$ -	$ -	$ -	$ -
Variable rate instruments					
Cash and cash equivalents	371.3	(3.7)	-	3.7	-
Long-term debt obligations	(755.9)	7.6	-	(7.6)	-
Short-term debt obligations[2]	(735.4)	-	-	-	-

(1) The company does not measure any fixed rate debt at fair value. Therefore, changes in interest rates will not affect income or OCI as there is no change in the carrying value of fixed-rate debt and interest payments are fixed.

(2) Commercial paper is excluded from interest rate risk on short-term obligations since interest rates are fixed for their stated period. The company is only exposed to interest rate risk on the issuance of new commercial paper.

Price Risk

The following table shows the company s exposure to price risk and the pre-tax effects on net income and other comprehensive income of reasonably possible changes in the relevant commodity or securities prices. This analysis assumes all other variables remain constant.

	Carrying Amount of Asset (Liability) at June 30, 2009	Price Risk			
		10% decrease in prices		10% increase in prices	
		Income	OCI	Income	OCI
Derivative instruments					
Natural gas hedging derivatives	$ (161.0)	$ -	$ (79.8)	$ -	$ 80.4
Available-for-sale investments					
Intercorporate investments	2,209.0	-	(220.9)	-	220.9

As at June 30, 2009, the company had derivatives qualifying for hedge accounting in the form of swaps which represented a notional amount of 131.3 million MMBtu with maturities in 2009 through 2019. At December 31, 2008 the notional amount of swaps was 135.4 million MMBtu with maturities in 2009 through 2018.

Fair Value

Fair value represents point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors.

Presented below is a comparison of the fair value of each financial instrument to its carrying value.

	June 30, 2009		December 31, 2008	
	Carrying Amount of Asset (Liability)	Fair Value of Asset (Liability)	Carrying Amount of Asset (Liability)	Fair Value of Asset (Liability)
Cash and cash equivalents	**$ 371.3**	**$ 371.3**	$ 276.8	$ 276.8
Accounts receivable	**998.9**	**998.9**	1,189.9	1,189.9

Derivative financial instruments	**(174.7)**	**(174.7)**	(210.6)	(210.6)
Investments	**3,173.1**	**6,674.9**	2,750.7	4,615.2
Short-term debt obligations	**(735.4)**	**(735.4)**	(1,323.9)	(1,323.9)
Accounts payable and accrued charges	**(483.3)**	**(483.3)**	(565.3)	(565.3)
Long-term debt	**(3,108.0)**	**(3,197.7)**	(1,758.2)	(1,730.3)

Due to their short-term nature, the fair value of cash and cash equivalents, accounts receivable, short-term debt, and accounts payable and accrued charges is assumed to approximate carrying value. The effective interest rate on the company s short-term debt at June 30, 2009 was 1.09 percent and 2.33 percent at December 31, 2008. The fair value of its senior notes at June 30, 2009 reflects the current yield valuation based on observed market prices. The current yield on the notes payable ranges from 2.71 percent to 6.39 percent. At December 31, 2008 the yield ranged from 5.05 percent to 6.73 percent. The fair value of the company s other long-term debt instruments approximated carrying value.

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, 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 2009 or 2008.

Mining Risk

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

Investment in Arab Potash Company Ltd. (APC)

The company is party to a shareholders agreement with Jordan Investment Company (JIC) with respect to its investment in APC. The terms of the shareholders agreement provide that, from October 17, 2006 to October 16, 2009, JIC may seek to exercise a put option (the Put) to require the company to purchase JIC s remaining common shares in APC. If the Put were exercised, the company s purchase price would be calculated in accordance with a specified formula based, in part, on 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 would be determinable at the time JIC provides appropriate notice to the company pursuant to the terms of the agreement.

Legal and Other Matters

Significant matters of note include the following:

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 and Consent with the USEPA pursuant to which PCS Joint Venture agreed to conduct a Remedial Investigation and Feasibility Study (RI/FS) of these conditions. PCS Joint Venture and another party are sharing the costs of the RI/FS, which is now complete. A Record of Decision (ROD) based upon the RI/FS was issued on September 27, 2007. The ROD 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 $8.5. Soil excavation activities are expected to begin in the fourth quarter of 2009. PCS Joint Venture and additional potentially responsible parties have negotiated with the USEPA a Remedial Design/Remedial Action Consent Decree, pursuant to which the parties will perform the ROD remedy. In addition, negotiations are underway regarding the appropriate share of the cost of the remedy that should be borne by each party. Although PCS Joint Venture sold the Lakeland property in July 2006, it has retained the above-described remediation responsibilities and has indemnified the third-party purchaser for the costs of remediation and certain related claims.

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 $3.0 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. In September 2005, Ashley II of Charleston, L.L.C., the current owner of the Planters Property, filed a complaint in the United States District Court for the District of South Carolina (the Court) seeking a declaratory judgment that PCS Nitrogen is liable to pay environmental response costs that Ashley II of Charleston, L.L.C. alleges it has incurred and will incur in connection with response activities at the site. The Court entered an order bifurcating the case into two phases. In the third quarter of 2007, the Court issued its decision for the first phase of the case, in which it determined that PCS Nitrogen is the successor to a former owner of the site and may be liable to Ashley II of Charleston, L.L.C. for its environmental response costs at the site. PCS Nitrogen has filed and is pursuing third-party complaints against owners and operators that it believes should be responsible parties with respect to the site. In the first quarter of 2009, the judge who had been handling the case disqualified himself and the case was transferred to a new judge. PCS Nitrogen has filed a motion to vacate the orders entered by the previous judge, including the order finding that PCS Nitrogen is a successor to a former owner of the site. The Court entered an order in June 2009 denying PCS Nitrogen s motion to vacate. PCS Nitrogen denies that it is a potentially responsible party and is vigorously defending its interests in these actions.

PCS Phosphate Company, Inc. (PCS Phosphate), along with several other entities, has received notice from parties to an Administrative Settlement Agreement (Settling Parties) with the USEPA of alleged contribution liability under CERCLA for costs incurred and to be incurred addressing PCB soil contamination at the Ward Superfund Site in Raleigh, North Carolina (Site). PCS Phosphate has agreed to participate, on a non-joint and several basis, with the Settling Parties in the performance of the removal action and the payment of certain other costs associated with the Site, including reimbursement of the USEPA s past costs. The cost of performing the removal action at the Site is estimated at $65.0. The removal activities commenced at the Site in August 2007. In July 2009, the Settling Parties served the company, and more than 100 other entities, with complaints seeking contribution for and recovery of response costs incurred in performing the removal action. The company anticipates recovering some portion of its expenditures for the removal action from other liable parties through settlement or litigation. In addition to the removal action at the Site, investigation of sediments downstream of the Site in what is called Operable Unit 1 has occurred. In September 2008, the USEPA issued a final remedy, with an estimated cost of $6.1, for Operable Unit 1. In October 2008, the USEPA issued special notice letters to PCS Phosphate and other alleged potentially responsible parties requiring a good-faith offer to perform and/or pay for the clean-up of Operable Unit 1, to perform further investigation at the Site and adjacent properties, and to reimburse USEPA for its past costs. In January 2009, in addition to good-faith offers made by other potentially responsible parties, PCS Phosphate, along with some of the Settling Parties, submitted a good-faith offer to the USEPA. The USEPA is reviewing the good-faith offers. At this time, the company is unable to evaluate the extent of any exposure that it may have for the matters addressed in the special notice letter.

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 hazardous waste compliance evaluation inspections at numerous phosphate operations, including the company s plants in Aurora, North Carolina; Geismar, Louisiana; and White Springs, Florida. The USEPA has notified the company of various alleged violations of the US Resource Conservation and Recovery Act (RCRA) at its Aurora and White Springs plants. The company and other industry members have met with representatives of the US Department of Justice, the USEPA and various state environmental agencies regarding potential resolutions of these matters. During these meetings, the company was informed that the USEPA also believes the Geismar plant is in violation of these requirements. As part of the initiative, the company entered into RCRA 3013 Administrative Orders on Consent to perform certain site assessment activities at its White Springs, Aurora and Geismar plants. The company is uncertain if any resolution will be possible without litigation, or, if litigation occurs, what the outcome would be. At this time, the company is unable to evaluate the extent of any exposure that it may have in these matters.

The USEPA also has begun an initiative to evaluate compliance with the Clean Air Act at sulfuric and nitric acid plants. In connection with this industry-wide initiative, the USEPA 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 has notified the company of various alleged violations of the Clean Air Act at its Geismar and Lima plants. The company has met and will continue to meet with representatives of the USEPA and the US Department of Justice regarding potential resolutions of these matters. At this time, the company is unable to evaluate the extent of any exposure that it may have in these matters.

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 disturbing the wetlands. On June 10, 2009, the Corps issued the company a permit to mine reserves in excess of thirty years. On June 17, 2009, USEPA advised the Corps that USEPA would not seek additional review of the permit or invoke its veto authority. In a related approval for mining, on March 12, 2009, four environmental organizations (Pamlico-Tar River Foundation, North Carolina Coastal Federation, Environmental Defense Fund, and Sierra Club) filed a Petition for a Contested Case Hearing before the North Carolina Office of Administrative Hearings challenging the Certification issued to the Company by the North Carolina Department of Environment and Natural Resources Division of Water Quality pursuant to Section 401 of the Clean Water Act, 33 U.S.C. § 1341 and state rules. The company has intervened in this proceeding and, at this time, is unable to evaluate the extent of any exposure that it may have in this matter.

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 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 including a facility investigation and, if necessary, a corrective action. In accordance with the Order, PCS Nitrogen Fertilizer has performed an investigation of environmental site conditions, has documented its findings in several successive facility investigation reports submitted to GEPD, and has conducted a pilot study to evaluate the viability of in-situ bioremediation of groundwater at the site. Based on these findings, the requirements of the Order and the pilot study, in May 2009, PCS Nitrogen Fertilizer submitted a Corrective Action Plan (CAP) to GEPD proposing to utilize in-situ bioremediation of groundwater at the site. In the event GEPD approves the CAP, a full-scale bioremediation remedy will be implemented.

In April 2009, the USEPA proposed rules to require greenhouse gas emission inventory reporting and to find that greenhouse gas emissions from mobile sources endanger public health and welfare. In May 2009, the Canadian government announced that its new industrial greenhouse gas emissions policies will be coordinated with policies that may be implemented in the US. It is anticipated that target numbers for emissions reductions will not be published until December 2009 at the earliest. The company is monitoring these policy changes and any effect they may have on our operations when they become final.

At the direction of the USEPA, the Florida Department of Environmental Protection (FDEP) has announced a rulemaking to restrict nutrient concentrations in surface waters to levels below those currently permitted at the company s White Springs, Florida plant. The company is working with FDEP on the rulemaking to pursue an acceptable resolution. The company is uncertain if any resolution will be possible without litigation, or, if litigation occurs, what the outcome would be.

The company, having been unable to agree with Mosaic Potash Esterhazy Limited Partnership (Mosaic) on the remaining amount of potash that the company is entitled to receive from Mosaic pursuant to the mining and processing agreement in respect of the company s rights at the Esterhazy mine, issued a statement of claim in the Saskatchewan Court of Queen s Bench against Mosaic on May 27, 2009. Under the statement of claim the company has asserted that it has the right under the mining and processing agreement to receive potash from Mosaic until at least 2012, and seeks an order from the Court declaring the amount of potash which the company has the right to receive. Mosaic in its statement of defence dated June 16, 2009, asserts that at a delivery rate of 1.24 million tons of product per year, the company s entitlement to receive potash under the mining and processing agreement will terminate by August 30, 2010. Also, on June 16, 2009 Mosaic commenced a counterclaim against the company asserting that the company has breached the mining and processing agreement due to its refusal to take delivery of potash product under the agreement based on an event of force majeure. The company will continue to assert its position in these proceedings vigorously and it denies liability to Mosaic in connection with its counterclaim.

Between September 11 and October 2, 2008, the company and PCS Sales (USA), Inc. were named as defendants in eight very similar antitrust complaints filed in 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. Five of the eight complaints were brought by plaintiffs who claim to have purchased potash directly from at least one of the defendants during the period between July 1, 2003 and the present (collectively, the Direct Purchaser Plaintiffs). All five Direct Purchaser Plaintiffs purport to sue on behalf of a class of persons who purchased potash in the United States directly from a defendant. The Direct Purchaser Plaintiffs, who filed a single, consolidated amended complaint on November 13, 2008, seek unspecified treble damages, injunctive relief, attorneys fees, costs and pre- and post-judgment interest. The other three complaints were brought by plaintiffs who claim to be indirect purchasers of potash (collectively, the Indirect Purchaser Plaintiffs). The Indirect Purchaser Plaintiffs, who purport to sue on behalf of all persons who purchased potash indirectly in the United States, filed a single, consolidated amended complaint on November 13, 2008. In addition to the Sherman Act claim described above, the Indirect Purchaser Plaintiffs also assert claims for violation of various state antitrust laws; violations of various state consumer protection statutes; and for unjust enrichment. The Indirect Purchaser Plaintiffs seek injunctive relief, unspecified damages, treble damages where allowed, costs, fees and pre- and post-judgment interest. All eight lawsuits have been consolidated into a Multidistrict Litigation proceeding, or MDL (No. 1996), for coordinated pretrial proceedings before Judge Ruben Castillo in the United States District Court for the Northern District of Illinois (the Court). Two consolidated complaints, one for the Direct Purchaser Plaintiffs and one for the Indirect Purchaser Plaintiffs, have been filed. In June 2009, the company and PCS Sales (USA), Inc., along with the other defendants filed motions to dismiss the amended consolidated complaints filed by the Direct Purchaser Plaintiffs and the Indirect Purchaser Plaintiffs. The Court has stayed all discovery pending a resolution of the defendants motions to dismiss. The company and PCS Sales (USA), Inc. believe each of these eight private antitrust law lawsuits is without merit and intend to defend them vigorously.

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.

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 there exist inherent uncertainties 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 which 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 would not be 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 were incurred.

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16. Guarantees

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

The company enters into agreements in the normal course of business that may contain features that 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 and investees 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, 2009, the maximum potential amount of future (undiscounted) payments under significant guarantees provided to third parties approximated $582.2. It is unlikely that these guarantees will be drawn upon and the maximum potential amount of future payments does not consider the possibility of recovery under recourse or collateral provisions. Accordingly, this amount is not indicative of future cash requirements or the company s expected losses from these arrangements. At June 30, 2009, no subsidiary balances subject to guarantees were outstanding in connection with the company s cash management facilities, and it had no liabilities recorded for other obligations other than subsidiary bank borrowings of approximately $5.9, which are reflected in other long-term debt.

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. The USEPA has announced that it plans to adopt rules requiring financial assurance from a variety of mining operations, including phosphate rock mining. It is too early in the rulemaking process to determine what the impact, if any, on our facilities will be when these rules are issued.

The environmental regulations of the Province of Saskatchewan require each potash mine to have decommissioning and reclamation plans. Financial assurances for these plans must be established within one year following their approval by the responsible provincial minister. The Minister of the Environment for Saskatchewan (MOE) provisionally approved the plans in July 2000. In July 2001, a CDN $2.0 irrevocable Letter of Credit was posted. The company submitted a revised plan when it was due in 2006. In early 2009, the MOE advised that the 2006 decommissioning and reclamation plans were approved and advised of its preferred position regarding the financial assurances to be provided by the company. The company anticipates that all matters regarding these financial assurances will be finalized in the third quarter of 2009. Under the regulations, the decommissioning and reclamation plans and financial assurances are to be reviewed at least once every five years, or sooner as required by the MOE. The next scheduled review for the decommissioning and reclamation plans and financial assurances is in 2011. Based on current information, the company does not believe that its financial assurance requirements or future obligations with respect to this matter are reasonably likely to have a material impact on its consolidated financial position or results of operations.

The company has met its financial assurance responsibilities as of June 30, 2009. Costs associated with the retirement of long-lived tangible assets have been accrued in the accompanying unaudited interim condensed consolidated financial statements to the extent that a legal liability to retire such assets exists.

During the period, the company entered into various other commercial letters of credit in the normal course of operations. As at June 30, 2009, $30.5 of letters of credit were outstanding.

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

17. Related Party Commitment

In June 2009, the company committed to purchase minimum amounts of potash from Sociedad Quimica y Minera de Chile S.A., a significantly influenced equity investee. Future commitments, based on market rates for such potash as at August 6, 2009 are $70.0 within one year and $110.0 between one and three years.

18. 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 unaudited interim condensed consolidated financial statements is described and quantified below. For a complete discussion of US and Canadian GAAP differences, see Note 33 to the consolidated financial statements for the year ended December 31, 2008 in the company s 2008 financial review annual report.

(a) Inventory valuation: Under Canadian GAAP, when the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal is limited to the amount of the original write-down. Under US GAAP, the reversal of a write-down is not permitted unless the reversal relates to a write-down recorded in a prior interim period during the same fiscal year.

(b) Long-term investments: Certain of the company s investments in international entities are accounted for under the equity method. Accounting principles generally accepted in those foreign jurisdictions may vary in certain important respects from Canadian GAAP and in certain other respects from US GAAP. The company s share of earnings and other comprehensive income of these equity investees under Canadian GAAP have been adjusted for the significant effects of conforming to US GAAP.

In addition, the company s interest in a foreign joint venture is accounted for using proportionate consolidation under Canadian GAAP. US GAAP requires joint ventures to be accounted for using the equity accounting method. As a result, an adjustment is recorded to reflect the company s interest in the joint venture under the equity method of accounting.

(c) 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.

(d) 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 under Canadian and US GAAP.

(e) Exploration costs: Under Canadian GAAP, capitalized exploration costs are classified under property, plant and equipment. For US GAAP, these costs are generally expensed until such time as a final feasibility study has confirmed the existence of a commercially mineable deposit.

(f) Pension and other post-retirement 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 this, 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.

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In addition, under US GAAP the company is required to recognize the difference between the benefit obligation and the fair value of plan assets in the Consolidated Statements of Financial Position with the offset to OCI. No similar requirement currently exists under Canadian GAAP.

(g) 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.

(h) Offsetting of certain amounts: US GAAP requires an entity to adopt a policy of either offsetting or not offsetting fair value amounts recognized for derivative instruments and for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement. The company adopted a policy to offset such amounts. Under Canadian GAAP offsetting of the margin deposits is not permitted.

(i) Stock-based compensation: Under Canadian GAAP, the company s stock-based compensation plan awards classified as liabilities are measured at intrinsic value at each reporting period. US GAAP requires that these liability awards be measured at fair value at each reporting period. The company uses a Monte Carlo simulation model to estimate the fair value of its performance unit incentive plan liability for US GAAP purposes.

Under Canadian GAAP, stock options are recognized over the service period, which for PotashCorp is established by the option performance period. Effective January 1, 2006, under US GAAP, stock options are recognized over the requisite service period which does not commence until the option plan is approved by the company s shareholders and options are granted thereunder. For options granted under the PotashCorp 2007 Performance Option Plan, the service period commenced January 1, 2007 under Canadian GAAP and May 3, 2007 under US GAAP. For options granted under the PotashCorp 2008 Performance Option Plan, the service period commenced January 1, 2008 under Canadian GAAP and May 8, 2008 under US GAAP. For options granted under the PotashCorp 2009 Performance Option Plan, the service period commenced January 1, 2009 under Canadian GAAP and May 7, 2009 under US GAAP. This difference impacts the stock-based compensation cost recorded and may impact diluted earnings per share.

(j) Stripping costs: Under Canadian GAAP, the company capitalizes and amortizes costs associated with the activity of removing overburden and other mine waste minerals in the production phase. US GAAP requires such stripping costs to 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.

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

(l) Income tax consequences of stock-based employee compensation: Under Canadian GAAP, the income tax benefit attributable to stock-based compensation that is deductible in computing taxable income but is not recorded in the consolidated financial statements as an expense of any period (the excess benefit) is considered to be a permanent difference. Accordingly, such amount is treated as an item that reconciles the statutory income tax rate to the company s effective tax rate. Under US GAAP, the excess benefit is recognized as additional paid-in capital.

(m) Income taxes related to uncertain income tax positions: US GAAP prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its consolidated financial statements uncertain income tax positions that it has taken or expects to take on a tax return (including a decision whether to file or not to file a return in a particular jurisdiction). Canadian GAAP has no similar requirements related to uncertain income tax positions.

(n) Cash flow statements: US GAAP requires the disclosure of income taxes paid. Canadian GAAP requires the disclosure of income tax cash flows, which would include any income taxes recovered during the year. For the three months ended June 30, 2009, income taxes paid under US GAAP were $588.7 (2008 $227.6) and for the six months ended June 30, 2009, income taxes paid under US GAAP were $736.8 (2008 $386.9).

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

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	**2009**	2008
Net income as reported Canadian GAAP	**$ 187.1**	$ 905.1	**$ 495.4**	$ 1,471.1
Items increasing (decreasing) reported net income				
Inventory valuation (a)	**5.4**	-	**(0.3)**	-
Depreciation and amortization (d)	**2.1**	2.1	**4.2**	4.2
Exploration costs (e)	**-**	-	**-**	(5.9)
Stock-based compensation (i)	**4.5**	1.5	**4.1**	3.5
Stripping costs (j)	**(2.5)**	(2.8)	**(2.8)**	(3.5)
Share of earnings of equity investees (b)	**0.6**	0.8	**-**	0.2
Pension and other post-retirement benefits (f)	**0.3**	0.1	**0.6**	0.2
Deferred income taxes relating to the above adjustments (k)	**(2.5)**	-	**1.4**	0.1
Income taxes related to US GAAP effective tax rate (k)	**(0.6)**	-	**-**	(3.2)
Income taxes related to stock-based compensation (l)	**(3.8)**	(11.8)	**(4.4)**	(29.1)
Income taxes related to uncertain income tax positions (m)	**4.2**	2.4	**(3.9)**	6.1
Net income US GAAP	**$ 194.8**	$ 897.4	**$ 494.3**	$ 1,443.7
Basic weighted average shares outstanding US GAAP	**295,443,000**	310,615,000	**295,338,000**	313,138,000
Diluted weighted average shares outstanding US GAAP	**304,066,000**	321,082,000	**303,736,000**	323,710,000

Basic net income per share	US GAAP	**$**	**0.66**	$	2.89	**$**	**1.67**	$	4.61
Diluted net income per share	US GAAP	**$**	**0.64**	$	2.79	**$**	**1.63**	$	4.46

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	June 30, 2009	December 31, 2008
Total assets as reported Canadian GAAP	**$ 11,264.5**	$ 10,248.8
Items increasing (decreasing) reported total assets		
Inventory (a)	**(0.3)**	-
Property, plant and equipment (c)	**(88.6)**	(92.8)
Exploration costs (e)	**(13.0)**	(13.0)
Stripping costs (j)	**(39.5)**	(36.7)
Pension and other post-retirement benefits (f)	**(90.2)**	(105.2)
Margin deposits associated with derivative instruments (h)	**(90.0)**	(91.1)
Investment in equity investees (b)	**(1.0)**	1.3
Income tax asset related to uncertain income tax positions (m)	**29.6**	24.8
Goodwill (c)	**(46.7)**	(46.7)
Total assets US GAAP	**$ 10,924.8**	$ 9,889.4

	June 30, 2009	December 31, 2008
Total shareholders equity as reported Canadian GAAP	**$ 5,498.9**	$ 4,588.9
Items increasing (decreasing) reported shareholders equity		
Accumulated other comprehensive income, net of related income taxes, consisting of:		
Income taxes related to uncertain income tax positions (m)	**(1.2)**	(1.2)
Pension and other post-retirement benefits (f)	**(238.2)**	(246.6)
Share of accumulated other comprehensive income of equity investees (b)	**(1.2)**	-
Foreign currency translation adjustment (g)	**(20.9)**	(20.9)
Foreign currency translation adjustment (g)	**20.9**	20.9
Provision for asset impairment (c)	**(218.0)**	(218.0)
Inventory valuation (a)	**(0.3)**	-
Depreciation and amortization (d)	**82.7**	78.5
Exploration costs (e)	**(13.0)**	(13.0)
Stripping costs (j)	**(39.5)**	(36.7)
Pension and other post-retirement benefits (f)	**16.4**	15.8
Stock-based compensation (i)	**3.5**	-
Share of earnings of equity investees (b)	**1.3**	1.3
Deferred income taxes relating to the above adjustments (k)	**31.5**	30.1
Income taxes related to US GAAP effective tax rate (k, l)	**(82.3)**	(82.3)
Income taxes related to uncertain income tax positions(m)	**82.6**	86.5

Shareholders equity US GAAP	**$ 5,123.2**	$ 4,203.3

Supplemental US GAAP Disclosures

Fair Value Measurement

The following table presents the company s fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2009.

			Fair Value Measurements Using:		
Description	**Carrying Amount of Asset (Liability) at June 30, 2009**	**Cash Collateral Netting**	**Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Derivative instrument assets	$ 10.3	$ -	$ -	$ 0.4	$ 9.9
Derivative instrument liabilities	(95.0)	90.0(1)	-	(58.4)	(126.6)
Available-for-sale securities	2,209.0	-	2,209.0	-	-

(1) Amount represents the effect of legally enforceable master netting arrangements between the company and its counterparties and the payable or receivable for cash collateral held or placed with the same counterparty.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3) For Derivative Instruments	**Three Months Ended June 30 2009**	**Three Months Ended June 30 2008**	**Six Months Ended June 30 2009**	**Six Months Ended June 30 2008**
Beginning balance	**$ (159.4)**	$ 180.5	**$ (110.8)**	$ 127.7
Total gains (losses) (realized and unrealized) before income taxes				
Included in earnings	**(14.8)**	11.9	**(23.2)**	17.9
Included in other comprehensive income	**38.9**	205.1	**(13.3)**	261.9
Purchases, sales, issuances and settlements	**18.6**	(15.6)	**30.6**	(25.6)
Ending balance, June 30	**$ (116.7)**	$ 381.9	**$ (116.7)**	$ 381.9
Amount of total losses for the period included in earnings attributable to the change in unrealized losses relating to instruments still held at the reporting date	**$ -**	$ (3.1)	**$ (0.4)**	$ (3.4)
	$ (14.8)	$ 11.9	**$ (23.2)**	$ 17.9

Gains (losses) (realized and unrealized) included in earnings for the period reported in Cost of goods sold

Fair Value Measurements Using Significant Unobservable Inputs (Level 3) For Available-For-Sale Securities	**Three Months Ended June 30 2009**	**Three Months Ended June 30 2008**	**Six Months Ended June 30 2009**	**Six Months Ended June 30 2008**
Beginning balance	**$ 18.1**	$ 43.1	**$ 17.2**	$ 56.0
Total gains (losses) (realized and unrealized) before income taxes				
Included in earnings	**115.3**	(0.7)	**115.3**	(43.8)
Included in other comprehensive income	**(0.9)**	4.5	**-**	34.7
Purchases, sales, issuances and settlements	**(132.5)**	-	**(132.5)**	-
Ending balance, June 30	**$ -**	$ 46.9	**$ -**	$ 46.9
Amount of total gains (losses) for the period included in earnings attributable to the change in unrealized losses relating to instruments still held at the reporting date	**$ -**	$ (0.7)	**$ -**	$ (43.8)
Gains (losses) (realized and unrealized) included in earnings for the period reported in Other income	**$ 115.3**	$ (0.7)	**$ 115.3**	$ (43.8)

Recent Accounting Pronouncements

Derivative Instruments and Hedging Activities

In March 2008, the Financial Accounting Standards Board (FASB) issued accounting standards that require enhanced disclosures about an entity s derivative and hedging activities. Entities are required to provide disclosures about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for, and (iii) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. The standards increase convergence with IFRSs, as it relates to disclosures of derivative instruments. The applicable disclosures under these standards, which the company adopted effective January 1, 2009, are included below.

Accounting for Derivative Instruments

Derivative financial instruments are used by the company to manage its exposure to exchange rate, interest rate and commodity price fluctuations. The company recognizes its derivative instruments at fair value on the Consolidated Statements of Financial Position where appropriate. Contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments (except contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with expected purchase, sale or usage requirements), are accounted for as derivative financial instruments.

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 change 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. Ineffective portions of hedges are recorded in earnings in the current period. The change in fair value of derivative instruments not designated as hedges is recorded in income in the current period.

The company s policy is not to use derivative financial instruments for trading or speculative purposes, although it may choose not to designate a relationship as an accounting hedge. The company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge transaction. This process includes linking derivatives to specific assets and liabilities or to specific firm commitments or forecast transactions. The company also assesses, both at the hedge s inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values of hedged items. Hedge effectiveness related to the company s natural gas hedges is assessed on a prospective and retrospective basis using regression analyses. A hedging relationship may be terminated because the hedge ceases to be effective; the underlying asset or liability being hedged is derecognized; or the derivative instrument is no longer designated as a hedging instrument. In such instances, the difference between the fair value and the accrued value of the hedging derivatives upon termination is deferred and recognized into earnings on the same basis that gains, losses, revenue and expenses of the previously hedged item are recognized. If a hedging relationship is terminated because it is no longer probable that the anticipated transaction will occur, then the net gain or loss accumulated in OCI is recognized into earnings in the current period.

Cash Flow Hedges

The company is exposed to commodity price risk resulting from its natural gas requirements. Its natural gas strategy is based on diversification for its total gas requirements (which represent the forecast consumption of natural gas volumes by its manufacturing and mining facilities). Its objective is to acquire a reliable supply of natural gas feedstock and fuel on a location-adjusted, cost-competitive basis in a manner that minimizes volatility without undue risk. The company employs derivative commodity instruments related to a portion of its natural gas requirements (primarily futures, swaps and options) for the purpose of managing its exposure to commodity price risk in the purchase of natural gas, not for speculative or trading purposes. The company has an Advisory Committee, comprised of members from senior management, responsible for developing policies and establishing procedural requirements relating to its natural gas activities. Such policies include the establishment of limits for the portion of its natural gas requirements that will be hedged as well as the types of instruments that may be utilized for such hedging activities. Natural gas futures and swap agreements, used to manage the cost of natural gas, are generally designated as cash flow hedges of anticipated transactions.

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The portion of gain or loss on derivative instruments designated as cash flow hedges that are deferred in accumulated OCI is reclassified into cost of goods sold when the product containing the hedged item impacts earnings. Any hedge ineffectiveness is recorded in cost of goods sold in the current period. Of the gains and losses at June 30, 2009, approximately $70.7 of losses will be reclassified to cost of goods sold within the next 12 months.

Derivative Instruments Not Designated as Hedging Instruments

The company uses foreign currency forward contracts for the primary purpose of limiting exposure to exchange rate fluctuations relating to expenditures denominated in currencies other than the US dollar. These contracts are not designated as hedging instruments for accounting purposes. Accordingly, they are marked-to-market with changes in fair value recognized through foreign exchange gain or loss in earnings.

Fair Values of Derivative Instruments in the Consolidated Statements of Financial Position

Fair value of derivative instrument assets:[1]	**Balance Sheet Location**	**June 30, 2009**	**December 31, 2008**
Derivatives designated as hedging instruments			
Natural gas contracts	Current portion of derivative instrument assets	**$ 0.3**	$ 0.1
Natural gas contracts	Derivative instrument assets	**9.9**	11.5
Total derivatives designated as hedging instruments		**10.2**	11.6
Derivatives not designated as hedging instruments			
Foreign currency forward contracts	Current portion of derivative instrument assets	**0.1**	6.3
Total derivative instrument assets		**$ 10.3**	$ 17.9

Fair value of derivative instrument liabilities:[1]	**Balance Sheet Location**	**June 30, 2009**	**December 31, 2008**
Derivatives designated as hedging instruments			
Natural gas contracts	Current portion of derivative instrument liabilities	**$ 71.0**	$ 50.2

Natural gas contracts	Derivative instrument liabilities	**100.3**	120.4
Total derivatives designated as hedging instruments		**171.3**	170.6
Derivatives not designated as hedging instruments			
Foreign currency forward contracts	Current portion of derivative instrument liabilities	**13.7**	57.9
Total derivative instrument liabilities		**$ 185.0**	$ 228.5

(1) All fair value amounts are gross and exclude netted cash collateral balances.

The Effect of Derivative Instruments on the Consolidated Statements of Operations for the Three Months Ended June 30

Derivatives in Cash Flow Hedging Relationships	Amount of (Loss) Gain Recognized in OCI (Effective Portion) 2009	2008	Location of (Loss) Gain Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of (Loss) Gain Reclassified from Accumulated OCI into Income (Effective Portion) 2009	2008	Location of (Loss) Gain Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of (Loss) Gain Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) 2009	2008
Natural gas contracts	**$ 26.4**	$ 220.1	Cost of goods sold	**$ (26.9)**	$ 15.0	Cost of goods sold	**$ -**	$ (3.2)

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Derivatives Not Designated as Hedging Instruments	Location of (Loss) Gain Recognized in Income	Amount of (Loss) Gain Recognized in Income 2009	2008
Foreign currency forward contracts	Foreign exchange (loss) gain	**$ (18.9)**	$ 7.8

The Effect of Derivative Instruments on the Consolidated Statements of Operations for the Six Months Ended June 30

erivatives in Cash Flow edging Relationships	Amount of (Loss) Gain Recognized in OCI (Effective Portion) 2009	2008	Location of (Loss) Gain Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of (Loss) Gain Reclassified from Accumulated OCI into Income (Effective Portion) 2009	2008	Location of (Loss) Gain Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of (Loss) Gain Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) 2009	2008
tural gas contracts	**$ (46.1)**	$ 283.5	Cost of goods sold	**$ (40.6)**	$ 23.6	Cost of goods sold	**$ (0.2)**	$ (3.

Derivatives Not Designated as Hedging Instruments	Location of (Loss) Gain Recognized in Income	Amount of (Loss) Gain Recognized in Income 2009	2008
Foreign currency forward contracts	Foreign exchange (loss) gain	**$ (22.5)**	$ 2.5

Methods and Assumptions

Estimated fair values for financial instruments are designed to approximate amounts at which the instruments could be exchanged in a current transaction between willing parties. The fair value of derivative instruments traded in active markets (such as natural gas futures and exchange-traded options) is based on quoted market prices at the date of the statement of financial position.

The fair value of derivative instruments that are not traded in an active market (such as natural gas swaps, over-the-counter option contracts and foreign currency forward contracts) is determined by using valuation techniques. The company uses a variety of methods and makes assumptions that are based on market conditions existing at the date of the statement of financial position. Natural gas swap valuations are based on a discounted cash flows model. The inputs used in the model include contractual cash flows based on prices for natural gas futures contracts, fixed prices and notional volumes specified by the swap contracts, the time value of money, liquidity and credit risk. Certain of the futures contract prices are supported by prices quoted in an active market and others are not based on observable market data. The fair value of swap contracts is especially sensitive to changes in futures contract prices. The interest rates used to discount estimated cash flows were between 0.31 percent and 4.82 percent (2008 between 0.44 and 4.45) depending on the settlement date. Over-the-counter option contracts are valued based on quoted market prices for similar instruments where available or an option valuation model. The fair value of foreign currency forward contracts is determined using quoted forward exchange rates at the balance sheet date.

Contingent Features

Certain of the company s derivative instruments contain provisions that require the company s debt to maintain specified credit ratings from two of the major credit rating agencies. If the company s debt were to fall below the specified ratings, it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on June 30, 2009, is $168.3 for which the company has posted collateral of $90.0 in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on June 30, 2009, the company would have been required to post an additional $76.0 of collateral to its counterparties.

Business Combinations

In December 2007, the FASB issued accounting standards which require the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establish the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; and disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. In April 2009, the FASB issued guidance to address application issues raised by preparers, auditors and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. These standards applied prospectively. The implementation of these standards, effective January 1, 2009, did not have a material impact on the company s consolidated financial statements.

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued accounting standards to require all entities to report noncontrolling (minority) interests as equity in consolidated financial statements. The standards eliminate the disparate treatment that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. These standards were applied prospectively. The implementation of these standards, effective January 1, 2009, did not have a material impact on the company s consolidated financial statements.

Framework for Fair Value Measurement

In February 2008, the FASB issued guidance related to the application of the framework for fair value measurement to non-financial assets and non-financial liabilities. The FASB decided to delay the effective date of applying the framework for fair value measurement to non-financial assets and non-financial liabilities until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The implementation of this guidance, effective January 1, 2009, did not have a material impact on the company s consolidated financial statements.

FASB Accounting Standards Codification

On July 1, 2009, the FASB issued the *FASB Accounting Standards Codification*tm (the Codification) as the single source of authoritative US GAAP (other than guidance issued by the US Securities and Exchange Commission), superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force, and related literature. The Codification is effective for interim and annual periods ending after September 15, 2009. At this time, only one level of authoritative US GAAP will exist. All other literature will be considered non-authoritative. The Codification does not change US GAAP; instead, it introduces a new structure that is organized in an easily accessible, user-friendly online research system. The Codification did not have an impact on the company s consolidated financial statements.

Fair Value Measurement in Inactive Markets and Distressed Transactions

In April 2009, the FASB issued guidance for estimating fair value in accordance with the framework for fair value measurement, when the volume and level of activity for the asset or liability have significantly decreased. At the same time the FASB issued guidance on identifying circumstances that indicate a transaction is not orderly. The guidance, which was applied prospectively, was effective for interim and annual periods ending after June 15, 2009 and did not have a material impact on the company s consolidated financial statements.

Other Than Temporary Impairment on Debt Securities

In April 2009, the FASB issued guidance to change the recognition threshold of an other than temporary impairment for debt securities. When an entity does not intend to sell the debt security and it is more likely than not that the entity will not have to sell the debt security before recovery of its cost basis, it will recognize only the credit loss component of an other than temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. The guidance was effective for interim and fiscal periods ending after June 15, 2009 and did not have a material impact on the company s consolidated financial statements.

Fair Value Disclosure

In April 2009, the FASB issued guidance to require disclosure of fair value information of financial instruments at each interim reporting period. The disclosures shall include the relevant carrying value as well as the methods and significant assumptions used to estimate the fair value. The guidance is effective for interim and annual periods beginning after June 15, 2009. The company has included the relevant disclosures in the above disclosures related to financial instruments.

Subsequent Events

In May 2009, the FASB issued standards addressing subsequent events. The standards address the recognition and disclosure of events that occur after the balance sheet date but before the issuance of the financial statements. The FASB issued the standards in order to incorporate, within the accounting standards, principles that had originated in auditing standards. The standards also require an entity to disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. The standards do not differ significantly from previously applied standards on disclosure of subsequent events. The company adopted these standards prospectively, effective for reporting periods ending after June 15, 2009. The standards did not have a material impact on the company s consolidated financial statements. The company has evaluated subsequent events through August 6, 2009, the date the financial statements were issued, and noted no subsequent events that required disclosure.

Variable Interest Entities

In June 2009, the FASB issued revised accounting standards to improve financial reporting by enterprises involved with variable interest entities. The standards replace the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and: (1) the obligation to absorb losses of the entity; or, (2) the right to receive benefits from the entity. The standards are effective as of the beginning of the first annual reporting period that begins after November 15, 2009 and shall be applied prospectively. The company is currently reviewing the impact, if any, on the company s consolidated financial statements.

19. Comparative Figures

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

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

The following discussion and analysis is the responsibility of management and is as of August 6, 2009. 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 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 is an integrated producer of fertilizer, industrial and animal feed products. We are the world s largest fertilizer enterprise by capacity, producing the three primary plant nutrients: potash, 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 who buy under contract and on the spot market; 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 delivered 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

Our vision is to play a key role in the global food solution while building long-term value for all our stakeholders. We strive to be the highest quality low-cost producer and 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 sector and companies on the DAXglobal Agribusiness Index in total shareholder return.

We link our financial performance with areas of extended responsibility that include safety, the environment and all those who have a social or economic interest in our business. We focus on increased transparency to improve our relationships with all our stakeholders, believing this gives us a competitive advantage.

POTASHCORP STRATEGY

To provide our stakeholders with long-term value, our strategy focuses on generating growth while striving to minimize fluctuations in our upward-trending earnings line. This value proposition has given our stakeholders superior value for many years. We apply this strategy by concentrating on our highest margin products. Such analysis dictates our Potash First strategy, focusing our capital internally and through investments to build on our world-class potash assets and meet the rising global demand for this vital nutrient. By investing in potash capacity while producing to meet market demand, we create the opportunity for significant growth while limiting downside risk. We complement our potash operations with focused phosphate and nitrogen businesses that emphasize the production of high-margin products with stable and sustainable earnings potential.

We strive to grow PotashCorp by enhancing our position as supplier of choice to our customers, delivering the highest quality products at market prices when they are needed. We seek to be the preferred supplier to high-volume, high-margin customers with the lowest credit risk. It is critical that our customers recognize our ability to create value for them based on the price they pay for our products.

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As we plan our future, we carefully weigh our choices for our cash flow. We base all investment decisions on cash flow return materially exceeding cost of capital, evaluating the best return on any investment that matches our Potash First strategy. Most of our recent capital expenditures have gone to investments in our own potash capacity, and we look to increase our existing offshore potash investments and seek other merger and acquisition opportunities in this nutrient. We also consider share repurchase and increased dividends as ways to maximize shareholder value over the long term.

KEY PERFORMANCE DRIVERS PERFORMANCE COMPARED TO GOALS

Each year we set targets to advance our long-term goals and drive results. We have 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 measurable, 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 2009 targets are set out on pages 35 to 37 of our 2008 financial review annual report. A summary of our progress against selected goals and representative annual targets is set out below.

Goal	Representative 2009 Annual Target	Performance to June 30, 2009
Achieve no harm to people.	Reduce total site severity injury rate by 25 percent by the end of 2011 from 2008 levels.	Total site severity injury rate was 0.88 for the first six months of 2009, representing a reduction of 10 percent compared to the 2008 annual level. The total site severity injury rate was not tracked in the first half of 2008.
Achieve no damage to the environment.	Reduce total reportable releases, permit excursions and spills by 15 percent from 2008 levels.	Reportable release rate on an annualized basis declined 71 percent, annualized permit excursions were down 50 percent and annualized spills were down 25 percent during the first six months of 2009 compared to 2008 annual levels. Compared to the first six months of 2008, reportable releases were down 50 percent, permit excursions were down 50 percent and spills were down 40 percent.
Maximize long-term shareholder value.	Exceed total shareholder return for our sector and companies on the DAXglobal Agribusiness Index for 2009.	PotashCorp s total shareholder return was 27 percent in the first six months of 2009 compared to the DAXglobal Agribusiness Index weighted average return of 25 percent and our sector weighted average return of 34 percent.

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 18 to the unaudited interim condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q. All references to per-share amounts pertain to diluted net income per share.

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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 2008 financial review annual report.

Earnings Guidance

The company s initial guidance for the second quarter of 2009 was earnings per share in the range of $1.10 to $1.50 per share, assuming a period end exchange rate of 1.18 Canadian dollars per US dollar and an effective tax rate of 26-28 percent. The final result was net income of $187.1 million, or $0.62 per share, with a period-end exchange rate of 1.1625 Canadian dollars per US dollar and an effective tax rate of 28 percent for the quarter.

Overview of Actual Results

Operations

	Three Months Ended June 30				Six Months Ended June 30			
Dollars (millions) except per-share amounts	**2009**	**2008**	**Dollar Change**	**% Change**	**2009**	**2008**	**Dollar Change**	**% Change**
Sales	**$ 856.0**	$ 2,621.0	$ (1,765.0)	(67)	**$ 1,778.5**	$ 4,511.6	$ (2,733.1)	(61)
Freight	**38.9**	103.4	(64.5)	(62)	**76.5**	205.8	(129.3)	(63)
Transportation and distribution	**37.7**	33.3	4.4	13	**64.7**	65.6	(0.9)	(1)
Cost of goods sold	**608.8**	1,047.0	(438.2)	(42)	**1,237.1**	1,946.9	(709.8)	(36)
Gross margin	**$ 170.6**	$ 1,437.3	$ (1,266.7)	(88)	**$ 400.2**	$ 2,293.3	$ (1,893.1)	(83)
Operating income	**$ 285.8**	$ 1,296.0	$ (1,010.2)	(78)	**$ 504.2**	$ 2,045.0	$ (1,540.8)	(75)
Net income	**$ 187.1**	$ 905.1	$ (718.0)	(79)	**$ 495.4**	$ 1,471.1	$ (975.7)	(66)
Net income per share basic	**$ 0.63**	$ 2.91	$ (2.28)	(78)	**$ 1.68**	$ 4.70	$ (3.02)	(64)
Net income per share diluted	**$ 0.62**	$ 2.82	$ (2.20)	(78)	**$ 1.63**	$ 4.54	$ (2.91)	(64)

Second-quarter earnings of $187.1 million were 79 percent lower than the same quarter in 2008 as fertilizer and industrial demand for potash and phosphate products were weak and pricing for phosphate and nitrogen products were significantly lower. Earnings per share of $0.62 in the second quarter reflected strong potash pricing and a gain on disposal of auction rate securities. Earnings for the first six months of 2009 were $495.4 million ($1.63 per share), 66 percent lower than the record $1,471.1 million ($4.54 per share) earned in the first half of last year. Second-quarter gross margin was $170.6 million compared to $1,437.3 million in the same period last year, with 62 percent of the current total generated by potash. For the six months ended June 30, 2009, gross margin of $400.2 million fell 83 percent compared to $2,293.3 million in the first six months of 2008, with potash comprising 68 percent of the current total.

Fertilizer buyers continued to be extremely cautious in the wake of the global economic downturn, creating an unprecedented decline in potash and phosphate sales volumes and phosphate and nitrogen prices. Potash buyers continued to operate conservatively during the second quarter, carefully managing cash in a tough economy and waiting for price definition. With dealers and farmers globally continuing to work through inventories and reducing applications during the quarter, potash prices moved lower but avoided the significant declines seen in phosphate and nitrogen. While contract negotiations were not settled with India and China by June 30, 2009, customers in Brazil began purchasing towards the end of the quarter to replenish largely depleted inventories in advance of their key planting season. In North America, estimated potash applications for the fertilizer year (July 2008 to June 2009) declined by the largest amount on record, down approximately 40 percent on a year-over-year basis. Shipments from North American producers fell 73 percent compared to the same quarter last year and 53 percent for the fertilizer year, leaving US dealer inventories at very low levels heading into the fall application season. In phosphate, US producer solid fertilizer sales to US customers declined 27 percent compared to the second quarter of 2008. For the fertilizer year, sales declined 38 percent and application rates were down approximately 30 percent. With strong demand from India and renewed interest in Brazil near the end of the quarter, offshore sales from US producers rose 30 percent compared to the same quarter last year. In nitrogen, US sales volume and prices declined as a result of weak industrial demand and liquidation of inventories by customers.

Selling and administrative expenses were $26.3 million lower than in the same quarter last year and $30.1 million lower than the first half of 2008 due to: (1) lower accruals for our short-term incentive plan, as a result of our financial performance being below budget; (2) lower stock option expense; and (3) the price of our common shares not increasing as much during the second quarter and first half of 2009 compared to 2008, causing the expense associated with our deferred share units to decrease. Provincial mining and other taxes declined $181.1 million quarter over quarter and $247.5 million year over year as a result of anticipated lower potash margins and decreased sales tonnes compared to the same period last year. Foreign exchange losses increased quarter over quarter from $1.9 million to $37.9 million and changed from a gain of $25.8 million in the six months ended June 30, 2008 to a loss of $7.7 million in the same period for 2009 due to treasury losses and a stronger Canadian dollar, both of which were slightly offset by a recovery in foreign exchange related to a functional currency tax election during the second quarter of 2009. Interest expense of $26.5 million in the second quarter and $49.7 million for the first half of 2009 was almost two times higher than the same periods in 2008 due to higher debt levels. Other income increased $85.1 million quarter over quarter and $108.2 million year over year due to a $115.3 million gain on disposal of previously written down auction rate securities. This increase was partially offset by a decrease in equity earnings from investments in Arab Potash Company Ltd. (APC) and Sociedad Quimica y Minera de Chile (SQM) of $30.5 million for the quarter and $16.0 million for the first half, respectively, compared to 2008. Dividends from Sinofert Holdings Limited (Sinofert) and Israel Chemicals Limited (ICL) contributed $40.4 million, in total, to other income for the three and six months ended June 30, 2009 compared to $33.7 million for the same periods in 2008. Other income for the first half of 2008 included a $43.8 million provision for other-than-temporary impairment of auction rate securities, which was partially offset by a $25.3 million gain on the Sinofert forward share purchase contract.

Our effective tax rate for the three months and six months ended June 30, 2009 was 28 percent (2008 29 percent) and negative 9 percent (2008 27 percent), respectively. Compared to the same periods in 2008, the income tax provision for the second quarter was down $303.0 million and $587.9 million for the first six months as a result of significantly lower earnings compared to record earnings in 2008, a reduction in our effective tax rate applicable to ordinary earnings due to a lower proportion of earnings from the higher-tax jurisdictions and discrete items recognized. In 2009, a future income tax recovery of $119.2 million resulted from an internal restructuring in the first quarter while a functional currency election made during the second quarter increased the future income tax provision by $24.4 million. In 2008, an income tax recovery of $42.0 million, related to an increase in permanent deductions in the US, and a non-taxable $25.3 million gain on the fair value of the forward purchase contract for shares in Sinofert both occurred in the first quarter.

Other comprehensive income of $404.5 million for the second quarter of 2009 fell $565.5 million from the same period last year due to our combined investments in ICL and Sinofert contributing $456.7 million less than last year and $138.2 million lower natural gas hedging gains as a result of declining natural gas prices. Other comprehensive income fell $717.5 million year over year due to ICL and Sinofert contributing $532.0 million less and a $227.5 million negative change in the value of our natural gas derivatives.

Balance Sheet

Total assets were $11,264.5 million at June 30, 2009, an increase of $1,015.7 million or 10 percent over December 31, 2008. Total liabilities increased $105.7 million from December 31, 2008 to $5,765.6 million at June 30, 2009, and total shareholders equity increased by $910.0 million during the same period to $5,498.9 million.

Property, plant and equipment and investments were the largest contributors to the increase in assets during the first six months of 2009. Additions to property, plant and equipment were $765.7 million ($536.8 million, or 70 percent, related to the potash segment). Investments increased $422.4 million mainly due to the fair value of our investments in ICL and Sinofert increasing $428.2 million and $35.9 million, respectively, while our investments in SQM and APC declined $24.4 million as dividends received exceeded our share of earnings during the first six months of 2009. Investments in auction rate securities declined $17.2 million as the company settled an arbitration proceeding instituted against an investment firm that purchased the auction rate securities without our approval. In exchange for transferring the securities to the investment firm, we received $132.5 million in cash plus $3.0 million to cover legal costs. We also retained all interest paid and accrued on those securities through the date of the transfer of the securities to the investment firm.

Accounts receivable decreased $191.0 million or 16 percent compared to December 31, 2008, largely as a result of sales declining 47 percent in the month of June 2009 compared to December 2008. Our collection effectiveness index (the industry measure for assessing collection effectiveness) ranged between 90 percent and 99 percent per month in the first half of 2009. The reduction in trade accounts receivable was partially offset by income taxes receivable which resulted from an over-instalment position due to our downward revised expectations for annual earnings. During the first six months of 2009 potash inventories increased $94.1 million while phosphate inventories decreased $111.5 million and nitrogen inventories decreased $39.1 million, resulting in a $658.4 million inventory balance at June 30, 2009 as compared to $714.9 million at December 31, 2008. Inventory quantities for potash increased due to production outpacing demand, while phosphate and nitrogen inventory quantities decreased due to demand for product outpacing reduced operating rates. Inventory values also declined due to lower input costs.

Liabilities increased as a result of the settlement of the issuance of $1,000.0 million in new senior notes in May, offset by a net reduction in outstanding commercial paper and credit facilities borrowings of $245.8 million as proceeds from the senior notes issuance were used to repay these borrowings and for general corporate purposes, and a $592.9 million decrease in accounts payable and accrued charges. The primary reasons accounts payable and accrued charges declined were: (1) income taxes payable decreased $468.7 million as a result of payments made during the first six months of 2009 and significantly lower earnings compared to 2008; (2) $77.4 million lower accrued payroll due to lower incentives and stock-based compensation accruals; and (3) accrued provincial mining taxes declined $43.5 million due to significantly reduced demand and forecasted lower potash margins. Liabilities were further reduced by a $24.4 million reduction in the future income tax liability compared to December 31, 2008, which was primarily due to a restructuring of one of our investment holdings during the first quarter of 2009 offset, in part, by a functional currency tax election made during the second quarter of 2009 and future taxes applicable to earnings in the current year.

Share capital, contributed surplus, accumulated other comprehensive income (AOCI) and retained earnings all increased at June 30, 2009 compared to December 31, 2008. AOCI increased $441.5 million as a result of a $437.6 million increase in unrealized gains on available-for-sale securities (primarily the company s investment in ICL which increased $428.2 million and Sinofert which increased $35.9 million, offset in part by a future income tax liability increase of $26.5 million). Net income of $495.4 million for the first six months of 2009 increased retained earnings while dividends declared of $59.2 million reduced the balance, for a net increase in retained earnings of $436.2 million at June 30, 2009 compared to December 31, 2008.

Business Segment Review

Note 8 to the unaudited interim condensed consolidated financial statements provides information pertaining to our business segments. Management includes net sales in segment disclosures in the consolidated financial statements pursuant to Canadian GAAP, which requires segmentation based upon our internal organization and reporting of revenue and profit measures derived from internal accounting methods. Net sales (and the related per-tonne amounts) are 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.

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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 June 30								
	Dollars (millions)			Tonnes (thousands)			Average Price per Tonne[1]		
	2009	2008	% Change	**2009**	2008	% Change	**2009**	2008	% Change
Sales	**$ 210.7**	$ 1,194.5	(82)						
Freight	**10.6**	60.3	(82)						
Transportation and distribution	**11.6**	13.9	(17)						
Net sales	**$ 188.5**	$ 1,120.3	(83)						
Manufactured product									
Net sales									
North American	**$ 115.1**	$ 437.5	(74)	**200**	1,086	(82)	**$ 576.29**	$ 403.03	43
Offshore	**71.2**	680.8	(90)	**194**	1,633	(88)	**$ 366.70**	$ 416.93	(12)
	186.3	1,118.3	(83)	**394**	2,719	(86)	**$ 473.05**	$ 411.38	15
Cost of goods sold	**78.7**	232.4	(66)				**$ 199.95**	$ 85.56	134
Gross margin	**107.6**	885.9	(88)				**$ 273.10**	$ 325.82	(16)
Other miscellaneous and purchased product									
Net sales	**2.2**	2.0	10						
Cost of goods sold	**3.6**	1.5	140						
Gross margin	**(1.4)**	0.5	n/m						
Gross Margin	**$ 106.2**	$ 886.4	(88)				**$ 269.54**	$ 326.00	(17)

	Six Months Ended June 30								
	Dollars (millions)			Tonnes (thousands)			Average Price per Tonne[1]		
	2009	**2008**	**% Change**	**2009**	**2008**	**% Change**	**2009**	**2008**	**% Change**
Sales	**$ 479.9**	$ 1,990.7	(76)						
Freight	**17.3**	115.6	(85)						
Transportation and distribution	**15.2**	25.3	(40)						
Net sales	**$ 447.4**	$ 1,849.8	(76)						
Manufactured product									
Net sales									
North American	**$ 200.5**	$ 729.1	(73)	**333**	2,053	(84)	**$ 601.75**	$ 355.12	69
Offshore	**239.2**	1,112.8	(79)	**535**	3,202	(83)	**$ 447.19**	$ 347.56	29
	439.7	1,841.9	(76)	**868**	5,255	(83)	**$ 506.54**	$ 350.51	45
Cost of goods sold	**167.2**	444.1	(62)				**$ 192.60**	$ 84.52	128
Gross margin	**272.5**	1,397.8	(81)				**$ 313.94**	$ 265.99	18
Other miscellaneous and purchased product									
Net sales	**7.7**	7.9	(3)						
Cost of goods sold	**7.4**	4.7	57						
Gross margin	**0.3**	3.2	(91)						
Gross Margin	**$ 272.8**	$ 1,401.0	(81)				**$ 314.29**	$ 266.60	18

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

n/m = not meaningful

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Highlights

Gross margin down $780.2 million for the quarter and $1,128.2 million for the first half of 2009 compared to same periods in 2008.

Increased North American realized sales prices year over year reflect price increases introduced in 2008. Lower realized offshore prices quarter over quarter were indicative of levels recently established in the export market.

Net sales down $931.8 million for the quarter, $1,402.4 million for the first half of 2009, compared to same periods in 2008, due to reduced sales volumes. Sales volumes down 86 percent for the quarter, 83 percent for the first half, due to major markets destocking inventories.

Inventories up 1,375,000 tonnes from second-quarter 2008, 281,000 tonnes from March 31, 2009, due to lower demand (partially offset by production curtailments).

Cost of goods sold per-tonne increased $114 per tonne quarter over quarter, $108 per tonne year over year, due to production shutdown costs and brine inflow costs being allocated over fewer tonnes and higher royalties as a result of a higher potash sales price. The impact of a weaker Canadian dollar relative to the US dollar positively impacted cost of goods sold for both the second quarter and first half of 2009 compared to the same periods in 2008.

Manufactured potash gross margin variance attributable to:

Dollars (millions)	**Three Months Ended June 30 2009 vs. 2008**				**Six Months Ended June 30 2009 vs. 2008**			
		Change in Prices/Costs				**Change in Prices/Costs**		
	Change in Sales Volumes	**Net Sales**	**Cost of Goods Sold**	**Total**	**Change in Sales Volumes**	**Net Sales**	**Cost of Goods Sold**	**Total**
Manufactured product								
North American	$ (313.5)	$ 37.0	$ (2.3)	$ (278.8)	$ (521.4)	$ 82.2	$ 3.6	$ (435.6)
Offshore	(505.7)	(20.9)	27.2	(499.4)	(779.0)	53.3	36.1	(689.6)
Change in market mix	(1.4)	1.3	-	(0.1)	(0.1)	-	-	(0.1)
Total manufactured product	$ (820.6)	$ 17.4	$ 24.9	$ (778.3)	$ (1,300.5)	$ 135.5	$ 39.7	$ (1,125.3)
Other miscellaneous and purchased product				(1.9)				(2.9)
Total				$ (780.2)				$ (1,128.2)

Sales and Cost of Goods Sold

The most significant contributors to the $780.2 million decrease in total gross margin quarter over quarter were as follows:

Despite limited product movement, our average realized potash price was 15 percent higher than second-quarter 2008 levels; however, such prices dropped 11 percent from the previous quarter principally due to activity in the export markets. Offshore realized prices were below those of the trailing quarter as market pricing recalibrated to lower levels. Prices for most product shipped by PotashCorp to Canpotex Limited (Canpotex , the offshore marketing company for Saskatchewan potash producers) in the latter half of the quarter were adjusted to levels commensurate with those recently established in the offshore market. Offshore realized prices for the quarter were also affected by the allocation of transportation and distribution fixed costs over fewer sales tonnes. North American realized prices increased $173 per tonne due to price increases introduced in the second and third quarters of 2008. Realized North American prices declined $64 per tonne from the trailing quarter due to weaker demand.

Sales volumes were down 86 percent as buyers continued to operate with caution, carefully managing cash in a difficult economy and waiting to regain confidence in pricing levels. Offshore sales volumes fell

88 percent as customers worldwide destocked inventories. Canpotex did not settle its annual price contracts with China and India by the end of the second quarter, whereas last year both contracts were settled by the second quarter. Canpotex only shipped 21,000 tonnes to China during the second quarter of 2009, down 86 percent from the same period last year. India received 20,000 tonnes from Canpotex in the quarter, a decrease of 94 percent. Canpotex shipments to Brazil were 86,000 tonnes, down 87 percent as that country cautiously began purchasing to replenish largely depleted inventories in advance of their key planting season. The 223,000 tonnes sent to Indonesia, Malaysia, Taiwan and Thailand in 2009 was 73 percent below last year, as customers there worked through inventories. In North America, sales to our customers declined 82 percent as the decision by a large proportion of farmers to defer application resulted in an approximately 40 percent reduction in potash applications for the current crop year. Volumes were further impacted by uncertainty about planting decisions and weather delays. As a result, dealers continued to manage purchases carefully, buying only as much as needed so they could end the spring season with limited inventories.

As a result of our long-held strategy of matching production with market demand, production levels were down 74 percent as shutdown weeks increased from 2 in 2008 to 50 weeks in 2009. Cost of goods sold per tonne increased $114 per tonne as fixed costs were allocated over fewer tonnes sold. The impact of higher potash royalty rates ($8 per tonne) as a result of higher potash prices negatively impacted the price variance in cost of goods sold by $3.1 million. The weaker Canadian dollar relative to the US dollar positively impacted cost of goods sold by $13.1 million. The price variance in offshore cost of goods sold was more favorable than North America due to brine inflow management costs at New Brunswick decreasing $15.6 million as surface drilling equipment was temporarily idled since further grouting from surface is not considered necessary, in the near term, to control the water inflow rate. The price variance for North America cost of goods sold was negative due to industrial products, which cost more to produce, comprising a larger proportion of sales.

Quarterly potash gross margin for the first half of 2009 and 2008 was as follows:

The most significant contributors to the $1,128.2 million decrease in total gross margin year over year were as follows:

Offshore prices rose 29 percent due to announced price increases in Brazil, India, China and Southeast Asia in 2008 being realized for a portion of 2009. With dealers and farmers globally continuing to work through inventories or reduce applications, potash prices moved lower during the second quarter of 2009, but avoided the significant decline seen in phosphate and nitrogen. In North America, realized prices climbed $247 per tonne as price increases implemented in 2008 largely carried over to 2009. Prices in the North American market were affected by the higher than historic, and higher than offshore, proportion of industrial volumes relative to fertilizer.

Sales were limited in the first half of 2009 as agreements for 2009 shipments to India and China were not reached by June 30, 2009. Sales volumes in both North American and offshore markets remained weak due to market uncertainty over potash pricing. India, Canpotex s largest customer to date, took 263,000 tonnes in 2009 compared to nearly 700,000 tonnes in the first six months of 2008. Canpotex s shipments to China were 169,000 tonnes in 2009 compared to 324,000 tonnes in the first six months of 2008. Brazil took 86,000 tonnes compared to 1,284,000 tonnes in the first six months of 2008 when that country was Canpotex s largest customer.

Production levels were down 66 percent as a result of 89 shutdown weeks compared to 2 shutdown weeks last year. All per tonne costs were amplified by the fact that there were fewer production tonnes over which to allocate the costs. The impact of a weaker Canadian dollar relative to the US dollar positively impacted cost of goods sold by $29.2 million. Potash royalties increased cost of goods sold by $7.0 million as potash prices increased. Brine inflow management costs at New Brunswick decreased $23.3 million as a result of stable brine inflow rates. Since the costs of brine inflow were attributed to production of potash that was mainly sold in the offshore market, the positive price component of the cost of goods sold variance was higher for the offshore market than for North America.

Phosphate

	Three Months Ended June 30								
	Dollars (millions)			Tonnes (thousands)			Average Price per Tonne[1]		
	2009	**2008**	**% Change**	**2009**	**2008**	**% Change**	**2009**	**2008**	**% Change**
Sales	**$ 324.7**	$ 782.0	(58)						
Freight	**15.8**	29.8	(47)						
Transportation and distribution	**12.5**	8.4	49						
Net sales	**$ 296.4**	$ 743.8	(60)						
Manufactured product									
Net sales									
Fertilizer liquids	**$ 43.6**	$ 128.8	(66)	**177**	190	(7)	**$ 246.54**	$ 679.76	(64)
Fertilizer solids	**80.3**	355.0	(77)	**273**	370	(26)	**$ 294.11**	$ 960.63	(69)
Feed	**72.2**	139.9	(48)	**139**	183	(24)	**$ 517.47**	$ 762.31	(32)
Industrial	**96.2**	105.2	(9)	**134**	166	(19)	**$ 717.46**	$ 633.50	13
	292.3	728.9	(60)	**723**	909	(20)	**$ 403.96**	$ 802.20	(50)
Cost of goods sold	**274.7**	391.8	(30)				**$ 379.62**	$ 431.35	(12)
Gross margin	**17.6**	337.1	(95)				**$ 24.34**	$ 370.85	(93)

Other miscellaneous and purchased product											
Net sales		**4.1**		14.9	(72)						
Cost of goods sold		**1.2**		11.1	(89)						
Gross margin		**2.9**		3.8	(24)						
Gross Margin	**$**	**20.5**	$	340.9	(94)		**$**	**28.35**	$	375.03	(92)

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	Six Months Ended June 30								
	Dollars (millions)			Tonnes (thousands)			Average Price per Tonne[1]		
	2009	2008	% Change	2009	2008	% Change	2009	2008	% Change
Sales	**$ 654.6**	$ 1,295.2	(49)						
Freight	**34.0**	61.9	(45)						
Transportation and distribution	**20.9**	16.4	27						
Net sales	**$ 599.7**	$ 1,216.9	(51)						
Manufactured product									
Net sales									
Fertilizer liquids	**$ 87.7**	$ 223.7	(61)	**273**	449	(39)	**$ 320.94**	$ 498.44	(36)
Fertilizer solids	**172.9**	531.3	(67)	**543**	637	(15)	**$ 318.29**	$ 834.31	(62)
Feed	**140.7**	235.4	(40)	**253**	397	(36)	**$ 556.03**	$ 592.62	(6)
Industrial	**190.8**	196.4	(3)	**250**	358	(30)	**$ 763.81**	$ 548.48	39
	592.1	1,186.8	(50)	**1,319**	1,841	(28)	**$ 448.79**	$ 644.67	(30)
Cost of goods sold	**567.2**	696.4	(19)				**$ 429.91**	$ 378.29	14
Gross margin	**24.9**	490.4	(95)				**$ 18.88**	$ 266.38	(93)
Other miscellaneous and purchased product									
Net sales	**7.6**	30.1	(75)						
Cost of goods sold	**3.2**	23.6	(86)						
Gross margin	**4.4**	6.5	(32)						
Gross Margin	**$ 29.3**	$ 496.9	(94)				**$ 22.21**	$ 269.91	(92)

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

Highlights

Gross margin down $320.4 million quarter over quarter, $467.6 million year over year. Manufactured gross margin for second-quarter 2009 comprised of: industrial $40.9 million, liquid fertilizer $2.5 million, feed $(0.6) million and solid fertilizer $(25.2) million. Manufactured gross margin for first six months of 2009 comprised of: industrial $76.1 million, liquid fertilizer $5.5 million, feed $(1.0) million and solid fertilizer $(55.7) million.

Average realized sales price fell 50 percent quarter over quarter, 30 percent year over year, as a result of price weakness in all product usages except industrial.

Volumes for all manufactured products declined, as customers exercised caution in the midst of economic uncertainty and drew down their own inventories while seeking market stability.

Manufactured cost of goods sold declined $117.1 million from last year s second quarter, $129.2 million from first half of 2008, as a result of curtailed production and lower sulfur costs. Manufactured cost of goods sold per tonne decreased quarter over quarter as a result of lower sulfur and ammonia input costs and increased year over year due to fixed costs being allocated over fewer tonnes.

Curtailed production offset a decline in sales volumes and resulted in finished product inventories increasing slightly from 204,000 tonnes at June 30, 2008 to 206,000 tonnes at June 30, 2009. Inventories at the end of the second quarter increased from 186,000 tonnes at March 31, 2009 due to sales volumes falling further than second quarter production curtailments.

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Manufactured phosphate gross margin variance attributable to:

Dollars (millions)	Three Months Ended June 30 2009 vs. 2008				Six Months Ended June 30 2009 vs. 2008			
		Change in Prices/Costs				Change in Prices/Costs		
	Change in Sales Volumes	Net Sales	Cost of Goods Sold	Total	Change in Sales Volumes	Net Sales	Cost of Goods Sold	Total
Manufactured product								
Fertilizer liquids	$ (22.2)	$ (57.3)	$ 27.0	$ (52.5)	$ (47.2)	$ (48.5)	$ 26.3	$ (69.4)
Fertilizer solids	(57.3)	(194.7)	36.9	(215.1)	(56.6)	(280.3)	6.0	(330.9)
Feed	(19.8)	(27.1)	(23.5)	(70.4)	(42.5)	(9.3)	(51.0)	(102.8)
Industrial	(12.6)	14.2	19.9	21.5	(32.0)	53.8	19.4	41.2
Change in product mix	0.9	(0.7)	(3.2)	(3.0)	(25.8)	25.9	(3.7)	(3.6)
Total manufactured product	$ (111.0)	$ (265.6)	$ 57.1	$ (319.5)	$ (204.1)	$ (258.4)	$ (3.0)	$ (465.5)
Other miscellaneous and purchased product				(0.9)				(2.1)
Total				$ (320.4)				$ (467.6)

Sales and Cost of Goods Sold

Quarter over quarter total gross margin declined $320.4 million, largely as a result of the following:

Realized prices for solid fertilizer, liquid fertilizer and feed products decreased, reflecting weaker market conditions and markedly lower prices for raw material inputs. Industrial prices rose 13 percent as some of these products are sold to customers pursuant to contracts that contain cost-plus or market index provisions that lag current market conditions.

Fertilizer sales volumes fell due to customer uncertainty about planting decisions, weather delays, lack of pricing direction and the economy. North American solid and liquid fertilizer dealers carefully managed purchases, buying only as much as needed so they could end the spring season with low stocks. Total feed sales volumes declined 24 percent caused by weakening economics for beef, pork and poultry producers in the US, lower offshore demand and the use of cheaper feed phosphate sources as a substitute. Industrial sales volumes were down 19 percent due to reduced demand in the US associated with the poor economic conditions.

Manufactured cost of goods sold per-tonne decreased 12 percent mainly due to lower costs of sulfur and ammonia. Sulfur costs were down 55 percent and positively impacted the change in gross margin by

$71.2 million while ammonia prices that were down 18 percent positively impacted the gross margin change (particularly, solid fertilizers) by $6.3 million. All product lines benefited from lower sulfur costs but feed had a negative price variance due to the absorption of a higher portion of fixed costs at our facility in White Springs, Florida and write-downs of finished product due to cost exceeding net realizable value.

Quarterly phosphate gross margin for the first half of 2009 and 2008 was as follows:

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The most significant contributors to the $467.6 million decrease in total gross margin year over year were as follows:

All major phosphate product prices, except industrial, decreased due to lower demand and input costs throughout 2009. Industrial prices increased as a result of certain contracts based on prior year input costs which were significantly higher in 2008.

Solid fertilizer sales volumes fell 15 percent due to demand deferral caused by pricing uncertainty and the decision by customers to work through existing inventory levels. Liquid fertilizer sales volumes decreased 39 percent due to decreased demand in the US. Demand for feed product declined 36 percent due to weak economics for beef, pork and poultry and increased use of substitutes. Industrial sales volume fell 30 percent due to a slow down in demand for purified phosphoric acid used for food (e.g., soft drinks, vegetable oils, salad dressings, etc.) and other commercial purposes (e.g., fire retardants, metal finishing, aluminum brightening, etc.).

The increase in cost of goods sold per tonne was the result of fixed costs being allocated over fewer tonnes due to reduced operating rates at both our White Springs, Florida and Aurora, North Carolina operations. The price variance in cost of goods sold was flat despite lower sulfur costs ($37.0 million) and lower ammonia costs ($2.2 million), due to write-downs of finished product to net realizable value. All product lines benefited from lower sulfur costs but feed had a negative price variance due to a higher allocation of fixed costs (as a result of liquid fertilizer production volumes falling significantly and feed being the highest volume product at our White Springs, Florida plant which was shuttered for a significant portion of 2009 through June 30, 2009) and write-downs of finished product to net realizable value.

Significant sales volume declines in industrial and feed (for which prices are higher than fertilizers) coupled with significant price increases in industrial and only slightly lower feed prices, caused the change in market mix to produce an unfavorable variance of $25.8 million related to sales volumes and a favorable variance of $25.9 million in sales price.

Nitrogen

	Three Months Ended June 30								
	Dollars (millions)			**Tonnes (thousands)**			**Average Price per Tonne(1)**		
	2009	**2008**	**% Change**	**2009**	**2008**	**% Change**	**2009**	**2008**	**% Change**
Sales	**$ 320.6**	$ 644.5	(50)						
Freight	**12.5**	13.3	(6)						
Transportation and distribution	**13.6**	11.0	24						
Net sales	**$ 294.5**	$ 620.2	(53)						
Manufactured product									

Net sales									
Ammonia	**$ 123.9**	$ 238.0	(48)	**450**	432	4	**$ 275.07**	$ 551.09	(50)
Urea	**92.9**	177.0	(48)	**330**	330	-	**$ 281.30**	$ 536.09	(48)
Nitrogen solutions/Nitric acid/Ammonium nitrate	**69.2**	145.6	(52)	**418**	512	(18)	**$ 165.64**	$ 284.38	(42)
	286.0	560.6	(49)	**1,198**	1,274	(6)	**$ 238.67**	$ 440.04	(46)
Cost of goods sold	**242.0**	355.4	(32)				**$ 201.94**	$ 278.97	(28)
Gross margin	**44.0**	205.2	(79)				**$ 36.73**	$ 161.07	(77)
Other miscellaneous and purchased product									
Net sales	**8.5**	59.6	(86)						
Cost of goods sold	**8.6**	54.8	(84)						
Gross margin	**(0.1)**	4.8	n/m						
Gross Margin	**$ 43.9**	$ 210.0	(79)				**$ 36.64**	$ 164.84	(78)

	Six Months Ended June 30								
	Dollars (millions)			Tonnes (thousands)			Average Price per Tonne[(1)]		
	2009	**2008**	**% Change**	**2009**	**2008**	**% Change**	**2009**	**2008**	**% Change**
Sales	**$ 644.0**	$ 1,225.7	(47)						
Freight	**25.2**	28.3	(11)						
Transportation and distribution	**28.6**	23.9	20						
Net sales	**$ 590.2**	$ 1,173.5	(50)						
Manufactured product									
Net sales									
Ammonia	**$ 214.8**	$ 478.6	(55)	**929**	906	3	**$ 231.10**	$ 528.24	(56)
Urea	**214.5**	308.9	(31)	**725**	627	16	**$ 295.89**	$ 492.88	(40)
Nitrogen solutions/Nitric acid/Ammonium nitrate	**142.2**	276.3	(49)	**804**	1,067	(25)	**$ 177.01**	$ 258.87	(32)
	571.5	1,063.8	(46)						