POTASH CORP OF SASKATCHEWAN INC
Form 10-Q
August 02, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the Quarterly Period Ended June 30, 2017

OR

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

Commission File Number 1-10351

Potash Corporation of Saskatchewan Inc.

(Exact name of registrant as specified in its charter)

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

306-933-8500

(Registrant s telephone number, including area code)

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

Yes No

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

Yes No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

As at June 30, 2017, Potash Corporation of Saskatchewan Inc. had 840,086,574 Common Shares outstanding.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Statements of Income

Unaudited — In millions of US dollars except as otherwise noted

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	**2017**	2016
Sales (Note 2)	**$ 1,120**	$ 1,053	**$ 2,232**	$ 2,262
Freight, transportation and distribution	**(116)**	(118)	**(249)**	(251)
Cost of goods sold	**(749)**	(692)	**(1,460)**	(1,534)
Gross Margin	**255**	243	**523**	477
Selling and administrative expenses	**(48)**	(55)	**(98)**	(108)
Provincial mining and other taxes	**(44)**	(26)	**(78)**	(57)
Share of earnings of equity-accounted investees	**49**	30	**88**	49
Dividend income	**4**	16	**12**	16
Impairment of available-for-sale investment		(10)		(10)
Other (expenses) income (Note 3)	**(16)**	1	**(26)**	(9)
Operating Income	**200**	199	**421**	358
Finance costs	**(61)**	(54)	**(120)**	(106)
Income Before Income Taxes	**139**	145	**301**	252
Income taxes (Note 4)	**62**	(24)	**49**	(56)
Net Income	**$ 201**	$ 121	**$ 350**	$ 196
Net Income per Share				
Basic	**$ 0.24**	$ 0.14	**$ 0.42**	$ 0.23
Diluted	**$ 0.24**	$ 0.14	**$ 0.42**	$ 0.23
Weighted Average Shares Outstanding				
Basic	**840,060,000**	839,285,000	**839,959,000**	838,202,000
Diluted	**840,124,000**	839,786,000	**840,111,000**	839,028,000

(See Notes to the Condensed Consolidated Financial Statements)

Condensed Consolidated Statements of Comprehensive Income (Loss)

Unaudited — In millions of US dollars

(Net of related income taxes)	Three Months Ended June 30 2017	Three Months Ended June 30 2016	Six Months Ended June 30 2017	Six Months Ended June 30 2016
Net Income	**$ 201**	$ 121	**$ 350**	$ 196
Other comprehensive income (loss)				
Items that will not be reclassified to net income:				
Net actuarial loss on defined benefit plans [1]		(103)		(103)
Items that have been or may be subsequently reclassified to net income:				
Available-for-sale investments [2]				
Net fair value gain (loss) during the period	**60**	(104)	**93**	(103)
Cash flow hedges				
Net fair value (loss) gain during the period [3]	**(2)**	9	**(7)**	3
Reclassification to income of net loss [4]	**11**	13	**19**	28
Other		1	**3**	2
Other Comprehensive Income (Loss)	**69**	(184)	**108**	(173)
Comprehensive Income (Loss)	**$ 270**	$ (63)	**$ 458**	$ 23

[1] Net of income taxes of $NIL (2016 $60) for the three and six months ended June 30, 2017.

[2] Available-for-sale investments are comprised of shares in Israel Chemicals Ltd. (ICL), Sinofert Holdings Limited (Sinofert) and other.

[3] Cash flow hedges are comprised of natural gas derivative instruments and treasury lock derivatives and were net of income taxes of $1 (2016 $(5)) for the three months ended June 30, 2017 and $4 (2016 $(2)) for the six months ended June 30, 2017.

[4] Net of income taxes of $(6) (2016 $(8)) for the three months ended June 30, 2017 and $(11) (2016 $(16)) for the six months ended June 30, 2017.

(See Notes to the Condensed Consolidated Financial Statements)

Condensed Consolidated Statements of Cash Flow

Unaudited

In millions of US dollars

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	**2017**	2016
Operating Activities				
Net income	**$ 201**	$ 121	**$ 350**	$ 196
Adjustments to reconcile net income to cash provided by operating activities (Note 5)	**151**	259	**295**	465
Changes in non-cash operating working capital (Note 5)	**(24)**	44	**(94)**	(49)
Cash provided by operating activities	**328**	424	**551**	612
Investing Activities				
Additions to property, plant and equipment	**(128)**	(211)	**(261)**	(457)
Other assets and intangible assets	**(2)**	(9)	**(1)**	(9)
Cash used in investing activities	**(130)**	(220)	**(262)**	(466)
Financing Activities				
Finance costs on long-term debt obligations		(2)	**(1)**	(4)
(Repayment of) proceeds from short-term debt obligations	**(81)**	68	**(60)**	404
Dividends	**(82)**	(206)	**(164)**	(519)
Issuance of common shares		5	**1**	25
Cash used in financing activities	**(163)**	(135)	**(224)**	(94)
Increase in Cash and Cash Equivalents	**35**	69	**65**	52
Cash and Cash Equivalents, Beginning of Period	**62**	74	**32**	91
Cash and Cash Equivalents, End of Period	**$ 97**	$ 143	**$ 97**	$ 143
Cash and cash equivalents comprised of:				
Cash	**$ 28**	$ 31	**$ 28**	$ 31
Short-term investments	**69**	112	**69**	112
	$ 97	$ 143	**$ 97**	$ 143

(See Notes to the Condensed Consolidated Financial Statements)

Condensed Consolidated Statements of Changes in Equity

Unaudited | In millions of US dollars

			Accumulated Other Comprehensive (Loss) Income						
	Share Capital	Contributed Surplus	Net unrealized gain (loss) on available-for-sale investments	Net (loss) gain on derivatives designated as cash flow hedges	Net actuarial loss on defined benefit plans	Other	Total Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Equity [1]
Balance December 31, 2016	**$ 1,798**	**$ 222**	**$ 43**	**$ (60)**	**$ [2]**	**$ (8)**	**$ (25)**	**$ 6,204**	**$ 8,199**
Net income								**350**	**350**
Other comprehensive income			**93**	**12**		**3**	**108**		**108**
Dividends declared								**(167)**	**(167)**
Effect of share-based compensation including issuance of common shares	**2**	**3**							**5**
Shares issued for dividend reinvestment plan	**3**								**3**
Balance June 30, 2017	**$ 1,803**	**$ 225**	**$ 136**	**$ (48)**	**$ [2]**	**$ (5)**	**$ 83**	**$ 6,387**	**$ 8,498**
Balance December 31, 2015	$ 1,747	$ 230	$ 77	$ (117)	$ [2]	$ (10)	$ (50)	$ 6,455	$ 8,382
Net income								196	196
Other comprehensive (loss) income			(103)	31	(103)	2	(173)		(173)
Dividends declared								(421)	(421)

Effect of share-based compensation including issuance of common shares	35	(5)							30
Shares issued for dividend reinvestment plan	10								10
Transfer of net actuarial loss on defined benefit plans					103		103	(103)	
Balance June 30, 2016	$ 1,792	$ 225	$ (26)	$ (86)	$ [2]	$ (8)	$ (120)	$ 6,127	$ 8,024

[1] All equity transactions were attributable to common shareholders.

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

(See Notes to the Condensed Consolidated Financial Statements)

Condensed Consolidated Statements of Financial Position

Unaudited

In millions of US dollars except as otherwise noted

As at	June 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 97	$ 32
Receivables	499	545
Inventories (Note 6)	845	768
Prepaid expenses and other current assets	65	49
	1,506	1,394
Non-current assets		
Property, plant and equipment	13,190	13,318
Investments in equity-accounted investees	1,178	1,173
Available-for-sale investments	1,033	940
Other assets	239	250
Intangible assets	173	180
Total Assets	$ 17,319	$ 17,255

(See Notes to the Condensed Consolidated Financial Statements)

	June 30, 2017	December 31, 2016
Liabilities		
Current liabilities		
Short-term debt and current portion of long-term debt	$ 824	$ 884
Payables and accrued charges	664	772
Current portion of derivative instrument liabilities	42	41
	1,530	1,697
Non-current liabilities		
Long-term debt	3,708	3,707
Derivative instrument liabilities	42	56
Deferred income tax liabilities	2,375	2,463
Pension and other post-retirement benefit liabilities	475	443
Asset retirement obligations and accrued environmental costs	640	643
Other non-current liabilities and deferred credits	51	47
Total Liabilities	8,821	9,056
Shareholders Equity		
Share capital (Note 7)	1,803	1,798
Contributed surplus	225	222
Accumulated other comprehensive income (loss)	83	(25)
Retained earnings	6,387	6,204
Total Shareholders Equity	8,498	8,199
Total Liabilities and Shareholders Equity	$ 17,319	$ 17,255

(See Notes to the Condensed Consolidated Financial Statements)

Notes to the Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2017

Unaudited In millions of US dollars except as otherwise noted

1. Significant Accounting Policies

Basis of Presentation

With its subsidiaries, Potash Corporation of Saskatchewan Inc. (PCS) together known as PotashCorp or the company except to the extent the context otherwise requires forms a crop nutrient and related industrial and feed products company. These unaudited interim condensed consolidated financial statements (interim financial statements) are based on International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS), and have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting. The accounting policies and methods of computation used in preparing these interim financial statements are consistent with those used in the preparation of the company s 2016 annual consolidated financial statements.

These interim financial statements include the accounts of PCS and its subsidiaries; however, they do not include all disclosures normally provided in annual consolidated financial statements and should be read in conjunction with the company s 2016 annual consolidated financial statements. In management s opinion, the interim financial statements include all adjustments necessary to fairly present such information. Interim results are not necessarily indicative of the results expected for any other interim period or the fiscal year.

These interim financial statements were authorized by the audit committee of the Board of Directors for issue on August 2, 2017.

Standards, Amendments and Interpretations Effective and Applied

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and amendments or interpretations to existing standards that were effective and applied by the company.

Standard	Description	Impact
Amendments to IAS 7, Statement of Cash Flows	Issued to require a reconciliation of the opening and closing liabilities that form part of an entity s financing activities, including both changes arising from cash flows and non-cash changes.	Adopted prospectively effective January 1, 2017, with required disclosures included in Note 5.

Amendments to IAS 12, Income Taxes	Issued to clarify the requirements on recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value.	Adopted effective January 1, 2017, with no change to the company s interim financial statements. No changes are expected to the company s annual consolidated financial statements.

Standards, Amendments and Interpretations Not Yet Effective and Not Applied

The IASB and IFRIC have issued the following standards and amendments or interpretations to existing standards that were not yet effective and not applied as at June 30, 2017. The company does not anticipate early adoption of these standards at this time.

Standard	Description	Expected Impact	Effective Date [1]
IFRS 15, Revenue From Contracts With Customers	Issued to provide guidance on the recognition of revenue from contracts with customers, including multiple-element arrangements and transactions not previously addressed comprehensively, and to enhance disclosures about revenue.	The company is reviewing the standard to determine the potential impact, if any.	January 1, 2018, applied retrospectively with certain practical expedients available.
IFRS 9, Financial Instruments	Issued to replace IAS 39, providing guidance on the classification, measurement and disclosure of financial instruments and introducing a new hedge accounting model.	The company is reviewing the standard to determine the potential impact, if any.	January 1, 2018, applied retrospectively with certain exceptions.
Amendments to IFRS 2, Share-Based Payment	Issued to provide clarification on the classification and measurement of share-based transactions. Specifically, accounting for cash-settled share-based transactions, share-based payment transactions with a net settlement feature and modifications of share-based payment transactions that change classification from cash-settled to equity settled.	The company is reviewing the standard to determine the potential impact, if any.	January 1, 2018, with the option of retrospective or prospective application.
IFRS 16, Leases	Issued to supersede IAS 17, IFRIC 4, SIC-15 and SIC-27, providing the principles for the recognition, measurement, presentation and disclosure of leases. Lessees will be required to recognize assets and liabilities for the rights and obligations created by leases. Lessors will continue to classify leases using a similar approach to that of the superseded standards but with enhanced disclosure to improve information about a lessor s risk exposure, particularly to residual value risk.	The company is reviewing the standard to determine the potential impact.	January 1, 2019, applied retrospectively with certain practical expedients available.
IFRIC 23, Uncertainty Over Income Tax Treatments	Issued to provide guidance on recognition and measurement of uncertain income tax treatments.	The company is reviewing the standard to determine the potential impact, if any.	January 1, 2019, applied retrospectively with certain practical expedients available.
IFRS 17, Insurance Contracts	Issued to replace IFRS 4, providing guidance for the recognition, measurement, presentation and disclosure of insurance contracts giving consideration to: substantive rights and obligations arising from a contract, law or regulation; enforceable rights and obligations in	Although the company does not underwrite insurance contracts, all significant contracts will be reviewed	January 1, 2021, applied retrospectively with certain practical expedients available.

a contract; and whether contracts are written, oral or implied by customary business practices.	under the scope of the standard to determine the potential impact, if any.

[1] Effective date for annual periods beginning on or after the stated date.

2. Segment Information

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

	Three Months Ended June 30, 2017				
	Potash	**Nitrogen**	**Phosphate**	**All Others**	**Consolidated**
Sales third party	**$ 461**	**$ 384**	**$ 275**	**$**	**$ 1,120**
Freight, transportation and distribution third party	**(50)**	**(32)**	**(34)**		**(116)**
Net sales third party	**411**	**352**	**241**		
Cost of goods sold third party	**(198)**	**(292)**	**(259)**		**(749)**
Margin (cost) on inter-segment sales [1]		**8**	**(8)**		
Gross margin	**213**	**68**	**(26)**		**255**
Items included in cost of goods sold, selling and administrative expenses or other expenses:					
Depreciation and amortization	**(56)**	**(47)**	**(56)**	**(9)**	**(168)**
Assets	**9,787**	**2,466**	**2,265**	**2,801**	**17,319**
Cash outflows for additions to property, plant and equipment	**36**	**40**	**51**	**1**	**128**

[1] Inter-segment net sales were $17.

	Three Months Ended June 30, 2016				
	Potash	Nitrogen	Phosphate	All Others	Consolidated
Sales third party	$ 393	$ 383	$ 277	$	$ 1,053
Freight, transportation and distribution third party	(64)	(27)	(27)		(118)
Net sales third party	329	356	250		
Cost of goods sold third party	(206)	(236)	(250)		(692)
Margin (cost) on inter-segment sales [1]		10	(10)		
Gross margin	123	130	(10)		243
Items included in cost of goods sold, selling and administrative expenses or other expenses:					
Depreciation and amortization	(52)	(52)	(55)	(9)	(168)
Share of Canpotex Prince Rupert project exit costs	(33)				(33)
Assets	9,780	2,509	2,323	2,714	17,326
Cash outflows for additions to property, plant and equipment	74	65	45	27	211

[1] Inter-segment net sales were $17.

[2] Canpotex Limited (Canpotex).

	Six Months Ended June 30, 2017				
	Potash	**Nitrogen**	**Phosphate**	**All Others**	**Consolidated**
Sales third party	**$ 890**	**$ 759**	**$ 583**	**$**	**$ 2,232**
Freight, transportation and distribution third party	**(114)**	**(64)**	**(71)**		**(249)**
Net sales third party	**776**	**695**	**512**		
Cost of goods sold third party	**(403)**	**(549)**	**(508)**		**(1,460)**
Margin (cost) on inter-segment sales [1]		**19**	**(19)**		
Gross margin	**373**	**165**	**(15)**		**523**
Items included in cost of goods sold, selling and administrative expenses or other expenses:					
Depreciation and amortization	**(111)**	**(97)**	**(114)**	**(18)**	**(340)**
Assets	**9,787**	**2,466**	**2,265**	**2,801**	**17,319**
Cash outflows for additions to property, plant and equipment	**81**	**73**	**102**	**5**	**261**

[1] Inter-segment net sales were $39.

	Six Months Ended June 30, 2016				
	Potash	Nitrogen	Phosphate	All Others	Consolidated
Sales third party	$ 774	$ 811	$ 677	$	$ 2,262
Freight, transportation and distribution third party	(123)	(60)	(68)		(251)
Net sales third party	651	751	609		
Cost of goods sold third party	(440)	(534)	(560)		(1,534)
Margin (cost) on inter-segment sales [1]		20	(20)		
Gross margin	211	237	29		477
Items included in cost of goods sold, selling and administrative expenses or other expenses:					
Depreciation and amortization	(100)	(106)	(112)	(17)	(335)
Share of Canpotex s Prince Rupert project exit costs	(33)				(33)
Termination benefit costs	(32)				(32)
Impairment of property, plant and equipment			(27)		(27)
Assets	9,780	2,509	2,323	2,714	17,326
Cash outflows for additions to property, plant and equipment	165	134	88	70	457

[1] Inter-segment net sales were $34.

3. Other (Expenses) Income

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	**2017**	2016
Foreign exchange loss	**$ (9)**	$ (2)	**$ (8)**	$ (19)
Proposed Transaction costs (Note 13)	**(14)**		**(23)**	
Other income	**7**	3	**5**	10
	$ (16)	$ 1	**$ (26)**	$ (9)

4. Income Taxes

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

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	**2017**	2016
Income tax (recovery) expense	**$ (62)**	$ 24	**$ (49)**	$ 56
Actual effective tax rate on ordinary earnings	**7%**	17%	**9%**	21%
Actual effective tax rate including discrete items	**(44%)**	16%	**(16%)**	22%
Discrete tax adjustments that impacted the tax rate	**$ (71)**	$ (4)	**$ (76)**	$

Significant items to note include the following:

· The actual effective tax rate on ordinary earnings for the three and six months ended June 30, 2017 decreased compared to the same periods last year primarily due to significantly lower forecasted annual earnings in the United States.

· In the second quarter of 2017, a discrete deferred tax recovery of $68 was recorded as a result of a Saskatchewan income tax rate decrease.

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

Income Tax Assets (Liabilities)	**Statements of Financial Position Location**	**June 30, 2017**	December 31, 2016
Current income tax assets			
Current	Receivables	**$ 43**	$ 41
Non-current	Other assets	**60**	67
Deferred income tax assets	Other assets	**10**	10
Total income tax assets		**$ 113**	$ 118
Current income tax liabilities			

Current	Payables and accrued charges	**$**	**(7)**	$	(25)
Non-current	Other non-current liabilities and deferred credits		**(47)**		(43)
Deferred income tax liabilities	Deferred income tax liabilities		**(2,375)**		(2,463)
Total income tax liabilities		**$**	**(2,429)**	$	(2,531)

5. Consolidated Statements of Cash Flow

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	**2017**	2016
Reconciliation of cash provided by operating activities				
Net income	**$ 201**	$ 121	**$ 350**	$ 196
Adjustments to reconcile net income to cash provided by operating activities				
Depreciation and amortization	**168**	168	**340**	335
Impairment of property, plant and equipment				27
Net distributed (undistributed) earnings of equity-accounted investees	**35**	61	**(2)**	44
Impairment of available-for-sale investment		10		10
Share-based compensation	**2**	3	**7**	5
Recovery of deferred income tax	**(82)**	(7)	**(96)**	(1)
Pension and other post-retirement benefits	**18**	13	**33**	28
Asset retirement obligations and accrued environmental costs	**3**	9	**2**	25
Other long-term liabilities and miscellaneous	**7**	2	**11**	(8)
Subtotal of adjustments	**151**	259	**295**	465
Changes in non-cash operating working capital				
Receivables	**23**	186	**38**	145
Inventories	**(9)**	(51)	**(58)**	(43)
Prepaid expenses and other current assets	**(9)**	5	**(14)**	3
Payables and accrued charges	**(29)**	(96)	**(60)**	(154)
Subtotal of changes in non-cash operating working capital	**(24)**	44	**(94)**	(49)
Cash provided by operating activities	**$ 328**	$ 424	**$ 551**	$ 612
Supplemental cash flow disclosure				
Interest paid	**$ 74**	$ 64	**$ 103**	$ 93
Income taxes paid	**$ 38**	$ 35	**$ 53**	$ 46

The following is a summary of changes in liabilities arising from financing activities:

	December 31, 2016	**Cash Flows [1]**	**Non-cash Changes**	**June 30, 2017**
Short-term debt and current portion of long-term debt [1]	$ 884	**$ (60)**	**$**	**$ 824**
Long-term debt	3,707	**(1)**	**2**	**3,708**
Total liabilities from financing activities	$ 4,591	**$ (61)**	**$ 2**	**$ 4,532**

[1] Cash inflows and cash outflows arising from short-term debt transactions are presented on a net basis.

6. Inventories

	June 30, 2017	December 31, 2016
Finished products	$ 320	$ 269
Intermediate products	200	174
Raw materials	68	75
Materials and supplies	257	250
	$ 845	$ 768

The following items affected cost of goods sold during the period:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Expensed inventories before the following items	$ 661	$ 587	$ 1,345	$ 1,299
Reserves, reversals and writedowns of inventories	29	20	33	19
	$ 690	$ 607	$ 1,378	$ 1,318

The carrying amount of inventory recorded at net realizable value was $118 as at June 30, 2017 (December 31, 2016 $47), with the remaining inventory recorded at cost.

7. Share Capital

Authorized

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

Issued

	Number of Common Shares	Consideration
Balance December 31, 2016	839,790,379	$ 1,798
Issued under option plans	114,900	2
Issued for dividend reinvestment plan	181,295	3
Balance June 30, 2017	840,086,574	$ 1,803

Dividends Declared

The company declared dividends per share of $0.10 (2016 $0.25) during the three months ended June 30, 2017 and $0.20 (2016 $0.50) during the six months ended June 30, 2017.

Under the terms of the agreement governing the Proposed Transaction, as described in Note 13, the company is permitted to pay quarterly dividends up to but not in excess of levels existing at the time of signing such agreement.

8. Share-Based Compensation

During the three and six months ended June 30, 2017, the company issued stock options and performance share units (PSUs) to eligible employees under the 2016 Long-Term Incentive Plan (LTIP). Information on stock options and PSUs is summarized below:

	LTIP		**Expense for all employee share-based compensation plans**			
			Three Months Ended		Six Months Ended	
	Units Granted in 2017	**Units Outstanding as at June 30, 2017**	June 30		June 30	
			2017	2016	**2017**	2016
Stock options	**1,482,829**	**4,511,906**	**$ 2**	$ 5	**$ 5**	$ 6
Share-settled PSUs	**555,918**	**959,700**	**1**	2	**2**	2
Cash-settled PSUs	**857,774**	**1,538,826**		2	**2**	4
			$ 3	$ 9	**$ 9**	$ 12

Grant date fair value per unit for stock options and share-settled PSUs granted during the first quarter of 2017 was $4.36 and $19.93, respectively.

Stock Options

Under the LTIP, stock options generally vest and become exercisable on the third anniversary of the grant date, subject to continuous employment or retirement, and have a maximum term of 10 years. The weighted average fair value of stock options granted was estimated as of the date of grant using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions:

Exercise price per option	**$ 18.71**
Expected annual dividend per share	**$ 0.40**
Expected volatility	**29%**
Risk-free interest rate	**1.67%**
Expected life of options	**5.7 years**

Performance Share Units

PSUs granted under the LTIP in 2017 vest based on the achievement of performance metrics, over three years, comprising 1) the relative ranking of the company s total shareholder return compared with a specified peer group using a Monte Carlo simulation option-pricing model and 2) the outcome of the company s cash flow return on investment compared with its weighted average cost of capital. Compensation cost is measured based on 1) the grant date fair value of the units, adjusted for the company s best estimate of the outcome of non-market vesting conditions at the end of each period for share-settled PSUs and 2) period-end fair value of the awards for cash-settled PSUs. PSUs granted under the LTIP settle in shares for grantees who are subject to the company s share ownership guidelines and in cash for all other grantees.

[1] The company s cash flow return on investment compared with its weighted average cost of capital is a non-market vesting condition as performance is not tied to the company s share price or relative share price.

9. Financial Instruments

Fair Value

Estimated fair values for financial instruments are designed to approximate amounts for which the instruments could be exchanged in a current arm s-length transaction between knowledgeable, willing parties. The valuation policies and procedures for financial reporting purposes are determined by the company s finance department.

Financial instruments included in the unaudited interim condensed consolidated statements of financial position are measured either at fair value or amortized cost. The tables below explain the valuation methods used to determine the fair value of each financial instrument and its associated level in the fair value hierarchy.

Financial Instruments Measured at Fair Value	Fair Value Method
Cash and cash equivalents	Carrying amount (approximation to fair value assumed due to short-term nature).
Available-for-sale investments	Closing bid price of the common shares (Level 1) as at the statements of financial position dates.
Foreign currency derivatives not traded in an active market	Quoted forward exchange rates (Level 2) as at the statements of financial position dates.
Natural gas swaps not traded in an active market	A discounted cash flow model. [1]

[1] Inputs included contractual cash flows based on prices for natural gas futures contracts, fixed prices and notional volumes specified by the swap contracts, the time value of money, liquidity risk, the company s own credit risk (related to instruments in a liability position) and counterparty credit risk (related to instruments in an asset position). Futures contract prices used as inputs in the model were supported by prices quoted in an active market and therefore categorized in Level 2.

Financial Instruments Measured at Amortized Cost	Fair Value Method
Receivables, short-term debt and payables and accrued charges	Carrying amount (approximation to fair value assumed due to short-term nature).
Long-term debt senior notes	Quoted market prices (Level 1 or 2 depending on the market liquidity of the debt).
Other long-term debt instruments	Carrying amount.

Presented below is a comparison of the fair value of the company s senior notes to their carrying values.

	June 30, 2017		December 31, 2016	
	Carrying Amount of Liability [1]	**Fair Value of Liability**	Carrying Amount of Liability [1]	Fair Value of Liability
Long-term debt senior notes	**$ 4,204**	**$ 4,547**	$ 4,202	$ 4,384

[1] Includes net unamortized debt issue costs.

The following table presents the company s fair value hierarchy for financial assets and financial liabilities carried at fair value on a recurring basis:

	Carrying Amount of Asset (Liability)	Fair Value Measurements at Reporting Dates Using: Quoted Prices in Active Markets for Identical Assets (Level 1) [1]	Significant Other Observable Inputs (Level 2) [1,2]
June 30, 2017			
Derivative instrument assets			
Natural gas derivatives	**$ 7**	**$**	**$ 7**
Available-for-sale investments [3]	**1,033**	**1,033**	
Derivative instrument liabilities			
Natural gas derivatives	**(84)**		**(84)**
December 31, 2016			
Derivative instrument assets			
Natural gas derivatives	$ 6	$	$ 6
Available-for-sale investments [3]	940	940	
Derivative instrument liabilities			
Natural gas derivatives	(97)		(97)

[1] During the six months ended June 30, 2017 and twelve months ended December 31, 2016, there were no transfers between Level 1 and Level 2. The company s policy is to recognize transfers at the end of the reporting period.

[2] During the six months ended June 30, 2017 and twelve months ended December 31, 2016, there were no amounts categorized as Level 3.

[3] Available-for-sale investments are comprised of shares in ICL, Sinofert and other.

10. Seasonality

The company s sales of fertilizer can be seasonal. Typically, fertilizer sales are highest in the second quarter of the year, due to the Northern Hemisphere s spring planting season. However, planting conditions and the timing of customer purchases will vary each year, and fertilizer sales can be expected to shift from one quarter to another. Feed and industrial sales are more evenly distributed throughout the year.

11. Contingencies and Other Matters

Canpotex

PCS is a shareholder in Canpotex Limited (Canpotex), which markets Canadian potash offshore. Should any operating losses or other liabilities be incurred by Canpotex, the shareholders have contractually agreed to reimburse it for such losses or liabilities in proportion to each shareholder s productive capacity. Through June 30, 2017, there were no such operating losses or other liabilities.

Mining Risk

The risk of underground water inflows, as with most other underground risks, is currently not insured.

Legal and Other Matters

The company is engaged in ongoing site assessment and/or remediation activities at a number of facilities and sites, and anticipated costs associated with these matters are added to accrued environmental costs in the manner previously described in Note 18 to the company s 2016 annual consolidated financial statements. This includes matters related to investigation of potential brine migration at certain of the potash sites. The following environmental site assessment and/or remediation matters have uncertainties that may not be fully reflected in the amounts accrued for those matters:

Nitrogen and Phosphate

- The US Environmental Protection Agency (USEPA) has identified PCS Nitrogen, Inc. (PCS Nitrogen) as a potentially responsible party at the Planters Property or Columbia Nitrogen site in Charleston, South Carolina. PCS Nitrogen is subject to a final judgment by the US District Court for the District of South Carolina allocating 30 percent of the liability for response costs at the site to PCS Nitrogen, as well as a proportional share of any costs that cannot be recovered from another responsible party. In December 2013, the USEPA issued an order to PCS Nitrogen and four other respondents requiring them jointly and severally to conduct certain cleanup work at the site and reimburse the USEPA s costs for overseeing that work. PCS Nitrogen is currently performing the work required by the USEPA order. The USEPA also has requested reimbursement of approximately $5 of previously incurred response costs. The ultimate amount of liability for PCS Nitrogen depends upon, among other factors, the final outcome of litigation to impose liability on additional parties, the amount needed for remedial activities, the ability of other parties to pay and the availability of insurance.

· PCS Phosphate has been identified as a responsible party at the Ward Transformer Superfund Site in Raleigh, North Carolina (Site). In the past, PCS Phosphate worked with certain other responsible parties to address PCB soil contamination at the Site pursuant to an agreement with the USEPA. The response actions are nearly complete at an estimated cost of $80, including anticipated remaining work on the Site. The USEPA also sought remediation in certain downstream areas that are referred to as Operable Unit 1 . PCS Phosphate signed a Consent Decree with the USEPA for Operable Unit 1 in September 2016 that is not expected to require PCS Phosphate to incur any additional remediation costs. Litigation for the recovery of incurred cleanup costs was resolved through mediation and entry of the Consent Decree.

· In 1996, PCS Nitrogen Fertilizer, L.P. (PCS Nitrogen Fertilizer), then known as Arcadian Fertilizer, L.P., entered into a Consent Order (the Order) with the Georgia Environmental Protection Division (GEPD) in conjunction with PCS Nitrogen Fertilizer s acquisition of real property in Augusta, Georgia. Under the Order, PCS Nitrogen Fertilizer is required to perform certain activities to investigate and, if necessary, implement corrective measures for substances in soil and groundwater. The investigation has proceeded and the results have been presented to GEPD. Two interim corrective measures for substances in groundwater have been proposed by PCS Nitrogen Fertilizer and approved by GEPD. PCS Nitrogen Fertilizer is implementing the approved interim corrective measures, which may be modified by PCS Nitrogen Fertilizer from time to time, but it is unable to estimate with reasonable certainty the total cost of its correction action obligations under the Order at this time.

Based on current information and except for the uncertainties described in the preceding paragraphs, the company 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 statements.

Other legal matters with significant uncertainties include the following:

Nitrogen and Phosphate

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

· In August 2015, the USEPA finalized amendments to the hazardous air pollutant emission standards for phosphoric acid manufacturing and phosphate fertilizer production (Final Rule). The Final Rule includes certain new requirements for monitoring and emissions that are infeasible for the company to satisfy in a timely manner. As a result, in October 2015, the company petitioned the USEPA to reconsider certain aspects of the Final Rule and separately asked the US Court of Appeals for the District of Columbia Circuit to review the Final Rule. Subsequent to these requests, required emissions testing at our Aurora facility in 2016 indicated alleged exceedances of the mercury emission limits that were established by the Final Rule. The company has communicated with the relevant agencies about this issue and supplemented its filings with the USEPA and the court to include reconsideration and review of the mercury emission limits. The facility also entered into an agreed order with the North Carolina Department of Environmental Quality (NCDEQ) in November 2016 to resolve the alleged mercury exceedances and provide a plan and schedule for evaluating alternative compliance strategies. In December 2016, the USEPA proposed amendments to the Final Rule to address certain monitoring requirements raised in the company s request for reconsideration. The company submitted comments on the proposal and will wait for final USEPA action on all petition issues before determining whether to proceed with the court action, which is being held in abeyance pending the outcome of the USEPA reconsideration proceeding. Given the pending legal issues and the company s evaluation of alternative compliance strategies, the resulting cost of compliance with the various provisions of the Final Rule cannot be predicted with reasonable certainty at this time.

General

· The countries where we operate are parties to the Paris Agreement adopted in December 2015 pursuant to the United Nations Framework Convention on Climate Change. Each country that is a party to the Paris Agreement submitted an Intended Nationally Determined Contribution (INDC) toward the control of greenhouse gas emissions. The impacts of these INDCs on the company s operations cannot be determined with any certainty at this time. In October 2016, the Canadian government announced a national plan to put a price on carbon emissions beginning in 2018 of $10 per tonne and increasing by $10 per tonne each year through 2022, to be implemented either through a carbon tax or a cap and trade program at the election of each province. The province of Saskatchewan is considering various alternative approaches to address the national plan. Other countries where the company operates have not at this time announced similar regulatory plans that would appear to have a significant impact on company operations. The company is monitoring these developments and their future effect on its operations cannot be determined with certainty at this time.

In addition, various other claims and lawsuits are pending against the company in the ordinary course of business. While it is not possible to determine the ultimate outcome of such actions at this time, and inherent uncertainties exist in predicting such outcomes, it is the company s belief that the ultimate resolution of such actions is not reasonably likely to have a material adverse effect on its consolidated financial statements.

The breadth of the company s operations and the global complexity of tax regulations require assessments of uncertainties and judgments in estimating the taxes it will ultimately pay. The final taxes paid are dependent upon many factors, including negotiations with taxing authorities in various jurisdictions, outcomes of tax litigation and resolution of disputes arising from federal, provincial, state and local tax audits. The resolution of these uncertainties and the associated final taxes may result in adjustments to the company s tax assets and tax liabilities.

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

12. Related Party Transactions

The company sells potash from its Canadian mines for use outside Canada and the US exclusively to Canpotex. Sales are at prevailing market prices and are settled on normal trade terms. Sales to Canpotex for the three months ended June 30, 2017 were $276 (2016 $159) and the six months ended June 30, 2017 were $474 (2016 $338). At June 30, 2017, $161 (December 31, 2016 $141) was owing from Canpotex.

13. Proposed Transaction with Agrium Inc.

On September 11, 2016, the company entered into an Arrangement Agreement with Agrium Inc. (Agrium) pursuant to which the company and Agrium have agreed to combine their businesses (the Proposed Transaction) in a merger of equals transaction to be implemented by way of a plan of arrangement under the Canada Business Corporations Act. On November 3, 2016, the Proposed Transaction was overwhelmingly approved by shareholders of both companies. On November 7, 2016, the Ontario Superior Court of Justice issued a final order approving the Proposed Transaction. Upon the closing of the Proposed Transaction, the new parent company will be named Nutrien Ltd. (Nutrien). The Proposed Transaction is currently anticipated to be completed late in the third quarter of 2017 and is subject to customary closing conditions, including remaining regulatory approvals.

Upon the closing of the Proposed Transaction, the company and Agrium will become indirect, wholly owned subsidiaries of Nutrien. PotashCorp shareholders will own approximately 52 percent of Nutrien, and Agrium shareholders will own approximately 48 percent.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (in US dollars)

The following discussion and analysis is the responsibility of management and is as at August 2, 2017. The Board of Directors (Board) carries out its responsibility for review of this disclosure principally through its audit committee, comprised exclusively of independent directors. The audit committee reviews and, prior to its publication, approves this disclosure, pursuant to the authority delegated to it by the Board. The term PCS refers to Potash Corporation of Saskatchewan Inc. and the terms we, us, our, PotashCorp and the company refer to PCS and, as applicable, PCS its direct and indirect subsidiaries as a group. Additional information relating to PotashCorp (which, except as otherwise noted, is not incorporated by reference herein), including our Annual Report on Form 10-K for the year ended December 31, 2016 (2016 Form 10-K), can be found on SEDAR at www.sedar.com and on EDGAR at www.sec.gov. The company is a foreign private issuer under the rules and regulations of the US Securities and Exchange Commission (the SEC); however, it currently files voluntarily on the SEC s domestic forms.

POTASHCORP AND OUR OPERATING ENVIRONMENT

PotashCorp is the world s largest crop nutrient company by capacity, producing the three primary crop nutrients: potash (K), nitrogen (N) and phosphate (P) for use in the production of fertilizer, industrial and animal feed products.

Our Canadian potash operations the primary focus and namesake of our company represent approximately one-fifth of global capacity. To enhance our global footprint, we also have investments in four potash-related businesses in Latin America, the Middle East and Asia. We complement our potash assets with focused positions in nitrogen and phosphate.

Detailed descriptions of our operating environments can be found on pages 18 and 19 (potash), 20 and 21 (nitrogen) and 22 and 23 (phosphate) in our 2016 Annual Integrated Report (2016 AIR).

GOVERNANCE

In fulfilling its oversight responsibilities, our Board s commitment to excellence in governance permeates our overall approach to business. Our Board fosters a culture that encourages us to uphold the highest ethical standards and strive for excellence in our business practices in order to build long-term value for all our stakeholders.

There have been no significant changes to how we approach governance from that described in our 2016 AIR (see pages 24 to 27).

STRATEGY AND PERFORMANCE

Creating superior shareholder value is essential to ensure we can make plentiful possible for all our stakeholders. Strong and sustainable earnings growth coupled with a premium valuation multiple rewards our shareholders and, at the same time, allows us to focus on our broader social and environmental responsibilities. Our seven strategic priorities determine where we focus our efforts to create long-term value for all those associated with our business. Our long-term objective is to create superior shareholder value by: growing earnings and cash flow while minimizing volatility; protecting and enhancing a premium valuation multiple; and maintaining the trust and support of our stakeholders.

Financially, we prioritize earnings growth and investment opportunities in potash, while complementing that business with other best-in-class assets. Our strategic priorities, depicted below and described in further detail along with key target metrics on pages 30 to 47 in our 2016 AIR, did not change during the second quarter of 2017.

PENDING MERGER OF EQUALS WITH AGRIUM INC.

During the third quarter of 2016, PotashCorp entered into an arrangement agreement (the Arrangement Agreement) with Agrium Inc. (Agrium) to combine their businesses (the Proposed Transaction) in a merger of equals transaction to be implemented by way of a plan of arrangement under the Canada Business Corporations Act. Upon the closing of the Proposed Transaction, which, subject to customary closing conditions, including receipt of remaining regulatory approvals, is currently anticipated to occur late in the third quarter of 2017, the company and Agrium will become indirect, wholly owned subsidiaries of a new parent company to be called Nutrien Ltd. (Nutrien). PotashCorp shareholders will own approximately 52 percent of Nutrien, and Agrium shareholders will own approximately 48 percent. During the fourth quarter of 2016, shareholders of both companies overwhelmingly approved the Proposed Transaction and the Ontario Superior Court of Justice issued a final order approving it. From a regulatory standpoint, we continue to cooperate with the various enforcement agencies in their reviews. We have received clearances in Brazil and Russia, and continue to work on obtaining approval from China, India, Canada and the US.

The creation of Nutrien pursuant to the Proposed Transaction is designed to: 1) bring together world-class nutrient production assets and retail distribution, providing an integrated platform with multiple paths for growth; 2) create up to $500 million of annual run-rate operating synergies within 24 months of closing; 3) enhance financial flexibility through the use of a strong balance sheet and improved cash flows, enabling the support of growth initiatives and shareholder returns; and 4) leverage best-in-class leadership and governance through the combination of two experienced teams that are focused on creating long-term value.

For further discussion of the Proposed Transaction, please refer to our Current Reports on Form 8-K and the documents filed therewith, filed with the SEC on September 12, 2016 and on October 6, 2016 and the various filings with Canadian provincial securities commissions, including the joint information circular of PCS and Agrium dated October 3, 2016.

RISK

In our 2016 AIR, we provide an overview of our approach to risk (page 28), explain how we use a risk management-ranking methodology to assess the key risks specific to our company (page 49) and provide a description of, management approach to, and any significant developments for, each key risk (pages 50 to 55).

Our risk-ranking matrix, in terms of residual severity of consequence and likelihood, is displayed below.

Key risks with rankings unchanged from our 2016 AIR were as follows:

Risk	Risk Ranking	Associated Strategies [1]	Risk	Risk Ranking	Associated Strategies [1]
Extreme loss	B		Safety, health and security	C	
Offshore potash sales and distribution	B		Stakeholder support for our business plans	C	
Competitive supply	B		Sustaining growth	C	
Global potash demand	B		Trinidad natural gas supply	C	
Cyber security	C		Realization of asset values	D	
Environment	C		Capital management	D	
International operations and non-operated assets	C				

[1] Brighter sections indicate the strategic priority (described on page 18 of this Form 10-Q) impacted by the risk. Faded sections mean the strategic priority is not significantly affected by the risk.

KEY PERFORMANCE DRIVERS PERFORMANCE COMPARED TO TARGETS

Through our integrated value model, we set, evaluate and refine our targets to drive improvements that benefit all those impacted by our business. We demonstrate our accountability by tracking and reporting our performance against targets related to each strategic priority set out on pages 32 to 47 in our 2016 AIR. A summary of our progress against selected strategic priorities and representative annual targets is set out below.

Strategic Priority	Representative 2017 Annual Target	Performance to June 30, 2017
Portfolio & Return Optimization	Exceed total shareholder return (TSR) performance for our sector and the DAXglobal Agribusiness Index.	PotashCorp s TSR was -8 percent in the first six months of 2017 compared to our sector s weighted average return based on market capitalization[1] of -4 percent and the DAXglobal Agribusiness Index weighted average return (based on market capitalization) of 4 percent.
Operational Excellence	Achieve a 95 percent ammonia reliability rate for our nitrogen division.	Our ammonia reliability rate was 93 percent for the first six months of 2017.
People Development	Maintain an annual employee turnover rate of 5 percent or less.	Employee turnover rate on an annualized basis for the first six months of 2017 was 4 percent.
Safety & Health Excellence	Achieve zero life-altering injuries at our sites.	There were no life-altering injuries at our sites during the first six months of 2017.
	Reduce total site recordable injury rate to 0.75 (or lower) and total lost-time injury rate to 0.07 (or lower).	During the first six months of 2017, total site recordable injury rate was 0.90 and total lost-time injury rate was 0.07.
Environmental Excellence	By 2018, reduce environmental incidents (releases, permit excursions and spills) by 40 percent from 2014 levels.	Annualized total environmental incidents were down 58 percent through the first six months of 2017 compared to 2014 annual levels. Compared to the first six months of 2016, total reportable incidents were down 58 percent.

[1] TSRs are based on the currencies of the primary exchanges in which the relevant shares are traded.

PERFORMANCE OVERVIEW

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

For an understanding of trends, events, uncertainties and the effect of critical accounting estimates on our results and financial condition, this Form 10-Q should be read carefully, together with our 2016 AIR.

REVISED ANNUAL EARNINGS GUIDANCE [1] AND FIRST SIX MONTHS 2017 RESULTS

	Revised Annual Company Guidance		First Six Months Actual Results
Earnings per share	**$ 0.45**	**$ 0.65**	**$ 0.42**

[1] Revised effective April 27, 2017, and maintained on July 27, 2017

OVERVIEW OF ACTUAL RESULTS

Dollars (millions), except per-share amounts	Three Months Ended June 30				Six Months Ended June 30			
	2017	2016	Change	% Change	**2017**	2016	Change	% Change
Sales	**$ 1,120**	$ 1,053	$ 67	6	**$ 2,232**	$ 2,262	$ (30)	(1)
Gross margin	**255**	243	12	5	**523**	477	46	10
Operating income	**200**	199	1	1	**421**	358	63	18
Net income	**201**	121	80	66	**350**	196	154	79
Net income per share diluted	**0.24**	0.14	0.10	71	**0.42**	0.23	0.19	83
Other comprehensive income (loss)	**69**	(184)	253	n/m	**108**	(173)	281	n/m

n/m = not meaningful

Earnings in the second quarter and first half of 2017 were higher than the same periods of 2016 due primarily to higher gross margin in potash and income tax recoveries in 2017, compared to income tax expenses in 2016, more than offsetting lower gross margins in nitrogen and phosphate.

Global potash markets continued to improve through the second quarter as agronomic need and affordability supported demand, especially offshore, and contributed to modestly higher prices. In North America, a good spring application season led to healthy shipment levels although below the particularly robust second quarter of 2016 and reduced inventory throughout the supply chain. Offshore imports to the US reached record levels through the first half, resulting in lower domestic producer sales volumes.

In nitrogen, the startup of new global capacity had a negative impact on market fundamentals during the quarter. Notwithstanding strong consumption in most key regions, new supply outpaced growth in demand and pressured prices. As this supply transition unfolded, US urea prices fell to multi-year lows while ammonia and UAN were pushed to their lowest prices of the year.

Despite strong demand in Latin America, global phosphate markets remained subdued in the second quarter, largely due to increased supply and lower shipments to India. In this environment, prices for most phosphate fertilizer products declined slightly. While prices for feed and industrial products were modestly higher than in the first quarter, they remained well below prior-year levels, due primarily to increased supply from offshore producers.

Other comprehensive income for the second quarter and first half of 2017 was primarily the result of an increase in the fair value of our investment in Israel Chemicals Ltd. (ICL) more than offsetting a decrease in the fair value of Sinofert Holdings Limited (Sinofert). Other comprehensive loss for the second quarter and first half of 2016 was primarily impacted by decreases in the fair value of our investments in ICL and Sinofert and a net actuarial loss resulting from a remeasurement of our defined benefit plans.

OPERATING SEGMENT REVIEW

We report our results (including gross margin) in three business segments: potash, nitrogen and phosphate as described in Note 2 to the financial statements in this Form 10-Q. Our reporting structure reflects how we manage our business and how we classify our operations for planning and measuring performance. We include net sales in segment disclosures in the financial statements in this Form 10-Q pursuant to IFRS, which require segmentation based upon our internal organization and reporting of revenue and profit measures. As a component of gross margin, net sales (and the related per-tonne amounts) are the primary revenue measures we use and review in making decisions about operating matters on a business segment basis. These decisions include assessments about potash, nitrogen and phosphate performance and the resources to be allocated to these segments. We also use net sales (and the related per-tonne amounts) for business planning and monthly forecasting. Net sales are calculated as sales revenues less freight, transportation and distribution expenses. Realized prices refer to net sales prices.

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

POTASH PERFORMANCE

FINANCIAL PERFORMANCE

	Three Months Ended June 30								
	Dollars (millions)			Tonnes (thousands)			Average per Tonne [1]		
	2017	2016	% Change	**2017**	2016	% Change	**2017**	2016	% Change
Manufactured product									
Net sales									
North America	**$ 135**	$ 167	(19)	**651**	850	(23)	**$ 208**	$ 196	6
Offshore	**276**	160	73	**1,709**	1,272	34	**$ 161**	$ 125	29
	411	327	26	**2,360**	2,122	11	**$ 174**	$ 154	13
Cost of goods sold	**(193)**	(192)	1				**$ (82)**	$ (91)	(10)
Gross margin	**218**	135	61				**$ 92**	$ 63	46
Other miscellaneous and purchased product gross margin [2]	**(5)**	(12)	(58)						
Gross Margin	**$ 213**	$ 123	73				**$ 90**	$ 58	55

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

[2] Comprised of net sales $NIL million (2016 $2 million) less cost of goods sold $5 million (2016 $14 million).

	Six Months Ended June 30								
	Dollars (millions)			Tonnes (thousands)			Average per Tonne [1]		
	2017	2016	% Change	**2017**	2016	% Change	**2017**	2016	% Change
Manufactured product									
Net sales									
North America	**$ 298**	$ 305	(2)	**1,510**	1,628	(7)	**$ 198**	$ 187	6
Offshore	**474**	340	39	**3,029**	2,277	33	**$ 156**	$ 149	5
	772	645	20	**4,539**	3,905	16	**$ 170**	$ 165	3
Cost of goods sold	**(389)**	(421)	(8)				**$ (86)**	$ (108)	(20)
Gross margin	**383**	224	71				**$ 84**	$ 57	47
Other miscellaneous and purchased product gross margin [2]	**(10)**	(13)	(23)						
Gross Margin	**$ 373**	$ 211	77				**$ 82**	$ 54	52

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

[2] Comprised of net sales $4 million (2016 $6 million) less cost of goods sold $14 million (2016 $19 million).

Potash gross margin variance was attributable to:

	Three Months Ended June 30 2017 vs. 2016				Six Months Ended June 30 2017 vs. 2016			
		Change in Prices/Costs				Change in Prices/Costs		
Dollars (millions)	Change in Sales Volumes	Net Sales	Cost of Goods Sold	Total	Change in Sales Volumes	Net Sales	Cost of Goods Sold	Total
Manufactured product								
North America	$ (22)	$ 5	$ 12	$ (5)	$ (9)	$ 15	$ 54	$ 60
Offshore	19	60	9	88	51	22	26	99
Change in market mix	11	(14)	3		10	(14)	4	
Total manufactured product	$ 8	$ 51	$ 24	$ 83	$ 52	$ 23	$ 84	$ 159
Other miscellaneous and purchased product				7				3
Total				$ 90				$ 162

Sales to major offshore markets by Canpotex [1] were as follows:

	Three Months Ended June 30 Percentage of Sales Volumes			Six Months Ended June 30 Percentage of Sales Volumes		
	2017	2016	% Change	2017	2016	% Change
Other Asian markets [2]	40	37	8	38	42	(10)
Latin America	40	47	(15)	33	39	(15)
India	10		n/m	11	2	450
China	3	7	(57)	10	8	25
Other markets	7	9	(22)	8	9	(11)
	100	100		100	100	

[1] Canpotex Limited (Canpotex).

[2] All Asian markets except China and India.

n/m = not meaningful

The most significant contributors to the change in total gross margin were as follows (direction of arrows refers to impact on gross margin):

	Sales Volumes	Net Sales Prices	Cost of Goods Sold
Quarter over Quarter	North American volumes were lower than the historically strong second quarter of 2016.	Our average realized price reflected a continued recovery in global spot prices.	Costs were lower in 2017 due to our portfolio optimization, including a greater share of production from our lower-cost mines, particularly Rocanville.
	Offshore shipments increased, led by strong demand in Brazil.	Offshore prices were also higher due to the impact of our share of Canpotex s project exit costs following its decision not to proceed with development of an export terminal in Prince Rupert, British Columbia impacting the second quarter of 2016.	Offshore cost of goods sold variance was less positive than North America as a relatively higher percentage of products sold was produced at higher-cost mines.
Year over Year	Offshore volumes were higher due primarily to stronger demand in all key markets.	Prices were higher mainly due to a continued recovery in most global spot markets.	Costs were lower in 2017 due to our portfolio optimization, including a greater share of production from our lower-cost mines, particularly Rocanville.
	North American volumes were slightly lower despite strong demand compared to the historically strong second quarter of 2016.	Offshore prices were also higher due to the impact of our share of Canpotex s project exit costs following its decision not to proceed with development of an export terminal in Prince Rupert, British Columbia impacting the second quarter of 2016.	Costs were also lower in 2017 as the first quarter of 2016 included costs associated with the indefinite suspension of potash operations at Picadilly.

NON-FINANCIAL PERFORMANCE

The most significant contributors to the change in our non-financial performance highlights were as follows:

QUARTER OVER QUARTER

Production increased as a response to stronger demand and due to the completion of the Rocanville expansion and ramp up.

The 14 recordable injuries in 2017, compared to nine in 2016, resulted in a higher total recordable injury rate.

There were two lost-time injuries in 2017, compared to none in 2016.

The annualized employee turnover rate increased as a result of 27 departures in 2017 compared to 25 departures in 2016.

In 2017, we experienced two environmental incidents, consisting of two potash spills. In 2016, the only environmental incident was a potash spill.

Waste, as defined in our 2016 AIR, increased quarter over quarter due to the increase in production.

YEAR OVER YEAR

Production increased as a response to stronger demand and due to the completion of the Rocanville expansion and ramp up.

Combined with lower hours worked in 2017, the 27 recordable injuries in 2017, compared to 25 in 2016, resulted in a higher total recordable injury rate.

There were no significant changes in the total lost-time injury rate between 2016 and 2017.

There were no significant changes between 2016 and 2017.

In 2017, we experienced two environmental incidents, consisting of two potash spills. In 2016, we experienced four environmental incidents: two potash spills, one brine spill and one water release with high suspended solids.

Waste, as defined in our 2016 AIR, increased period over period due to the increase in production.

NITROGEN PERFORMANCE

FINANCIAL PERFORMANCE

	Three Months Ended June 30								
	Dollars (millions)			Tonnes (thousands)			Average per Tonne [1]		
	2017	2016	% Change	**2017**	2016	% Change	**2017**	2016	% Change
Manufactured product [2]									
Net sales									
Ammonia	**$ 181**	$ 177	2	**602**	543	11	**$ 302**	$ 325	(7)
Urea	**69**	71	(3)	**293**	261	12	**$ 236**	$ 274	(14)
Solutions, nitric acid, ammonium nitrate	**105**	119	(12)	**699**	703	(1)	**$ 150**	$ 169	(11)
	355	367	(3)	**1,594**	1,507	6	**$ 223**	$ 244	(9)
Cost of goods sold	**(290)**	(242)	20				**$ (182)**	$ (160)	14
Gross margin	**65**	125	(48)				**$ 41**	$ 84	(51)
Other miscellaneous and purchased product gross margin [3]	**3**	5	(40)						
Gross Margin	**$ 68**	$ 130	(48)				**$ 43**	$ 86	(50)

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

[2] Includes inter-segment ammonia sales, comprised of: net sales $17 million, cost of goods sold $9 million and 40,000 sales tonnes (2016 net sales $17 million, cost of goods sold $7 million and 39,000 sales tonnes). Inter-segment profits are eliminated on consolidation.

[3] Including third-party net sales $14 million and cost of goods sold $11 million (2016 net sales $6 million and cost of goods sold $1 million).

	Six Months Ended June 30								
	Dollars (millions)			Tonnes (thousands)			Average per Tonne [1]		
	2017	2016	% Change	**2017**	2016	% Change	**2017**	2016	% Change
Manufactured product [2]									
Net sales									
Ammonia	**$ 340**	$ 365	(7)	**1,148**	1,144		**$ 297**	$ 318	(7)
Urea	**158**	157	1	**613**	567	8	**$ 258**	$ 278	(7)
Solutions, nitric acid, ammonium nitrate	**216**	252	(14)	**1,400**	1,460	(4)	**$ 154**	$ 173	(11)
	714	774	(8)	**3,161**	3,171		**$ 226**	$ 244	(7)
Cost of goods sold	**(556)**	(546)	2				**$ (176)**	$ (172)	2
Gross margin	**158**	228	(31)				**$ 50**	$ 72	(31)
Other miscellaneous and purchased product	**7**	9	(22)						

gross margin [3]									
Gross Margin	**$**	**165**	$	237	(30)	**$**	**52**	$ 75	(31)

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

[2] Includes inter-segment ammonia sales, comprised of: net sales $39 million, cost of goods sold $20 million and 95,000 sales tonnes (2016 net sales $34 million, cost of goods sold $14 million and 79,000 sales tonnes). Inter-segment profits are eliminated on consolidation.

[3] Including third-party net sales of $20 million and cost of goods sold $13 million (2016 net sales $11 million and cost of goods sold $2 million).

Nitrogen gross margin variance was attributable to:

	Three Months Ended June 30 2017 vs. 2016				Six Months Ended June 30 2017 vs. 2016			
		Change in Prices/Costs				Change in Prices/Costs		
Dollars (millions)	Change in Sales Volumes	Net Sales	Cost of Goods Sold	Total	Change in Sales Volumes	Net Sales	Cost of Goods Sold	Total
Manufactured product								
Ammonia	$ 5	$ (13)	$ (3)	$ (11)	$	$ (25)	$ 12	$ (13)
Urea	2	(12)	(5)	(15)	3	(12)	(2)	(11)
Solutions, nitric acid, ammonium nitrate	(1)	(13)	(22)	(36)	(4)	(23)	(31)	(58)
Hedge			2	2			12	12
Change in product mix		5	(5)			3	(3)	
Total manufactured product	$ 6	$ (33)	$ (33)	$ (60)	$ (1)	$ (57)	$ (12)	$ (70)
Other miscellaneous and purchased product				(2)				(2)
Total				$ (62)				$ (72)

	Three Months Ended June 30				Six Months Ended June 30			
	Sales Tonnes (thousands)		Average Net Sales Price per Tonne		Sales Tonnes (thousands)		Average Net Sales Price per Tonne	
	2017	2016	2017	2016	2017	2016	2017	2016
Fertilizer	672	547	$ 236	$ 267	1,292	1,213	$ 233	$ 248
Industrial and Feed	922	960	$ 214	$ 230	1,869	1,958	$ 221	$ 242
	1,594	1,507	$ 223	$ 244	3,161	3,171	$ 226	$ 244

The most significant contributors to the change in total gross margin were as follows (direction of arrows refers to impact on gross margin while symbol is neutral):

	Sales Volumes	Net Sales Prices	Cost of Goods Sold
Quarter over Quarter	Volumes were higher, largely due to stronger fertilizer demand.	Our average realized price declined as increased global supply weighed on benchmark pricing, pulling down realizations for nearly all our products.	Average costs, including our hedge position, for natural gas used as feedstock in production increased 10 percent. Costs for natural gas used as feedstock in Trinidad production fell four percent (contract price indexed, in part, to Tampa ammonia prices) while our US spot costs for natural gas increased 56 percent. Including losses on our hedge position, our US gas prices increased 28 percent.

	Sales Volumes	Net Sales Prices	Cost of Goods Sold
Year over Year	There were no significant changes.	Weaker benchmark pricing lowered our average realized price during the first half of 2017.	Average costs, including our hedge position, for natural gas used as feedstock in production increased eight percent. Costs for natural gas used as feedstock in Trinidad production fell six percent (contract price indexed, in part, to Tampa ammonia prices) while our US spot costs for natural gas increased 53 percent. Including losses on our hedge position, our US gas prices increased 24 percent. Ammonia cost of goods sold variance was positive due to lower natural gas costs in Trinidad more than offsetting higher natural gas costs in the US.

NON-FINANCIAL PERFORMANCE

The most significant contributors to the change in our non-financial performance highlights were as follows:

QUARTER OVER QUARTER

Production and the ammonia operating rate decreased between 2016 and 2017 due to unplanned downtime for repairs at our Geismar and Lima facilities.

In 2017, there was one recordable injury and no lost-time injuries compared to no recordable injuries and no lost-time injuries in 2016.

The annualized employee turnover rate increased as a result of seven departures in 2017 compared to four departures in 2016.

In both 2016 and 2017, we had one environmental incident, consisting of an ammonia release.

Greenhouse gas emissions were higher in 2017 due to higher emissions at our nitric acid plants.

YEAR OVER YEAR

There were no significant changes between 2016 and 2017.

In 2017, there were five recordable injuries with no lost-time injuries compared to six recordable injuries including two lost-time injuries in 2016.

The annualized employee turnover rate increased as a result of 14 departures in 2017 compared to seven departures in 2016.

In 2017, we had three environmental incidents, consisting of two ammonia releases and one organic nitrogen permit exceedance. In 2016, we had four environmental incidents, consisting of two ammonia gas releases, one fluoride air permit exceedance and one urea solution spill.

PHOSPHATE PERFORMANCE

FINANCIAL PERFORMANCE

	Three Months Ended June 30								
	Dollars (millions)			Tonnes (thousands)			Average per Tonne [1]		
	2017	2016	% Change	**2017**	2016	% Change	**2017**	2016	% Change
Manufactured product									
Net sales									
Fertilizer	**$ 117**	$ 108	8	**348**	274	27	**$ 337**	$ 397	(15)
Feed and Industrial	**123**	140	(12)	**242**	238	2	**$ 507**	$ 587	(14)
	240	248	(3)	**590**	512	15	**$ 407**	$ 485	(16)
Cost of goods sold	**(266)**	(259)	3				**$ (452)**	$ (506)	(11)
Gross margin	**(26)**	(11)	136				**$ (45)**	$ (21)	114
Other miscellaneous and purchased product gross margin [2]		1	(100)						
Gross Margin	**$ (26)**	$ (10)	160				**$ (44)**	$ (20)	120

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

[2] Comprised of net sales $1 million (2016 $2 million) less cost of goods sold $1 million (2016 $1 million).

	Six Months Ended June 30								
	Dollars (millions)			Tonnes (thousands)			Average per Tonne [1]		
	2017	2016	% Change	**2017**	2016	% Change	**2017**	2016	% Change
Manufactured product									
Net sales									
Fertilizer	**$ 253**	$ 299	(15)	**716**	711	1	**$ 354**	$ 421	(16)
Feed and Industrial	**257**	307	(16)	**513**	518	(1)	**$ 501**	$ 592	(15)
	510	606	(16)	**1,229**	1,229		**$ 415**	$ 493	(16)
Cost of goods sold	**(526)**	(579)	(9)				**$ (428)**	$ (471)	(9)
Gross margin	**(16)**	27	n/m				**$ (13)**	$ 22	n/m
Other miscellaneous and purchased product gross margin [2]	**1**	2	(50)						
Gross Margin	**$ (15)**	$ 29	n/m				**$ (12)**	$ 24	n/m

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

[2] Comprised of net sales $2 million (2016 $3 million) less cost of goods sold $1 million (2016 $1 million).

n/m = not meaningful

Phosphate gross margin variance was attributable to:

	Three Months Ended June 30				Six Months Ended June 30			
	2017 vs. 2016				2017 vs. 2016			
		Change in Prices/Costs				Change in Prices/Costs		
Dollars (millions)	Change in Sales Volumes	Net Sales	Cost of Goods Sold	Total	Change in Sales Volumes	Net Sales	Cost of Goods Sold	Total
Manufactured product								
Fertilizer	$ 6	$ (23)	$ 5	$ (12)	$	$ (48)	$ 4	$ (44)
Feed and Industrial		(19)	16	(3)	(1)	(47)	49	1
Change in product mix	2	(5)	3		1	(1)		
Total manufactured product	$ 8	$ (47)	$ 24	$ (15)	$	$ (96)	$ 53	$ (43)
Other miscellaneous and purchased product				(1)				(1)
Total				$ (16)				$ (44)

The most significant contributors to the change in total gross margin were as follows (direction of arrows refers to impact on gross margin while symbol is neutral):

	Sales Volumes	Net Sales Prices	Cost of Goods Sold
Quarter over Quarter	Sales volumes were higher mainly due to stronger agriculture demand in North America.	Our average realized price was down, as prices for nearly all products decreased, most notably liquid fertilizers.	Feed and industrial was positive as the increase in asset retirement obligations, primarily due to discount rate reductions, was lower than in 2016. Sulfur costs were down eight percent, decreasing our cost of goods sold.

	Sales Volumes	Net Sales Prices	Cost of Goods Sold
Year over Year	There were no significant changes.	Our average realized price was down, reflecting lower benchmark pricing for all of our products.	In 2016, there was an impairment of property, plant and equipment related to product that the company no longer produces. There was no such impairment in 2017, resulting in a positive cost of goods sold variance in feed and industrial. Feed and industrial was positive as the increase in asset retirement obligations due to discount rate adjustments was lower than in 2016. Sulfur costs were down 14 percent, decreasing our cost of goods sold.

NON-FINANCIAL PERFORMANCE

The most significant contributors to the change in our non-financial performance highlights were as follows:

QUARTER OVER QUARTER

There were no significant changes between 2016 and 2017.

In 2017, there were five recordable injuries, and no lost-time injuries, compared to eight recordable injuries including one lost-time injury in 2016.

There were no significant changes between 2016 and 2017.

In 2017, we experienced no environmental incidents. In 2016 there was one ammonia-to-air release.

In 2017 metered water consumption decreased due to increased rainfall at our White Springs facility compared to 2016 and a new water recycling project. Metered water consumption in 2016 was also higher as certain processes at our White Springs facility continued to need water even when product was not being manufactured.

YEAR OVER YEAR

There were no significant changes between 2016 and 2017.

In 2017, there were eight recordable injuries, including one lost-time injury, compared to 14 recordable injuries and two lost-time injuries in 2016.

The annualized employee turnover rate rose due to 26 departures in 2017 compared to 20 departures in 2016.

In 2017, we experienced no environmental incidents. In 2016, we had three environmental incidents, consisting of a total suspended solids permit exceedance, a release of ammonia to air and a mercury permit exceedance.

There were no significant changes in water consumption between 2016 and 2017.

OTHER EXPENSES AND INCOME

	Three Months Ended June 30				Six Months Ended June 30			
Dollars (millions), except percentage amounts	**2017**	2016	Change	% Change	**2017**	2016	Change	% Change
Selling and administrative expenses	**$ (48)**	$ (55)	$ 7	(13)	**$ (98)**	$ (108)	$ 10	(9)
Provincial mining and other taxes	**(44)**	(26)	(18)	69	**(78)**	(57)	(21)	37
Share of earnings of equity-accounted investees	**49**	30	19	63	**88**	49	39	80
Dividend income	**4**	16	(12)	(75)	**12**	16	(4)	(25)
Impairment of available-for-sale investment		(10)	10	(100)		(10)	10	(100)
Other (expense) income	**(16)**	1	(17)	n/m	**(26)**	(9)	(17)	189
Finance costs	**(61)**	(54)	(7)	13	**(120)**	(106)	(14)	13
Income taxes	**62**	(24)	86	n/m	**49**	(56)	105	n/m

n/m = not meaningful

The most significant contributors to the change in other expenses and income were as follows:

	Quarter over Quarter	**Year over Year**
Provincial Mining and Other Taxes	Provincial mining and other taxes increased primarily due to stronger potash prices.	
Share of Earnings of Equity-Accounted Investees	Share of earnings of equity-accounted investees pertains primarily to SQM and APC. Higher earnings were mainly due to higher earnings at SQM.	
Finance Costs	There were no significant changes.	
Income Taxes	Income taxes decreased primarily due to a discrete $68 million deferred tax recovery recorded in the second quarter of 2017 as a result of a Saskatchewan income tax rate decrease. As well, significantly lower forecasted annual earnings in the United States contributed to the reduction. For the first six months of 2017, 163 percent of the effective tax rate on the current year s ordinary earnings pertained to current income taxes (2016 89 percent) and (63) percent related to deferred income taxes (2016 11 percent). The decrease in the deferred portion is due to significantly lower forecasted annual earnings in the United States.	

EFFECTIVE TAX RATES AND DISCRETE ITEMS

Dollars (millions), except percentage amounts	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	**2017**	2016
Actual effective tax rate on ordinary earnings	**7%**	17%	**9%**	21%
Actual effective tax rate including discrete items	**(44%)**	16%	**(16%)**	22%
Discrete tax adjustments that impacted the tax rate	**$ 71**	$ 4	**$ 76**	$

OTHER NON-FINANCIAL INFORMATION

Dollars (millions), except percentage amounts	Three Months Ended June 30				Six Months Ended June 30			
	2017	2016	Change	% Change	**2017**	2016	Change	% Change
Taxes and royalties [1]	**$ 80**	$ 81	$ (1)	(1)	**$ 174**	$ 159	$ 15	9

[1] Includes tax and royalty amounts on an accrual basis calculated as: current income tax expense less investment tax credits and realized excess tax benefit related to share-based compensation plus potash production tax, resource surcharge, royalties, municipal taxes and other miscellaneous taxes.

The most significant contributors to the change in other non-financial information quarter over quarter and year over year were as follows:

	Quarter over Quarter	Year over Year
Taxes and Royalties	There were no significant changes.	Taxes and royalties increased primarily due to higher provincial mining and other taxes as a result of stronger potash prices. This was partially offset by lower current income taxes as a result of significantly lower forecasted annual earnings in the United States.

FINANCIAL CONDITION REVIEW

STATEMENT OF FINANCIAL POSITION ANALYSIS

The most significant contributors to the changes in our statements of financial position were as follows (direction of arrows refers to increase or decrease):

Assets

Inventory was higher mainly due to an increase in potash and phosphate finished goods inventory.

Property, plant and equipment decreased primarily as depreciation exceeded additions.

Investments were impacted by higher fair value of our available-for-sale investment in ICL more than offsetting a decrease in the fair value of our available-for-sale investment in Sinofert and an increase in the value of our equity-accounted investment in SQM more than offsetting a decrease in the value of APC.

Liabilities

Payables and accrued charges were lower mainly due to lower trade payables.

Deferred income tax liabilities have decreased primarily due to a discrete deferred tax recovery as a result of a Saskatchewan income tax rate decrease.

Equity

Retained earnings were higher as a result of net income (discussed in more detail on page 22) exceeding dividends declared.

Accumulated other comprehensive loss changed to accumulated other comprehensive income, primarily as a result of the net change in fair value of our available-for-sale investments noted above.

As at June 30, 2017, $73 million (December 31, 2016 $21 million) of our cash and cash equivalents was held in certain foreign subsidiaries. There are no current plans to repatriate the funds at June 30, 2017 in a manner that would result in tax consequences.

LIQUIDITY AND CAPITAL RESOURCES

CASH REQUIREMENTS

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

Our contractual obligations and other commitments detailed on page 84 of our 2016 AIR summarize certain of our liquidity and capital resource requirements, excluding obligations that have original maturities of less than one year and planned (but not legally committed) capital expenditures. There have been no significant changes to these contractual obligations and other commitments or to our planned capital expenditures during the first six months of 2017.

SOURCES AND USES OF CASH

The company s cash flows from operating, investing and financing activities are summarized in the following table:

	Three Months Ended June 30				Six Months Ended June 30			
llars (millions), except percentage amounts	**2017**	2016	Change	% Change	**2017**	2016	Change	% Chang
sh provided by operating activities	**$ 328**	$ 424	$ (96)	(23)	**$ 551**	$ 612	$ (61)	(1
sh used in investing activities	**(130)**	(220)	90	(41)	**(262)**	(466)	204	(4
sh used in financing activities	**(163)**	(135)	(28)	21	**(224)**	(94)	(130)	13

rease in Cash and Cash Equivalents	**$**	**35**	$	69	$	(34)	$	(49)	**$**	**65**	$	52	$	13	$	2

The most significant contributors to the changes in cash flows were as follows:

	Quarter over Quarter	Year over Year
Cash Provided by Operating Activities	Cash provided by operating activities was impacted by: Higher net income in 2017; Lower cash inflows from receivables in 2017; Higher recovery of deferred income tax; and Lower cash outflows on payables and accrued charges in 2017.	Cash provided by operating activities was impacted by: Higher net income in 2017; Lower cash inflows from receivables in 2017; Higher recovery of deferred income tax; and Lower cash outflows on payables and accrued charges in 2017.
Cash Used in Investing Activities	Cash used in investing activities was primarily for additions to property, plant and equipment.	
Cash Used in Financing Activities	Cash used in financing activities in 2017 was largely the result of repayment of commercial paper and dividends paid. Cash used in financing activities in 2016 was largely the result of dividends paid more than offsetting proceeds from the issuance of commercial paper.	Cash used in financing activities in 2017 was largely the result of repayment of commercial paper and dividends paid. Cash used in financing activities in 2016 was largely the result of dividends paid more than offsetting proceeds from the issuance of commercial paper.

We believe that internally generated cash flow, supplemented by available borrowings under our existing financing sources, if necessary, will be sufficient to meet our anticipated capital expenditures and other cash requirements for at least the next 12 months, inclusive of requirements relating to the Proposed Transaction and our working capital deficiency, but exclusive of any possible acquisitions. At this time, we do not reasonably expect any presently known trend or uncertainty to affect our ability to access our potential sources of liquidity.

CAPITAL STRUCTURE AND MANAGEMENT

PRINCIPAL DEBT INSTRUMENTS

We use a combination of cash generated from operations and short-term and long-term debt to finance our operations. We typically pay floating rates of interest on our short-term debt and credit facility and fixed rates on our senior notes.

During the first half of 2017, there were no significant changes to the nature of our outstanding commercial paper, credit facility, short-term line of credit and uncommitted letter of credit facility described on page 87 in our 2016 AIR. As at June 30, 2017, interest rates on outstanding commercial paper ranged from 1.3 percent to 1.5 percent. (December 31, 2016 0.9 percent to 1.1 percent).

The credit facility and line of credit have financial tests and covenants, including consequences of non-compliance, referenced on page 87 of our 2016 AIR, with which we must comply at each quarter-end. We were in compliance with all covenants as at June 30, 2017 and at this time anticipate being in compliance with such covenants through 2017.

The accompanying table summarizes the limits and results of certain covenants:

Debt covenants at June 30

Dollars (millions), except ratio amounts		Limit		**2017**
Debt-to-capital ratio [1]	£	0.65		**0.35**
Debt of subsidiaries	< $	1,000	**$**	
Net book value of disposed assets	< $	4,314[2]	**$**	**1**

[1] Debt-to-capital ratio = debt (short-term debt and current portion of long-term debt + long-term debt) / (debt + shareholders equity). This non-IFRS financial measure is a requirement of our debt covenants and should not be considered as a substitute for, nor superior to, measures of financial performance prepared in accordance with IFRS.

[2] Limit is 25 percent of the prior year s year-end total assets.

Our ability to access reasonably priced debt in the capital markets is dependent, in part, on the quality of our credit ratings. We continue to maintain investment-grade credit ratings for our long-term debt. A downgrade of the credit rating of our long-term debt would increase the interest rates applicable to borrowings under our credit facility and our line of credit.

Commercial paper markets are normally a source of same-day cash for the company. Our access to the US commercial paper market primarily depends on maintaining our current short-term credit ratings as well as general conditions in the money markets.

	Long-Term Debt Rating (Outlook)		Short-Term Debt Rating	
	June 30 2017	December 31 2016	**June 30 2017**	December 31 2016

Moody s	**Baa1 (negative)**	Baa1 (negative)	**P-2**	P-2
Standard & Poor s	**BBB+ (stable) [2]**	BBB+ (stable)	**A-2 [1]**	A-2 [1]

[1] S&P assigned a global commercial paper rating of A-2, but rated our commercial paper A-1 (low) on a Canadian scale.

[2] Subsequent to June 30, 2017, S&P revised its outlook from stable to negative.

A security rating is not a recommendation to buy, sell or hold securities. Such rating may be subject to revision or withdrawal at any time by the respective credit rating agency and each rating should be evaluated independently of any other rating.

Our $4,250 million of senior notes were issued under US shelf registration statements. If the Proposed Transaction is completed, a downgrade in the company s credit ratings below investment-grade would trigger a change in control offer under existing debt securities, except for the senior notes issued in 2016, and the company would be required to make an offer to purchase all, or any part, of the senior notes at 101 percent of the $3,750 million outstanding principal amount of the senior notes to be repurchased, plus accrued and unpaid interest.

For the first six months of 2017, our weighted average cost of capital was 6.8 percent (2016 7.4 percent), of which 75 percent represented the cost of equity (2016 75 percent).

OUTSTANDING SHARE DATA

	June 30 2017	December 31 2016
Common shares issued and outstanding &n		