

POTASH CORP OF SASKATCHEWAN INC
Form 10-Q
May 07, 2010

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2010

OR

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

Commission File Number 1-10351

POTASH CORPORATION OF SASKATCHEWAN INC.

(Exact name of registrant as specified in its charter)

Canada

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

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

N/A

*(I.R.S. Employer
Identification No.)*

S7K 7G3
(Zip Code)

306-933-8500

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

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

YES NO

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

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

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

YES NO

As at April 30, 2010, Potash Corporation of Saskatchewan Inc. had 296,290,250 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)**

	March 31, 2010	December 31, 2009⁽¹⁾
Assets		
Current assets		
Cash and cash equivalents	\$ 298.8	\$ 385.4
Receivables (Note 2)	1,053.0	1,137.9
Inventories (Note 3)	576.5	623.5
Prepaid expenses and other current assets	134.2	124.9

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	2,062.5	2,271.7
Property, plant and equipment	6,729.2	6,413.3
Investments	4,332.6	3,760.3
Other assets	362.9	359.9
Intangible assets	19.8	20.0
Goodwill	97.0	97.0
	\$ 13,604.0	\$ 12,922.2
Liabilities		
Current liabilities		
Short-term debt and current portion of long-term debt	\$ 764.0	\$ 728.8
Payables and accrued charges	823.8	796.8
Current portion of derivative instrument liabilities	86.6	51.8
	1,674.4	1,577.4
Long-term debt (Note 4)	3,320.1	3,319.3
Derivative instrument liabilities	159.7	123.2
Future income tax liability	988.5	962.4
Accrued pension and other post-retirement benefits	287.1	280.8
Accrued environmental costs and asset retirement obligations	215.9	215.1
Other non-current liabilities and deferred credits	6.0	4.2
	6,651.7	6,482.4
Contingencies and Guarantees (Notes 14 and 15, respectively)		
Shareholders' Equity		
Share capital	1,443.5	1,430.3
Unlimited authorization of common shares without par value; issued and outstanding 296,287,750 and 295,975,550 at March 31, 2010 and December 31, 2009, respectively		
Unlimited authorization of first preferred shares; none outstanding		
Contributed surplus	148.6	149.5
Accumulated other comprehensive income	1,729.5	1,648.8
Retained earnings	3,630.7	3,211.2
	6,952.3	6,439.8
	\$ 13,604.0	\$ 12,922.2

(1) Corrected as described in Note 17

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	
	March 31	
	2010	2009⁽¹⁾
Sales (Note 6)	\$ 1,713.6	\$ 922.5
Less: Freight	105.2	37.6
Transportation and distribution	49.9	27.0
Cost of goods sold	843.4	629.8
 Gross Margin	 715.1	 228.1
 Selling and administrative	 49.5	43.4
Provincial mining and other taxes	22.5	33.0
Foreign exchange loss (gain)	9.2	(30.2)
Other income (Note 8)	(28.2)	(35.0)
	53.0	11.2
 Operating Income	 662.1	216.9
Interest Expense (Note 9)	30.5	23.2
 Income Before Income Taxes	 631.6	193.7
Income Taxes (Note 10)	182.4	(113.7)
 Net Income	 449.2	307.4
Retained Earnings, Beginning of Period	3,211.2	2,348.5
Dividends	(29.7)	(29.6)
 Retained Earnings, End of Period	 \$ 3,630.7	 \$ 2,626.3
 Net Income Per Share (Note 11)		
Basic	\$ 1.52	\$ 1.04
Diluted	\$ 1.47	\$ 1.01

Dividends Per Share	\$ 0.10	\$ 0.10
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⁽¹⁾ Corrected as described in Note 17

(See Notes to the Condensed Consolidated Financial Statements)

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

	Three Months Ended	
	March 31	
	2010	2009⁽¹⁾
Operating Activities		
Net income	\$ 449.2	\$ 307.4
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	101.1	74.0
Stock-based compensation	2.3	2.5
Loss on disposal of property, plant and equipment	-	0.5
Foreign exchange on future income tax	2.1	(13.8)
Provision for (recovery of) future income tax	37.1	(117.1)
Undistributed earnings of equity investees	(26.2)	(37.9)
Derivative instruments	3.3	(45.3)
Other long-term liabilities	19.0	12.6
Subtotal of adjustments	138.7	(124.5)
Changes in non-cash operating working capital		
Receivables	84.9	137.4
Inventories	42.3	60.6
Prepaid expenses and other current assets	(9.2)	(26.8)
Payables and accrued charges	82.6	(255.4)
Subtotal of changes in non-cash operating working capital	200.6	(84.2)
Cash provided by operating activities	788.5	98.7
Investing Activities		
Additions to property, plant and equipment	(453.0)	(366.1)
Purchase of long-term investments	(422.3)	-
Proceeds from disposal of property, plant and equipment	0.1	0.3
Other assets and intangible assets	(15.4)	(11.2)

Cash used in investing activities	(890.6)	(377.0)
Cash before financing activities	(102.1)	(278.3)
Financing Activities		
Proceeds from long-term debt obligations	400.0	760.0
Repayment of and finance costs on long-term debt obligations	(150.0)	(690.4)
(Repayments of) proceeds from short-term debt obligations	(214.8)	215.1
Dividends	(29.7)	(29.7)
Issuance of common shares	10.0	1.6
Cash provided by financing activities	15.5	256.6
Decrease in Cash and Cash Equivalents	(86.6)	(21.7)
Cash and Cash Equivalents, Beginning of Period	385.4	276.8
Cash and Cash Equivalents, End of Period	\$ 298.8	\$ 255.1
Cash and cash equivalents comprised of:		
Cash	\$ 51.0	\$ 42.7
Short-term investments	247.8	212.4
	\$ 298.8	\$ 255.1
Supplemental cash flow disclosure		
Interest paid	\$ 17.9	\$ 15.5
Income taxes paid	\$ 21.5	\$ 147.2

(1) Corrected as described in Note 17

(See Notes to the Condensed Consolidated Financial Statements)

Potash Corporation of Saskatchewan Inc.

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

(Net of related income taxes)	Three Months Ended	
	March 31	
	2010	2009⁽¹⁾
Net Income	\$ 449.2	\$ 307.4
Other comprehensive income		
Net increase in unrealized gains on available-for-sale securities ⁽²⁾	126.1	73.7
Net losses on derivatives designated as cash flow hedges ⁽³⁾	(53.2)	(45.2)
Reclassification to income of net losses on cash flow hedges ⁽⁴⁾	9.0	8.6
Unrealized foreign exchange losses on translation of self-sustaining foreign operations	(1.2)	(0.1)
Other Comprehensive Income	80.7	37.0
Comprehensive Income	\$ 529.9	\$ 344.4

⁽¹⁾ Corrected as described in Note 17

⁽²⁾ Available-for-sale securities are comprised of shares in Israel Chemicals Ltd. and Sinofert Holdings Limited and investments in auction rate securities, and are net of income taxes of \$NIL (2009 \$26.8)

⁽³⁾ Cash flow hedges are comprised of natural gas derivative instruments, and are net of income taxes of \$(32.2) (2009 \$(27.5))

⁽⁴⁾ Net of income taxes of \$5.5 (2009 \$5.3)

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

(Net of related income taxes)	March 31,	December 31,
	2010	2009⁽¹⁾
Unrealized gains on available-for-sale securities ⁽²⁾	\$ 1,876.5	\$ 1,750.4

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Net unrealized losses on derivatives designated as cash flow hedges ⁽³⁾	(155.6)	(111.4)
Unrealized foreign exchange gains on self-sustaining foreign operations ⁽⁴⁾	8.6	9.8
Accumulated other comprehensive income	1,729.5	1,648.8
Retained earnings	3,630.7	3,211.2
Accumulated Other Comprehensive Income and Retained Earnings	\$ 5,360.2	\$ 4,860.0

(1) Corrected as described in Note 17

(2) \$2,026.8 before income taxes (2009 \$1,900.8)

(3) \$(248.5) before income taxes (2009 \$(177.6))

(4) \$8.6 before income taxes (2009 \$9.8)

(See Notes to the Condensed Consolidated Financial Statements)

Potash Corporation of Saskatchewan Inc.

Notes to the Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2010
(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 16. The accounting policies used in preparing these unaudited interim condensed consolidated financial statements are consistent with those used in the preparation of the 2009 annual consolidated financial statements.

These unaudited interim condensed consolidated financial statements include the accounts of PCS and its subsidiaries; however, they do not include all disclosures normally provided in annual consolidated financial statements and should be read in conjunction with the 2009 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.

Recent Accounting Pronouncements

IFRSs

In April 2008, March 2009 and October 2009, the Canadian Accounting Standards Board (AcSB) published exposure drafts on Adopting IFRSs in Canada . IFRSs have now been incorporated 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. Incorporation of IFRSs into the CICA Accounting Handbook makes possible the early adoption of IFRSs by Canadian entities. Also, in October 2009, the AcSB issued the exposure draft Improvements to IFRSs to incorporate into Canadian GAAP the amendments to IFRSs that result from an exposure draft issued by the International Accounting Standards Board (IASB). The IASB's exposure draft deals with minor amendments and focuses on areas of inconsistency in standards or where clarification of wording is required. It is expected that the amendments will be effective January 1, 2011. The company is currently reviewing the standards to determine the potential impact on its 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. The company is unable to determine the impact of these new standards, since they 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.

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 will be retrospectively applied on January 1, 2011. The company is currently reviewing the standards to determine the impact, if any, on its consolidated financial statements.

2. Receivables

	March 31, 2010	December 31, 2009
Trade accounts Canpotex Limited (Canpotex)	\$ 245.1	\$ 164.3
Other	399.8	264.4
Less allowance for doubtful accounts	(8.4)	(8.4)
	636.5	420.3
Income taxes receivable	190.2	287.4
Margin deposits on derivative instruments	169.8	108.9
Provincial mining and other taxes receivable	-	234.6