

FINANCIAL PERFORMANCE INDICATORS

SUMMARY (in millions of US dollars except share, per-share and tonnage amounts)											
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Net income (loss) ¹	1,103.6	631.8	542.9	298.6	(126.3)	53.6	121.2	198.0	(412.0)	261.0	297.1
Net income (loss) share – diluted	3.40	1.98	1.63	0.90	(0.40)	0.17	0.39	0.63	(1.27)	0.80	0.94
EBITDA ²	1,879.8	1,117.9	1,135.0	754.3	171.8	386.0	455.4	513.8	(161.9)	633.2	612.0
Cash flow prior to working capital changes ³	1,525.3	940.8	860.3	538.3	368.5	289.2	345.8	405.1	319.6	556.2	489.3
Cash provided by operating activities	1,688.9	696.8	865.1	658.3	385.5	316.4	75.7	480.4	343.6	578.0	467.8
Return on assets	11.4%	10.2%	10.1%	5.8%	(2.8%)	1.1%	2.6%	4.8%	(10.5%)	5.8%	6.7%
Cash flow return ⁴	20.4%	14.5%	14.7%	11.1%	2.9%	6.3%	8.5%	10.5%	(3.7%)	12.6%	13.0%
Weighted average cost of capital	10.0%	8.8%	8.3%	8.4%	7.3%	7.3%	7.7%	8.7%	8.7%	8.3%	8.8%
Total shareholder return	201.6%	79.6%	(2.7%)	93.4%	37.5%	5.2%	(20.4%)	64.6%	(23.0%)	(21.9%)	(1.1%)
Total debt to capital	19.2%	40.8%	41.5%	36.4%	42.3%	41.7%	42.1%	31.1%	31.9%	29.5%	35.7%
Net debt to capital ⁵	10.6%	36.4%	39.9%	27.5%	42.2%	41.3%	41.3%	28.7%	30.8%	28.1%	35.5%
RECONCILIATIONS AND CALCULATIONS (in millions of US dollars except share, per-share and tonnage amounts)											
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Net income (loss) ¹	1,103.6	631.8	542.9	298.6	(126.3)	53.6	121.2	198.0	(412.0)	261.0	297.1
Income taxes	416.2	158.1	267.4	131.7	(20.6)	30.2	68.2	67.2	7.5	117.5	69.1
Interest expense	68.7	85.6	82.3	84.0	91.3	83.1	80.3	61.6	51.5	63.8	75.8
Depreciation and amortization	291.3	242.4	242.4	240.0	227.4	219.1	185.7	187.0	191.1	190.9	170.0
EBITDA ²	1,879.8	1,117.9	1,135.0	754.3	171.8	386.0	455.4	513.8	(161.9)	633.2	612.0
5-year CAGR ⁷	37.2%										
10-year CAGR ⁷	11.9%										
Cash flow prior to working capital changes ³	1,525.3	940.8	860.3	538.3	368.5	289.2	345.8	405.1	319.6	556.2	489.3
Accounts receivable	(154.6)	11.0	(107.6)	(51.9)	(39.5)	(11.1)	69.9	(52.2)	33.8	48.8	23.5
Inventories	60.3	13.9	(119.9)	(10.5)	11.8	(18.2)	(76.1)	(27.4)	(16.1)	(7.9)	19.9
Prepaid expenses and other current assets	7.0	0.2	(5.8)	(6.3)	11.4	(3.9)	2.3	(3.1)	3.2	(16.6)	3.7
Accounts payable and accrued charges	250.9	(269.1)	238.1	188.7	33.3	60.4	(266.2)	158.0	3.1	(2.5)	(68.6)
Changes in non-cash operating working capital	163.6	(244.0)	4.8	120.0	17.0	27.2	(270.1)	75.3	24.0	21.8	(21.5)
Cash provided by operating activities	1,688.9	696.8	865.1	658.3	385.5	316.4	75.7	480.4	343.6	578.0	467.8
Net income (loss)	1,103.6	631.8	542.9	298.6	(126.3)	53.6	121.2	198.0	(412.0)	261.0	297.1
Total assets	9,716.6	6,217.0	5,357.9	5,126.8	4,567.3	4,685.6	4,597.3	4,145.7	3,916.8	4,534.3	4,427.6
Return on assets	11.4%	10.2%	10.1%	5.8%	(2.8%)	1.1%	2.6%	4.8%	(10.5%)	5.8%	6.7%
Net income (loss)	1,103.6	631.8	542.9	298.6	(126.3)	53.6	121.2	198.0	(412.0)	261.0	297.1
Income taxes	416.2	158.1	267.4	131.7	(20.6)	30.2	68.2	67.2	7.5	117.5	69.1
Interest expense	68.7	85.6	82.3	84.0	91.3	83.1	80.3	61.6	51.5	63.8	75.8
Current income taxes	(296.6)	(108.1)	(227.3)	(105.4)	–	(24.2)	(20.5)	(32.6)	(14.7)	(19.4)	(34.6)
Depreciation and amortization	291.3	242.4	242.4	240.0	227.4	219.1	185.7	187.0	191.1	190.9	170.0
Cash flow ⁴	1,583.2	1,009.8	907.7	648.9	171.8	361.8	434.9	481.2	(176.6)	613.8	577.4
Total assets	9,716.6	6,217.0	5,357.9	5,126.8	4,567.3	4,685.6	4,597.3	4,145.7	3,916.8	4,534.3	4,427.6
Cash and cash equivalents	(719.5)	(325.7)	(93.9)	(458.9)	(4.7)	(24.5)	(45.3)	(100.0)	(44.0)	(68.0)	(8.8)
Fair value of natural gas hedging derivative assets	(127.6)	–	–	–	–	–	–	–	–	–	–
Accumulated depreciation of property, plant and equipment	2,280.7	2,073.8	1,927.7	1,754.9	1,576.2	1,454.7	1,274.3	1,111.8	951.0	812.4	662.0
Net unrealized gains on available-for-sale securities	(2,284.1)	–	–	–	–	–	–	–	–	–	–
Accumulated amortization of other assets and intangible assets	47.0	72.6	66.4	65.1	70.1	59.1	42.0	38.0	42.0	49.2	17.7
Accumulated amortization of goodwill	7.3	7.3	7.3	7.3	7.3	7.3	7.3	4.3	1.4	27.4	12.7
Accounts payable and accrued charges	(911.7)	(545.2)	(842.7)	(599.9)	(380.3)	(347.0)	(271.4)	(525.9)	(349.1)	(349.7)	(348.1)
Adjusted assets	8,008.7	7,499.8	6,422.7	5,895.3	5,835.9	5,835.2	5,604.2	4,673.9	4,518.1	5,005.6	4,763.1
Average adjusted assets	7,754.3	6,961.3	6,159.0	5,865.6	5,835.6	5,719.7	5,139.1	4,596.0	4,761.9	4,884.4	4,447.0
Cash flow return ⁴	20.4%	14.5%	14.7%	11.1%	2.9%	6.3%	8.5%	10.5%	(3.7%)	12.6%	13.0%

See footnotes on Page 68.

FINANCIAL PERFORMANCE INDICATORS

RECONCILIATIONS AND CALCULATIONS continued (in millions of US dollars except share, per-share and tonnage amounts)											
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Weighted average cost of capital	10.0%	8.8%	8.3%	8.4%	7.3%	7.3%	7.7%	8.7%	8.7%	8.3%	8.8%
End of year closing price (dollars)	143.96	47.83	26.74	27.69	14.41	10.60	10.23	13.05	8.03	10.65	13.83
Beginning of year opening price (dollars)	47.83	26.74	27.69	14.41	10.60	10.23	13.05	8.03	10.65	13.83	14.17
Change in share price (dollars)	96.13	21.09	(0.95)	13.28	3.81	0.37	(2.82)	5.02	(2.62)	(3.18)	(0.34)
Dividends paid per share (dollars)	0.30	0.20	0.20	0.18	0.17	0.17	0.17	0.17	0.17	0.16	0.17
Total shareholder return	201.6%	79.6%	(2.7%)	93.4%	37.5%	5.3%	(20.3%)	64.6%	(23.0%)	(21.8%)	(1.2%)
Short-term debt	90.0	157.9	252.2	93.5	176.2	473.0	501.1	488.8	474.5	94.9	101.9
Current portion of long-term debt	0.2	400.4	1.2	10.3	1.3	3.4	—	5.7	7.4	0.4	2.7
Long-term debt	1,339.4	1,357.1	1,257.6	1,258.6	1,268.6	1,019.9	1,013.7	413.7	437.0	933.3	1,130.0
Total debt	1,429.6	1,915.4	1,511.0	1,362.4	1,446.1	1,496.3	1,514.8	908.2	918.9	1,028.6	1,234.6
Cash and cash equivalents	(719.5)	(325.7)	(93.9)	(458.9)	(4.7)	(24.5)	(45.3)	(100.0)	(44.0)	(68.0)	(8.8)
Net debt ⁵	710.1	1,589.7	1,417.1	903.5	1,441.4	1,471.8	1,469.5	808.2	874.9	960.6	1,225.8
Shareholders' equity	6,018.7	2,780.3	2,132.5	2,385.6	1,973.8	2,092.5	2,086.5	2,012.1	1,962.4	2,453.8	2,227.9
Total debt to capital	19.2%	40.8%	41.5%	36.4%	42.3%	41.7%	42.1%	31.1%	31.9%	29.5%	35.7%
Net debt to capital ⁵	10.6%	36.4%	39.9%	27.5%	42.2%	41.3%	41.3%	28.7%	30.8%	28.1%	35.5%
Current assets	1,811.3	1,310.2	1,110.8	1,243.6	733.9	832.0	819.6	871.7	726.2	774.2	734.5
Current liabilities	(1,001.9)	(1,103.5)	(1,096.1)	(703.7)	(557.8)	(823.4)	(772.5)	(1,020.4)	(831.0)	(445.0)	(452.8)
Working capital	809.4	206.7	14.7	539.9	176.1	8.6	47.1	(148.7)	(104.8)	329.2	281.7
Cash and cash equivalents	(719.5)	(325.7)	(93.9)	(458.9)	(4.7)	(24.5)	(45.3)	(100.0)	(44.0)	(68.0)	(8.8)
Short-term debt	90.0	157.9	252.2	93.5	176.2	473.0	501.1	488.8	474.5	94.9	101.9
Current portion of long-term debt	0.2	400.4	1.2	10.3	1.3	3.4	—	5.7	7.4	0.4	2.7
Non-cash operating working capital	180.1	439.3	174.2	184.8	348.9	460.5	502.9	245.8	333.1	356.5	377.5
Sales	5,234.2	3,766.7	3,847.2	3,244.4	2,799.0	2,224.4	2,380.8	2,542.9	2,355.6	2,607.0	2,620.0
Freight	346.1	255.8	249.7	238.7	234.5	215.2	216.7	222.1	212.5	216.5	226.6
Transportation and distribution	124.1	134.1	121.9	104.3	98.7	80.5	83.3	83.1	77.0	77.9	61.7
Net sales ⁶	4,764.0	3,376.8	3,475.6	2,901.4	2,465.8	1,928.7	2,080.8	2,237.7	2,066.1	2,312.6	2,331.7
Potash net sales											
North American	656.9	470.5	495.6	347.5	230.6	215.3	232.1	237.8	237.4	227.6	210.2
Offshore	909.6	576.0	668.3	504.6	336.2	300.7	293.4	340.9	325.9	317.9	294.0
Miscellaneous and purchased product	13.5	11.7	13.0	42.7	52.3	28.5	6.3	3.4	2.3	2.9	3.8
Total	1,580.0	1,058.2	1,176.9	894.8	619.1	544.5	531.8	582.1	565.6	548.4	508.0
Potash sales (thousands KCl tonnes)											
North American	3,471	2,785	3,144	3,246	2,870	2,780	2,894	2,939	2,871	2,702	3,017
Offshore	5,929	4,411	5,020	5,030	4,213	3,547	3,349	3,973	3,603	3,581	3,623
Total	9,400	7,196	8,164	8,276	7,083	6,327	6,243	6,912	6,474	6,283	6,640
Weighted average shares outstanding											
Basic (thousands)	315,641	311,880	325,704	323,901	313,380	312,126	311,274	314,460	325,380	325,062	313,650
Diluted (thousands)	324,308	318,689	333,234	332,217	313,380	313,896	313,116	316,218	325,380	327,009	316,926

Certain of the prior years' figures have been reclassified to conform with the current year's presentation.

See footnotes on Page 68.

Non-GAAP Financial Measures and Footnotes to Reconciliations and Calculations

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

The following information is included for convenience only. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flows that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles ("GAAP"). EBITDA, adjusted EBITDA, cash flow prior to working capital changes, cash flow, cash flow return, net debt, net debt to capital and consolidated net sales are not measures of financial performance (nor do they have standardized meanings) under either Canadian GAAP or US GAAP. In evaluating these measures, investors should consider that the methodology applied in calculating such measures may differ among companies and analysts.

The company uses both GAAP and certain non-GAAP measures to assess performance. Management believes these non-GAAP measures provide useful supplemental information to investors in order that they may evaluate PotashCorp's financial performance using the same measures as management. Management believes that, as a result, the investor is afforded greater transparency in assessing the financial performance of the company. These non-GAAP financial measures should not be considered as a substitute for, nor superior to, measures of financial performance prepared in accordance with GAAP.

- 1 The after-tax effects of asset impairment, plant shutdown, plant closure and office consolidation charges and the gain on sale of long-term investments are included (as applicable) in the data for 2007, 2006, 2004, 2003, 2000 and 1999 in the amounts of \$18.6, \$4.5, \$(30.8), \$203.2, \$1.5 and \$547.1, respectively.
- 2 PotashCorp uses EBITDA and adjusted EBITDA as supplemental financial measures of its operational performance. Management believes EBITDA and adjusted EBITDA to be important measures as they exclude the effects of items which primarily reflect the impact of long-term investment decisions, rather than the performance of the company's day-to-day operations. As compared to net income (loss) according to GAAP, these measures are limited in that they do not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in the company's business, or the non-cash charges associated with impairments and shutdown-related costs, or gain on sale of long-term investments. Management evaluates such items through other financial measures such as capital expenditures and cash flow provided by operating activities. The company believes that these measurements are useful to measure a company's ability to service debt and to meet other payment obligations or as a valuation measurement.

EBITDA has not been adjusted for the non-cash effects of asset impairment, plant shutdown, plant closure and office consolidation charges, nor the gain on sale of long-term investments. The non-cash effects of these items applicable to 2007, 2006, 2004, 2003, 2000 and 1999 were \$26.5, \$6.3, \$(30.8), \$245.9, \$(5.6) and \$563.7, respectively. Considering the effects of these non-cash items, adjusted EBITDA for 2007, 2006, 2004, 2003, 2000 and 1999 would have been \$1,906.3, \$1,124.2, \$723.5, \$417.7, \$508.2 and \$401.8, respectively.
- 3 Cash flow prior to working capital changes is defined as the cash provided by operating activities, exclusive of changes in non-cash operating working capital. PotashCorp uses cash flow prior to working capital changes as a supplemental financial measure in its evaluation of liquidity. Management believes that adjusting principally for the swings in non-cash working capital items due to seasonality assists management in making long-term liquidity assessments. The company also believes that this measurement is useful as a measure of liquidity or as a valuation measurement.
- 4 PotashCorp uses cash flow and cash flow return as supplemental measures to evaluate the performance of the company's assets in terms of the cash flow they have generated. Calculated on the total cost basis of the company's assets rather than on the depreciated value, these measures reflect cash returned on the total investment outlay. The company believes these measures are one of the best predictors of shareholder value. As such, management believes this information to be useful to investors.

- 5 Management believes that net debt and net-debt-to-capital ratio are useful to investors because they are helpful in determining the company's leverage. It also believes that, since the company has the ability to and may elect to use a portion of cash and cash equivalents to retire debt or to incur additional expenditures without increasing debt, it is appropriate to apply cash and cash equivalents to debt in calculating net debt and net debt to capital. PotashCorp believes that this measurement is useful as a financial leverage measure.
- 6 Management includes net sales in its segment disclosures in the consolidated financial statements pursuant to Canadian GAAP, which requires segmentation based upon the company's internal organization and reporting of revenue and profit measures derived from internal accounting methods. Net sales (and related per-tonne amounts and other ratios) are primary revenue measures it uses and reviews in making decisions about operating matters on a business segment basis. These decisions include assessments about potash, nitrogen and phosphate performance and the resources to be allocated to these segments. It also uses net sales (and related per-tonne amounts and other ratios) for business segment planning and monthly forecasting. Net sales are calculated as sales revenues less freight, transportation and distribution expenses. Net sales presented on a consolidated basis rather than by business segment is considered a non-GAAP financial measure.
- 7 Compound annual growth rate expressed as a percentage.

FINANCIAL TERMS

Adjusted EBITDA = EBITDA + impairment charges + non-cash shutdown / closure-related costs and office consolidation costs – gain on sale of long-term investments

Average adjusted assets = simple average of the current year's adjusted assets and the previous year's adjusted assets, except when a material acquisition occurred, in which case the weighted average rather than the simple average is calculated; the last material acquisition was in 1997

Cash flow = net income or loss + income taxes + interest – current income taxes + depreciation and amortization

Cash flow return = cash flow / average (total assets – cash and cash equivalents + accumulated depreciation and amortization – accounts payable and accrued charges)

Current income taxes = income tax expense (recovery) – provision for (recovery of) future income tax

Debt to capital = total debt / (total debt + total shareholders' equity)

EBITDA = earnings (net income or loss) before interest, taxes, depreciation and amortization

Market value of total capital = market value of total debt – cash and cash equivalents + market value of equity

Net debt to capital = (total debt – cash and cash equivalents) / (total debt – cash and cash equivalents + total shareholders' equity)

Return on assets = net income or loss / total assets

Total shareholder return = (change in market price per common share + dividends per share) / beginning market price per common share

Weighted average cost of capital = simple quarterly average of ((market value of total debt – cash and cash equivalents) / market value of total capital x after-tax cost of debt + market value of equity / market value of total capital x cost of equity)

MANAGEMENT'S RESPONSIBILITY

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management's Report on Financial Statements

The accompanying consolidated financial statements and related financial information are the responsibility of PotashCorp management and have been prepared in accordance with accounting principles generally accepted in Canada and include amounts based on estimates and judgments. Financial information included elsewhere in this report is consistent with the consolidated financial statements.

Our independent registered chartered accountants, Deloitte & Touche LLP, provide an audit of the consolidated financial statements, as reflected in their report for 2007 included on Page 71.

The consolidated financial statements are approved by the Board of Directors on the recommendation of the audit committee.

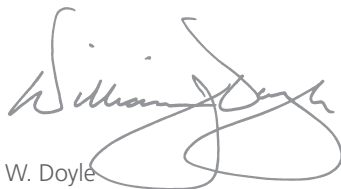
The audit committee of the Board of Directors is composed of directors who are not officers or employees of PotashCorp. PotashCorp's interim condensed consolidated financial statements and MD&A are discussed and analyzed by the audit committee with management and the independent registered chartered accountants before such information is approved by the committee and submitted to securities commissions or other regulatory authorities. The annual consolidated financial statements and MD&A are also analyzed by the audit committee together with management and the independent registered chartered accountants and are approved by the board.

In addition, the audit committee has the duty to review critical accounting policies and significant estimates and judgments underlying the consolidated financial statements as presented by management, and to approve the fees of the independent registered chartered accountants.

Deloitte & Touche LLP, the independent registered chartered accountants, have full and independent access to the audit committee to discuss their audit and related matters.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. During the past year, we have directed efforts to improve and document our internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of the company's internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and concluded that the company's internal control over financial reporting was effective as of December 31, 2007. The effectiveness of the company's internal control over financial reporting as of December 31, 2007 has been audited by Deloitte & Touche LLP, as reflected in their report for 2007 included on Page 70.



W. Doyle
President and
Chief Executive Officer



W. Brownlee
Executive Vice President and
Chief Financial Officer

February 15, 2008

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS**To the Board of Directors and Shareholders of Potash Corporation of Saskatchewan Inc.**

We have audited the internal control over financial reporting of Potash Corporation of Saskatchewan Inc. and subsidiaries (the "Company") as of December 31, 2007, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2007 and our report dated February 15, 2008 expresses an unqualified opinion on these consolidated financial statements and includes an explanatory paragraph referring to changes in the Company's accounting for financial instruments and for mine stripping costs.



Independent Registered Chartered Accountants

Saskatoon, Canada

February 15, 2008

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS**To the Board of Directors and Shareholders of Potash Corporation of Saskatchewan Inc.**

We have audited the accompanying consolidated statements of financial position of Potash Corporation of Saskatchewan Inc. and subsidiaries (the "Company") as of December 31, 2007 and 2006, the related consolidated statements of operations and retained earnings and cash flow for each of the three years in the period ended December 31, 2007, and the related consolidated statements of comprehensive income and accumulated other comprehensive income for the year ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Potash Corporation of Saskatchewan Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with Canadian generally accepted accounting principles.

As discussed in Note 3 to the consolidated financial statements, in 2007 the Company: (1) changed its method of accounting for financial instruments to conform to Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 1530 *Comprehensive Income*, 3251 *Equity*, 3855 *Financial Instruments – Recognition and Measurement*, and 3865 *Hedges*, and (2) changed its method of accounting for mine stripping costs to conform to CICA Emerging Issues Committee Abstract No. 160 *Stripping Costs Incurred in the Production Phase of a Mining Operation*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 15, 2008 expresses an unqualified opinion on the Company's internal control over financial reporting.

The signature of Deloitte + Touche LLP is written in a cursive, handwritten style in dark ink.

Independent Registered Chartered Accountants

Saskatoon, Canada

February 15, 2008

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

as at December 31

in millions of US dollars except share amounts

	2007	2006
Assets		
Current assets		
Cash and cash equivalents	\$ 719.5	\$ 325.7
Accounts receivable (Note 4)	596.2	442.3
Inventories (Note 5)	428.1	501.3
Prepaid expenses and other current assets	36.7	40.9
Current portion of derivative instrument assets (Note 6)	30.8	–
	1,811.3	1,310.2
Derivative instrument assets (Note 6)	104.2	–
Property, plant and equipment (Note 7)	3,887.4	3,525.8
Investments (Note 8)	3,581.5	1,148.9
Other assets (Note 9)	210.7	105.8
Intangible assets (Note 10)	24.5	29.3
Goodwill (Note 10)	97.0	97.0
	\$ 9,716.6	\$ 6,217.0
Liabilities		
Current liabilities		
Short-term debt (Note 11)	\$ 90.0	\$ 157.9
Accounts payable and accrued charges (Note 12)	911.7	545.2
Current portion of long-term debt (Note 13)	0.2	400.4
	1,001.9	1,103.5
Long-term debt (Note 13)	1,339.4	1,357.1
Future income tax liability (Note 25)	988.1	632.1
Accrued pension and other post-retirement benefits (Note 15)	244.8	219.6
Accrued environmental costs and asset retirement obligations (Note 16)	121.0	110.3
Other non-current liabilities and deferred credits	2.7	14.1
	3,697.9	3,436.7
Commitments, Contingencies and Guarantees (Notes 14, 29 and 30, respectively)		
Shareholders' Equity		
Share capital (Note 17)	1,461.3	1,431.6
Unlimited authorization of common shares without par value; issued and outstanding 316,411,209 and 314,403,147 shares at December 31, 2007 and 2006, respectively		
Unlimited authorization of first preferred shares; none outstanding		
Contributed surplus (Note 18)	98.9	62.3
Accumulated other comprehensive income	2,178.9	–
Retained earnings	2,279.6	1,286.4
	6,018.7	2,780.3
	\$ 9,716.6	\$ 6,217.0

(See Notes to the Consolidated Financial Statements)

Approved by the Board of Directors,


Director


Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

for the years ended December 31	in millions of US dollars except per-share amounts		
	2007	2006	2005
Sales (Note 19)	\$ 5,234.2	\$ 3,766.7	\$ 3,847.2
Less: Freight	346.1	255.8	249.7
Transportation and distribution	124.1	134.1	121.9
Cost of goods sold (Note 20)	2,882.8	2,374.8	2,350.6
Gross Margin	1,881.2	1,002.0	1,125.0
Selling and administrative (Note 21)	212.6	158.4	144.5
Provincial mining and other taxes (Note 22)	135.4	66.5	137.2
Foreign exchange loss (gain)	70.2	(4.4)	12.5
Other income (Note 23)	(125.5)	(94.0)	(61.8)
	292.7	126.5	232.4
Operating Income	1,588.5	875.5	892.6
Interest Expense (Note 24)	68.7	85.6	82.3
Income Before Income Taxes	1,519.8	789.9	810.3
Income Taxes (Note 25)	416.2	158.1	267.4
Net Income	1,103.6	631.8	542.9
Retained Earnings, Beginning of Year	1,286.4	716.9	701.5
Change in Accounting Policy (Note 3)	0.2	–	–
Repurchase of Common Shares (Note 17)	–	–	(462.5)
Dividends	(110.6)	(62.3)	(65.0)
Retained Earnings, End of Year	\$ 2,279.6	\$ 1,286.4	\$ 716.9
Net Income per Share – Basic (Note 26)	\$ 3.50	\$ 2.03	\$ 1.67
Net Income per Share – Diluted (Note 26)	\$ 3.40	\$ 1.98	\$ 1.63
Dividends per Share	\$ 0.35	\$ 0.20	\$ 0.20

(See Notes to the Consolidated Financial Statements)

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOW

for the years ended December 31

in millions of US dollars

	2007	2006	2005
Operating Activities			
Net income	\$ 1,103.6	\$ 631.8	\$ 542.9
Adjustments to reconcile net income to cash provided by operating activities			
Depreciation and amortization	291.3	242.4	242.4
Stock-based compensation	38.6	29.5	27.5
Loss (gain) on disposal of property, plant and equipment and long-term investments	7.9	(8.6)	11.8
Provision for auction rate securities	26.5	–	–
Provision for plant shutdowns – phosphate segment	–	6.3	–
Foreign exchange on future income tax	52.4	0.5	8.9
Provision for future income tax	119.6	50.0	40.1
Undistributed earnings of equity investees	(35.6)	(24.5)	(33.5)
Unrealized gain on derivative instruments	(21.1)	–	–
Other long-term liabilities	(57.9)	13.4	20.2
Subtotal of adjustments	421.7	309.0	317.4
Changes in non-cash operating working capital			
Accounts receivable	(154.6)	11.0	(107.6)
Inventories	60.3	13.9	(119.9)
Prepaid expenses and other current assets	7.0	0.2	(5.8)
Accounts payable and accrued charges	250.9	(269.1)	238.1
Subtotal of changes in non-cash operating working capital	163.6	(244.0)	4.8
Cash provided by operating activities	1,688.9	696.8	865.1
Investing Activities			
Additions to property, plant and equipment	(607.2)	(508.6)	(382.7)
Purchase of long-term investments	(30.7)	(352.5)	(190.9)
Purchase of investments in auction rate securities	(132.5)	–	–
Proceeds from disposal of property, plant and equipment and long-term investments	4.5	22.0	12.4
Other assets and intangible assets	7.8	(0.6)	5.9
Cash used in investing activities	(758.1)	(839.7)	(555.3)
Cash before financing activities	930.8	(142.9)	309.8
Financing Activities			
Proceeds from long-term debt obligations	1.5	483.9	–
Repayment and issue costs of long-term debt obligations	(403.6)	(1.3)	(10.1)
(Repayment of) proceeds from short-term debt obligations	(67.9)	(94.3)	158.7
Dividends	(93.6)	(60.9)	(65.4)
Repurchase of common shares	–	–	(851.9)
Issuance of common shares	26.6	47.3	93.9
Cash (used in) provided by financing activities	(537.0)	374.7	(674.8)
Increase (Decrease) in Cash and Cash Equivalents	393.8	231.8	(365.0)
Cash and Cash Equivalents, Beginning of Year	325.7	93.9	458.9
Cash and Cash Equivalents, End of Year	\$ 719.5	\$ 325.7	\$ 93.9
Cash and cash equivalents comprised of:			
Cash	\$ 23.1	\$ 7.9	\$ 18.4
Short-term investments	696.4	317.8	75.5
	\$ 719.5	\$ 325.7	\$ 93.9
Supplemental cash flow disclosure			
Interest paid	\$ 93.9	\$ 106.8	\$ 86.3
Income taxes paid	\$ 221.0	\$ 226.8	\$ 141.6

(See Notes to the Consolidated Financial Statements)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended December 31, 2007

in millions of US dollars

	Before Income Taxes	Income Taxes	Net of Income Taxes
Net Income	\$ 1,519.8	\$ 416.2	\$ 1,103.6
Other comprehensive income			
Net increase in unrealized gains on available-for-sale securities ¹	1,396.2	87.1	1,309.1
Net gains on derivatives designated as cash flow hedges ²	49.4	14.8	34.6
Reclassification to income of net gains on cash flow hedges ²	(57.8)	(17.3)	(40.5)
Unrealized foreign exchange gains on translation of self-sustaining foreign operations	6.7	—	6.7
Other Comprehensive Income	\$ 1,394.5	\$ 84.6	\$ 1,309.9
Comprehensive Income	\$ 2,914.3	\$ 500.8	\$ 2,413.5

¹ Available-for-sale securities are comprised of shares in Israel Chemicals Ltd., Sinofer Holdings Limited and investments in auction rate securities.

² Cash flow hedges are comprised of natural gas derivative instruments.

CONSOLIDATED STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME

as at and for the year ended December 31, 2007

in millions of US dollars

(Net of related income taxes)	Net unrealized gains on available-for-sale securities	Net unrealized gains on derivatives designated as cash flow hedges	Unrealized foreign exchange gains on self-sustaining foreign operations	Total
Cumulative effect adjustment at January 1, 2007 (Note 3)	\$ 789.6	\$ 79.4	\$ —	\$ 869.0
Increase (decrease) for 2007	1,309.1	(5.9)	6.7	1,309.9
Accumulated other comprehensive income, December 31, 2007	\$ 2,098.7 ¹	\$ 73.5 ²	\$ 6.7 ³	\$ 2,178.9
Retained earnings, December 31, 2007				2,279.6
Accumulated Other Comprehensive Income and Retained Earnings, December 31, 2007				\$ 4,458.5

¹ \$2,284.1 before income taxes. ² \$119.6 before income taxes. ³ \$6.7 before income taxes.

(See Notes to the Consolidated Financial Statements)

Notes to the PotashCorp Consolidated Financial Statements

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

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Notes to the PotashCorp 2007 Consolidated Financial Statements

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

1. DESCRIPTION OF BUSINESS

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 has producing assets in the following locations:

• Potash

- five mines and mills and mining rights to potash reserves at a sixth location, all in the province of Saskatchewan
- one mine and mill in the province of New Brunswick

• Phosphate

- a mine and processing plants in the state of North Carolina
- a mine and two processing plants in the state of Florida
- a processing plant in the state of Louisiana
- phosphate feed plants in five states and one in Brazil
- an industrial phosphoric acid plant in the state of Ohio

• Nitrogen

- three plants in the states of Georgia, Louisiana and Ohio
- large-scale operations in Trinidad

In Canada and the United States, the company owns or leases 168 terminal and warehouse facilities, some of which have multi-product capability, for a total of 206 strategically located distribution points, and services customers with a fleet of approximately 8,570 railcars. In the offshore market, the company owns or leases two warehouses in Brazil and one in China.

PotashCorp sells potash from its Saskatchewan mines for use outside North America exclusively to Canpotex Limited ("Canpotex"). Canpotex, a potash export, sales and marketing company owned in equal shares by the three potash producers in the province of Saskatchewan (including the company), resells potash to offshore customers. PCS Sales (Canada) Inc. and PCS Sales (USA), Inc., wholly owned subsidiaries of PCS, execute marketing and sales for the company's potash, nitrogen and phosphate products in North America, and execute offshore marketing and sales for the company's New Brunswick potash. PCS Sales (USA), Inc. generally executes offshore marketing and sales for the company's nitrogen products. Phosphate Chemicals Export Association, Inc. ("PhosChem"), an unrelated phosphate export association established under United States law, is the principal vehicle through which the company executes offshore marketing and sales for its phosphate fertilizers.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The company's accounting policies are in accordance with Canadian generally accepted accounting principles ("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 33.

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period.

Key areas where management has made complex or subjective judgments (often as a result of matters that are inherently uncertain) include, among others, the fair value of certain assets; recoverability of investments, long-lived assets and goodwill; mineral reserves; variable interest entities ("VIEs"); derivative instruments; litigation; environmental and asset retirement obligations; pensions and other post-retirement benefits; stock-based compensation; and income taxes. Actual results could differ from these and other estimates, the impact of which would be recorded in future periods.

The following accounting policies are considered to be significant:

Principles of Consolidation

The consolidated financial statements include the accounts of PotashCorp and its subsidiaries, and any material VIEs for which the company is the primary beneficiary. Principal operating subsidiaries include:

- PCS Sales (Canada) Inc.
 - PCS Joint Venture, Ltd. ("PCS Joint Venture")
- PCS Sales (USA), Inc.
- PCS Phosphate Company, Inc. ("PCS Phosphate")
 - PCS Purified Phosphates
- White Springs Agricultural Chemicals, Inc. ("White Springs")
- PCS Nitrogen Fertilizer, L.P.
- PCS Nitrogen Ohio, L.P.
- PCS Nitrogen Trinidad Limited
- PCS Cassidy Lake Company ("PCS Cassidy Lake")
- PCS Fosfatos do Brasil Ltda.

All significant intercompany balances and transactions have been eliminated.

Cash Equivalents

Highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

Inventories

Inventories of finished products, raw materials and intermediate products are valued at the lower of cost and market. Cost for substantially all product inventories is determined using the weighted average cost method. Certain inventories of materials and supplies are valued at the lower of average cost and replacement cost, and certain inventories of materials and supplies are valued at the lower of average cost and market.

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

2. Significant Accounting Policies continued

Prepaid Expenses

Prepaid expenses include prepaid freight and throughput costs relating to product inventory stored at warehouse and terminal facilities.

Derivative Financial Instruments

See Note 3 for changes in accounting policies in 2007. The following reflects policies in place for 2007.

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 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 other comprehensive income ("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. For transitional purposes, the company has elected to record embedded derivatives only for contracts entered into or substantively modified on or after January 1, 2003.

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. A hedging relationship is terminated if the hedge ceases to be effective; if the underlying asset or liability being hedged is derecognized or if it is no longer probable that the anticipated transaction will occur; or if

the derivative instrument is no longer designated as a hedging instrument. If a hedging relationship is terminated, 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 as gains, losses, revenue and expenses of the previously hedged item are recognized.

Significant recent derivatives include the following:

- Natural gas futures, swaps and option agreements to manage the cost of natural gas, generally designated as cash flow hedges of anticipated transactions. The portion of gain or loss on derivative instruments designated as cash flow hedges that are deferred in accumulated other comprehensive income ("AOCI") 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.
- Interest rate swaps designated as fair value hedges to manage the interest rate mix of the company's total debt portfolio and related overall cost of borrowing. Hedge accounting treatment results in interest expense on the related debt being reflected at hedged rates rather than original contractual interest rates.
- 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.
- Agreement for the forward purchase of shares of Sinofert at a fixed Hong Kong dollar amount per share. This contract was not designated as a hedging instrument for accounting purposes. Accordingly, changes in fair value are recognized through other income in earnings.

Property, Plant and Equipment

Property, plant and equipment (which includes certain mine development costs and pre-stripping costs) are carried at cost. Costs of additions, betterments, renewals and interest during construction are capitalized.

Maintenance and repair expenditures that do not improve or extend productive life are expensed in the year incurred.

Certain mining and milling assets are depreciated using the units of production method based on the shorter of estimates of reserves or service lives. Pre-stripping costs are amortized on a unit-of-production basis over the ore mined from the mineable acreage stripped. Other asset classes are depreciated or amortized on a straight-line basis as follows: land improvements 5 to 40 years, buildings and improvements 6 to 40 years and machinery and equipment (comprised primarily of plant equipment) 20 to 40 years.

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

2. Significant Accounting Policies continued

Investments

Investments in which the company exercises significant influence (but does not control) are accounted for using the equity method. The proportionate share of any net income or losses from investments accounted for using the equity method, and any gain or loss on disposal, are recorded in other income. The fair value for investments designated as available-for-sale is recorded in the Consolidated Statements of Financial Position, with unrealized gains and losses, net of related income taxes, recorded in AOCI. The cost of securities sold is based on the specific identification method. Realized gains and losses, including any other-than-temporary decline in value, on these debt and equity securities are removed from AOCI and recorded in net income.

An investment is considered impaired if its fair value falls below its cost and the decline is considered other-than-temporary. Factors the company considers in determining whether a decline is temporary include the length of time and extent to which fair value has been below cost, the financial condition and near-term prospects of the investee, and the company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. When there has been a decline in value that is other-than-temporary, the carrying value of the investment is appropriately reduced.

Other Assets

Preproduction costs are capitalized to deferred charges and represent costs incurred prior to obtaining commercial production at new facilities, net of revenue earned, and are amortized on either a straight-line or units of production basis over a maximum of 10 years.

The costs of constructing bases for gypsum stacks and settling ponds are capitalized to deferred charges and are amortized on a straight-line basis over their estimated useful lives of 3 to 5 years.

Costs of readying sites for future mining activities are capitalized to other assets and are amortized on a units of production basis over a maximum of 40 years. In addition, certain up-front lease costs are capitalized to other assets and amortized over the life of the leases, the latest of which is expected to extend through 2038 when finalized.

Intangible Assets

Finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives as follows: production and technology rights 25 to 30 years and computer software up to 5 years.

Goodwill

All business combinations are accounted for using the purchase method. Identifiable intangible assets are recognized separately from goodwill. Goodwill is carried at cost, is not amortized and represents the excess of the purchase price and related costs over the fair value assigned to the net identifiable assets of a business acquired.

Asset Impairment

The company reviews both long-lived assets to be held and used and identifiable intangible assets with finite lives whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use is based on the fair value of the assets, whereas such assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

Goodwill impairment is assessed at the reporting unit level at least annually (in April), or more frequently if events or circumstances indicate there may be an impairment. Reporting units comprise business operations with similar economic characteristics and strategies and may represent either a business segment or a business unit within a business segment. Potential impairment is identified when the carrying value of a reporting unit, including the allocated goodwill, exceeds its fair value. Goodwill impairment is measured as the excess of the carrying amount of the reporting unit's allocated goodwill over the implied fair value of the goodwill, based on the fair value of the assets and liabilities of the reporting unit.

Leases

Leases entered into are classified as either capital or operating leases. Leases that transfer substantially all of the benefits and risks of ownership of property to the company are accounted for as capital leases. Equipment acquired under capital leases is depreciated over the period of expected use on the same basis as other similar property, plant and equipment. Gains or losses resulting from sale/leaseback transactions are deferred and amortized in proportion to the amortization of the leased asset. Rental payments under operating leases are expensed as incurred.

Long-Term Debt

See Note 3 for changes in accounting policies in 2007. The following reflects policies in place for 2007.

Issue costs of long-term obligations and gains and losses on interest rate swaps are capitalized to long-term obligations and are amortized to expense over the term of the related liability using the effective interest rate method.

Pension and Other Post-Retirement Benefits

The company offers a number of benefit plans that provide pension and other benefits to qualified employees. These plans include defined benefit pension plans, supplemental pension plans, defined contribution plans and health, disability, dental and life insurance plans.

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

2. Significant Accounting Policies continued

The company accrues its obligations under employee benefit plans and the related costs, net of plan assets. The cost of pensions and other retirement benefits earned by employees is generally actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health-care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Prior service costs from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. Actuarial gains (losses) arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period, or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10 percent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement. Actuaries perform valuations on a regular basis to determine the actuarial present value of the accrued pension and other post-retirement benefits.

Pension and other post-retirement benefit expense includes, as applicable, the net of management's best estimate of the cost of benefits provided, interest cost of projected benefits, return on plan assets, amortization of experience gains or losses and plan amendments, and changes in the valuation allowance.

Defined contribution plan costs are recognized in earnings for services rendered by employees during the period.

Environmental Costs and Asset Retirement Obligations

Environmental costs that relate to current operations are expensed or capitalized as appropriate. Environmental costs are capitalized if the costs extend the life of the property, increase its capacity, mitigate or prevent contamination from future operations, or relate to legal asset retirement obligations. Costs that relate to existing conditions caused by past operations and that do not contribute to current or future revenue generation are expensed. Provisions for estimated costs are recorded when environmental remedial efforts are likely and the costs can be reasonably estimated. In determining the provisions, the company uses the most current information available, including similar past experiences, available technology, regulations in effect, the timing of remediation and cost-sharing arrangements.

The company recognizes its obligations to retire certain tangible long-lived assets. The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the

long-lived asset and then amortized over its estimated useful life. In subsequent periods, the asset retirement obligation is adjusted for the passage of time and any changes in the amount or timing of the underlying future cash flows through charges to earnings. A gain or loss may be incurred upon settlement of the liability.

Income Taxes

Taxation on earnings comprises current and future income tax. Taxation is recognized in the income statement except to the extent that it relates to items recognized directly in OCI, in which case the tax is recognized in OCI.

Current income tax is the expected income tax payable on the taxable income for the year using rates enacted or substantively enacted at the year-end, and includes any adjustment to income tax payable in respect of previous years. Future income tax is provided using the asset and liability method whereby future income tax assets and liabilities are recognized for temporary differences between financial statement carrying amounts of assets and liabilities and their respective income tax bases. The tax effect of certain temporary differences is not recognized, principally with respect to temporary differences relating to investments in subsidiaries, jointly controlled entities and associates to the extent that the company is able to control the reversal of the temporary difference and the temporary difference is not expected to reverse in the foreseeable future. The amount of future income tax recognized is based on the expected manner and timing of realization or settlement of the carrying amount of assets and liabilities. Future income tax assets are recorded in the financial statements if realization is considered more likely than not. A valuation allowance is established, if necessary, to reduce any future income tax asset to an amount that is more likely than not to be realized. Future income tax assets and liabilities are offset to the extent that they relate to income taxes levied on the same taxable entity by the same taxation authority.

Stock-Based Compensation Plans

Grants under the company's stock-based compensation plans are accounted for in accordance with the fair value-based method of accounting. For stock option plans that will settle through the issuance of equity, the fair value of stock options is determined on their grant date using a valuation model and recorded as compensation expense over the period that the stock options vest, with a corresponding increase to contributed surplus. Forfeitures are estimated throughout the vesting period based on past experience and future expectations, and trued up upon actual option vesting. When stock options are exercised, the proceeds, together with the amount recorded in contributed surplus, are recorded in share capital.

Stock-based plans that are likely to settle in cash or other assets are accounted for as liabilities based on the intrinsic value of the awards. The compensation expense is accrued over the vesting

Notes to the PotashCorp 2007 Consolidated Financial Statements

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

2. Significant Accounting Policies continued

period of the award, based on the difference between the market value of the underlying stock and the exercise price of the award, if any. Fluctuations in the market value of the underlying stock determined based on the closing price of the stock on the last day of each reporting period will result in a change to the accrued compensation expense, which is recognized in the period in which the fluctuation occurs.

Foreign Exchange Transactions

The company's functional currency is the US dollar.

The majority of the company's operations are considered integrated and are translated into US dollars using the temporal method. Under this method, Canadian, Trinidadian and Chilean dollar operating transactions are translated to US dollars at the average exchange rate for the previous month. Monetary assets and liabilities are translated at period-end exchange rates. Non-monetary assets owned at December 31, 1994 have been translated under the translation of convenience method at the December 31, 1994 year-end exchange rate of US \$1.00 = Cdn \$1.4028. Additions subsequent to December 31, 1994 are translated at the exchange rate prevailing at the time of the transaction. Translation exchange gains and losses of integrated foreign operations are reflected in earnings.

The company's Brazilian operations are considered self-sustaining and are translated into US dollars using the current rate method whereby assets and liabilities are translated at period-end exchange rates and transactions are translated at the rates in effect at the time. The gain or loss on translation is reflected in other comprehensive income.

Fair Value

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

The fair values for non-financial instruments are estimated using accepted valuation methodologies such as discounted future net cash flows, earnings multiples or prices for similar assets, whichever is most appropriate under the circumstances.

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. Futures contracts are exchange-traded and fair value is determined based on exchange prices. Fair value for other forward contracts with underlyings that are exchange-traded is determined based on these prices. Swaps and option agreements are traded in the over-the-counter market and fair value is calculated based on models and other valuation techniques that include prices sourced from observable data. Fair value for investments in equity securities and other investments designated as available-for-sale is based on the closing bid price as of the balance sheet date. Fair value for

investments in auction rate securities in the company's trading account, which represent debt securities designated as available-for-sale that are currently considered to be illiquid, is based on valuation techniques that reflect the company's own expectations about the assumptions that market participants would use in pricing the asset in a current transaction (including information obtained on transactions in the marketplace for other investments that may be considered similar, information on the expected cash flows based on position of priority within the tranches, information on the expected cash flows based on information available regarding the underlying securities, and assumptions about risk) as of the balance sheet date.

Revenue Recognition

Sales revenue is recognized when the product is shipped, the sales price is determinable and collectability is reasonably assured. Revenue is recorded based on the FOB mine, plant, warehouse or terminal price, except for certain vessel sales or specific product sales that are shipped on a delivered basis. Transportation costs are recovered from the customer through sales pricing.

Recent Accounting Pronouncements

Determining the Variability to be Considered in Applying the Variable Interest Entity Standards

In September 2006, the Emerging Issues Committee issued Abstract No. 163, "Determining the Variability to be Considered in Applying AcG-15" ("EIC-163"). This guidance provides additional clarification on how to analyze and consolidate a variable interest entity ("VIE"). EIC-163 concludes that the "by-design" approach should be the method used to assess variability (that is created by risks the entity is designed to create and pass along to its interest holders) when applying the VIE standards. The "by-design" approach focuses on the substance of the risks created over the form of the relationship. The guidance may be applied to all entities (including newly created entities) with which an enterprise first becomes involved, and to all entities previously required to be analyzed under the VIE standards when a reconsideration event has occurred, effective January 1, 2007. The implementation of this guidance did not have a material impact on the company's consolidated financial statements.

Capital Disclosures

In December 2006, the Canadian Institute of Chartered Accountants ("CICA") issued Section 1535, "Capital Disclosures". This Section establishes standards for disclosing information about an entity's capital and how it is managed. This Section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, and is not expected to have a material impact on the company's consolidated financial statements.

Financial Instruments

Effective January 1, 2007, the company adopted CICA Section 3861, "Financial Instruments – Disclosure and Presentation", which

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

2. Significant Accounting Policies continued

requires entities to provide disclosures in their financial statements that enable users to evaluate: (1) the significance of financial instruments for the entity's financial position and performance; and (2) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

In December 2006, the CICA issued Section 3863, "Financial Instruments – Presentation", to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This Section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. This standard harmonizes disclosures with International Financial Reporting Standards. This Section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, and is not expected to have a material impact on the company's consolidated financial statements.

In March 2007, the CICA issued Section 3862, "Financial Instruments – Disclosures", which replaces Section 3861 and provides expanded disclosure requirements that provide additional detail by financial asset and liability categories. This standard harmonizes disclosures with International Financial Reporting Standards. This Section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, and is not expected to have a material impact on the company's consolidated financial statements.

Inventories

In June 2007, the CICA issued Section 3031, "Inventories", which replaces Section 3030 and harmonizes the Canadian standard related to inventories with International Financial Reporting Standards. This Section provides more extensive guidance on the determination of cost, including allocation of overhead; narrows the permitted cost formulas; requires impairment testing; and expands the disclosure requirements to increase transparency. This Section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, and is not expected to have a material impact on the company's consolidated financial statements.

International Financial Reporting Standards

In May 2007, the CICA published an updated version of its "Implementation Plan for Incorporating International Financial Reporting Standards ("IFRS") into Canadian GAAP". This plan includes an outline of the key decisions that the CICA will need to make as it implements the Strategic Plan for publicly accountable enterprises that will converge Canadian generally accepted

accounting principles with IFRS. The changeover date from Canadian GAAP to IFRS is for annual and interim financial statements relating to fiscal years beginning on or after January 1, 2011.

Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". The purpose of this Section is to provide more specific guidance on the recognition of internally developed intangible assets and requires that research and development expenditures be evaluated against the same criteria as expenditures for intangible assets. The Section harmonizes Canadian standards with International Financial Reporting Standards and applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. It is not expected to have a material impact on the company's consolidated financial statements.

3. CHANGES IN ACCOUNTING POLICIES

Comprehensive Income, Equity, Financial Instruments and Hedges

Effective January 1, 2007, the company adopted CICA Section 1530, "Comprehensive Income", Section 3251, "Equity", Section 3855, "Financial Instruments – Recognition and Measurement" and Section 3865, "Hedges". These pronouncements increase harmonization with US GAAP. Under the standards:

- Financial assets are classified as loans and receivables, held-to-maturity, held-for-trading or available-for-sale. Loans and receivables include all loans and receivables except debt securities and are accounted for at amortized cost. Held-to-maturity classification is restricted to fixed maturity instruments that the company intends and is able to hold to maturity and are accounted for at amortized cost. Held-for-trading instruments include all derivative financial instruments not included in a hedging relationship and any designated instruments and are recorded at fair value with realized and unrealized gains and losses reported in net income. The remaining financial assets are classified as available-for-sale. These are recorded at fair value with unrealized gains and losses reported in a new category of the Consolidated Statements of Financial Position under shareholders' equity called AOCI;
- Financial liabilities are classified as either held-for-trading or other. Held-for-trading instruments are recorded at fair value with realized and unrealized gains and losses reported in net income. Other instruments are accounted for at amortized cost with gains and losses reported in net income in the period that the liability is derecognized; and
- Derivative instruments ("derivatives") are classified as held-for-trading unless designated as hedging instruments. All derivatives are recorded at fair value on the Consolidated Statements of Financial

Notes to the PotashCorp 2007 Consolidated Financial Statements

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

3. Changes in Accounting Policies continued

Position. For derivatives that hedge the changes in fair value of an asset or liability, changes in the derivatives' fair value are reported in net income and are substantially offset by changes in the fair value of the hedged asset or liability attributable to the risk being hedged. For derivatives that hedge variability in cash flows, the effective portion of the changes in the derivatives' fair value is initially recognized in OCI and the ineffective portion is recorded in net income. Amounts temporarily recorded in AOCI will subsequently be reclassified to net income in the periods when net income is affected by the variability in the cash flows of the hedged item.

These standards have been applied prospectively; accordingly, comparative amounts for prior periods have not been restated. The adoption of these standards resulted in the following adjustments as of January 1, 2007 in accordance with the transition provisions:

(1) Available-for-sale securities

- The company's investments in Israel Chemicals Ltd. ("ICL") and Sinofert Holdings Limited ("Sinofert") have been classified as available-for-sale and recorded at fair value in the Consolidated Statements of Financial Position, resulting in an increase in investments of \$887.8, an increase to AOCI of \$789.6 and an increase in future income tax liability of \$98.2;

(2) Deferred debt costs

- Bond issue costs were reclassified from other assets to long-term debt and deferred swap gains were reclassified from other non-current liabilities to long-term debt, resulting in a reduction in other assets of \$23.9, a reduction in other non-current liabilities of \$6.6 and a reduction in long-term debt of \$17.3;

(3) Natural gas derivatives

- The company employs futures, swaps and option agreements to establish the cost of a portion of its natural gas requirements. These derivative instruments generally qualify for hedge accounting. Derivative instruments were recorded on the Consolidated Statements of Financial Position at fair value, resulting in an increase in current portion of derivative instrument assets of \$50.9, an increase in derivative instrument assets (non-current) of \$69.4, an increase in future income tax liability of \$45.6 and an increase in AOCI of \$74.7;
- Hedge ineffectiveness on these derivative instruments was recorded as a cumulative effect adjustment to opening retained earnings, net of tax, resulting in an increase in retained earnings of \$0.2 and a decrease in AOCI of \$0.2. The effect on basic and diluted earnings per share was not significant; and
- Deferred realized hedging gains were reclassified from inventory to AOCI, resulting in an increase in inventory of \$8.0, an increase in future income tax liability of \$3.1 and an increase in AOCI of \$4.9.

Accounting Changes

In July 2006, the CICA revised Section 1506, "Accounting Changes", which requires that: (1) voluntary changes in accounting policy are made only if they result in the financial statements providing reliable and more relevant information; (2) changes in accounting policy are generally applied retrospectively; and (3) prior period errors are corrected retrospectively. Section 1506 is effective for fiscal years beginning on or after January 1, 2007. The implementation of this guidance did not have a material impact on the company's consolidated financial statements.

Stripping Costs Incurred in the Production Phase of a Mining Operation

In March 2006, the Emerging Issues Committee issued Abstract No. 160, "Stripping Costs Incurred in the Production Phase of a Mining Operation" ("EIC-160"). EIC-160 discusses the treatment of costs associated with the activity of removing overburden and other mine waste minerals in the production phase of a mining operation. It concludes that such stripping costs should be accounted for according to the benefit received by the entity and recorded as either a component of inventory or a betterment to the mineral property, depending on the benefit received. The implementation of EIC-160, effective January 1, 2007, resulted in a decrease in inventory of \$21.1, a decrease in other assets of \$7.4 and an increase in property, plant and equipment of \$28.5.

4. ACCOUNTS RECEIVABLE

	2007	2006
Trade accounts— Canpotex	\$ 110.2	\$ 84.1
— Other	439.0	329.3
Non-trade accounts	52.9	33.6
	602.1	447.0
Less allowance for doubtful accounts	(5.9)	(4.7)
	\$ 596.2	\$ 442.3

5. INVENTORIES

	2007 ¹	2006
Finished products	\$ 186.6	\$ 237.1
Intermediate products	70.7	98.5
Raw materials	68.0	62.4
Materials and supplies	102.8	103.3
	\$ 428.1	\$ 501.3

¹ See changes in accounting policies (Note 3).

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

6. DERIVATIVE FINANCIAL INSTRUMENTS

	2007 ¹		
	Assets	Liabilities	Net
Natural gas hedging	\$ 127.6	\$ 0.1	\$ 127.5
Natural gas non-hedging	0.1	0.1	–
Foreign currency and other forward purchase contracts	7.3	–	7.3
Total	135.0	0.2	134.8
Less current portion	(30.8)	(0.2)	(30.6)
Long-term portion	\$ 104.2	\$ –	\$ 104.2

¹ See changes in accounting policies (Note 3).

At times the company employs futures, swaps and option agreements to establish the cost of a portion of its natural gas requirements. These instruments are intended to hedge the future cost of the anticipated natural gas purchases for its US nitrogen and phosphate plants. Under these arrangements, the company receives or makes payments based on the differential between a specified price and the actual spot price of natural gas. The company has certain available lines of credit that are used to reduce cash margin requirements to maintain the derivatives. At December 31, 2007, it had collected cash margin requirements of \$33.9 (2006 – \$22.8), which were included in accounts payable and accrued charges (see Note 12).

As at December 31, 2007, the company had derivatives qualifying for hedge accounting in the form of swaps which represented a notional amount of 69.4 million MMBtu with maturities in 2008 through 2017. For the year ended December 31, 2007, gains of \$48.1 were recognized in cost of goods sold excluding ineffectiveness, which resulted in an additional gain of \$9.6 for the year. Of the gains and losses at December 31, 2007, approximately \$23.9 of net gains will be reclassified to cost of goods sold within the next 12 months. As at December 31, 2007, gains from settled hedging transactions deferred in inventory were \$NIL (2006 – \$8.0). The fair value of the company's natural gas hedging contracts at December 31, 2007 approximated \$127.5 (including liabilities of \$0.1 recorded in accounts payable and accrued charges) (2006 – \$120.3), using discount rates between 3.82 percent and 4.70 percent (2006 – between 5.06 percent and 5.37 percent) depending on the settlement date.

As at December 31, 2007, the company had entered into foreign currency forward contracts to sell US dollars and receive Canadian dollars in the notional amount of \$60.0 (2006 – \$100.0) at an average exchange rate of 1.0176 (2006 – 1.1478) per US dollar and to sell US dollars and receive Hong Kong dollars in the notional amount of \$174.5 (2006 – \$NIL) at an average exchange rate of 7.7937 (2006 – NIL) per US dollar. The company had also entered into other small forward contracts. Maturity dates for all forward contracts are within 2008 and 2009. The company recognized a gain of \$13.0 for the year ended December 31, 2007 in foreign exchange (gain) loss related to foreign currency forward contracts classified as

held-for-trading. As at December 31, 2007, the company had entered into an agreement for the forward purchase of shares of Sinofer that settled in January 2008. The fair value of these contracts at December 31, 2007 was a gain of \$7.3.

The current portion of derivative instrument assets and liabilities represents unrealized gains and losses with settlement dates in the next 12 months.

7. PROPERTY, PLANT AND EQUIPMENT

	2007 ¹		
	Cost	Accumulated Depreciation and Amortization	Net Book Value
Land and improvements	\$ 248.9	\$ 53.9	\$ 195.0
Buildings and improvements	647.9	220.5	427.4
Machinery and equipment	5,074.5	1,937.3	3,137.2
Mine development costs	196.8	69.0	127.8
	\$6,168.1	\$2,280.7	\$3,887.4

¹ See changes in accounting policies (Note 3).

	2006		
	Cost	Accumulated Depreciation and Amortization	Net Book Value
Land and improvements	\$ 233.3	\$ 51.9	\$ 181.4
Buildings and improvements	547.9	206.4	341.5
Machinery and equipment	4,618.0	1,750.4	2,867.6
Mine development costs	200.4	65.1	135.3
	\$ 5,599.6	\$ 2,073.8	\$ 3,525.8

Depreciation and amortization of property, plant and equipment included in cost of goods sold and in selling and administrative expenses was \$279.8 (2006 – \$226.3; 2005 – \$227.4). The net carrying amount of property, plant and equipment not being amortized at December 31, 2007 because it was under construction or development was \$608.8 (2006 – \$381.6).

During the year, the company recorded an impairment charge of \$NIL (2006 – \$6.3; 2005 – \$NIL) relating to certain assets. As at December 31, 2007, the company determined that there were no triggering events requiring impairment analysis. Interest capitalized to property, plant and equipment during the year was \$21.8 (2006 – \$19.1; 2005 – \$5.7).

The opening balance of pre-stripping costs at January 1, 2007 was \$28.5, additions during 2007 were \$24.8 and amortization was \$19.9, for a balance at December 31, 2007 of \$33.4.

Acquiring or constructing property, plant and equipment by incurring a liability does not result in a cash outflow for the company until the liability is paid. In the period the related liability is incurred, the change in operating accounts payable on the Consolidated Statements of Cash Flow is typically reduced by such

Notes to the PotashCorp 2007 Consolidated Financial Statements

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

7. Property, Plant and Equipment continued

amount. In the period the liability is paid, the amount is reflected as a cash outflow for investing activities. The applicable net change in operating accounts payable that was reclassified from (to) investing activities on the Consolidated Statements of Cash Flow in 2007 was \$59.8 (2006 – \$(2.6), 2005 – \$26.0).

8. INVESTMENTS

	2007 ¹	2006
Investments at equity		
Sociedad Quimica y Minera de Chile S.A. ("SQM") – 32 percent ownership; quoted market value of \$1,751.7	\$ 550.0	\$ 514.7
Arab Potash Company ("APC") – 28 percent ownership; quoted market value of \$1,121.5	231.2	223.7
Other	18.8	19.1
Available-for-sale investments		
Sinofert – 19 percent ownership	1,081.2	223.7
ICL – 10 percent ownership	1,644.3	167.7
Auction rate securities	56.0	–
	\$3,581.5	\$ 1,148.9

¹ See changes in accounting policies (Note 3).

During 2007, the company acquired an additional 1,011,062 shares of SQM for cash consideration of \$16.8 which was financed by cash on hand. The company's ownership interest in SQM remained at approximately 32 percent. During July 2007, the company's ownership interest in Sinofert was diluted from 20 percent to approximately 19 percent due to issuance of shares of Sinofert.

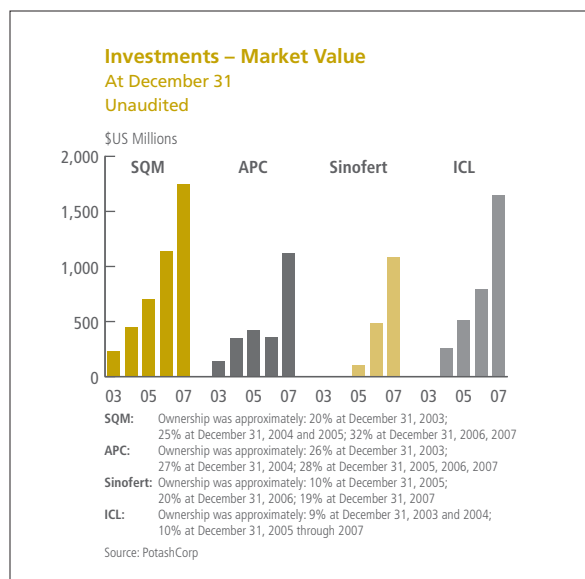
There were no amounts accrued related to acquisitions of long-term investments as of December 31, 2007 or 2005. At December 31, 2006, the company had amounts in accounts payable related to the acquisition of SQM shares. As a result, the company reclassified \$12.5 in its Consolidated Statements of Cash Flow from operating accounts payable to reduce the cash outflow related to the purchase of long-term investments for the year; the cash outflow was recognized in 2007.

At December 31, 2007, the difference between the carrying value of SQM and the proportionate share of net book value was \$196.9 (2006 – \$190.7). The differences were allocated to the fair value of the reserves and mining concessions and will be recognized as a reduction in the future share of earnings from SQM on a unit of production basis. The difference between the carrying value of APC and the proportionate share of net book value remaining to be amortized at year-end was \$65.4 (2006 – \$72.1). Differences were allocated to the fair value of fixed assets and mining concessions and will be recognized as a reduction in the future share of earnings from APC on a unit of production basis.

As noted in the above table, 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. The company's share of earnings of these equity investees under the applicable foreign GAAP has been adjusted for the significant effects of conforming to Canadian GAAP.

The company's share of earnings of equity investees of \$76.2 (2006 – \$54.4; 2005 – \$52.1) is included in other income (see Note 23). Dividends received from equity investees were \$40.6 (2006 – \$29.9; 2005 – \$18.6).

Auction rate securities have original maturities in excess of three months. Interest rates are typically reset every 28 days through the sale of the securities in a dutch auction process; however, in the event of market illiquidity, the interest rate is reset based on a spread to LIBOR. As a result of worsening negative conditions in the global credit markets, auctions for the auction rate securities held in the company's account have continued to fail to settle on their respective settlement dates. Consequently, the investments are not currently liquid and the company will not be able to access these funds until a future auction of these securities is successful, a buyer is found outside of the auction process, the company settles an outstanding claim in respect of the investments, or upon maturity. The company has determined the fair value to be \$56.0 as of December 31, 2007, representing an impairment of \$76.5 as compared to the par value of the securities. Of the total impairment, \$50.0 has been classified as temporary and \$26.5 has been classified as other-than-temporary. The securities were reviewed on an individual basis to determine whether the impairment was temporary or other-than-temporary. Two securities were identified



IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

8. Investments continued

as being other-than-temporarily impaired based on the vintage of the underlying securities and complexity of the structures. The entire impairment on these two securities was therefore classified as other-than-temporary. For those investments for which the impairment in fair value is considered temporary, the company has the ability to hold the securities until the temporary impairment in fair value is recovered, which may not be until a recovery of the auction process or until maturity. Maturity dates for these investments range from 2017 to 2046 with principal distributions occurring on several securities prior to maturity. The investments are classified as long-term since they are not expected to be realizable within one year from the date of the Consolidated Statements of Financial Position.

In prior years, auction rate securities were included with cash and cash equivalents. The company has not reclassified prior years as the adjustments are not considered material.

9. OTHER ASSETS

	2007 ¹	2006
Deferred charges – net of accumulated amortization of \$16.9 (2006 – \$50.0)	\$ 24.0	\$ 44.5
Accrued pension benefit asset	111.7	26.8
Up-front lease costs – net of accumulated amortization of \$2.2 (2006 – \$NIL)	24.7	–
Other	50.3	34.5
	\$ 210.7	\$ 105.8

¹ See changes in accounting policies (Note 3).

Amortization of deferred charges included in cost of goods sold and in selling and administrative expenses was \$5.4 (2006 – \$9.2; 2005 – \$10.9).

10. INTANGIBLE ASSETS AND GOODWILL

	2007	2006
Intangible assets – net of accumulated amortization of \$27.9 (2006 – \$22.6)	\$ 24.5	\$ 29.3
Goodwill – net of accumulated amortization of \$7.3 (2006 – \$7.3)	\$ 97.0	\$ 97.0

Intangible assets relate primarily to production and technology rights and computer software. Other than goodwill, the company has not recognized any intangible assets with indefinite useful lives. Total amortization expense relating to finite-lived intangible assets for 2007 was \$6.1 (2006 – \$6.9; 2005 – \$4.1). Amortization expense in each of the next five years calculated upon such assets held as at December 31, 2007 is estimated to be \$3.9 for 2008, \$3.8 for 2009, \$3.3 for 2010, \$1.0 for 2011 and \$1.0 for 2012.

Substantially all of the company's recorded goodwill relates to the nitrogen segment.

11. SHORT-TERM DEBT

Short-term debt was \$90.0 at December 31, 2007 (2006 – \$157.9). The weighted average interest rate on this debt was 5.17 percent (2006 – 5.51 percent). The company had an unsecured line of credit available for short-term financing (net of letters of credit of \$23.9 and direct borrowings of \$NIL) in the amount of \$51.1 at December 31, 2007 (2006 – \$57.7). In addition, the company is authorized to borrow a further \$660.0 under its commercial paper program.

The line of credit was renewed in September 2007 for the period to May 2009; it will be renewable annually each May beginning in 2009. Outstanding letters of credit and direct borrowings reduce the amount available. The line of credit is subject to financial tests and other covenants. The principal covenants require a debt-to-capital ratio of less than or equal to 0.60:1, a long-term debt-to-EBITDA (as defined in the agreement to be earnings before interest, income taxes, provincial mining and other taxes, depreciation, amortization and other non-cash expenses, and unrealized gains and losses in respect of hedging instruments) ratio of less than or equal to 3.5:1, tangible net worth in an amount greater than or equal to \$1,250.0 and debt of subsidiaries not to exceed \$650.0. The line of credit is subject to other customary covenants and events of default, including an event of default for non-payment of other debt in excess of Cdn \$40.0. Non-compliance with such covenants could result in accelerated payment of amounts due under the line of credit, and its termination. The company was in compliance with the above-mentioned covenants at December 31, 2007.

12. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	2007	2006
Trade accounts	\$ 371.0	\$ 242.9
Income taxes	188.4	70.0
Accrued compensation	94.0	49.5
Deferred revenue	42.1	25.2
Margin deposits	33.9	22.8
Other taxes	32.2	12.9
Dividends	32.0	16.1
Accrued deferred share units	29.7	10.2
Accrued interest	29.2	24.6
Current portion accrued environmental costs and asset retirement obligations	13.7	9.0
Current portion pension and other post-retirement benefits	7.9	8.9
Other payables	37.6	53.1
	\$ 911.7	\$ 545.2

Notes to the PotashCorp 2007 Consolidated Financial Statements

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

13. LONG-TERM DEBT

	2007 ¹		2006
		Effective Interest Rate ²	
Notes Payable			
7.125% notes payable June 15, 2007	\$ —	—	\$ 400.0
7.750% notes payable May 31, 2011	600.0	7.65%	600.0
4.875% notes payable March 1, 2013	250.0	5.08%	250.0
5.875% notes payable December 1, 2036	500.0	6.11%	500.0
The above series of notes were issued under US shelf registration statements covering up to \$4,000.0 of debt securities. The notes are unsecured and there are no sinking fund requirements prior to maturity. The 2011, 2013 and 2036 notes are redeemable, in whole or in part, at the company's option at any time prior to maturity for a price at least equal to the principal amount of the notes to be redeemed, plus accrued interest. Under certain conditions related to change in control, the company is required to make an offer to purchase all, or any part, of the 2036 notes at 101 percent of the principal amount of the notes repurchased, plus accrued interest.			
Other	8.5	7.60%	7.5
	1,358.5		1,757.5
Less net unamortized debt costs	(24.6)		—
Add unamortized interest rate swap gains	5.3		—
	1,339.2		1,757.5
Less current maturities	(0.2)		(400.4)
Add current portion of amortization	0.4		—
	\$ 1,339.4		\$ 1,357.1

¹ See changes in accounting policies (Note 3).

² The effective interest rate by instrument includes the impact of swap gains and debt costs.

The company has entered into back-to-back loan arrangements involving certain financial assets and financial liabilities. The company has presented financial assets of \$505.1 and financial liabilities of \$511.0 on a net basis related to these arrangements because a legal right to set-off exists, and it intends to settle with the same party on a net basis. Other long-term debt in the above table includes a net financial liability of \$5.9 (2006 – \$5.9) pursuant to these arrangements. The company incurred \$3.2 of debt issue costs as a result of one such arrangement entered into during 2007, which were included as a reduction to long-term debt and are being amortized using the effective interest rate method over the term of the related liability.

The company has a syndicated revolving credit facility which provides for unsecured advances of up to \$750.0 (less the amount of direct borrowings and commercial paper outstanding). The facility was renewed in September 2005 for a five-year term, extended in September 2006 for one additional year, and extended in October 2007 through May 31, 2013. As at December 31, 2007, no amounts were outstanding and \$660.0 was available under the facility. Principal covenants and events of default under the credit facility requirements are the same as those under the line of credit described in Note 11. The notes payable are not subject to any

financial test covenants but are subject to certain customary covenants (including limitations on liens and sale and leaseback transactions) and events of default, including an event of default for acceleration of other debt in excess of \$50.0. The other long-term debt instruments are not subject to any financial test covenants but are subject to certain customary covenants and events of default, including, for other long-term debt, an event of default for non-payment of other debt in excess of \$25.0. Non-compliance with such covenants could result in accelerated payment of the related debt. The company was in compliance with the above-mentioned covenants at December 31, 2007.

Long-term debt at December 31, 2007 will mature as follows:

2008	\$ 0.2
2009	0.3
2010	1.8
2011	600.3
2012	5.9
Subsequent years	750.0
	\$ 1,358.5

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

14. COMMITMENTS**Lease Commitments**

The company has various long-term operating lease agreements for buildings, port facilities, equipment, ocean-going transportation vessels and railcars, the latest of which expires in 2022. Rental expense for operating leases for the years ended December 31, 2007, 2006 and 2005 was \$79.3, \$75.4 and \$78.9, respectively.

Purchase Commitments

The company has long-term agreements for the purchase of sulfur for use in the production of phosphoric acid. These agreements provide for minimum purchase quantities and certain prices are based on market rates at the time of delivery. The commitments included in the table below are based on contract prices.

The company has entered into long-term natural gas contracts with the National Gas Company of Trinidad and Tobago Limited, the latest of which expires in 2018. The contracts provide for prices that vary primarily with ammonia market prices, escalating floor prices and minimum purchase quantities. The commitments included in the table below are based on floor prices and minimum purchase quantities.

The company also has long-term agreements for the purchase of phosphate rock used at its Geismar facility. The commitments included in the table below are based on the expected purchase quantity and current net base prices.

Other Commitments

Other operating commitments consist principally of various rail freight contracts, the latest of which expires in 2010, and mineral leases, the latest of which expires in 2028.

Minimum future commitments under these contractual arrangements for the next five years and thereafter are shown below.

	Operating Leases	Purchase Commitments	Other Commitments
2008	\$ 97.4	\$ 272.1	\$ 22.7
2009	89.5	119.0	19.5
2010	79.3	102.0	18.7
2011	70.2	82.3	3.9
2012	66.6	66.0	3.7
Thereafter	254.2	272.8	19.8
Total	\$ 657.2	\$ 914.2	\$ 88.3

15. PENSION AND OTHER POST-RETIREMENT BENEFITS**Pension Plans****Canada**

Substantially all employees of the company are participants in either a defined contribution or a defined benefit pension plan.

The company has established a supplemental defined benefit retirement income plan for senior management that is unfunded, non-contributory and provides a supplementary pension benefit. The plan is provided for by charges to earnings sufficient to meet the projected benefit obligation.

United States

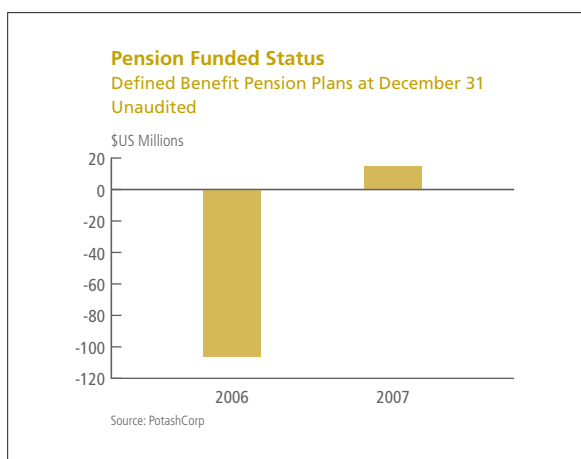
The company has defined benefit pension plans that cover a substantial majority of its employees. Benefits are based on a combination of years of service and compensation levels, depending on the plan. Contributions to the US plans are made to meet or exceed minimum funding requirements of the Employee Retirement Income Security Act of 1974 ("ERISA") and associated Internal Revenue Service regulations and procedures.

Trinidad

The company has contributory defined benefit pension plans that cover a substantial majority of its employees. Benefits are based on a combination of pay and service. The plans' assets consist mainly of local government and other bonds, local mortgage and mortgage-backed securities, fixed income deposits and cash.

Other Post-Retirement Plans

The company provides certain contributory health-care plans and non-contributory life insurance benefits for retired employees. These plans contain certain cost-sharing features such as deductibles and coinsurance, and are unfunded, with benefits subject to change.



Notes to the PotashCorp 2007 Consolidated Financial Statements

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

15. Pension and Other Post-Retirement Benefits continued

Defined Benefit Plans

The components of net expense for the company's pension and other post-retirement benefit plans, computed actuarially, were as follows:

	Pension			Other		
	2007	2006	2005	2007	2006	2005
Costs arising in the period						
Service cost for benefits earned during the year	\$ 15.3	\$ 14.2	\$ 13.8	\$ 6.1	\$ 4.7	\$ 5.7
Interest cost on projected benefit obligations	36.5	33.5	31.1	14.9	12.4	13.3
Actual return on plan assets	(44.3)	(42.1)	(34.3)	—	—	—
Actuarial (gain) loss	(33.5)	8.9	27.9	(12.0)	18.4	(12.7)
Plan amendments	0.3	1.4	3.5	—	(1.7)	11.5
Plan curtailments	—	—	0.4	—	—	—
Change in valuation allowance	—	2.0	2.4	—	—	—
Costs arising in the period	(25.7)	17.9	44.8	9.0	33.8	17.8
Difference between costs arising in the period and costs recognized in the period in respect of:						
Return on plan assets	1.5	3.9	(2.7)	—	—	—
Actuarial loss (gain)	40.8	(1.7)	(23.6)	16.4	(16.4)	15.4
Plan amendments	1.5	1.0	(2.3)	(2.9)	(1.1)	(13.0)
Transitional obligation	0.9	1.6	1.4	0.2	0.4	0.3
Net expense	\$ 19.0	\$ 22.7	\$ 17.6	\$ 22.7	\$ 16.7	\$ 20.5

The assumptions used to determine the benefit obligation and expense for the company's significant plans were as follows (weighted average as of December 31):

	Pension			Other		
	2007	2006	2005	2007	2006	2005
Discount rate – obligation	6.50%	5.85%	5.70%	6.50%	5.85%	5.70%
Discount rate – expense	5.85%	5.70%	5.75%	5.85%	5.70%	5.75%
Long-term rate of return on assets	8.00%	8.00%	8.50%	n/a	n/a	n/a
Rate of increase in compensation levels	4.00%	4.00%	4.00%	n/a	n/a	n/a

The average remaining service period of the active employees covered by the company's pension plans is 12.0 years (2006 – 11.5 years). The average remaining service period of the active employees covered by the company's other benefits plans is 12.1 years (2006 – 11.8 years).

The assumed health-care cost trend rates are as follows:

	2007	2006	2005
Health-care cost trend rates assumed for next year	6.00%	6.00%	6.00%
Ultimate health-care cost trend rate assumed	6.00%	6.00%	6.00%
Year that the rate reaches the ultimate trend rate	2007	2006	2005

Effective January 1, 2004, the company's largest retiree medical plan limits the company's share of annual medical cost increases to 75 percent of the first 6 percent of total medical inflation for recent and future non-union retirees. Any cost increases in excess of this amount are funded by increased retiree contributions.

The company's discount rate assumption reflects the weighted average interest rate at which the pension and other post-retirement liabilities could be effectively settled using high-quality bonds at the measurement date. The rate varies by country. The company determines the discount rate using a yield curve approach. Based on the plan's demographics, expected future pension benefit and medical claims, payments are measured and discounted to determine the present value of the expected future cash flows. The cash flows are discounted using yields on high-quality AA-rated non-callable bonds with cash flows of similar timing. The equivalent level discount rate is then used as input by the company to determine the final discount rate. The rate selected for the December 31, 2007 measurement date will be used to determine expense for fiscal 2008.

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

15. Pension and Other Post-Retirement Benefits continued

The expected long-term rate of return on assets assumption is determined using a building block approach. The expected real rate of return for each individual asset class is determined based on expected future performance. These rates are weighted based on the current asset portfolio. A separate determination is made of the underlying impact of expenses, inflation, rebalancing, diversification and the actively managed portfolio premium. The resulting total expected asset return is compared to the historic returns achieved by the portfolio. Based on these input items, a final rate is selected by the company.

The company uses a December 31 measurement date. The most recent actuarial valuations of the majority of the pension plans for funding purposes were as of January 1, 2007, and the next required valuations are as of January 1, 2008. The change in benefit obligations and change in plan assets for the above pension and other post-retirement plans were as follows:

	Pension		Other		Total	
	2007	2006	2007	2006	2007	2006
Change in benefit obligations						
Balance, beginning of year	\$ 626.4	\$ 595.3	\$ 247.4	\$ 222.6	\$ 873.8	\$ 817.9
Service cost	15.3	14.2	6.1	4.7	21.4	18.9
Interest cost	36.5	33.5	14.9	12.4	51.4	45.9
Participants' contributions	0.3	0.3	–	0.1	0.3	0.4
Actuarial (gain) loss	(33.5)	8.9	(12.0)	18.4	(45.5)	27.3
Foreign exchange rate changes	6.4	2.0	3.6	(0.2)	10.0	1.8
Plan amendments	0.3	1.4	–	(1.7)	0.3	(0.3)
Benefits paid	(28.3)	(29.2)	(8.2)	(8.9)	(36.5)	(38.1)
Balance, end of year	623.4	626.4	251.8	247.4	875.2	873.8
Change in plan assets						
Fair value, beginning of year	519.9	480.8	–	–	519.9	480.8
Actual return on plan assets	44.3	42.1	–	–	44.3	42.1
Employer contributions	99.6	24.7	8.2	8.8	107.8	33.5
Participants' contributions	0.3	0.3	–	0.1	0.3	0.4
Foreign exchange rate changes	2.4	1.2	–	–	2.4	1.2
Benefits paid	(28.3)	(29.2)	(8.2)	(8.9)	(36.5)	(38.1)
Fair value, end of year	638.2	519.9	–	–	638.2	519.9
Funded status	14.8	(106.5)	(251.8)	(247.4)	(237.0)	(353.9)
Valuation allowance	(16.1)	(16.1)	–	–	(16.1)	(16.1)
Unamortized net actuarial loss	76.9	117.4	42.0	58.0	118.9	175.4
Unamortized prior service cost	3.6	5.7	(15.0)	(18.5)	(11.4)	(12.8)
Unamortized transitional obligation	4.2	5.1	0.4	0.6	4.6	5.7
Accrued pension and other						
post-retirement benefit asset (liability)	\$ 83.4	\$ 5.6	\$ (224.4)	\$ (207.3)	\$ (141.0)	\$ (201.7)
Amounts included in:						
Other assets (Note 9)	\$ 111.4	\$ 26.4	\$ 0.3	\$ 0.4	\$ 111.7	\$ 26.8
Liabilities						
Current (Note 12)	–	(0.3)	(7.9)	(8.6)	(7.9)	(8.9)
Long-term	(28.0)	(20.5)	(216.8)	(199.1)	(244.8)	(219.6)
	\$ 83.4	\$ 5.6	\$ (224.4)	\$ (207.3)	\$ (141.0)	\$ (201.7)

Letters of credit secured certain of the unfunded defined benefit plans as at December 31, 2007 and 2006.

The company is a sponsor of certain US post-retirement health-care plans that were impacted by the US Medicare Prescription Drug, Improvement and Modernization Act of 2003. This legislation expanded Medicare to include (for the first time) coverage for prescription drugs and introduced a prescription drug benefit and federal subsidy to sponsors of retiree health-care benefit plans that provide benefits at least "actuarially equivalent" to Medicare Part D. The company accounted for the impact of the legislation prospectively as of July 1, 2004. The federal subsidy had the effect of reducing the company's accumulated post-retirement benefit obligation by \$23.2 and reducing the net periodic post-retirement benefit cost for the year by \$4.2 (2006 – \$2.4).

Notes to the PotashCorp 2007 Consolidated Financial Statements

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

15. Pension and Other Post-Retirement Benefits continued

The accumulated benefit obligation for all defined benefit pension plans was \$562.7 and \$557.8 at December 31, 2007 and 2006, respectively. The aggregate projected benefit obligation, accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were as follows:

	2007	2006
Projected benefit obligation	\$ 91.3	\$ 597.5
Accumulated benefit obligation	85.0	543.4
Fair value of plan assets	59.7	457.7

Sensitivity of Assumptions

The effect of a change in the health-care cost trend rate on the other post-retirement benefit obligation and the aggregate of service and interest cost would have been as follows:

	2007	2006	2005
As reported:			
Benefit obligation	\$ 251.8	\$ 247.4	\$ 222.6
Aggregate of service and interest cost	21.0	17.1	19.0
Impact of increase of 1.0 percentage point:			
Benefit obligation	36.9	36.7	31.4
Aggregate of service and interest cost	3.9	2.8	3.2
Impact of decrease of 1.0 percentage point:			
Benefit obligation	(29.7)	(29.2)	(27.8)
Aggregate of service and interest cost	(3.0)	(2.2)	(2.9)

The above sensitivities are hypothetical and should be used with caution. Changes in amounts based on a 1.0 percentage point variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in amounts may not be linear. The sensitivities have been calculated independently of changes in other key variables. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities.

Plan Assets

Approximate asset allocations, by asset category, of the company's significant pension plans were as follows at December 31:

Asset Category	Target	2007	2006
Equity securities	65%	64%	66%
Debt securities	35%	36%	34%
Real estate	—	—	—
Other	—	—	—
Total	100%	100%	100%

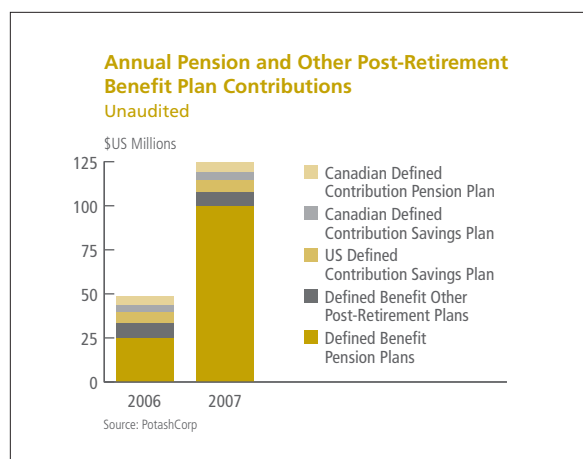
The company employs a total return on investment approach whereby a mix of equities and fixed income investments is used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed income investments.

Furthermore, equity investments are diversified across US and non-US stocks, as well as growth, value and small and large capitalizations. US equities are also diversified across actively managed and passively invested portfolios. Other assets such as private equity, real estate and hedge funds are not used at this time. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements and periodic asset/liability studies. The investment strategy in Trinidad is largely dictated by local investment restrictions (maximum of 50 percent in equities and 20 percent foreign) and asset availability since the local equity market is small and there is little secondary market activity in debt securities.

Defined Contribution Plans

All of the company's US employees may participate in defined contribution savings plans. These plans are subject to US federal tax limitations and provide for voluntary employee salary deduction contributions. The company contribution provides a minimum of 3 percent (to a maximum of 6 percent) of salary depending on employee contributions and company performance. The company's 2007 contributions were \$6.4 (2006 – \$6.2; 2005 – \$6.1).

All of the company's Canadian salaried employees and certain hourly employees participate in the PCS Inc. Savings Plan and may make voluntary contributions. The company contribution provides a minimum of 3 percent (to a maximum of 6 percent) of salary based on company performance. The company's contributions in 2007 were \$4.8 (2006 – \$3.9; 2005 – \$4.4).



IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

15. Pension and Other Post-Retirement Benefits continued

Certain of the company's Canadian employees participate in the contributory PCS Inc. Pension Plan. The member contributes to the plan at the rate of 5.5 percent of the member's earnings, or such other percentage amount as may be established by a collective agreement, and the company contributes for each member at the same rate. The member may also elect to make voluntary additional contributions. The company's contributions in 2007 were \$5.7 (2006 – \$5.0; 2005 – \$4.5).

Cash Payments

Total cash payments for pensions and other post-retirement benefits for 2007, consisting of cash contributed by the company to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans and cash contributed to its defined contribution plans, were \$124.8. Approximately \$53.0 is expected to be contributed by the company to all plans during 2008.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from either corporate assets or the qualified pension trusts:

	Pension	Gross	Other	
			Reduction due to Medicare Part D Subsidy	Net
2008	\$ 29.6	\$ 10.5	\$ 1.0	\$ 9.5
2009	32.6	11.5	1.2	10.3
2010	33.1	12.5	1.3	11.2
2011	35.2	13.6	1.5	12.1
2012	39.0	14.5	1.7	12.8
2013-2017	232.3	89.6	11.7	77.9

16. ENVIRONMENTAL COSTS AND ASSET RETIREMENT OBLIGATIONS

The company records an asset and related retirement obligation for the costs associated with the retirement of long-lived tangible assets when a legal liability to retire such assets exists. The major categories of asset retirement obligations include: reclamation and restoration costs at the company's potash and phosphate mining operations (most particularly phosphate mining), including management of materials generated by mining and mineral processing, such as various mine tailings and gypsum; land reclamation and revegetation programs; decommissioning of underground and surface operating facilities; general clean-up activities aimed at returning the areas to an environmentally acceptable condition; and post-closure care and maintenance.

The estimation of asset retirement obligation costs depends on the development of environmentally acceptable closure and post-closure plans. In some cases, this may require significant research and development to identify preferred methods for such plans that are

economically sound and that, in most cases, may not be implemented for several decades. The company has continued to utilize appropriate technical resources, including outside consultants, to develop specific site closure and post-closure plans in accordance with the requirements of the various jurisdictions in which it operates. The company estimates that the undiscounted cash flows required to settle the asset retirement obligations approximate \$4,050. The estimated cash flows have been discounted at credit-adjusted risk-free rates ranging from 5.6 percent to 6.8 percent. Other than certain land reclamation programs, settlement of the obligations is typically correlated with mine life estimates. Cash flow payments are expected to occur principally over the next 100 years for the company's phosphate operations. Payments relating to certain potash operations are not expected to occur until after that time. The present value of the company's asset retirement obligations at December 31, 2007 totaled \$116.6 (2006 – \$100.7), as set out in the table on Page 92. The asset retirement obligations are generally incurred over an extended period of time. The current portion totaled \$10.2 (2006 – \$7.2).

Certain of the company's facilities have asbestos-containing materials which the company will be obligated to remove and dispose of in a required manner should the asbestos become friable (i.e., readily crumbled or powdered) or should the property be demolished. As of December 31, 2007, the company has not recognized a conditional asset retirement obligation in its consolidated financial statements for certain locations where asbestos exists, because it does not have sufficient information to estimate the fair value of the obligation. As a result of the longevity of these facilities (due in part to maintenance procedures) and the fact that the company does not have plans for major changes that would require the removal of this asbestos, the timing of the removal of asbestos is indeterminable and the time over which the company may settle the obligation cannot be reasonably estimated as at December 31, 2007. The company would recognize a liability in the period in which sufficient information is available to reasonably estimate its fair value, as it has done for certain of the company's other facilities.

Other environmental liabilities typically relate to regulatory compliance, environmental management practices associated with ongoing operations other than mining, site assessment and remediation of environmental contamination related to the activities of the company and its predecessors, including waste disposal practices and ownership and operations of real property and facilities.

Site Assessment and Remediation Costs

The company has accrued \$18.1 (2006 – \$18.6) for costs associated with site assessment and remediation, including consulting fees, related to the clean-up of contaminated sites currently or formerly associated with the company or its predecessors' businesses. The current portion of these costs totaled \$3.5 (2006 – \$1.8). See Note 29, under Legal and Other Matters, for a more detailed discussion of site assessment and remediation costs.

Notes to the PotashCorp 2007 Consolidated Financial Statements

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

16. Environmental Costs and Asset Retirement Obligations continued

Environmental Operating Costs and Capital Expenditures

The company's operating expenses, other than costs associated with asset retirement obligations, relating to compliance with environmental laws and regulations governing ongoing operations for 2007 were approximately \$104.8 (2006 – \$92.6; 2005 – \$87.2). These amounts include environmental operating expenses related primarily to the production of phosphoric acid, fertilizer, feed and other products.

The company routinely undertakes environmental capital projects. In 2007, capital expenditures of \$44.2 (2006 – \$13.6) were incurred to meet pollution prevention and control objectives and \$0.5 (2006 – \$0.2) were incurred to meet other environmental objectives.

Following is a reconciliation of asset retirement and other environmental obligations as at December 31:

	2007	2006
Asset retirement obligations, beginning of year	\$ 100.7	\$ 91.8
Liabilities incurred	6.8	7.2
Liabilities settled	(4.5)	(3.6)
Accretion expense	4.9	3.3
Revisions in timing and amount of estimated cash flows	8.7	2.0
Asset retirement obligations, end of year	116.6	100.7
Other environmental liabilities	18.1	18.6
Less current portion (Note 12)	(13.7)	(9.0)
	\$ 121.0	\$ 110.3

17. SHARE CAPITAL

Authorized

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

Issued

	2007 Consideration	2006 Consideration	2005 Consideration
Issued, beginning of year	\$ 1,431.6	\$ 1,379.3	\$ 1,408.4
Shares issued under option plans	28.6	50.9	95.7
Shares issued for dividend reinvestment plan	1.1	1.4	0.3
Shares repurchased	–	–	(125.1)
Issued, end of year	\$ 1,461.3	\$ 1,431.6	\$ 1,379.3

	2007 Number of Common Shares	2006 Number of Common Shares	2005 Number of Common Shares
Issued, beginning of year	314,403,147	310,781,376	331,891,509
Shares issued under option plans	1,995,460	3,581,424	7,378,782
Shares issued for dividend reinvestment plan	12,602	40,347	11,085
Shares repurchased	–	–	(28,500,000)
Issued, end of year	316,411,209	314,403,147	310,781,376

Stock Split

On May 2, 2007, the Board of Directors of PCS approved a three-for-one split of the company's outstanding common shares. The stock split was effected in the form of a stock dividend of two additional common shares for each share owned by shareholders of record at the close of business on May 22, 2007. All equity-based benefit plans and share data have been retroactively adjusted to reflect the stock split.

Normal Course Issuer Bid

On January 25, 2005, the Board of Directors of PCS authorized a share repurchase program of up to 16,500,000 common shares (approximately 5 percent of the company's issued and outstanding common shares) through a normal course issuer bid. On September 22, 2005, the Board of Directors authorized an increase in the number of common shares sought under the share repurchase program. This amendment allowed

Notes to the PotashCorp 2007 Consolidated Financial Statements

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

17. Share Capital continued

the company to repurchase up to 12,000,000 additional common shares. Shares could be repurchased from time to time on the open market through February 14, 2006 at prevailing market prices. The timing and amount of purchases, if any, under the program were dependent upon the availability and alternative uses of capital, market conditions and other factors. The company completed the repurchase program by December 31, 2005. No further program was authorized in 2006 or 2007. On January 23, 2008, the Board of Directors of PCS authorized a share repurchase program of up to 15,820,000 common shares (see Note 34).

During 2005, the company repurchased for cancellation 28,500,000 common shares under the program, at a net cost of \$851.9 and an average price per share of \$29.89. The repurchase resulted in a reduction of share capital of \$125.1, and the excess net cost over the average book value of the shares was recorded as a reduction of contributed surplus of \$264.3 and a reduction of retained earnings of \$462.5.

18. CONTRIBUTED SURPLUS

	2007	2006	2005
Balance, beginning of year	\$ 62.3	\$ 36.3	\$ 275.7
Stock-based compensation	36.6	26.0	24.9
Share repurchases (Note 17)	—	—	(264.3)
Balance, end of year	\$ 98.9	\$ 62.3	\$ 36.3

19. SEGMENT INFORMATION

The company has three reportable business segments: potash, nitrogen and phosphate. 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 2.

2007

	Potash	Nitrogen	Phosphate	All others	Consolidated
Sales	\$ 1,797.2	\$ 1,799.9	\$ 1,637.1	\$ —	\$ 5,234.2
Freight	178.1	55.6	112.4	—	346.1
Transportation and distribution	39.1	51.6	33.4	—	124.1
Net sales – third party	1,580.0	1,692.7	1,491.3	—	—
Cost of goods sold	667.7	1,156.6	1,058.5	—	2,882.8
Gross margin	912.3	536.1	432.8	—	1,881.2
Inter-segment sales	—	112.3	1.9	—	—
Depreciation and amortization	71.7	88.2	121.1	10.3	291.3
Goodwill	—	96.6	—	0.4	97.0
Assets	1,809.6	1,646.4	1,955.4	4,305.2	9,716.6
Additions to property, plant and equipment	338.2	89.7	176.2	3.1	607.2

2006

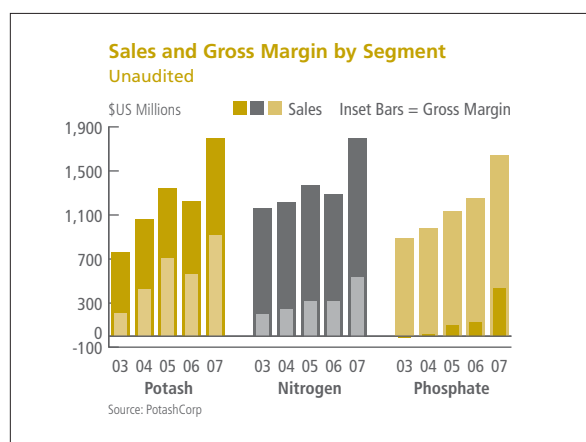
	Potash	Nitrogen	Phosphate	All others	Consolidated
Sales	\$ 1,227.5	\$ 1,284.1	\$ 1,255.1	\$ —	\$ 3,766.7
Freight	130.5	36.8	88.5	—	255.8
Transportation and distribution	38.8	52.2	43.1	—	134.1
Net sales – third party	1,058.2	1,195.1	1,123.5	—	—
Cost of goods sold	497.1	879.5	998.2	—	2,374.8
Gross margin	561.1	315.6	125.3	—	1,002.0
Inter-segment sales	5.7	112.4	7.2	—	—
Depreciation and amortization	58.3	77.6	94.6	11.9	242.4
Goodwill	—	96.6	—	0.4	97.0
Assets	1,478.0	1,480.7	1,753.9	1,504.4	6,217.0
Additions to property, plant and equipment	293.2	75.5	119.7	20.2	508.6

Notes to the PotashCorp 2007 Consolidated Financial Statements

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

19. Segment Information continued

2005					
	Potash	Nitrogen	Phosphate	All others	Consolidated
Sales	\$ 1,341.1	\$ 1,368.8	\$ 1,137.3	\$ —	\$ 3,847.2
Freight	129.7	39.9	80.1	—	249.7
Transportation and distribution	34.5	49.5	37.9	—	121.9
Net sales – third party	1,176.9	1,279.4	1,019.3	—	—
Cost of goods sold	469.5	960.7	920.4	—	2,350.6
Gross margin	707.4	318.7	98.9	—	1,125.0
Inter-segment sales	5.8	100.7	14.0	—	—
Depreciation and amortization	64.5	72.0	95.6	10.3	242.4
Goodwill	—	96.6	—	0.4	97.0
Assets	1,236.8	1,526.5	1,723.0	871.6	5,357.9
Additions to property, plant and equipment	165.5	99.3	109.5	8.4	382.7



As described in Note 1, PhosChem and Canpotex execute offshore marketing, sales and distribution functions for certain of the company's products. Financial information by geographic area is summarized in the following table:

	Country of Origin				Consolidated
	Canada	United States	Trinidad	Other	
2007					
Sales to customers outside the company					
Canada	\$ 88.0	\$ 127.0	\$ —	\$ —	\$ 215.0
United States	764.7	2,065.6	661.6	—	3,491.9
PhosChem (PhosChem's 2007 sales were made to: India 51%, China 6%, other Asian countries 8%, Latin America 31%, other countries 4%)	—	264.6	—	—	264.6
Canpotex (Canpotex's 2007 sales were made to: China 26%, Brazil 21%, India 10%, other Asian countries 33%, other countries 10%)	782.7	—	—	—	782.7
Mexico	23.1	81.8	—	—	104.9
Brazil	70.3	—	—	23.1	93.4
Colombia	26.2	10.4	46.8	—	83.4
Other Latin America	42.2	21.5	63.1	—	126.8
Other	—	35.5	36.0	—	71.5
	\$ 1,797.2	\$ 2,606.4	\$ 807.5	\$ 23.1	\$ 5,234.2
Operating income	\$ 537.8	\$ 652.5	\$ 296.9	\$ 101.3	\$ 1,588.5
Capital assets and goodwill	\$ 1,504.3	\$ 1,848.6	\$ 587.2	\$ 44.3	\$ 3,984.4

Notes to the PotashCorp 2007 Consolidated Financial Statements

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

19. Segment Information continued

	Country of Origin				Consolidated
	Canada	United States	Trinidad	Other	
2006					
Sales to customers outside the company					
Canada	\$ 65.7	\$ 92.0	\$ –	\$ –	\$ 157.7
United States	557.5	1,454.9	530.2	–	2,542.6
PhosChem (PhosChem's 2006 sales were made to: India 40%, China 19%, other Asian countries 14%, Latin America 22%, other countries 5%)					
	–	232.2	–	–	232.2
Canpotex (Canpotex's 2006 sales were made to: China 19%, India 10%, other Asian countries 41%, Brazil 15%, other countries 15%)					
	467.1	–	–	–	467.1
Mexico	7.3	72.1	5.1	–	84.5
Brazil	68.7	–	–	16.2	84.9
Colombia	20.2	7.5	32.3	–	60.0
Other Latin America	41.0	19.2	38.3	–	98.5
Other	–	37.9	1.3	–	39.2
	\$ 1,227.5	\$ 1,915.8	\$ 607.2	\$ 16.2	\$ 3,766.7
Operating income	\$ 426.9	\$ 216.4	\$ 171.8	\$ 60.4	\$ 875.5
Capital assets and goodwill	\$ 1,207.7	\$ 1,761.3	\$ 610.4	\$ 43.4	\$ 3,622.8

	Country of Origin				Consolidated
	Canada	United States	Trinidad	Other	
2005					
Sales to customers outside the company					
Canada	\$ 69.3	\$ 105.9	\$ –	\$ –	\$ 175.2
United States	576.6	1,470.9	545.5	–	2,593.0
PhosChem (PhosChem's 2005 sales were made to: India 29%, China 29%, other Asian countries 22%, Latin America 14%, other countries 6%)					
	–	166.7	–	–	166.7
Canpotex (Canpotex's 2005 sales were made to: China 29%, India 11%, other Asian countries 33%, Brazil 13%, other countries 14%)					
	577.1	–	–	–	577.1
Mexico	10.5	64.5	–	–	75.0
Brazil	60.3	3.7	–	23.7	87.7
Colombia	19.3	9.3	28.7	–	57.3
Other Latin America	28.0	5.7	31.6	–	65.3
Other	–	23.6	26.3	–	49.9
	\$ 1,341.1	\$ 1,850.3	\$ 632.1	\$ 23.7	\$ 3,847.2
Operating income	\$ 464.1	\$ 170.2	\$ 199.3	\$ 59.0	\$ 892.6
Capital assets and goodwill	\$ 954.6	\$ 1,751.1	\$ 612.4	\$ 41.7	\$ 3,359.8

20. COST OF GOODS SOLD

The primary components of cost of goods sold are labor, employee benefits, services, raw materials (including inbound freight and purchasing and receiving costs), operating supplies, energy costs, property and miscellaneous taxes, depreciation and amortization, and provision for plant shutdowns.

Provision for Plant Shutdowns – Phosphate Segment – 2006

In July 2006, the company indefinitely suspended production of superphosphoric acid and ammonium polyphosphate products at its Geismar, Louisiana location due to higher input costs and lower product margins for those products at that location, compared to the company's other

Notes to the PotashCorp 2007 Consolidated Financial Statements

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

20. Cost Of Goods Sold continued

facilities. No employee positions were terminated. The plants have not been restarted since that time and company management has determined that there are no immediate intentions of restarting the plants.

In connection with the shutdowns, management determined that the carrying amounts of the long-lived assets related to the production facilities were not fully recoverable, and an impairment loss of \$6.3, equal to the amount by which the carrying amount of the asset groups exceeded their respective fair values, was recognized. Fair values were determined based on an estimate of future cash flows resulting from the use of the assets and their eventual disposition. All of the impairment loss related to property, plant and equipment and is included in cost of goods sold.

21. SELLING AND ADMINISTRATIVE

The primary components of selling and administrative are compensation, employee benefits, supplies, communications, travel, professional services, and depreciation and amortization.

22. PROVINCIAL MINING AND OTHER TAXES

Provincial mining and other taxes consist of:

	2007	2006	2005
Potash Production Tax	\$ 84.2	\$ 28.6	\$ 94.8
Saskatchewan corporate capital taxes and other	51.2	37.9	42.4
	\$ 135.4	\$ 66.5	\$ 137.2

24. INTEREST EXPENSE

	2007	2006	2005
Interest expense on			
Short-term debt	\$ 8.7	\$ 34.5	\$ 7.0
Long-term debt	111.6	97.6	94.1
Interest capitalized to property, plant and equipment	(21.8)	(19.1)	(5.7)
Interest income	(29.8)	(27.4)	(13.1)
	\$ 68.7	\$ 85.6	\$ 82.3

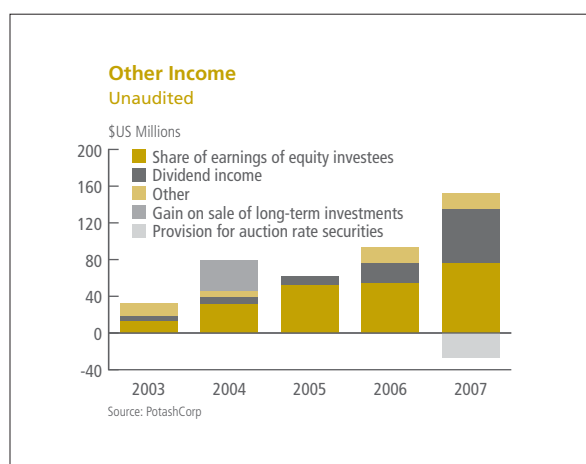
25. INCOME TAXES

As the company operates in a specialized industry and in several tax jurisdictions, its income is subject to various rates of taxation.

The provision for income taxes differs from the amount that would have resulted from applying the Canadian statutory income tax rates to income before income taxes as follows:

23. OTHER INCOME

	2007	2006	2005
Share of earnings of equity investees	\$ 76.2	\$ 54.4	\$ 52.1
Dividend income	58.1	21.1	9.2
Other	17.7	18.5	0.5
Provision for auction rate securities (Note 8)	(26.5)	—	—
	\$ 125.5	\$ 94.0	\$ 61.8



Notes to the PotashCorp 2007 Consolidated Financial Statements

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

25. Income Taxes continued

	2007	2006	2005
Income before income taxes			
Canada	\$ 495.5	\$ 338.2	\$ 381.5
United States	634.1	219.3	170.0
Trinidad	268.6	148.5	175.6
Other	121.6	83.9	83.2
	\$ 1,519.8	\$ 789.9	\$ 810.3
Federal and provincial statutory tax rates	35.55%	39.25%	42.52%
Tax at statutory rates	\$ 540.3	\$ 310.0	\$ 344.5
Adjusted for the effect of:			
Recoveries upon Canadian tax rate reductions	(40.1)	(44.8)	–
Refunds upon deduction of Saskatchewan resource surcharge	–	(34.1)	–
Net non-deductible provincial taxes and royalties and resource allowances	–	(6.3)	(1.2)
Production-related deductions	(17.6)	–	–
Stock-based compensation deduction	(0.1)	(5.8)	(13.2)
Additional tax deductions	(15.4)	(15.5)	(14.8)
Difference between Canadian rate and rates applicable to subsidiaries in other countries	(45.9)	(43.8)	(48.9)
Other	(5.0)	(1.6)	1.0
Income tax expense	\$ 416.2	\$ 158.1	\$ 267.4

Details of income tax expense are as follows:

	2007	2006	2005
Canada			
Current	\$ 154.1	\$ 51.8	\$ 170.5
Future	(17.6)	(4.3)	12.6
United States – Federal			
Current	32.4	2.3	0.8
Future	137.6	43.7	30.8
United States – State			
Current	12.8	2.6	2.2
Future	0.7	5.7	(12.8)
Trinidad and other			
Current	97.3	51.4	53.8
Future	(1.1)	4.9	9.5
Income tax expense	\$ 416.2	\$ 158.1	\$ 267.4

The tax effects of temporary differences that give rise to significant portions of the net future income tax liability are:

	2007	2006
Future income tax assets:		
Loss and credit carryforwards	\$ 119.4	\$ 189.9
Accrued pension and other post-retirement benefits	51.5	44.5
Other	54.7	56.1
Total future income tax assets	225.6	290.5
Future income tax liabilities:		
Basis difference in fixed assets	731.3	715.2
Basis difference in long-term debt	75.6	52.3
Basis difference in investments	213.8	10.3
Basis difference in cash flow hedges	50.3	–
Other	142.7	144.8
Total future income tax liabilities	1,213.7	922.6
Net future income tax liability	\$ 988.1	\$ 632.1

Notes to the PotashCorp 2007 Consolidated Financial Statements

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

25. Income Taxes continued

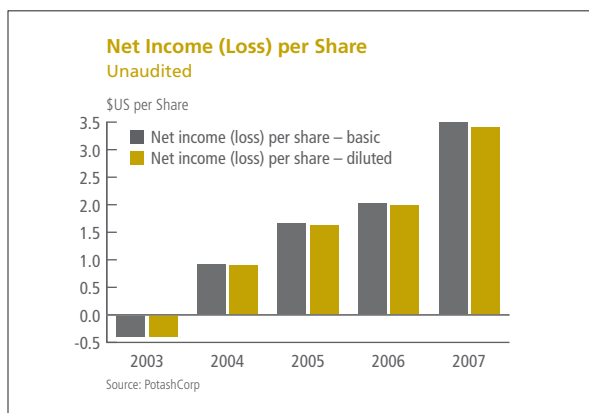
At December 31, 2007, the company has income tax operating losses carried forward of \$234.1, certain of which will begin to expire in 2021. As well, it has income tax capital losses carried forward of \$222.0 that do not expire. In addition, it has alternative minimum tax credits of approximately \$6.4 that carry forward indefinitely. The benefit relating to these amounts has been recognized by reducing future income tax liabilities. The company also has \$38.5 of deductible temporary differences, which have been offset by a valuation allowance. As a result, no future income tax asset has been recognized on these differences.

The company has determined that it is more likely than not that the future income tax assets, net of the valuation allowance, will be realized through a combination of future reversals of temporary differences and taxable income.

26. NET INCOME PER SHARE

	2007	2006	2005
Basic net income per share¹			
Net income available to common shareholders	\$ 1,103.6	\$ 631.8	\$ 542.9
Weighted average number of common shares	315,641,000	311,880,000	325,704,000
Basic net income per share	\$ 3.50	\$ 2.03	\$ 1.67
Diluted net income per share¹			
Net income available to common shareholders	\$ 1,103.6	\$ 631.8	\$ 542.9
Weighted average number of common shares	315,641,000	311,880,000	325,704,000
Dilutive effect of stock options	8,667,000	6,809,000	7,530,000
Weighted average number of diluted common shares	324,308,000	318,689,000	333,234,000
Diluted net income per share	\$ 3.40	\$ 1.98	\$ 1.63

¹ Net income per share calculations are based on full dollar and share amounts.



Diluted net income per share is calculated based on the weighted average number of shares issued and outstanding during the year. The denominator is: (1) increased by the total of the additional common shares that would have been issued assuming exercise of all stock options with exercise prices at or below the average market price for the year; 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 year. For performance-based stock option plans, the number of contingently issuable potential common shares included in the calculation is based on the number of shares that would be issuable based on period-to-date (rather than anticipated) performance, if the effect is dilutive.

No outstanding options were excluded from the calculation of diluted net income per share for 2007, 2006 or 2005 as a result

of the options' exercise price being greater than the average market price of the common shares for the year.

27. STOCK-BASED COMPENSATION

The company has seven stock-based compensation plans, which are described below. The compensation cost charged against income for those plans in 2007 was \$84.0 (2006 – \$44.3; 2005 – \$37.3).

Stock Option Plans

The company has five stock option plans.

Under the Officers and Employees Plan, the company could, after February 3, 1998, issue up to 41,556,750 common shares pursuant to the exercise of options. Under the Directors Plan, the company could, after January 24, 1995, issue up to 2,736,000 common shares pursuant to the exercise of options. Under both plans, the exercise price is the quoted market closing price of the company's common shares on the last trading day immediately preceding the date of the grant and an option's maximum term is 10 years. All options granted to date under these plans have provided that one-half of the options granted in a year will vest one year from the date of the grant, with the other half vesting the following year. No stock options have been granted under the Directors Plan or the Officers and Employees Plan since November 2002 and November 2003, respectively, and the PCS Board of Directors determined in 2003 to discontinue granting stock options to directors. Effective November 2006, the PCS Board of Directors formally terminated these plans in respect of any future option grants.

Under the 2005 Performance Option Plan, the company could, after February 28, 2005 and before January 1, 2006, issue options to

Notes to the PotashCorp 2007 Consolidated Financial Statements

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

27. Stock-Based Compensation continued

acquire up to 3,600,000 common shares. Under the 2006 Performance Option Plan, the company could, after February 27, 2006 and before January 1, 2007, issue options to acquire up to 4,200,000 common shares. Under the 2007 Performance Option Plan, which was approved on May 3, 2007, the company could, after February 20, 2007 and before January 1, 2008, issue options to acquire up to 3,000,000 common shares. Under the performance plans, 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 the grant and an option's maximum term is 10 years. The key design difference between the 2005, 2006 and 2007 Performance Option Plans and the company's other stock option plans is the performance-based vesting feature. In general, options granted under the Performance Option Plans 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.

The company issues new common shares to satisfy stock option exercises.

A summary of the status of the plans as of December 31, 2007, 2006 and 2005 and changes during the years ending on those dates is presented as follows:

Number of Shares Subject to Option

	Performance Option Plans			Officers, Employees and Directors Plans		
	2007	2006	2005	2007	2006	2005
Outstanding, beginning of year	6,199,800	3,558,000	—	8,105,844	11,687,268	19,202,190
Granted	1,730,550	2,684,700	3,565,500	—	—	—
Exercised	—	—	—	(1,995,460)	(3,581,424)	(7,378,782)
Forfeited	(33,750)	(42,900)	(7,500)	—	—	—
Expired	—	—	—	—	—	(136,140)
Outstanding, end of year	7,896,600	6,199,800	3,558,000	6,110,384	8,105,844	11,687,268

Weighted Average Exercise Price

	Performance Option Plans			Officers, Employees and Directors Plans		
	2007	2006	2005	2007	2006	2005
Outstanding, beginning of year	\$ 31.38	\$ 30.03	\$ —	\$ 12.68	\$ 12.80	\$ 12.71
Granted	62.75	33.67	29.42	—	—	—
Exercised	—	—	—	13.31	13.31	12.71
Forfeited	39.26	30.30	30.13	—	—	—
Expired	—	—	—	—	—	13.68
Outstanding, end of year	\$ 40.08	\$ 31.38	\$ 30.03	\$ 13.48	\$ 12.68	\$ 12.80

The aggregate grant-date fair value of all options granted during the year was \$39.2 (2006 – \$34.5; 2005 – \$35.4).

The following table summarizes information about stock options outstanding at December 31, 2007:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Officers and Employees and Directors Plans					
\$7.00 to \$10.55	496,300	3	\$ 10.03	496,300	\$ 10.03
\$10.56 to \$14.10	3,403,958	5	\$ 11.67	3,403,958	\$ 11.67
\$14.11 to \$17.65	2,210,126	4	\$ 17.04	2,210,126	\$ 17.04
	6,110,384	4	\$ 13.48	6,110,384	\$ 13.48
Performance Option Plans					
\$29.00 to \$39.00	6,174,300	8	\$ 33.14	—	—
\$62.00 to \$72.00	1,722,300	9	\$ 64.93	—	—
	7,896,600	8	\$ 40.08	—	—
	14,006,984	6	\$ 28.47	6,110,384	\$ 13.48

The foregoing options have expiry dates ranging from November 2008 to May 2017.

The fair value of each option grant was estimated as of the grant date using the Black-Scholes-Merton option-pricing model. The following weighted average assumptions were used in arriving at the grant-date fair values associated with stock options for which compensation cost was recognized during 2005, 2006 and 2007:

Notes to the PotashCorp 2007 Consolidated Financial Statements

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

27. Stock-Based Compensation continued

	Year of Grant			
	2007	2006	2005	2003
Expected dividend	\$0.40	\$0.20	\$0.20	\$0.17
Expected volatility	29%	30%	28%	27%
Risk-free interest rate	4.48%	4.90%	3.86%	4.06%
Expected life of options in years	6.4	6.5	6.5	8

The expected dividend on the company's stock was based on the current annualized dividend rate as at the date of grant. Expected volatility was based on historical volatility of the company's stock over a period commensurate with the expected term of the stock option. The risk-free interest rate for the expected life of the option was based, as applicable, on the implied yield available on zero-coupon government issues with an equivalent remaining term at the time of the grant. Historical data were used to estimate the expected life of the option.

A summary of the status of the company's non-vested shares subject to option as of December 31, 2007, and changes during the year then ended, is presented below:

	Number of Shares Subject to Option	Weighted Average Grant-Date Fair Value
Non-vested at January 1, 2007	6,199,800	\$ 11.19
Granted	1,730,550	22.68
Vested	—	—
Forfeited	(33,750)	14.12
Non-vested at December 31, 2007	7,896,600	\$ 13.70

As of December 31, 2007, 7,896,600 options remained unvested and there was \$15.3 of total unrecognized compensation cost related to the company's stock option plans. This cost is expected to be recognized over the period through December 31, 2009.

Cash received from stock option exercises for the year ended December 31, 2007 was \$26.6 (2006 – \$47.3).

Deferred Share Unit and Other Plans

The company offers a deferred share unit plan to non-employee directors, which allows each director to choose to receive, in the form of deferred share units ("DSUs"), all or a percentage of the director's fees, which would otherwise be payable in cash. The plan also provides for discretionary grants of additional DSUs by the PCS Board of Directors, a practice which the Board discontinued on January 24, 2007 in connection with an increase in the annual retainer. Each DSU fully vests upon award, but is distributed only when the director has ceased to be a member of the Board of Directors of the company. Vested units are settled in cash based on the common share price at that time. As of December 31, 2007, the total DSUs held by participating directors was 206,251 (2006 – 213,849; 2005 – 190,905).

The company offers a performance unit incentive plan to senior executives and other key employees. The performance objectives

under the plan are designed to further align the interests of executives and key employees with those of shareholders by linking the vesting of awards to the total return to shareholders over the three-year performance period ending December 31, 2008. Total shareholder return measures the capital appreciation in the company's common shares, including dividends paid over the performance period.

Vesting of one-half of the awards is based on increases in the total shareholder return over the three-year performance period. Vesting of the remaining one-half of the awards is based on the extent to which the total shareholder return matches or exceeds the total shareholder return of the common shares of a pre-defined peer group. Vested units are settled in cash based on the common share price generally at the end of the performance period. Compensation expense for this program is recorded over the three-year performance cycle of the program. The amount of compensation expense is adjusted over the three-year performance cycle to reflect the current market value of common shares and the number of shares vested in accordance with the vesting schedule based upon total shareholder return, and such return compared to the company's peer group.

During 2006, cash of \$34.5 was used to settle the company's liability in respect of its performance unit incentive plan for the performance period January 1, 2003 to December 31, 2005. Other cash payments made in respect of the company's stock-based compensation plans during 2006 and 2007 were not significant.

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The company manages interest rate exposures by using a diversified portfolio of fixed and floating rate instruments. Its sensitivity to fluctuations in interest rates is substantially limited to certain of its cash and cash equivalents, investments in auction rate securities, short-term debt and long-term debt. During 2007, the company did not enter into any interest rate swaps. During 2006, the company terminated its interest rate swap contracts that effectively converted a notional amount of \$300.0 of fixed rate debt (due 2011) into floating rate debt for cash proceeds of \$5.2 and a gain of \$5.1. Hedge accounting was discontinued prospectively. The associated gains are being amortized over the remaining term of the related debt as a reduction to interest expense. No interest rate swap contracts were outstanding as at December 31, 2007 or 2006.

The company is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. It anticipates, however, that counterparties will be able to fully satisfy their obligations under the contracts. The major concentration of credit risk arises from the company's receivables. A majority of its sales are in North America and are primarily for use in the agricultural industry. The company seeks to manage the credit risk relating to these sales through a credit management program. Internationally, the company's products are sold primarily through two export associations whose accounts receivable are substantially insured or secured by letters of credit. In addition, the company is

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

28. Financial Instruments and Risk Management continued

exposed to liquidity and credit risk on investments in auction rate securities due to the current lack of liquidity for the investments in auction rate securities held in the company's trading account that has existed since August 2007. Due to the lack of liquidity, the securities have been held longer than the approximately 28 days that was originally anticipated. The auction rate securities consist of collateralized loan obligations consisting primarily of corporate bonds with a face value of \$48.3 and collateralized debt obligations consisting primarily of publicly traded debt with a face value of \$84.2. Of the total \$76.5 unrealized decrease in the fair value of investments in auction rate securities, \$50.0 is included in OCI and \$26.5 is included in net income (see Note 8). The company is uncertain as to when the liquidity for such securities will improve.

Fair Value

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 investments in auction rate securities held within the company's trading account at December 31, 2007 was 13.40 percent (2006 – 5.33 percent). The effective interest rate on the company's short-term debt at December 31, 2007 was 5.17 percent (2006 – 5.51 percent). The fair value of the company's notes payable at December 31, 2007 approximated \$1,364.8 (2006 – \$1,776.8) and reflects a current yield valuation based on observed market prices. The current yield on the notes payable ranges from 4.64 percent to 6.45 percent (2006 – 5.47 percent to 6.16 percent). The fair value of the company's other long-term debt instruments approximated carrying value.

29. CONTINGENCIES

Canpotex

PCS 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 it for such losses or liabilities in proportion to their productive capacity. There were no such operating losses or other liabilities in 2007, 2006 or 2005.

Mining Risk

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

Investment in 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

which the company may have to pay for JIC's remaining common shares if there was 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 1994, PCS Joint Venture responded to information requests from the US Environmental Protection Agency ("USEPA") and the Georgia Department of Natural Resources, Environmental Protection Division ("GEPD") regarding conditions at its Moultrie, Georgia location. PCS Joint Venture believes that the lead-contaminated soil and groundwater found at the site are attributable to former operations at the site prior to PCS Joint Venture's ownership. In 2005, the GEPD approved a Corrective Action Plan to address environmental conditions at this location. As anticipated, the approved remedy requires some excavation and off-site disposal of impacted soil and installation of a groundwater recovery and treatment system. PCS Joint Venture began the remediation in November 2005 and completed soil excavation in March 2006, and it is proceeding consistent with the projected schedule and budget.
- In 1998, the company, along with other parties, was notified by the USEPA of potential liability under the US federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA") with respect to certain soil and groundwater conditions at a PCS Joint Venture blending facility in Lakeland, Florida and certain adjoining property. In 1999, PCS Joint Venture signed an Administrative Order on Consent with 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 shared the cost 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 by the end of 2008. The USEPA has issued letters to PCS Joint Venture and five other alleged potentially responsible parties and 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.

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29. Contingencies continued

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. 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 a motion with the Court for certification of an interlocutory appeal of the Court's order and to stay further proceedings pending a decision on the appeal from the Fourth Circuit Appellate Court. PCS Nitrogen expects that the Court will rule on the motion for certification in the first quarter of 2008. PCS Nitrogen has also filed third-party complaints in the case against owners and operators that it believes should be responsible parties with respect to the site. In the event PCS Nitrogen is unsuccessful in its appeal of the Court's order, PCS Nitrogen will pursue the third-party complaints in the second phase of the case during which the Court will enter a final decision regarding the allocation and amount of any such liability. PCS Nitrogen denies that it is a potentially responsible party and is vigorously defending its interests in these actions.

- PCS Phosphate, along with several other entities, has received notice from parties to an Administrative Settlement Agreement ("Settling Parties") with 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 other costs associated with the Site, including reimbursement of USEPA's past costs. The cost of performing the removal at the Site is estimated at \$30.0. The removal activities commenced at the Site in August 2007. The company anticipates recovering some portion of its expenditures in this matter from other liable parties. USEPA is evaluating response actions for PCB-impacted sediments downstream of the Site but has not issued a final remedy for those sediments.
- The USEPA announced an 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 Resource Conservation and Recovery Act at the company's Aurora and White Springs plants. The company and other industry members have met with representatives of the US Department of Justice, USEPA and various state environmental agencies regarding potential resolution of these matters. During these meetings, the company was informed that the USEPA also believes the Geismar plant is in violation of these requirements. 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.

- Pursuant to the 1996 Corrective Action Consent Order (the "Order") executed between PCS Nitrogen Fertilizer, LP, formerly known as Arcadian Fertilizer, LP ("PCS Nitrogen Fertilizer") and GEPD in conjunction with PCS Nitrogen Fertilizer's purchase of certain real property 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 and has documented its findings in several successive facility investigation reports submitted to GEPD. Based on these findings and on the requirements of the Order, PCS Nitrogen Fertilizer is implementing a pilot study to evaluate the viability of in-situ bioremediation of groundwater at the site. In the event the technology proves successful and full-scale implementation is warranted, upon GEPD approval, a full-scale bioremediation remedy will be implemented. If the pilot study proves unsuccessful or if GEPD does not approve this remedial strategy, other, more costly remediation alternatives may need to be evaluated and implemented.

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.

Various other claims and lawsuits are pending against the company in the ordinary course of business. While it is not possible to determine the ultimate outcome of such actions at this time, and there exist inherent uncertainties in predicting such outcomes, it is management's belief that the ultimate resolution of such actions is not reasonably likely to have a material adverse effect on the company's consolidated financial position or results of operations.

The breadth of the company's operations and the global complexity of tax regulations require assessments of uncertainties and judgments in estimating the taxes it will ultimately pay. The final

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29. Contingencies continued

taxes paid are dependent upon many factors, including negotiations with taxing authorities in various jurisdictions, outcomes of tax litigation and resolution of disputes arising from federal, provincial, state and local tax audits. The resolution of these uncertainties and the associated final taxes may result in adjustments to the company's tax assets and tax liabilities.

The company owns facilities that have been either permanently or indefinitely shut down. It expects to incur nominal annual expenditures for site security and other maintenance costs at certain of these facilities. Should the facilities be dismantled, certain other shutdown-related costs may be incurred. Such costs 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.

30. 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 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 December 31, 2007, the maximum potential amount of future (undiscounted) payments under significant guarantees provided to third parties approximated \$454.7. As many of these guarantees will not be drawn upon and the maximum potential amount of future payments does not consider the possibility of recovery under recourse or collateral provisions, this

amount is not indicative of future cash requirements or the company's expected losses from these arrangements. At December 31, 2007, 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 in Note 13, and the cash margin requirements to maintain derivatives as disclosed in Note 12.

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. In February 2005, the Florida Environmental Regulation Commission approved certain modifications to the financial assurance requirements designed to ensure that responsible parties have sufficient resources to cover all closure and post-closure costs and liabilities associated with gypsum stacks in the state. The new requirements became effective in July 2005 and include financial strength tests that are more stringent than under previous law and a requirement that gypsum stack closure cost estimates include the cost of treating process water.

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 approval of these plans by the responsible provincial minister. The Minister of Environment for Saskatchewan 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 and is awaiting a response from the Province. The company is unable to predict, at this time, the outcome of the ongoing review of the plans or the timing of implementation and structure of any financial assurance requirements.

The company has met its financial assurance responsibilities as of December 31, 2007. Costs associated with the retirement of long-lived tangible assets have been accrued in the accompanying consolidated financial statements to the extent that a legal liability to retire such assets exists (see Note 16).

During the year, the company entered into various other commercial letters of credit in the normal course of operations. As at December 31, 2007, \$23.9 of letters of credit were outstanding (2006 – \$17.3).

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

31. RELATED PARTY TRANSACTIONS

Sales to Canpotex are at prevailing market prices. Sales for the year ended December 31, 2007 were \$782.7 (2006 – \$467.1; 2005 – \$577.1). Account balances resulting from the Canpotex transactions are included in the Consolidated Statements of Financial Position and settled on normal trade terms (see Note 4).

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32. COMPARATIVE FIGURES

Certain of the prior years' figures have been reclassified to conform with the current year's presentation.

33. RECONCILIATION OF CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Canadian GAAP varies in certain significant respects from US GAAP. As required by the United States Securities and Exchange Commission, the effect of these principal differences on the company's consolidated financial statements is described and quantified below:

(a) Long-term investments: Prior to January 1, 2007, the company's investments in ICL and Sinofert were stated at cost under Canadian GAAP. US GAAP requires that these investments be classified as available-for-sale and be stated at market value with the difference between market value and cost reported as a component of OCI. As described in Note 3, Canadian GAAP related to this matter was amended to be consistent with US GAAP on a prospective basis effective January 1, 2007.

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 of these equity investees under Canadian GAAP has been adjusted for the significant effects of conforming to US GAAP.

(b) 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.

(c) 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.

(d) 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.

(e) Pre-operating costs: Operating costs incurred during the start-up phase of new projects are deferred under Canadian GAAP until commercial production levels are reached, at which time they

are amortized over the estimated life of the project. US GAAP requires that these costs be expensed as incurred. As at December 31, 2007 and 2006, the start-up costs deferred for Canadian GAAP were not material.

(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 GAAP and US GAAP. In light of this, a difference between Canadian GAAP and US GAAP has been recorded for the effects of recognizing a pension valuation allowance and the changes therein under Canadian GAAP.

In addition, US GAAP requires the company 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) Derivative instruments and hedging activities: Prior to January 1, 2007 under Canadian GAAP, the company's derivatives used for non-trading purposes that did not qualify for hedge accounting were carried at fair value on the Consolidated Statements of Financial Position, with changes in fair value reflected in earnings. Derivatives embedded within instruments were generally not separately accounted for except for those related to equity-linked deposit contracts, which are not applicable to the company. Gains and losses on derivative instruments held within an effective hedge relationship were recognized in earnings on the same basis and in the same period as the underlying hedged items. There was no difference in accounting between Canadian GAAP and US GAAP in respect of derivatives held by the company that do not qualify for

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

33. Reconciliation of Canadian and United States Generally Accepted Accounting Principles continued

hedge accounting. Unlike Canadian GAAP, however, the company recognized all of its derivative instruments (whether designated in hedging relationships or not, or embedded within hybrid instruments) at fair value on the Consolidated Statements of Financial Position for US GAAP purposes. Under US GAAP, the accounting for changes in the fair value (i.e. gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship. For strategies designated as fair value hedges, the effective portion of the change in the fair value of the derivative is offset in income against the change in fair value, attributed to the risk being hedged, of the underlying hedged asset, liability or firm commitment. For cash flow hedges, the effective portion of the changes in the fair value of the derivative is accumulated in OCI until the variability in cash flows being hedged is recognized in earnings in future accounting periods. For both fair value and cash flow hedges, if a derivative instrument is designated as a hedge and meets the criteria for hedge effectiveness, earnings offset is available, but only to the extent that the hedge is effective. Ineffective portions of fair value or cash flow hedges are recorded in earnings in the current period.

As described in Note 3, Canadian GAAP related to this matter was amended to be consistent with US GAAP on a prospective basis effective January 1, 2007.

(i) Comprehensive income: Comprehensive income is recognized and measured under US GAAP pursuant to SFAS No. 130, "Reporting Comprehensive Income". This standard defines comprehensive income as all changes in equity other than those resulting from investments by owners and distributions to owners. Comprehensive income is comprised of net income and OCI. OCI refers to amounts that are recorded as an element of shareholders' equity but are excluded from net income because these transactions or events were attributed to changes from non-owner sources. As described in Note 3, Canadian standards relating to comprehensive income are effective January 1, 2007 on a prospective basis.

(j) 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. Effective January 1, 2006, US GAAP requires that these liability awards be measured at fair value at each reporting period. As at December 31, 2007, the difference between Canadian GAAP and US GAAP was not significant. 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 the company 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 2006 Performance Option Plan, the service period commenced January 1, 2006 under Canadian GAAP and May 4, 2006 under US GAAP. 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. This difference impacts the stock-based compensation cost recorded and may impact diluted earnings per share.

(k) 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. Effective January 1, 2006, 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. In accordance with US GAAP, the company has recorded the effect of initially applying this consensus as a cumulative-effect adjustment recognized in the opening balance of retained earnings as of January 1, 2006.

(l) 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 GAAP 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.

(m) 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 income tax rate. Under US GAAP, the excess benefit is recognized as additional paid-in capital.

(n) 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.

(o) 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.

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33. Reconciliation of Canadian and United States Generally Accepted Accounting Principles continued

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 and comprehensive income.

	2007	2006	2005
Net income as reported – Canadian GAAP	\$ 1,103.6	\$ 631.8	\$ 542.9
Items increasing (decreasing) reported net income			
Cash flow hedge ineffectiveness (h)	–	(4.5)	2.3
Depreciation and amortization (c)	8.5	8.4	8.4
Stock-based compensation (j)	(1.7)	1.3	–
Stripping costs (k)	(10.9)	2.6	–
Exploration costs (d)	–	–	(6.4)
Share of earnings of equity investees (a)	(1.9)	0.5	3.7
Pension and other post-retirement benefits (f)	–	2.0	2.4
Deferred income taxes relating to the above adjustments (l)	(1.9)	(3.0)	(3.4)
Income taxes related to US GAAP effective income tax rate (l, n)	(30.3)	–	–
Income taxes related to stock-based compensation (m)	(18.4)	(13.3)	(17.2)
Income taxes related to uncertain income tax positions (n)	14.5	–	–
Net income – US GAAP	\$ 1,061.5	\$ 625.8	\$ 532.7
Basic weighted average shares outstanding – US GAAP	315,641,000	311,880,000	325,705,000
Diluted weighted average shares outstanding – US GAAP	324,292,000	318,669,000	333,235,000
Basic net income per share – US GAAP	\$ 3.36	\$ 2.01	\$ 1.64
Diluted net income per share – US GAAP	\$ 3.27	\$ 1.96	\$ 1.60
Total assets as reported – Canadian GAAP	\$ 9,716.6	\$ 6,217.0	
Items increasing (decreasing) reported total assets			
Inventory and other current assets (h)	–	8.0	
Available-for-sale securities (unrealized holding gain) (a)	–	889.9	
Fair value of derivative instruments (h)	–	120.3	
Property, plant and equipment (b)	(101.2)	(109.7)	
Exploration costs (d)	(6.4)	(6.4)	
Stripping costs (k)	(32.7)	(21.8)	
Deferred debt costs	–	(23.9)	
Pension and other post-retirement benefits (f)	(66.7)	6.7	
Investment in equity investees (a)	2.3	5.5	
Income tax asset related to uncertain income tax positions (n)	18.4	–	
Goodwill (b)	(46.7)	(46.7)	
Total assets – US GAAP	\$ 9,483.6	\$ 7,038.9	
Total shareholders' equity as reported – Canadian GAAP	\$ 6,018.7	\$ 2,780.3	\$ 2,132.5
Items increasing (decreasing) reported shareholders' equity			
Accumulated other comprehensive income, net of related income taxes, consisting of:			
Unrealized gains and losses on available-for-sale securities (a)	–	792.0	236.3
Net gains on derivatives designated as cash flow hedges (h)	–	79.4	182.4
Cumulative effect adjustment in respect of uncertain income tax positions (n)	(1.2)	–	–
Additional minimum pension liability (f)	–	–	(55.4)
Pension and other post-retirement benefits (f)	(85.6)	(117.9)	–
Share of accumulated other comprehensive income of equity investees (a)	–	0.9	0.8
Foreign currency translation adjustment (g)	(20.9)	(20.9)	(20.9)
Foreign currency translation adjustment (g)	20.9	20.9	20.9
Provision for asset impairment (b)	(218.0)	(218.0)	(218.0)
Depreciation and amortization (c)	70.1	61.6	53.2
Exploration costs (d)	(6.4)	(6.4)	(6.4)
Stripping costs (k)	(32.7)	2.6	–
Cash flow hedge ineffectiveness (h)	–	0.4	4.9
Pension and other post-retirement benefits (f)	16.1	16.1	14.1
Share of other comprehensive income of equity investees (a)	2.3	4.2	3.7
Deferred income taxes relating to the above adjustments (l)	30.4	24.0	27.0
Income taxes related to US GAAP effective income tax rate (l, n)	(30.3)	–	–
Income taxes related to uncertain income tax positions (n)	14.5	–	–
Cumulative effect adjustment to retained earnings in respect of stripping costs (k)	–	(16.3)	–
Cumulative effect adjustment to retained earnings in respect of uncertain income tax positions (n)	85.7	–	–
Shareholders' equity – US GAAP	\$ 5,863.6	\$ 3,402.9	\$ 2,375.1

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33. Reconciliation of Canadian and United States Generally Accepted Accounting Principles continued**Supplemental US GAAP Disclosure****Recent Accounting Pronouncements****Uncertainty in Income Taxes**

In July 2006, the Financial Accounting Standards Board ("FASB") issued FIN No. 48, "Accounting for Uncertainty in Income Taxes". FIN No. 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its consolidated financial statements uncertain 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). Under the model, the consolidated financial statements will reflect expected future income tax consequences of such positions presuming the taxing authorities' full knowledge of the position and all relevant facts, but without considering time values. The evaluation of tax positions under FIN No. 48 will be a two-step process, whereby: (1) the company determines whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position; and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the company would recognize the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. FIN No. 48 also revises disclosure requirements and introduces a prescriptive, annual, tabular roll-forward of the unrecognized tax benefits.

The company adopted the provisions of FIN No. 48 effective January 1, 2007. As a result of the implementation of FIN No. 48, the company recognized a decrease in the net tax liability for unrecognized tax benefits, reducing the liability by \$84.5 to \$34.2 (including interest of \$10.0). This was accounted for as a cumulative effect adjustment increasing the balance in retained earnings at January 1, 2007 by \$85.7 and decreasing the balance in accumulated other comprehensive income by \$1.2. At December 31, 2007, the company had an asset of \$18.4 and a liability of \$38.1 (including interest of \$8.1) for previously unrecognized income tax benefits.

The reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding interests, for the year is as follows:

Balance at January 1, 2007	\$	24.2
Additions based on tax positions related to the current year		2.8
Additions for tax positions of prior years		12.3
Reductions for tax positions of prior years		(18.0)
Settlements		(9.7)
<u>Balance at December 31, 2007</u>	<u>\$</u>	<u>11.6</u>

All of the tax positions included in the balance at January 1, 2007 would, if recognized, affect the company's effective income tax rate.

It is reasonably possible that a reduction in a range of \$8.0 to \$12.0 of unrecognized income tax benefits may occur within 12 months as a result of projected resolutions of worldwide income tax disputes. The company recognizes accrued interest related to unrecognized tax benefits and penalties in income tax expense. At December 31, 2007, \$8.1 of interest was accrued to unrecognized tax benefits and for the year ended December 31, 2007, \$1.9 of interest was recognized as a reduction of income tax expense. Tax years subject to examination by jurisdiction were as follows:

	<u>Years</u>
Canada	1997-present
US	2001-present
Trinidad	1999-present
Barbados	1999-present

Definition of Settlement Under FIN No. 48

In May 2007, the FASB issued FSP No. FIN 48, "The Definition of Settlement in FASB Interpretation No. 48". It amended FIN No. 48 to provide guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The guidance was effective January 1, 2007 and did not have a material impact on the company's consolidated financial statements.

Planned Major Maintenance Activities

In September 2006, the FASB issued FSP No. AUG AIR-1, "Accounting for Planned Major Maintenance Activities". The guidance in this FSP is applicable to entities in all industries. The FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods. The implementation of FSP No. AUG AIR-1, effective January 1, 2007, did not have a material impact on the company's consolidated financial statements.

Framework for Fair Value Measurement

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", which establishes a framework for measuring fair value. It also expands disclosures about fair value measurements and is effective for the first quarter of 2008. The company is currently reviewing the guidance to determine the potential impact, if any, on its consolidated financial statements.

Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". This statement permits entities to choose to measure many financial instruments and certain other items at fair value, providing the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without the need to apply hedge accounting provisions. The company is currently reviewing the

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33. Reconciliation of Canadian and United States Generally Accepted Accounting Principles continued

guidance, which is effective for the first quarter of 2008, to determine the potential impact, if any, on its consolidated financial statements.

Business Combinations

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations". The standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to 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 currently reviewing the guidance, which is effective for fiscal years beginning after December 15, 2008, to determine the potential impact, if any, on its consolidated financial statements.

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements". The standard requires all entities to report noncontrolling (minority) interests as equity in consolidated financial statements. SFAS No. 160 eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. The company is currently reviewing the guidance, which is effective for fiscal years beginning after December 15, 2008, to determine the potential impact, if any, on its consolidated financial statements.

Deferred Income Taxes

The total valuation allowance recognized for deferred income tax assets in 2007 was \$10.4 (2006 – \$53.1). The company has determined that it is more likely than not that the deferred income tax assets net of the valuation allowance will be realized through a combination of future reversals of temporary differences and taxable income.

Stock-Based Compensation

The total compensation cost charged to income in respect of the company's seven stock-based compensation plans under US GAAP was \$85.7 for the year ended December 31, 2007 (2006 – \$43.0; 2005 – \$37.3).

The aggregate intrinsic value of options outstanding at December 31, 2007 under the Performance Option Plans was \$815.1, and the aggregate intrinsic value of options exercisable was \$NIL. The

aggregate intrinsic value of options outstanding at December 31, 2007 under the Officers and Employees and Directors Plans was \$792.3, and the aggregate intrinsic value of options exercisable was \$792.3. The total intrinsic value of stock options exercised during the year ended December 31, 2007 was \$137.4 (2006 – \$72.9). No stock options vested during 2007.

As of December 31, 2007, there was \$15.1 of total unrecognized compensation cost related to the company's stock option plans. This cost is expected to be recognized over the period through December 31, 2009.

The company issued 18,726 performance units during 2007 (2006 – 471,495) under the performance unit incentive plan at a weighted average grant-date fair value of \$98.52 per unit (2006 – \$26.16). As at December 31, 2007, 434,266 units remained unvested and outstanding. Total unrecognized compensation cost approximated \$59.3, which is expected to be recognized over the period through December 31, 2008. However, such amount will be subject to change, as these liability awards are re-measured at fair value at each reporting period.

Derivative Instruments and Hedging Activities

The company has designated its natural gas derivative instruments as cash flow hedges.

During the year, gains of \$57.7 (including ineffectiveness) were recognized in cost of goods sold (2006 – \$73.5; 2005 – \$48.6).

Pension and Other Post-Retirement Benefits

The unamortized actuarial loss, unamortized prior service cost and unamortized transitional obligation included in accumulated other comprehensive income and expected to be recognized in net periodic pension cost during 2008 is \$6.0, \$(0.8) and \$2.2, respectively.

Related Party Transactions

During the year, sales to a company associated with the immediate family of a member of the PCS Board of Directors totaled \$29.7 (2006 – \$16.0; 2005 – \$12.6). These transactions were conducted in the normal course of business at the prevailing market prices and on normal trade terms.

Supplemental Schedules

The following supplemental schedules present the consolidated Financial Position, Operations and Retained Earnings, Comprehensive Income, Accumulated Other Comprehensive Income, and Cash Flow in accordance with US GAAP as adjusted for the GAAP differences described in this note.

Notes to the PotashCorp 2007 Consolidated Financial Statements

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

33. Reconciliation of Canadian and United States Generally Accepted Accounting Principles continued

SUPPLEMENTAL SCHEDULE OF CONSOLIDATED FINANCIAL POSITION

As at December 31

	2007	2006
Assets		
Current assets		
Cash and cash equivalents	\$ 719.5	\$ 325.7
Accounts receivable	596.2	442.3
Inventories	428.8	494.9
Prepaid expenses and other current assets	36.7	40.9
Current portion of derivative instrument assets	30.8	50.9
	1,812.0	1,354.7
Derivative instrument assets	104.2	69.4
Property, plant and equipment	3,746.4	3,409.8
Investments	3,583.8	2,044.3
Other assets	144.0	81.1
Income taxes on uncertain income tax positions	18.4	—
Intangible assets	24.5	29.3
Goodwill	50.3	50.3
	\$ 9,483.6	\$ 7,038.9
Liabilities		
Current liabilities		
Short-term debt	\$ 90.0	\$ 157.9
Accounts payable and accrued charges	851.5	573.5
Current portion of long-term debt	0.2	400.4
	941.7	1,131.8
Long-term debt	1,339.4	1,339.8
Deferred income tax liability	903.0	668.5
Income taxes on uncertain income tax positions	38.1	—
Accrued pension and other post-retirement benefits	274.1	378.1
Accrued environmental costs and asset retirement obligations	121.0	110.3
Other non-current liabilities and deferred credits	2.7	7.5
	3,620.0	3,636.0
Shareholders' Equity		
Share capital	1,461.3	1,431.6
Additional paid-in capital	169.8	113.1
Accumulated other comprehensive income	2,071.2	733.5
Retained earnings	2,161.3	1,124.7
	5,863.6	3,402.9
	\$ 9,483.6	\$ 7,038.9

SUPPLEMENTAL SCHEDULE OF CONSOLIDATED ACCUMULATED OTHER COMPREHENSIVE INCOME

For the Years Ended December 31

	2007	2006	2005
Accumulated other comprehensive income, beginning of year	\$ 733.5	\$ 343.2	\$ 96.8
Other comprehensive income, net of related income taxes	1,338.9	461.1	246.4
Cumulative effect adjustment in respect of uncertain income tax positions	(1.2)	—	—
Cumulative effect adjustment related to pension and other post-retirement benefits	—	(70.8)	—
Accumulated other comprehensive income, end of year	\$ 2,071.2	\$ 733.5	\$ 343.2

Notes to the PotashCorp 2007 Consolidated Financial Statements

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

33. Reconciliation of Canadian and United States Generally Accepted Accounting Principles continued

SUPPLEMENTAL SCHEDULE OF CONSOLIDATED ACCUMULATED OTHER COMPREHENSIVE INCOME (continued)

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

	2007	2006	2005
Net unrealized holding gains on available-for-sale securities	\$ 2,098.7	\$ 792.0	\$ 236.3
Net unrealized gains on derivatives designated as cash flow hedges	73.5	79.4	182.4
Additional minimum pension liability	—	—	(55.4)
Pension and other post-retirement benefits ¹	(85.6)	(117.9)	—
Share of other comprehensive income of equity investees	—	0.9	0.8
Unrealized foreign exchange gains on self-sustaining foreign operations	6.7	—	—
Foreign currency translation adjustment	(20.9)	(20.9)	(20.9)
Cumulative effect adjustment in respect of uncertain income tax positions	(1.2)	—	—
Accumulated other comprehensive income, end of year	\$ 2,071.2	\$ 733.5	\$ 343.2

¹ 2007 comprised of unamortized net actuarial loss of \$(91.0), unamortized prior service costs of \$8.7 and unamortized transitional obligation of \$(3.3). 2006 comprised of unamortized net actuarial loss of \$(122.9), unamortized prior service costs of \$9.0 and unamortized transitional obligation of \$(4.0).

SUPPLEMENTAL SCHEDULE OF CONSOLIDATED OPERATIONS AND RETAINED EARNINGS

For the Years Ended December 31

	2007	2006	2005
Sales	\$ 5,234.2	\$ 3,766.7	\$ 3,847.2
Less: Freight	346.1	255.8	249.7
Transportation and distribution	124.1	134.1	121.9
Cost of goods sold	2,885.9	2,365.4	2,337.5
Gross Margin	1,878.1	1,011.4	1,138.1
Selling and administrative	213.6	158.0	144.5
Provincial mining and other taxes	135.4	66.5	137.2
Foreign exchange loss (gain)	70.2	(4.4)	12.5
Share of earnings of equity investees	(74.3)	(54.9)	(55.8)
Other income	(49.3)	(39.6)	(3.3)
	295.6	125.6	235.1
Operating Income	1,582.5	885.8	903.0
Interest Expense	68.7	85.6	82.3
Income Before Income Taxes	1,513.8	800.2	820.7
Income Taxes	452.3	174.4	288.0
Net Income	1,061.5	625.8	532.7
Retained Earnings, Beginning of Year	1,124.7	577.5	572.3
Cumulative Effect Adjustment in Respect of Uncertain Income Tax Positions	85.7	—	—
Cumulative Effect Adjustment in Respect of Stripping Costs	—	(16.3)	—
Repurchase of Common Shares	—	—	(462.5)
Dividends	(110.6)	(62.3)	(65.0)
Retained Earnings, End of Year	\$ 2,161.3	\$ 1,124.7	\$ 577.5
Net Income per Share – Basic	\$ 3.36	\$ 2.01	\$ 1.64
Net Income per Share – Diluted	\$ 3.27	\$ 1.96	\$ 1.60
Dividends per Share	\$ 0.35	\$ 0.20	\$ 0.20

SUPPLEMENTAL SCHEDULE OF CONSOLIDATED COMPREHENSIVE INCOME

For the Years Ended December 31

	2007	2006	2005
Net Income	\$ 1,061.5	\$ 625.8	\$ 532.7
Other comprehensive income			
Net increase in unrealized gains on available-for-sale securities	1,394.1	534.7	193.5
Net gains (losses) on derivatives designated as cash flow hedges	49.4	(68.2)	255.0
Reclassification to income of net gains on cash flow hedges	(57.8)	(79.7)	(53.5)
Pension and other post-retirement benefits ¹	56.4	—	—
Unrealized foreign exchange gains on translation of self-sustaining foreign operations	6.7	—	—
Adjustment to additional minimum pension liability	—	11.7	(28.4)
Share of other comprehensive income of equity investees	(1.3)	0.2	1.1
Deferred income taxes related to other comprehensive income	(108.6)	62.4	(121.3)
Other Comprehensive Income	1,338.9	461.1	246.4
Comprehensive Income	\$ 2,400.4	\$ 1,086.9	\$ 779.1

¹ 2007 comprised of amortization of net actuarial loss of \$56.6, amortization of prior service costs of \$(1.4), and amortization of transitional obligation of \$1.2.

IN MILLIONS OF US DOLLARS EXCEPT SHARE AND PER-SHARE AMOUNTS

33. Reconciliation of Canadian and United States Generally Accepted Accounting Principles continued**SUPPLEMENTAL SCHEDULE OF CONSOLIDATED CASH FLOW**

For the Years Ended December 31

	2007	2006	2005
Operating Activities			
Net income	\$ 1,061.5	\$ 625.8	\$ 532.7
Adjustments to reconcile net income to cash provided by operating activities			
Depreciation and amortization	282.8	234.0	234.0
Stock-based compensation	40.3	28.5	27.5
Loss (gain) on disposal of property, plant and equipment and long-term investments	7.9	(8.6)	11.8
Provision for auction rate securities	26.5	—	—
Provision for plant shutdowns – phosphate segment	—	6.3	—
Foreign exchange on deferred income tax	52.4	0.5	8.9
Provision for deferred income tax	137.3	52.7	43.5
Undistributed earnings of equity investees	(33.7)	(25.0)	(37.2)
Unrealized gain on derivative instruments	(21.1)	—	—
Other long-term liabilities	(57.9)	13.4	20.2
Changes in non-cash operating working capital			
Accounts receivable	(154.6)	11.0	(107.6)
Inventories	59.6	15.8	(122.2)
Prepaid expenses and other current assets	7.0	(1.8)	(8.2)
Accounts payable and accrued charges	250.9	(269.1)	238.1
Cash provided by operating activities	1,658.9	683.5	841.5
Investing Activities			
Additions to property, plant and equipment	(595.6)	(508.6)	(376.3)
Purchase of long-term investments	(30.7)	(352.5)	(190.9)
Purchase of investments in auction rate securities	(132.5)	—	—
Proceeds from disposal of property, plant and equipment and long-term investments	4.5	22.0	12.4
Other assets and intangible assets	7.8	(0.6)	5.9
Cash used in investing activities	(746.5)	(839.7)	(548.9)
Financing Activities			
Proceeds from long-term debt obligations	1.5	483.9	—
Repayment and issue costs of long-term debt obligations	(403.6)	(1.3)	(10.1)
(Proceeds from) repayment of short-term debt obligations	(67.9)	(94.3)	158.7
Dividends	(93.6)	(60.9)	(65.4)
Repurchase of common shares	—	—	(851.9)
Issuance of common shares	26.6	47.3	93.9
Income taxes related to stock-based compensation	18.4	13.3	17.2
Cash (used in) provided by financing activities	(518.6)	388.0	(657.6)
Increase (Decrease) in Cash and Cash Equivalents	393.8	231.8	(365.0)
Cash and Cash Equivalents, Beginning of Year	325.7	93.9	458.9
Cash and Cash Equivalents, End of Year	\$ 719.5	\$ 325.7	\$ 93.9
Supplemental cash flow disclosure			
Income taxes paid (o)	\$ 221.0	\$ 296.8	\$ 141.6

34. SUBSEQUENT EVENTS

In January 2008, the company settled its forward purchase contract, which was denominated in Hong Kong dollars, to acquire an additional 194,290,175 shares of Sinofert for cash consideration of \$173.7. A gain of \$25.3 was recognized during 2008 as a result of the change in fair value of the contract from December 31, 2007 to the settlement date. The acquisition increases the company's ownership interest in Sinofert to approximately 20 percent.

On January 23, 2008, the Board of Directors of PCS authorized, subject to regulatory approval, a share repurchase program of up to 15,820,000 common shares (approximately 5 percent of the company's issued and outstanding common shares) through a normal course issuer bid. If considered advisable, shares may be repurchased from time to time on the open market through January 30, 2009 at prevailing market prices. The timing and amount of purchases, if any, under the program will be dependent upon the availability and alternative uses of capital, market conditions and other factors.