



Management's Discussion & Analysis

of Financial Condition and Results of Operations (in US Dollars)

The following discussion and analysis is the responsibility of management. The Board of Directors carries out its responsibility for review of this disclosure principally through its audit committee, comprised exclusively of independent directors. The audit committee reviews this disclosure and recommends its approval by the Board of Directors.

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PotashCorp and Our Business Environment

PotashCorp has built a global business on the natural nutrients potash, phosphate and nitrogen, which are used primarily in fertilizer. We sell to North American retailers, cooperatives and distributors that provide storage and application services to farmers, the end users. Our offshore customers are governments and private importers that tend to buy under contract, while spot sales are more prevalent in North America. Fertilizers are sold primarily for spring and fall application in both northern and southern hemispheres.

Since transportation is an important part of the final selling price, producers usually sell to the closest customers. In North America, we sell mainly on a delivered basis and use rail, barge, truck and pipeline. Offshore customers purchase product either at the port or with freight included. In the case of potash, approximately 60 percent of our customers buy it freight included and the remainder are responsible for ocean freight.

Potash, phosphate and nitrogen are also used as inputs for producers of animal feed and industrial products. Currently, both are produced primarily in North America and Europe but other regions are increasing both production and consumption. Feed and industrial sales are more evenly distributed throughout the year than fertilizer sales and are primarily by contract.

In all product categories (fertilizer, animal feed and industrial products), price is the most important variable in the buying decision. North American customer surveys indicate that product quality is the next most important factor when a supplier is being chosen. Customers' specific needs also affect their buying decisions. For example, in Japan, where our potash products are commonly used in industrial applications, quality is a significant factor. In China, there is a strong preference for red potash products, like those we produce at our Allan, Saskatchewan operation. In Brazil, granular potash to blend with the other nutrients is key.

DEMAND DRIVERS

Fertilizer	Feed	Industrial
<ul style="list-style-type: none"> • Acres planted • Application rates per acre • Rising world population • Desire for protein-rich diets • World grain stocks and crop commodity prices • Weather • Government policy, GDP 	<ul style="list-style-type: none"> • Demand for meat • Herd and flock size • Economic growth • Rising world population • Government policy • Regulations affecting substitutable products 	<ul style="list-style-type: none"> • Economic growth • Rising world population • Desire for products that contribute to modern living

Industry facts

	Potash	Phosphate	Nitrogen
Base Product	Potassium chloride	Phosphate rock – phosphoric acid	Ammonia
Geographic Availability of Raw Materials¹	Very limited	Limited	Readily available in numerous locations (natural gas)
Cost of New Capacity²	Approximately \$500 million for 1 million tonnes KCl	Approximately \$1 billion for 1 million tonnes P ₂ O ₅	Approximately \$500 million for 1 million tonnes ammonia
Greenfield³ Development Time⁴	5 years	3 years	2 years
Producing Countries⁵	12 (based on KCl) # 1 - Canada # 2 - Russia # 3 - Belarus # 4 - Germany	Approximately 45 (based on phosphoric acid) # 1 - US # 2 - China # 3 - Morocco # 4 - Russia	Approximately 70 (based on ammonia) # 1 - China # 2 - India # 3 - Russia # 4 - US
State- or Subsidy-Controlled Production⁶	14%	38%	50%
Expected Long-Term World Fertilizer Consumption⁷ Growth Rate⁸	2%	2%	2%
Major Importers⁹	KCl # 1 - US # 2 - Brazil # 3 - China # 4 - India	DAP # 1 - China # 2 - Pakistan # 3 - India # 4 - Vietnam	Ammonia # 1 - US # 2 - India # 3 - South Korea # 4 - Turkey
Percentage Traded Across Borders¹⁰	82%	46% (DAP)	13% (Ammonia)

PotashCorp facts

Capacity¹¹	12.1 million tonnes potash 23% of world capacity	2.5 million tonnes phosphoric acid 6% of world capacity	3.9 million tonnes ammonia 2% of world capacity
World Position by Capacity¹¹	#1	#4	#3
Raw Materials Availability¹²	More than 100 years in Saskatchewan at current operating rates Additional deposits in New Brunswick	Approximately 75 years in North Carolina at current operating rates	Trinidad natural gas producers have approximately 40 years of reserves ¹³ ; our contracts with them are approximately 9 percent of the total
Production Cost Position vs World Producers¹⁴	Low-cost	Low-cost P ₂ O ₅ Low-cost purified acid Medium-cost DAP	Trinidad operations low-cost US operations high-cost (consistent with all natural gas-based US producers)
Production Facilities	Seven operations in Canada (plus interest at Esterhazy) Potassium nitrate operation in Chile (currently being divested)	Two mines in the US Three processing operations in the US Seven feed plants (6 - US, 1 - Brazil)	Four plants in the US Large complex in Trinidad
Key Cost Sensitivities	Operating rate, natural gas, \$CDN/\$US exchange rate	Cost of phosphate rock, sulfur, ammonia; operating rate	Natural gas, conversion efficiency, operating rate
Competitive Strengths	Low-cost producer 69% of world excess capacity ¹⁵ Greater exposure to growing offshore markets	Long-term rock position High-quality rock Production diversity Widest product range	Flexible product mix and sources Close ties to industrial customers Long-term access to lower-cost gas in Trinidad US distribution system

PotashCorp North American Markets¹⁶

	Potash	Phosphate	Nitrogen
Major Consuming Crops	Corn, wheat, soybeans, cotton	Wheat, corn, soybeans, cotton	Wheat, corn, cotton
Market Share¹⁷	30% (KCl)	22% (P ₂ O ₅)	16% (N)
Main Customers¹⁸	Cooperatives, national accounts, independent dealers	Cooperatives, feed producers, Astaris, Rhodia (industrial)	US DAP producers, cooperatives, BASF, DSM (industrial)
Main Competitors¹⁹	IMC, Agrium, MissChem, imports from Russia and Belarus	IMC, Cargill, Simplot, CF	CF, MissChem, Koch, Terra, imports from other Trinidad producers, Russia and the Middle East
Sales Approach	PotashCorp sales team	PotashCorp sales team	PotashCorp sales team

PotashCorp Offshore Markets²⁰

Major Consuming Crops	Rice, corn, wheat, soybeans, oil palm, sugarcane, coffee	Wheat, rice, corn, soybeans, cotton	Wheat, rice, corn
Market Share²¹	11% (KCl)	1% (P ₂ O ₅)	0.2% (N)
Main Customers	Brazil, China, Japan, Malaysia, Indonesia	China, Brazil, Mexico	Limited sales
Main Competitors²²	Belaruskali (Belarus), Uralkali (Russia), Silvinit (Russia), Kali & Salz (Germany), Dead Sea Works (Israel)	OCP (Morocco), GCT (Tunisia), Phosagro (Russia), JPMC (Jordan), various producers in China and India	Limited sales
Sales Approach	Canpotex ²³ and PotashCorp sales team	PhosChem ²⁴ and PotashCorp sales team	PotashCorp sales team

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PotashCorp in the world potash scene

Worldwide, potash deposits that can be mined economically are very limited. There are few producers and many consumers. The US, a mature market, is the largest potash importer, and developing nations with limited indigenous production are the greatest growth markets. PotashCorp is a prominent supplier in both these markets.

With 12 million tonnes of capacity, we could supply nearly 30 percent of annual global requirements if we operated at our full rate. We have 69 percent of world excess capacity, so we expect to provide this vital nutrient to the world for many decades to come.

Our major competitors in North America are Agrium and IMC, each of which is more significantly leveraged toward North American sales than we are. Globally, we compete with producers in Belarus, Russia, Germany and Israel to serve customers in markets with little or no indigenous potash production, such as Asia and Latin America.

Market trends include continued industry consolidation, aggressive competition and shrinking government control – from 66 percent of the industry in 1980 to 14 percent in 2003.

Strengths:

- Low-cost, flexible production with a low percentage of fixed costs
- Excess capacity to respond to growth in world consumption
- Greater exposure in growing offshore markets
- Stable pricing, historically
- Few world producers, reduced government control
- High cost of entry to the business
- Moderate prices discourage investment in new greenfield capacity



Plants: improves yields, food value, disease resistance and storage qualities

Animals: helps growth, maintenance and milk production

Industrial uses: Computer screens, water softeners, soaps, de-icers

Weaknesses:

- Highly competitive North American market
- High freight costs to ship Saskatchewan potash to port
- Currently high ocean freight costs
- Recent rise of the Canadian dollar, increasing production costs
- High provincial and federal taxes
- Water inflow at New Brunswick continues to negatively impact margins

Opportunities:

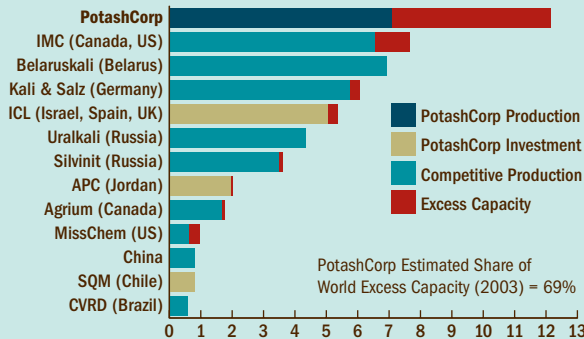
- As the major supplier to the offshore market, we are well positioned to fill potential growth in consumption with our excess capacity
- We believe our competitors are operating at or near capacity, which could allow us to benefit from a significant portion of future growth

Threats:

- Competitors' debottlenecking of existing plants may fill rising offshore demand and offset potential market growth for us

PotashCorp Is the Largest Potash Company

Million Tonnes KCl



PotashCorp Estimated Share of World Excess Capacity (2003) = 69%

Source: Fertecon, NRCan, PotashCorp

In 2003, PotashCorp added 26 percent of APC to our extended enterprise, which already included a 9 percent investment in ICL in Israel and 20 percent in SQM in Chile, a leader in specialty potash products.

PotashCorp in the world phosphate scene

World capacity of the major phosphate fertilizer product, diammonium phosphate (DAP), has surged in recent years. US DAP production is primarily intended for export, and historically much of it went to India and China, which are now developing their domestic production behind trade barriers created to protect it. The current excess supply of DAP relative to consumption is depressing prices.

Governments influence a significant proportion of world capacity, through subsidy control, ownership or by overproducing and accepting negligible to negative returns to support employment.

In these circumstances, PotashCorp's product diversification has allowed us to cut DAP production and shift our high-quality phosphoric acid to liquid fertilizers, animal feeds and industrial production, all important niche markets. We believe we are a low-cost producer of these products, and we have the most capacity in North America for phosphate feeds. Use of liquid fertilizers is growing as more farmers adopt conservation tillage. The expansion of our purified acid plant at Aurora in 2003 enhanced our position as one of the world's low-cost producers of this product.

In North America, our major competitors for both fertilizer and feed products are IMC and Cargill, while imports from Morocco and Israel compete for industrial sales. In offshore markets, competition for fertilizer sales comes from indigenous producers in India and China and from other global producers. In China, indigenous producers compete for feed sales.

Strengths:

- High-quality, long-term deposits close to low-cost processing facilities
- The industry's most diversified product line
- Existing permits at Aurora for 8 years and covering estimated life of mine at White Springs (18 years)



Plants: improves yields – energizes production, essential to photosynthesis

Animals: energizes muscles, essential to growth and repair of the body

Industrial uses: Soft drinks, food products, metal treating

Weaknesses:

- US producer dependency on declining world DAP trade has led to lower sales volumes and higher costs per tonne (high fixed costs)
- Excess world DAP capacity in many hands can easily be brought back on stream
- Too much government intervention, either in constructing capacity or in restricting imports
- Offshore sales heavily exposed to China and India, which seek self-sufficiency

Opportunities:

- Our high-quality ore allows us to develop more high-margin products
- Our strong competitive cost position in industrial acid makes us less susceptible to offshore competition
- Potential growth in offshore feed markets

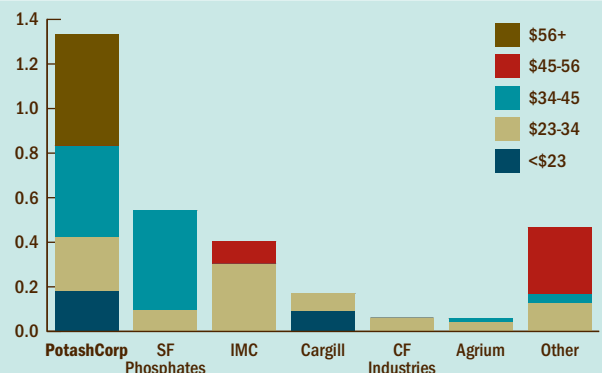
Threats:

- Depressed fertilizer prices have encouraged others to expand into the feed business, hurting margins
- Competitors with liquidity issues selling at lower prices to accelerate cash flow
- Higher barriers to exit because environmental costs force some companies to continue production at uneconomic levels, impacting supply/demand fundamentals

Superior North American Phosphate Rock Position


Billion Tonnes Rock

Rock Cost/Tonne



Source: British Sulphur, PotashCorp

In 2003, we completed the transition to our highest-quality ore zone at Aurora, where we expect to operate for the next 20 years. This reduced overall rock costs by 11 percent in 2003 and is expected to lead to further reductions in the years ahead.



N

Plants: improves yields and quality, key element of chlorophyll and plant proteins

Animals: essential to all proteins, RNA and DNA, essential for maturation

Industrial uses: Plastics, pharmaceuticals, resins, adhesives

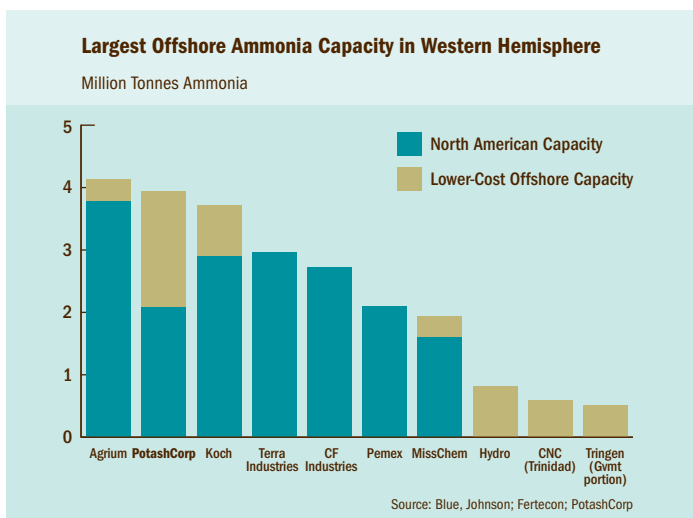
PotashCorp in the world nitrogen scene

Nitrogen, the most widely produced nutrient, is a regional business. Ammonia, the feedstock for all nitrogen products, can be manufactured in any country with adequate natural gas supplies and is a way for developing nations to monetize their gas. Several countries with large gas reserves and low production costs use little of their gas domestically, and produce ammonia cheaply for the export market.

Rising natural gas costs in the developed world have led to plant closures, since gas is at least 70 percent of the cost of producing ammonia there. The resulting tight supply has increased prices, attracting imports from areas of lower-cost gas such as Trinidad, Venezuela and the Middle East. The US is increasingly supplied from offshore and in 2003, imports of urea were up by 23 percent and ammonia by 21 percent over 2002.

Nitrogen is an input in industrial production of a wide range of products that enhance modern living, and manufacturers want consistent quality and just-in-time delivery to keep their plants running efficiently. Most are attached to their suppliers by pipeline. Improvements in GDP in developing nations have historically supported growth in demand for these lifestyle products.

PotashCorp nitrogen production serves both fertilizer and industrial customers, with our US plants primarily supplying industrial customers and Trinidad our fertilizer customers. We are not immune when expensive natural gas makes US ammonia plants non-competitive with offshore production, but our low-cost Trinidad plants



High sustained natural gas costs in the United States increased the value of offshore ammonia produced with lower-cost gas. This advantage allowed our Trinidad asset to provide half of our nitrogen gross margin in 2003.

help offset this. The high cost of gas in North America and competition from cheap imports have resulted in poor financial circumstances for many competitors and the industry continues to consolidate.

Within North America, sales are regionalized due to transportation costs. This limits competition from Agrium which serves a different niche market. CF Industries, a cooperative, Koch, a private company, and Terra and MissChem, both publicly traded companies, are our main competitors. Imports from inexpensive offshore production are expected to continue, but rising freight costs limit them somewhat.

Strengths:

- More than half of our production is in Trinidad where we benefit from favorable gas contracts and proximity to the US market
- Our gas hedging program in the US helps stabilize costs there
- Some of our US plants are linked by pipeline to industrial customers willing to pay a premium for secure, high-quality supply

Weaknesses:

- Uncompetitive natural gas costs in North America
- Contractual commitments to industrial customers may require us to operate unprofitable plants in a high-cost gas environment
- Small volume changes can significantly impact prices

Opportunities:

- High volume demand in the US
- Plants in Trinidad allow for expanded low-cost production
- Our US distribution system allows us to import and sell purchased tonnes
- Current higher freight rates make imports to US from the Middle East less competitive
- Consolidation of US industry

Threats:

- Competitors need only a short time frame to bring on new capacity when supply/demand ratio is tight
- Poor financial condition of competitors may cause liquidity issues, resulting in acceptance of lower prices to accelerate cash flow

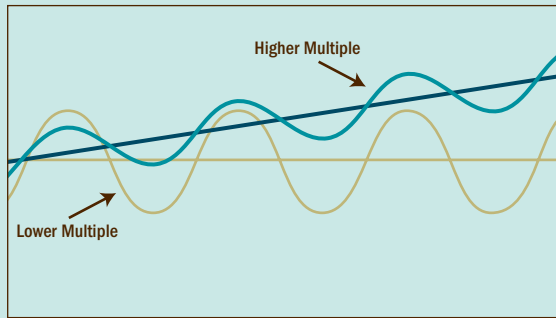
PotashCorp Vision

We see PotashCorp as a long-term business enterprise providing superior value to all our stakeholders. To achieve this, we believe we need to be the sustainable gross margin leader in the products we sell and the markets we serve.

Through our strategy, we attempt to minimize the natural volatility of our business; risk rises with volatility and we believe the capital markets will assign a better earnings multiple to a growth company with lower risk. We also strive for increased earnings, and to outperform our peer group and other basic materials companies in total shareholder return, a key measure in any company's value.

We constantly link our financial performance with areas of extended responsibility: the environment, our social and economic stakeholders and all who depend on us. For each of these stakeholder groups, we focus on increased transparency to improve our relationships, believing this gives us a competitive advantage.

Our Vision: Earnings Growth and Quality



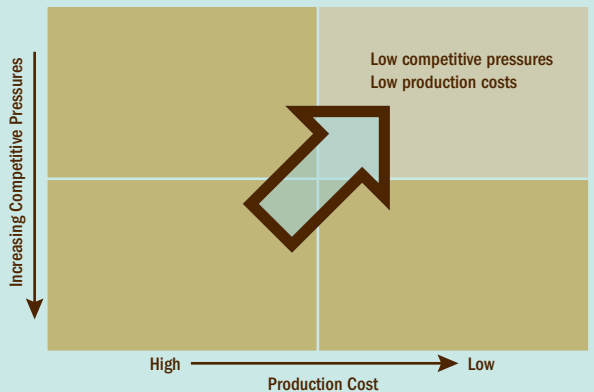
PotashCorp's decommoditizing strategy is designed to smooth the highs and lows of the commodity cycle while wrapping earnings around a rising trend line.

PotashCorp Strategy

PotashCorp's strategy is based on our commitment to seek earnings growth and quality. We build value with reduced volatility. The company intends to be the industry's low-cost global potash supplier on a delivered basis and to complement that by leveraging the strengths of our low-cost gas in Trinidad and our specialty phosphate products.

Day-to-day, we aim to maximize gross margin by focusing on the right blend of price, volumes and asset utilization, growing our business by enhancing our position as the supplier of choice. At the same time, we strive to build on our strengths by acquiring and maintaining low-cost, high-quality capacity that complements our existing assets and adds strategic value. We make decisions based on our determination to have our returns on cash flow materially exceed our cost of capital.

Strategic Positioning



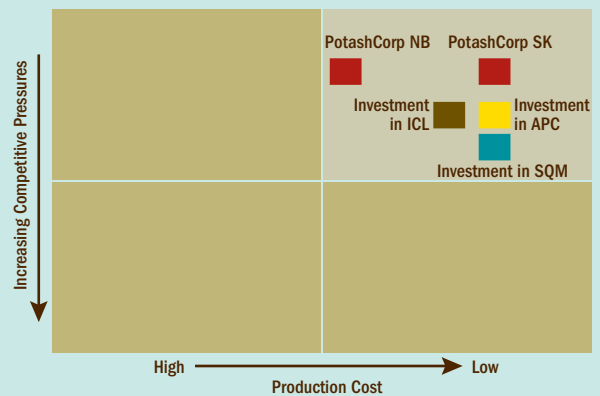
PotashCorp works to position all our businesses, both current and prospective, in the top right quadrant, where there is less competitive pressure and the lowest relative operating costs.

Potash Strategy: Building on global leadership

Our strategy in potash is designed to capture the benefits of our high-quality ore, low-cost production and excess capacity. We match supply to demand to minimize inventory overhang and we believe price and margin to be more important than volumes; our goal is to increase earnings over time. We also focus on maintaining our low-cost position in both production and on a delivered basis. We expect to use our excess capacity to respond to and benefit from demand growth. Increased production should lower our unit costs and improve margins.

Threats to this strategy come from competitors expanding their operations to increase capacity. Such expansions, while dampening our growth in the short term, should eventually be absorbed as new production has historically been consumed by rising demand. The

Strategic Positioning: Potash



We believe our existing potash operations and investments place us in the targeted top right quadrant. Potash is the most stable of the three nutrients and has the least volatility in its earnings.

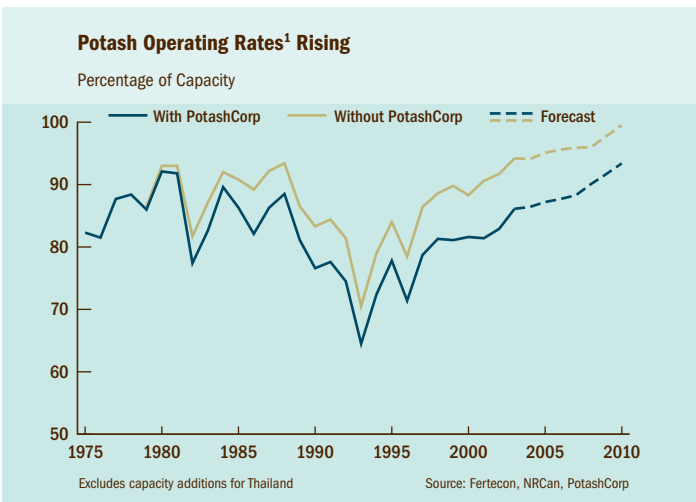
threat of major new capacity in potash in the form of a new mine is somewhat constrained, as we believe there are few geographic opportunities and it takes considerable capital and long lead times to bring a greenfield operation into production. We believe current potash margins do not support such investments.

Our strategy is best measured over the long term, as potash has the longest cycle of the three nutrients. Since we adopted this approach in 1987, it has been severely tested through two down cycles. In both instances, we responded to the unbalanced supply/demand equation created by large volumes from world competitors by reducing our production, and our potash profitability remained relatively stable. As consumption grew and supply/demand tightened, we increased production and generated better margins. In the future, we expect to use our excess capacity to meet the growth in developing nations.

Transportation costs are increasingly important and our sales strategy is built with customer proximity in mind. We are advantaged supplying Asia and the US from our Saskatchewan operations and with our New Brunswick facility serving South and Central America. This allows for

quicker and more cost-efficient delivery – an important factor as ocean freight rates reached unprecedented levels in 2003. Our recent investment in Jordan-based Arab Potash Company (APC), where we nominated individuals to the top four management positions, shows this strategy at work.

Domestically, our strategy relies on a distribution network in the US and Canada that allows timely delivery to high-demand spring and fall markets. We maximize these systems, attempting to get the lowest freight rates possible. Offshore sales of our Saskatchewan potash are handled through our membership in Canpotex, which minimizes transportation and marketing costs. This is important in pursuit of our goal of being the lowest-cost supplier on a delivered basis to any customer around the globe.



With competitors operating at high rates, PotashCorp was able to use some of our excess capacity in 2003 to capitalize on market growth. Our offshore volumes increased by 19 percent even as world demand² grew by approximately 5 percent.

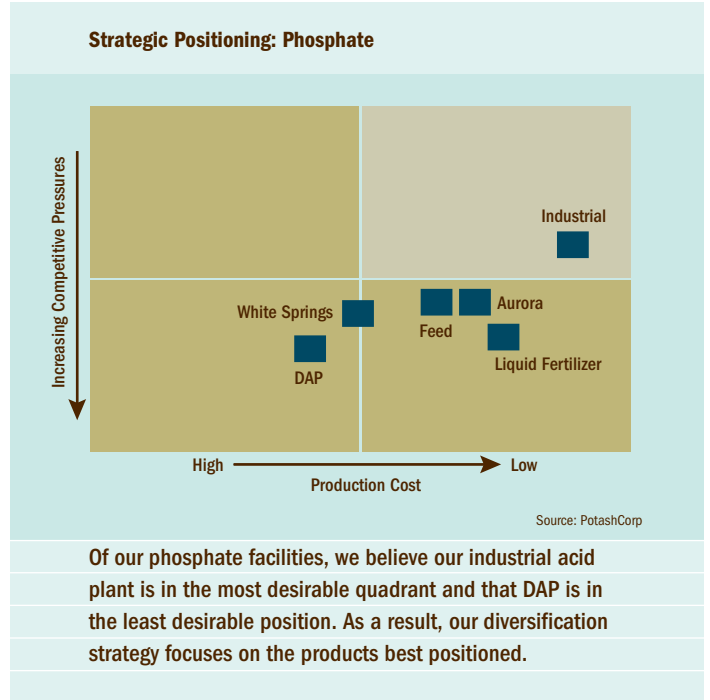
Shifts in foreign currencies affect our strategy. As currencies, including the Canadian dollar, strengthen against the US dollar, translated production costs rise in many countries. Together with higher freight rates, this squeezes margins, creating a need for higher prices. Investments in companies such as APC are aimed at providing a natural hedge against rising freight costs and currency fluctuations, since the Jordanian dinar is indexed to the US dollar. PotashCorp will continue to review investment opportunities that offer freight advantages, provide economic hedges and expand our enterprise. We will also explore opportunities in upgraded potash (which offers higher returns and less volatility), consistent with our investment in SQM, the world’s largest producer of specialty upgraded potash products.

Phosphate Strategy: Strength through diversification

In phosphate, we work to maximize the benefits of our long-term rock position, multi-year mining permits and high-quality ore that enables low-cost production and product diversity. The quality of our ore allows us to produce the upgraded feed and industrial products whose margins are more stable, to reduce the volatility of phosphate fertilizer.

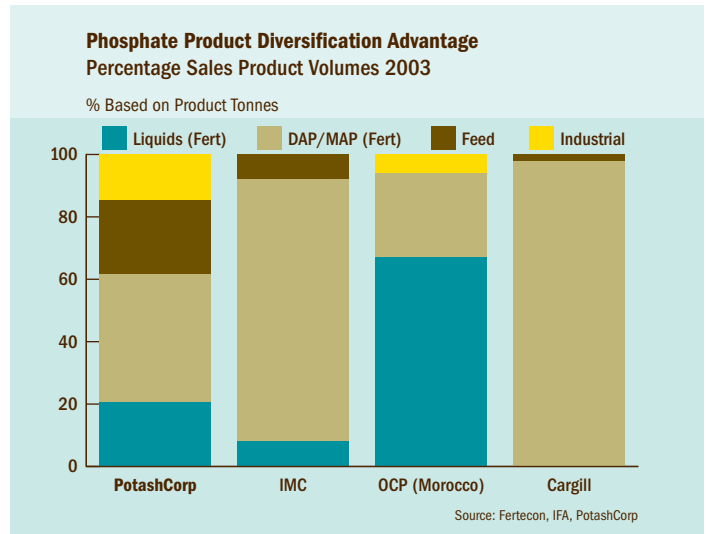
1, 2 - See Appendix, Page 45

We support this strategy with specialized sales teams to sell each product line in North America. Our initiatives to develop non-fertilizer products help us move toward the top right quadrant as there are fewer competitive pressures in these businesses. Our high-quality rock gives



us an advantage, allowing us to produce these higher-end products at lower costs than our competition. We will look for opportunities to further diversify, especially in the industrial acid area.

With phosphate’s high percentage of fixed costs, maximum profitability is achieved only when running at full capacity in a tight supply/demand situation. During 2003, we ran our DAP plants at 61 percent of capacity, due to a weak supply/demand equation –



To support our decommoditizing strategy and our goal of more stable phosphate earnings, PotashCorp expanded our purified acid operation and opened a new feed plant at Aurora in 2003.

which increased operating costs on a per-tonne basis. In recent years, an earnings trough has been created by new world capacity coming on stream and reduced imports by China and India. It appears that their governments are attempting to build domestic industries by subsidizing production and skirting their commitments to the World Trade Organization. This has markedly extended the down cycle for phosphate. PotashCorp is responding with the goal of keeping fixed costs flat in 2004 and continuing to emphasize our industrial and feed businesses.

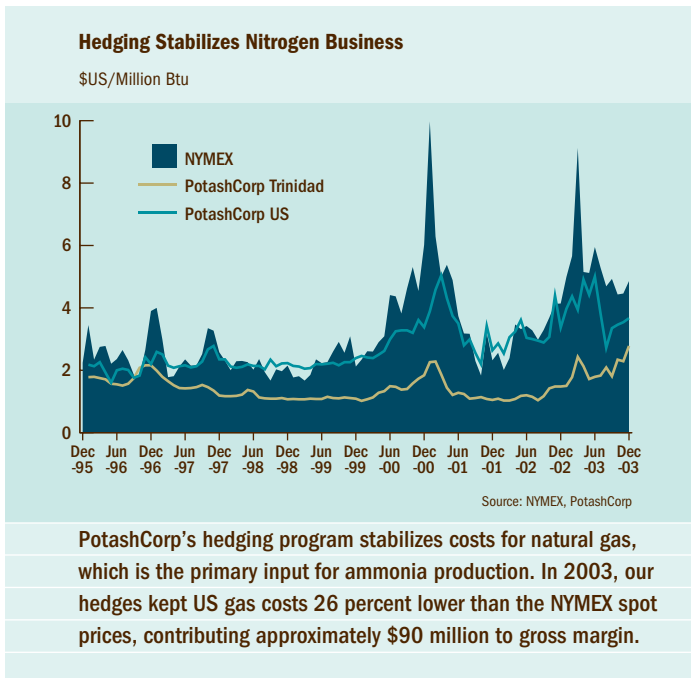
Nitrogen Strategy: Flexible supply sources

Our nitrogen strategy is designed to moderate the impact of volatile natural gas prices and take advantage of cyclical upswings. With favorable gas contracts in Trinidad, we can shelter margins for some of our products. In North America, we employ natural gas hedges with the goal of minimizing risk from gas prices and protecting US margins.

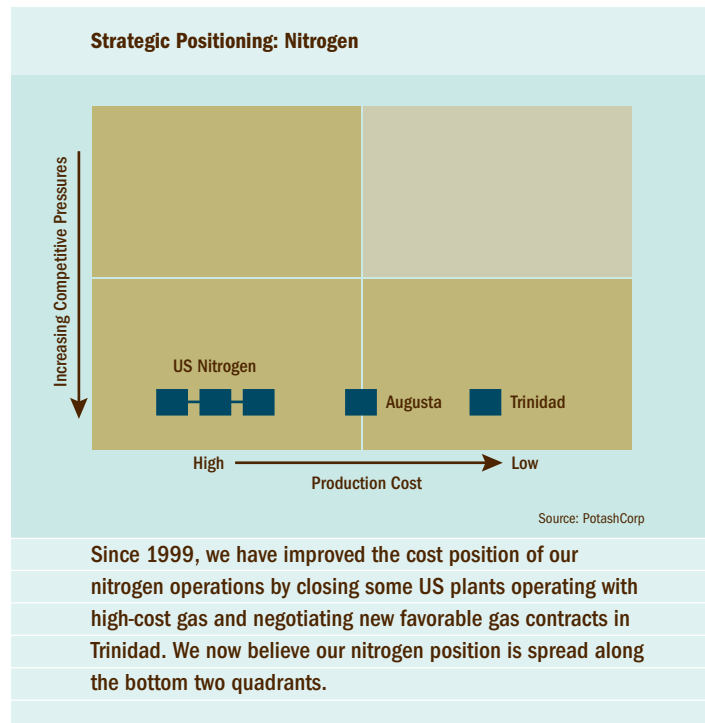
Nitrogen is a regional business, so North America is our primary market. We supply this market through a combination of tonnes produced in Trinidad, US production and purchased tonnes which we re-sell, always seeking to source the highest-margin method of supply. Our multiple port facilities, warehouse and distribution network, dedicated sales and customer service teams and associated infrastructure make it possible to supply customers from this flexible production base.

High natural gas costs in North America are unlikely to significantly abate. This means that smaller, less efficient operations or those close to the Gulf of Mexico and more vulnerable to imports will be unable to compete over the long term.

In response, we indefinitely shut down production at our Memphis facility and ammonia and nitrogen solutions production at Geismar, eliminating low-margin sales. Lima was restructured, which should reduce its costs by \$10 million annually, a portion of which will be realized in 2004. In 2003, we demonstrated that we can effectively use our distribution system and increase purchased tonnes. This could allow us to raise sales volumes in the future without increasing production.



Trinidad is home to more than half of our ammonia production and is ideally situated to service the sizeable US market. Our US plants, located in different regions, focus on industrial sales, where quality and security of supply are key. With varied production rates at these operations, we plan to maximize sales to industrial customers, supplemented by fertilizer sales, to run our plants at the highest possible operating rate to help control costs.



Sales Strategy: The supplier of choice

In a commodity business, where products are similar and price is the most important influence on buying decisions, our goal is to move our customer base to the top right quadrant of highest volumes and highest margins. We want to be the supplier of choice to our customers, always getting the final opportunity to win their business. Our industry, including PotashCorp, has experienced gross margin deterioration over the last three to four years. To help insulate ourselves from the cyclicity of commodity pricing, we continue to pursue markets that require our stringent specifications in both product quality and service. This effort has been rewarded through contracts tied to costs plus a margin, or non-cyclical premium pricing. Our extensive North American distribution network also gives us a logistical advantage to supply the growing needs of our customers. Higher prices are necessary for increased profitability and we work to balance our volume and price expectations. Thus we seek to become the preferred supplier to high-volume, high-margin customers with the lowest credit risk.

Key Performance Drivers

While being a supplier of choice and strengthening and increasing stakeholder engagement are key to our long-term performance, our immediate profitability is driven by lower production costs and higher realized prices, which contribute to increased gross margin. We achieve lower per-unit production costs through higher operating rates, which are generated by tightened supply. As with all commodity businesses, higher prices generally follow. However, this often encourages competitors to bring on new production, which impacts the supply/demand balance until new market demand growth is achieved.

We do not view PotashCorp as a typical commodity company that merely endures low prices and waits for them to rise. We have a decommoditizing strategy designed to moderate the highs and lows and outperform at both ends of the cycle. Its success is influenced by many variables that are beyond our control. While some factors like our levels of production and sales volumes are within our control, all must be balanced with one another to optimize our asset base.

Measuring Key Performance Drivers

Above all, our goal is to provide superior shareholder returns. Low costs and higher prices have an immediate impact on our success in improving gross margins whereas, longer-term, our key performance drivers include recognition as supplier of choice with our customers and engagement with our employees, shareholders and communities. PotashCorp continually reviews and monitors these corporate-wide key performance drivers and related measurements and believes they are critical to determining whether the implementation of our strategies in each nutrient is successful. A summary is provided below.

Potash

Our strategy in potash is based on bringing on excess capacity as the world market grows. We believe this strategy is successful when potash margins are higher than in the trailing quarter and in the same period a year earlier. We also evaluate our success in achieving our proportionate share of growth in world demand and maintaining our target market share in North America. On the cost side of the equation, we monitor shutdown weeks as they impact costs.

Phosphate

We evaluate our diversification efforts by monitoring the sales split and gross margin results between fertilizer and non-fertilizer products. We track our strategy of entering niche markets by monitoring realized prices. Phosphate rock costs are integral to our performance, as it takes approximately 3.5 tonnes of rock to make one tonne of P_2O_5 . While our goal is to reduce rock costs, we follow an orderly mining plan for the long term rather than mining only high-grade rock for short-term gains. We also track input costs, which is especially important given the volatility of raw materials like sulfur and ammonia.

Nitrogen

Our goal is to maximize nitrogen production where our costs are lowest and margins highest. We compare Trinidad to North American production, exclusive of natural gas hedges. In North America, we aim to stabilize production costs through hedges and compare our natural gas costs to what they would have been had we purchased off the spot market. Industrial sales typically bring better prices than fertilizer and we monitor prices to confirm that performance. We prefer to settle industrial prices through negotiation rather than selling from an index to reflect their differentiation, and measure our progress in this regard.

Financial

We believe that total shareholder return is an important value measure and that maximizing long-term shareholder value is a function of providing superior returns on investment over our business cycle(s) that exceed our cost of capital. As such, we regularly compare returns on cash flow to weighted average cost of capital.

Stakeholder Engagement

While shareholders are our priority, long-term value can only be reached by maintaining the support of a broader audience. We conduct ongoing industry discussions with investors, analysts, customers and employees to monitor attitudes. Our objective is to collaborate with stakeholders and we measure the success of our interaction with key audiences through surveys. Every year, we survey the investment community and every two years, we survey customers to measure our service at every stage of the transaction. We regularly review the competitiveness of our compensation and benefit programs to ensure they provide the right balance of meeting employee financial security needs against our company's low-cost supplier objectives. We continually track safety and environmental performance and provide these, and other measures, in our sustainable development report and on our award-winning website.

DRIVER	MEASURE	2004 OBJECTIVES
Value and Valuation	<ul style="list-style-type: none"> Total shareholder return Earnings growth 	<ul style="list-style-type: none"> Outperform peer group and other basic materials companies Meet earnings per share guidance of \$2.70–\$3.50
Margin	<ul style="list-style-type: none"> Margin growth 	<ul style="list-style-type: none"> Exceed our five-year historic average gross margin as a percentage of revenue
Supplier of Choice	<ul style="list-style-type: none"> Customer satisfaction 	<ul style="list-style-type: none"> Reduce number of customer complaints compared to 2003
Stakeholder Engagement	<ul style="list-style-type: none"> Safety performance Environmental performance Employee engagement 	<ul style="list-style-type: none"> Reduce injury frequency rate by 10 percent compared to 2003 Reduce environmental incidents by 10 percent compared to 2003 Reduce turnover by employee segments compared to 2003

Action Plan and Capability to Deliver

Business System

Fundamental to delivering on our strategy is our ability to produce, sell and deliver products competitively. Our success is determined by the value we provide for the prices our customers pay.

Production

In potash, the rising Canadian dollar is increasing our translated production costs and creating a need to absorb costs and improve productivity within our operations. By narrowing our product lines, we will generate efficiencies that should lead to lower production costs while still meeting customers' needs. Over the longer term, we recognize a growing demand for granular product and will continue to work on an expansion and new compaction capacity at Rocanville, which is expected to begin production entering 2005. In nitrogen, we must contend with higher natural gas prices in North America that have made US production less competitive with imports from countries with lower-cost gas. We are reviewing the potential of expansions in Trinidad to capitalize on our gas position. By using our distribution system for purchased tonnes, we can source product with the best margins. We also can consider sales agreements for developing nitrogen projects in lower-cost gas environments. In phosphate, the high percentage of fixed costs is being spread over fewer tonnes through the down cycle, which raises our production costs. We intend to explore optimization strategies for each facility and product line to increase operating rates and efficiencies. We will also consider further diversification with industrial phosphoric acid.

With many years of high-quality deposits in potash and phosphate and long-term gas contracts for our nitrogen production in Trinidad, we believe we are well positioned with limited restraints on our raw material supplies. We think this combined asset base is unmatched in our industry.

Sales

In North America, continued engagement with our customers, along with strategic alliances with dealers who warehouse our products, will determine our success in maintaining market share. Our participation in the fertilizer sales organizations Canpotex and PhosChem, where we share marketing costs and volumes with other producers, is important to our offshore margins. These organizations also maintain a network of agents in offshore markets aimed at ensuring our products benefit from market growth.

We have extended our enterprise with an investment in SQM in Chile, which produces an upgraded potash product. Our investment in APC in Jordan helps us benefit from its transportation logistics in an environment of high freight costs. Our extended enterprise also includes an investment in ICL, another leading low-cost potash producer. Maintaining a continuous presence in the global potash market will help protect our prominent position with customers.

Delivery

As a producer of bulk commodities that are traded in large volumes around the world, our success requires an efficient transportation

system. This is achieved by operating our own transportation department, with a distribution network of approximately 175 terminal and warehouse facilities and a fleet of approximately 6,000 railcars. Again, the key is the relationship between costs versus a return on our investment in the system. Recent increases in ocean freight rates are raising our cost to deliver to offshore customers that purchase potash on contracts with freight costs included. In the short term, we are reducing our contract commitment time and, in the long term, we believe our ability to use our diverse locations to deliver from the most freight-logical source should support margin expansion.

Support System

To sustain our business and take advantage of growth in world markets, we need to maintain the confidence of our employees, customers and shareholders. We also need to maintain a strong balance sheet during the low points in the commodity cycle and position ourselves for potential acquisitions.

Employees

Our entrepreneurial management team is experienced and knowledgeable in our business. Our culture aims to be non-bureaucratic and to encourage leadership at all levels. We have longevity among employees, with annual turnover below 5 percent. Our challenges are to recruit and retain the best people in our industry and to continue to develop an entrepreneurial culture built on responsible risk-taking.

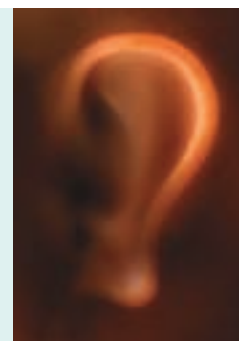
Management compensation is linked to shareholders through a long-term incentive plan tied to total shareholder return and a short-term incentive plan based on variables that we believe correlate to shareholder return.

To protect the future of the company, the Board of Directors reviews succession planning on an annual basis. Formal programs have been adopted to encourage advancement from within. Certain positions have been designed as training positions, giving management candidates an opportunity to develop a wider skill set and knowledge base. Compensation policies have been developed to attract and retain the best people for our business.

Customers

Customers' perceptions of our ability to create value for them based on the price they pay for our products are fundamental to our ability

When members of our industry raised concerns about the public's misconceptions regarding fertilizer and its use, PotashCorp listened. We responded by launching Fertile Minds (www.fertile-minds.org), an information program that provides simple, science-based facts about where fertilizer comes from and how it aids mankind.



to maintain and grow their business. We follow up our sales with customer service that is available 24/7, and do regular customer surveys to determine whether we are outperforming our competitors at every stage of the sales transaction. Our dedicated sales teams for each product (fertilizer, feed and industrial) focus on increasing their specific knowledge level to provide maximum value for customers.

Investors

Maintaining good relationships with the investment community can serve to increase our multiple and reduce our cost of capital. We are aided in this by our investment-grade credit rating (Moody's: Baa2, with a positive outlook; Standard and Poor's: BBB+; Dominion Bond Rating Service: R1 low).

Our ability to create value for shareholders is evaluated on an ongoing basis. We also explore various ways to return the greatest value to our shareholders, through share buyback programs, payment of dividends or organic investment. Each year in the 15 years since we became publicly traded, we have paid a dividend to our shareholders. Despite the ups and downs of the fertilizer industry, this has always been a priority.

Finance

We strive to keep our debt-to-capital ratio between 35 and 40 percent. If we want to move the business to the quadrant of lowest cost and least competition, we must be prepared to make acquisitions or increase the level of investment in our existing businesses. We believe our strong balance sheet provides a solid base for acquisitions. Our cash flow provides flexibility for new investment in our own business and paying down debt quickly. It also provides continuing access to capital markets. Tax rates are important to our financial resources and recent changes at both the federal and provincial levels in Canada will improve our position. Federal income tax changes will be phased in over the next four years.

Reputation

To protect our reputation, we constantly communicate and pride ourselves on honesty and keeping our commitments. Our core values espouse integrity, concern for the safety of people and the environment, continuous improvement, accessibility and

accountability. We strive to listen to our stakeholders and share what we learn. In addition to our spirit of transparency, we have developed many leading-edge policies, including our approach to corporate governance and crisis communications. Our well-received sustainable development report demonstrates our efforts to collaborate with all stakeholders. Our success in this area is important to maintaining approval from our communities and protecting our license to operate.

With all stakeholders, we strive to have "no surprises." We are bringing an investment-style cost versus return approach to these initiatives to balance our financial, social and environmental objectives.

Governments

We operate in an international industry where a high percentage of products cross borders, with competitors in different jurisdictions around the world. To offset the impact of market-distorting subsidies and government intervention, we work closely with a number of industry committees in an effort to ensure that trade agreements are adhered to and products can move unencumbered. This includes the American Phosphate Trade Committee, which lobbies governments in the US and India regarding subsidies which we believe distort trade.

Technology and Systems

Our business is becoming increasingly global. With operations and employees in many countries, technology is an important part of communications. It is also key to customer convenience where electronic data interchange is becoming an important component to service. We monitor and respond to changes in technology, upgrading our systems on an ongoing basis. We were the first fertilizer company to provide a website to enable customers to track orders and review account history.

In addition to meeting the increasing expectations of our stakeholders for information, we are focused on creating a system that ensures management has the right information at the right time to measure results that are indicative of our performance. Thus, we are currently developing an enterprise-wide reporting system for key performance indicators.

What Happened in 2003?

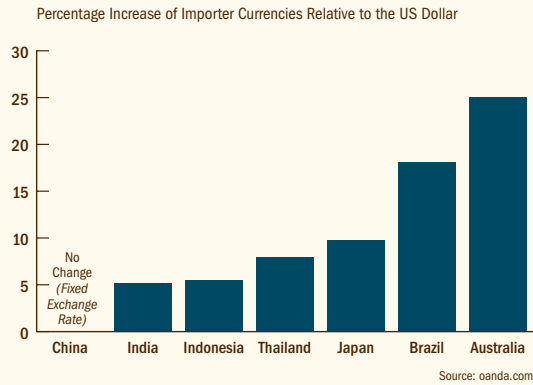
	Potash		Phosphate		Nitrogen	
	2003	2002	2003	2002	2003	2002
Total World Consumption¹ (product tonnes - millions)	42.9	41.2	56.5	55.1	133.4	131.9
PotashCorp Share of World Production²	16%	15%	6%	5%	2%	3%
PotashCorp Operating Rate³	58%	53%	75%	61%	81%	93%
World Operating Rate⁴ excluding PotashCorp⁵	94%	92%	71%	73%	80%	82%

Phosphate based on phosphoric acid. Nitrogen based on ammonia.

1-5 - See Appendix, Page 45

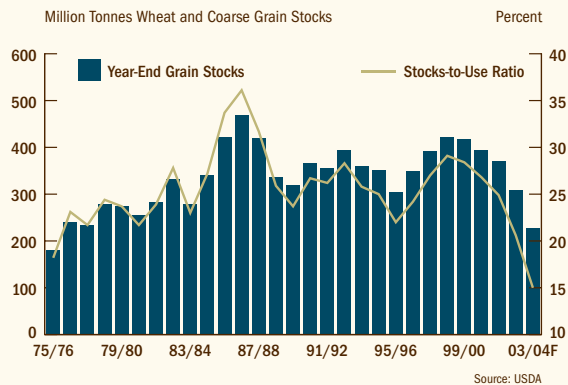
Factors That Shaped 2003 Business Conditions

1 Stronger Foreign Currencies; Weaker US Dollar



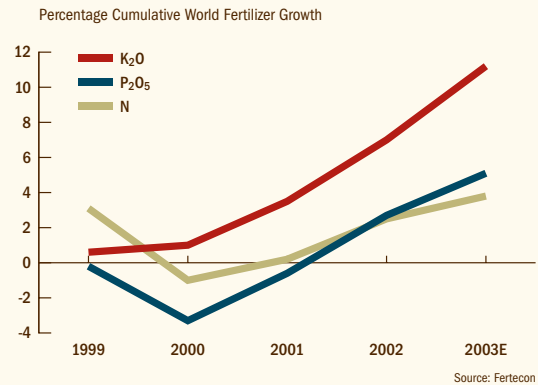
Over the course of 2003, the currencies of several countries gained strength against the US dollar. As fertilizer is sold around the world in US dollars, all companies that produce in a home currency that increased relative to the US dollar experienced margin pressure on exports. At the same time, many importers gained buying power, a factor we believe led to increased trade of grains and fertilizer.

2 Another Drop in World Grain Stocks



For the fifth consecutive year, wheat and coarse grain consumption is projected to exceed production. The rising world population and a growing demand for meat, which requires additional grain, increased consumption while poor weather and other factors reduced production. Europe was hit by a cold winter and drought, while North American farmers faced hot, dry conditions. These factors reduced inventories and pushed the stocks-to-use ratio to historic low levels. China, while pursuing economic growth, sold into world markets, contributing to the decline.

3 Better Prices for Crop Commodities and Increased Fertilizer Use



A drop in grain inventories and a weakened US dollar created a favorable environment for crop commodities. Soybean prices jumped to \$7.17 per bushel at the US farmgate by year-end – the highest level in six years. Internationally traded prices for corn, cotton, rice, palm oil and rubber were also up. As these prices rose, more acres were planted. World fertilizer consumption increased by 2 percent; nitrogen consumption by 1.3 percent, phosphate by 2.4 percent and potash by 4.2 percent.

4 More Operating Cash for US Farmers

As reported by USDA, total net cash farm income climbed to over \$60 billion. Farmers' cash receipts increased as the lack of Canadian live beef imports drove up US meat prices and tight grain supplies pushed up grain prices. That provides farmers with the cash necessary to buy inputs for their business if they so choose.

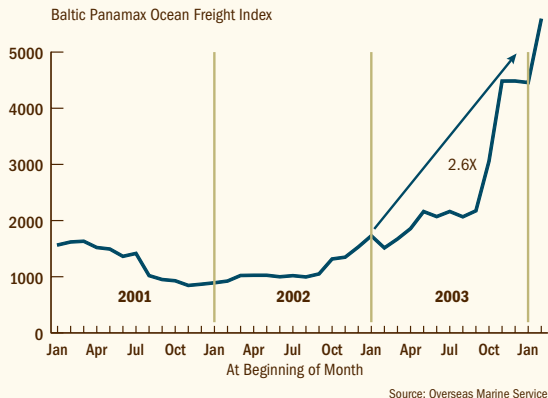
5 Higher Prices for US Natural Gas

As spring inventories of natural gas hit their lowest level in years, prices spiked to more than \$9 per MMBtu in February. That led to more drilling activity, but the new production was drawing upon higher-cost reserves. As inventories were rebuilt, the gas price fell back to the \$4-\$6 range, and was supported there by the increased cost of production.

6 US Economy Improved

The US economy grew 6 percent in the second half of 2003. Housing starts reached their highest point since 1978 and auto sales, spurred by low interest rates and dealer incentive programs, reached 16.6 million units. The year ended on a high note with December factory production rising for the fourth straight month. With US economic growth of 3.1 percent for the full year, demand for industrial products was high. The world economy followed along, growing by 3.5 percent after two consecutive years of 2 percent growth. This increase was led by China, with 9 percent economic growth, and the US.

7 Ocean Freight Rates Skyrocket

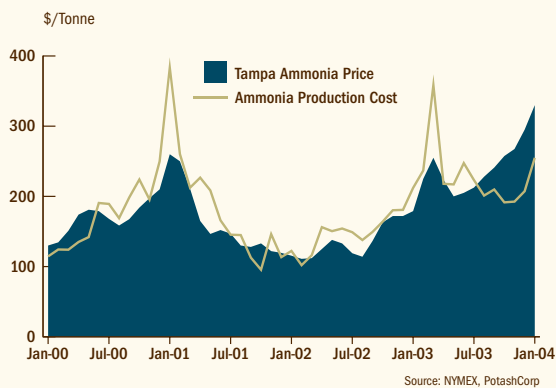


The growing economies of Asia increased their demand for many goods including coal and iron ore, creating a heavy load on the world transportation system. With many older vessels being decommissioned, the benchmark Baltic Panamax Ocean Freight Index jumped more than two and a half times the rate of 2002. As panamax vessels are used to transport large-volume dry goods, including fertilizer, this index is a key indicator of global freight costs.

8 US Feed Phosphate Use Down

Manufacturers of compound feeds now produce tighter formulations in response to improved scientific knowledge of animal and poultry nutritional requirements. This new “precision feeding” and improved animal genetics are primary reasons for the 5 percent decline of feed phosphate consumption in the US in 2003. The single case of Bovine Spongiform Encephalopathy (BSE) discovered in Canada in the spring halted the import of live beef animals into the US, reducing the number of animals requiring feed. This contributed to the US beef production decline of about 3 percent. A case of BSE discovered in the US at year-end forced regulators to examine feed formulations, with the potential for further restrictions on the animal parts allowed in feed, which may increase the need for supplements.

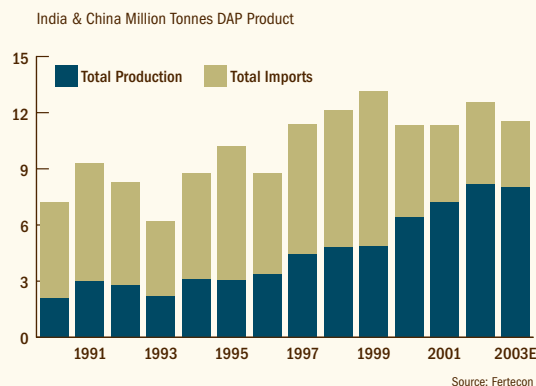
9 Ammonia Prices Decouple from Natural Gas



For the first time since the mid-1990s, ammonia prices decoupled from natural gas prices and tight supply/demand fundamentals took hold. In 2003, world ammonia consumption grew by 1.1 percent and

this demand was met by increasing worldwide operating rates rather than by new capacity. US ammonia production declined by 16.5 percent as high North American gas prices forced plant curtailments. As a result, US ammonia import demand increased by 20.5 percent. World ammonia exports grew by 6.3 percent, spurring the increase in nitrogen prices.

10 US DAP Exports Decline

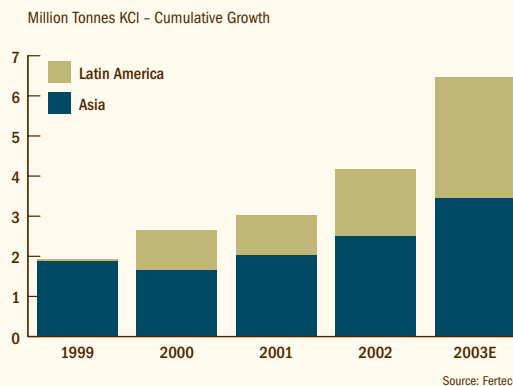


For the US industry, there was a 6 percent decline in DAP exports which kept prices down. These prices, combined with rising input costs, squeezed producers’ margins.

China’s domestic DAP production increased by almost 20 percent which decreased imports by 30 percent. It imported about 2.8 million tonnes of DAP, although the tariff rate quota (TRQ) level set for 2003 was 5.95 million.

In India, production problems reduced domestic production by 13 percent, forcing it to increase imports from 2002’s record low level. However, India maintained its subsidy system which protects its high-cost domestic industry from global competition.

11 Asia and Latin America Lead Increased Potash Demand



Canadian producers used formerly idle capacity to capture a larger share of the growing world market. Exports from Vancouver were the fastest-growing in the industry. Canpotex exported a record 6.3 million tonnes KCl, 1 million tonnes more than in 2002. Brazil led that growth with record imports from all suppliers of 5.9 million tonnes KCl.

2003 Earnings Guidance Review: Results versus Expectations

The company's initial estimate for diluted earnings per share (EPS) for 2003 was approximately \$2.00 per share. The final result was a loss of \$2.42 per share. The primary causes of this \$4.42 variance from the forecast amount were:

CAUSE	Effect on EPS
Potash sales volumes higher	0.14
Potash offshore realized prices lower	(0.17)
Effect of foreign exchange on operating costs net of its effect on provincial mining taxes	(0.17)
Decreased potash unit cost of sales (exclusive of foreign exchange)	0.16
Lower provincial mining taxes (exclusive of foreign exchange)	0.09
Potassium nitrate operations	(0.06)
Subtotal potash	(0.01)
Increased input costs:	
Cost of sulfur	(0.11)
Cost of ammonia	(0.07)
Rock costs	(0.07)
Start-up issues at new DFP plant in Aurora	(0.17)
Conversion costs higher	(0.23)
Phosphate sales volumes lower	(0.12)
Subtotal phosphate	(0.77)
Increased nitrogen realized prices (exclusive of purchased product)	1.14
Higher gross margin on purchased product	0.13
Cost of natural gas higher	(0.88)
Nitrogen unit cost of sales higher (exclusive of cost of natural gas and purchased product)	(0.18)
Gain on natural gas hedges	0.41
Subtotal nitrogen	0.62
Foreign exchange variance	(0.55)
Increase in other income	0.12
Increase in interest expense	(0.07)
Subtotal of the above	(0.66)
Provision for PCS Yumbes and plant shutdowns	(3.88)
Future income tax reversal	0.12
Total variance from forecast diluted EPS	(4.42)

Potash

- Potash sales volumes in the offshore market were up but realized prices were down due to sharply higher freight rates.
- Unit cost of sales was up due to a stronger Canadian dollar and higher natural gas costs.

- Provincial mining taxes were down due to lower margins on potash and lower Saskatchewan potash taxes due to a revised tax structure.
- The potassium nitrate operations in Chile continued to be affected by high costs due to low operating rates and lower than expected prices.

Phosphate

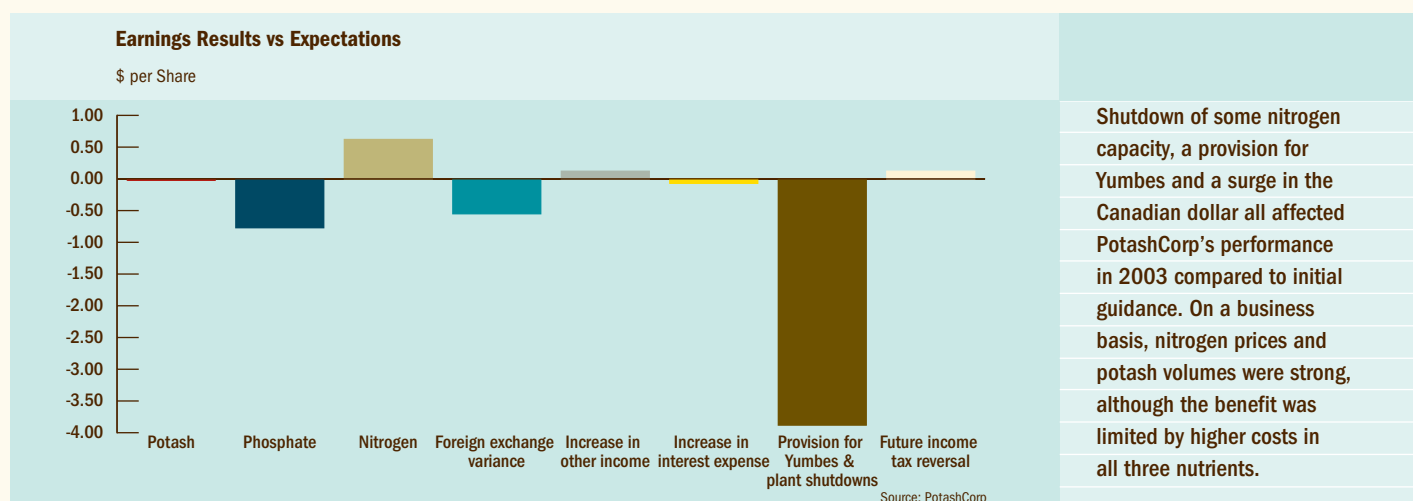
- Higher costs were primarily attributable to defluorinated feed phosphate (DFP) start-up issues, lower production and higher prices for ammonia and sulfur inputs.
- Feed and industrial volumes were down due to lower demand for feed and competitive pressures in both markets.

Nitrogen

- The higher unit cost of sales was due to lower operating rates and higher natural gas costs. This was more than offset by the higher prices that followed industry-wide production cutbacks due to high natural gas prices, which tightened supply.
- Following the indefinite shutdowns at Geismar and Memphis, manufactured tonnes were replaced with purchased tonnes, which increased gross margin for purchased tonnes.
- The gain on natural gas hedges was locked in as the company liquidated our 2003 gas futures contracts in February when natural gas prices spiked.

Corporate

- The Canadian dollar strengthened significantly against the US dollar, compared to initial expectations.
- Other income increased due to APC equity earnings, nitrogen insurance proceeds and a larger ICL dividend.
- Interest expense increased, primarily due to the issuance of 10-year notes in March 2003 in place of lower-cost commercial paper.
- The provision for PCS Yumbes and plant shutdowns pertained to asset writedowns, workforce reductions and contract terminations at the Yumbes, Memphis, Geismar and Kinston facilities.
- Future income tax reversal of \$6.5 million, due to revised estimates of future income tax liabilities.



2003 Financial Overview

All references to per-share amounts pertain to diluted income or loss per share. Diluted net income per share is calculated based on the weighted average shares issued and outstanding during the period, adjusted 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 period. For periods in which there was a loss applicable to common shares, stock options with exercise prices at or below the average market price for the period were excluded for the calculations of diluted net loss per share, as inclusion of these securities would have been anti-dilutive to the net loss per share. Certain of the prior years' figures have been reclassified to conform with the current year's presentation.

	Dollars (millions) except per-share amounts			% Increase (Decrease)	
	2003	2002	2001	2003	2002
Net Sales	\$ 2,465.8	\$ 1,928.7	\$ 2,080.8	28	(7)
Gross Margin	\$ 380.4	\$ 307.3	\$ 407.3	24	(25)
Provision for Plant Shutdowns and PCS Yumbes S.C.M.	\$ (264.2)	—	—	—	—
Operating (Loss) Income	\$ (55.6)	\$ 166.9	\$ 269.7	n/m	(38)
Net (Loss) Income	\$ (126.3)	\$ 53.6	\$ 121.2	n/m	(56)
Net (Loss) Income per Share – Basic	\$ (2.42)	\$ 1.03	\$ 2.34	n/m	(56)
Net (Loss) Income per Share – Diluted	\$ (2.42)	\$ 1.03	\$ 2.32	n/m	(56)

n/m = not meaningful

Gross margin for the year was higher than in 2002 as strong nitrogen prices, natural gas hedging gains and record potash volumes more than offset weak phosphate markets.

The company had a net loss of \$126.3 million in 2003, or \$2.42 per share. This compares to net income in 2002 of \$53.6 million, or \$1.03 per share. The 2003 net loss reflected impairment and shutdown charges that were the equivalent of \$3.88 per share and the effect of a stronger Canadian dollar, which was the equivalent of \$0.94 per share. In addition, PotashCorp experienced high ocean freight rates for potash sales, higher natural gas costs for nitrogen and potash production, and higher input costs for sulfur and ammonia in phosphate.

Impairment and shutdown charges related to asset writedowns, workforce reductions and contract terminations at the Yumbes, Memphis, Geismar and Kinston facilities totalled \$203.2 million (\$264.2 million before tax). Charges for Yumbes were \$140.5 million, for Memphis and Geismar \$118.8 million and for Kinston \$4.9 million.

The Canadian dollar started the year at 1.5796 compared to the US dollar and ended it 18 percent higher, at 1.2924, the largest single-year change in 25 years. This stronger Canadian dollar affects PotashCorp's financials on our foreign exchange gain or loss line arising from currency conversion and on our Canadian dollar operating costs. The effect was to reduce earnings by the equivalent of \$0.94 per share, through:

- A foreign exchange loss of the equivalent of \$0.60 per share, which was primarily non-cash.
- The US dollar equivalent of Canadian cash costs of potash production, freight and administration increased, partially offset by a decrease in provincial taxes, reducing earnings by the equivalent of \$0.34 per share.

The largest component of the unrealized foreign exchange loss for 2003 pertains to the translation of future income tax liabilities on the Consolidated Statements of Financial Position at December 31, 2003.

Canadian Dollar Exchange Rate

\$CDN/\$US

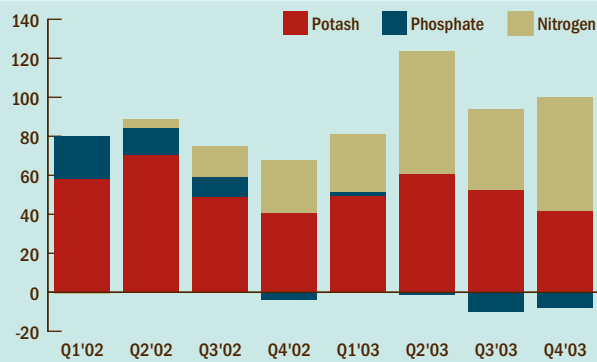


Source: Bloomberg

The rise of the Canadian dollar relative to the US dollar affected PotashCorp's performance in two ways: on our foreign exchange line, which is primarily non-cash, and on our Canadian dollar costs.

Potash Gross Margin by Quarter

\$ Millions



Source: PotashCorp

In each quarter of 2003, gross margin increased over the same quarter the previous year. Tight supply/demand in nitrogen led to higher prices, while the sale of natural gas hedges made a significant contribution to gross margin growth.

Potash Results

	Dollars (millions)			% Increase (Decrease)		Tonnes (thousands)			% Increase (Decrease)		Average per MT			% Increase (Decrease)	
	2003	2002	2001	2003	2002	2003	2002	2001	2003	2002	2003	2002	2001	2003	2002
Net Sales															
North American	\$230.6	\$215.3	\$232.1	7	(7)	2,870	2,780	2,894	3	(4)	\$80.33	\$77.45	\$80.21	4	(3)
Offshore	336.2	300.7	293.4	12	2	4,213	3,547	3,349	19	6	\$79.80	\$84.76	\$87.62	(6)	(3)
	566.8	516.0	525.5	10	(2)	7,083	6,327	6,243	12	1	\$80.01	\$81.55	\$84.18	(2)	(3)
Miscellaneous	52.3	28.5	6.3	84	352	—	—	—	—	—	—	—	—	—	—
	619.1	544.5	531.8	14	2	7,083	6,327	6,243	12	1	\$87.41	\$86.06	\$85.18	2	1
Cost of Goods Sold															
Cash Costs	363.0	280.2	249.6	30	12						\$51.25	\$44.28	\$39.98	16	11
Depreciation and Amortization	52.4	46.3	34.1	13	36						\$ 7.40	\$ 7.32	\$ 5.46	1	34
	415.4	326.5	283.7	27	15						\$58.65	\$51.60	\$45.44	14	14
Gross Margin	\$203.7	\$218.0	\$248.1	(7)	(12)						\$28.76	\$34.46	\$39.74	(17)	(13)

Note 17 to the Consolidated Financial Statements provides additional information pertaining to our business segments.

2003 vs 2002

Sales volumes from our potash segment rose 12 percent in 2003 for a new record, led by offshore sales that were 6 percent higher than our record set in 2000 and 19 percent above 2002. Brazil bought 36 percent more from us than in 2002, making it our largest customer for the second straight year and a key market. Sales to India, Indonesia, Vietnam and Malaysia were up significantly; China sales were flat.

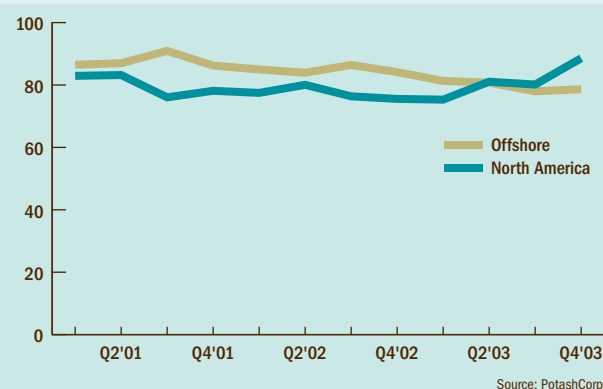
Lower realized offshore prices reflected the year-long escalation in freight rates. A tight supply/demand balance in North America raised sales volumes by 3 percent and prices by 4 percent. We have slightly increased our share of this market.

Higher volumes and increased domestic prices did not offset higher unit cost of sales, which was pushed up by the stronger Canadian dollar. Otherwise, unit cost of sales would have been lower than in 2002, even with higher natural gas costs, because volumes were up significantly.

The gross margin dropped from 2002 in our potash segment, despite record sales. This was principally attributed to escalating offshore freight rates and higher unit cost of sales. The increase in costs was due primarily to the strengthening Canadian dollar, which raised costs by approximately \$4.50 per tonne over 2002. These increased costs were partially offset by higher operating rates.

PotashCorp Potash Price Realizations

\$/KCl tonne

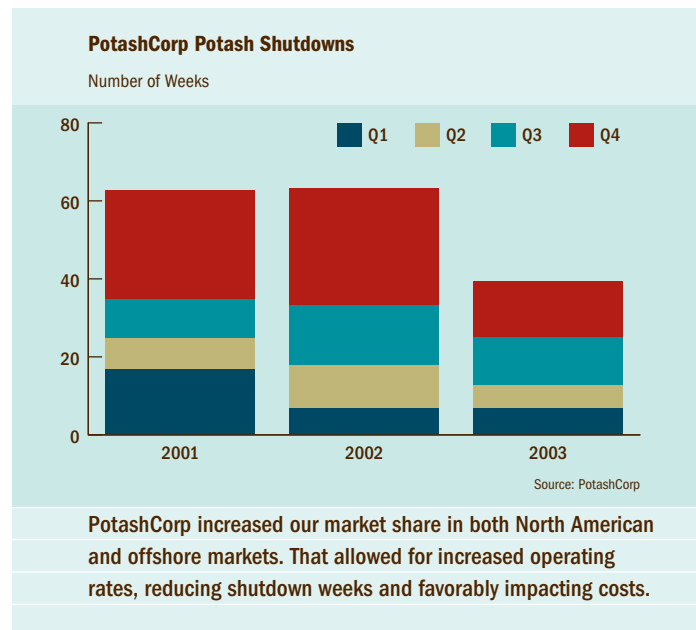
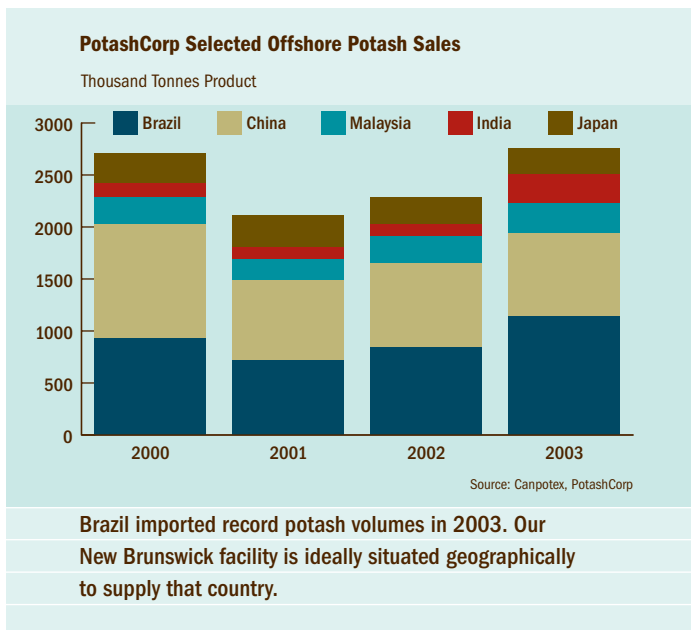


Although offshore customers paid higher prices, the cost of freight went up more quickly and realized prices for offshore sales were down. In the domestic market, significant price increases were achieved in the fourth quarter.

2003 Potash Production (million tonnes KCl)

	Capacity	2003 Production	2002 Production	2001 Production	Mine Site Employees (active)
Lanigan SK	3.828	1.488	1.424	1.354	330
Rocanville SK	2.295	1.989	1.700	1.593	324
Allan SK	1.885	.934	.864	.768	270
Cory SK	1.361	.730	.677	.747	195
Patience Lake SK	1.033	.251	.230	.241	67
Esterhazy SK ¹	.953	.953	.953	.816	0
New Brunswick NB	.785	.749	.599	.609	329
TOTAL	12.140	7.094	6.447	6.128	1,515

¹ PotashCorp's mineral rights at Esterhazy are mined by IMC Esterhazy Canada Limited Partnership under a long-term agreement. For calendar year 2004, our production allocation is 0.953 million tonnes.



2002 vs 2001

The gross margin drop from 2001 in our potash segment was principally attributable to Yumbes, our potassium nitrate plant in Chile, and to increased competitive pressures in domestic and offshore markets.

Net sales volumes from this segment rose slightly in 2002, due to higher offshore volumes and the first year of sales from Yumbes. Previously, Yumbes had been in preproduction and costs that were capitalized had been offset by revenues. North American sales volumes were down, as we chose not to participate in some lower-priced domestic sales. Volumes were further affected by a poor spring planting season, a late harvest and an early winter. Prices came under pressure, we believe, when North American competitors seeking

higher cash flow attempted to sell more potash to capitalize on its profitability. Offshore, we set a sales record in March, and we sold additional tonnes to China, Brazil, Japan and Malaysia. However, we did not experience the growth we had anticipated entering the year as we encountered aggressive competition in offshore markets, resulting in lost sales and lower prices.

Unit cost of sales decreased, primarily because potash production tonnes were up. This was more than offset by start-up problems and low operating rates at Yumbes. Since the market has not yet absorbed all the available nitrate capacity, prices for that nutrient have not recovered to the levels of the late 1990s. In total, Yumbes negatively affected potash gross margin.

Phosphate Results

	Dollars (millions)			% Increase (Decrease)		Tonnes (thousands)			% Increase (Decrease)		Average per MT			% Increase (Decrease)	
	2003	2002	2001	2003	2002	2003	2002	2001	2003	2002	2003	2002	2001	2003	2002
Net Sales															
Fertilizer - liquids	\$167.7	\$144.9	\$145.0	16	(0)	751	675	741	11	(9)	\$223.17	\$214.55	\$195.56	4	10
Fertilizer - solids	249.2	113.4	130.1	120	(13)	1,494	745	927	101	(20)	\$166.78	\$152.26	\$140.30	10	9
Feed	182.6	216.8	208.6	(16)	4	861	961	874	(10)	10	\$212.25	\$225.55	\$238.79	(6)	(6)
Industrial	174.5	155.1	168.1	13	(8)	541	482	503	12	(4)	\$322.72	\$321.93	\$334.32	0	(4)
	774.0	630.2	651.8	23	(3)	3,647	2,863	3,045	27	(6)	\$212.23	\$220.12	\$214.06	(4)	3
Miscellaneous	7.9	6.6	1.8	20	267	—	—	—	—	—	—	—	—	—	—
	\$781.9	\$636.8	\$653.6	23	(3)	3,647	2,863	3,045	27	(6)	\$214.40	\$222.43	\$214.65	(4)	4
North American	\$654.8	\$542.5	\$538.9	21	1	2,886	2,310	2,278	25	1	\$226.91	\$234.88	\$236.57	(3)	(1)
Offshore	127.1	94.3	114.7	35	(18)	761	553	767	38	(28)	\$167.04	\$170.37	\$149.54	(2)	14
	781.9	636.8	653.6	23	(3)	3,647	2,863	3,045	27	(6)	\$214.40	\$222.43	\$214.65	(4)	4
Cost of Goods Sold															
Cash Costs	722.7	518.1	517.1	39	0						\$198.16	\$180.96	\$169.82	10	7
Depreciation and Amortization	75.7	76.8	72.0	(1)	7						\$ 20.76	\$ 26.83	\$ 23.65	(23)	13
	798.4	594.9	589.1	34	1						\$218.92	\$207.79	\$193.47	5	7
Gross Margin	\$ (16.5)	\$ 41.9	\$ 64.5	n/m	(35)						\$ (4.52)	\$ 14.64	\$ 21.18	n/m	(31)

Note 17 to the Consolidated Financial Statements provides additional information pertaining to our business segments.

n/m = not meaningful

2003 vs 2002

Higher fertilizer prices and increased sales volumes of liquid and solid fertilizers and industrial products in 2003 were more than offset by rising input costs, resulting in negative gross margin in our phosphate segment.

Solid fertilizer sales volumes more than doubled in 2003 with the restart of White Springs' DAP capacity, and sales were up significantly in both North American and offshore markets. Sales of liquid fertilizers rose by 11 percent, with more than 90 percent of our sales in the US where PotashCorp is the largest supplier. Feed margins were under pressure as overall demand was down, and competitive pressures from new capacity domestically and in Asia and Latin America affected sales in both markets. Industrial volumes increased with completion of the expansion of the purified acid plant at Aurora in the first quarter.

Higher fertilizer prices reflect a somewhat improving market demand and tighter supply. US ending inventories of both DAP and MAP were well below the five-year average. Feed prices were kept down by new competitive capacity, and flat prices for industrial products reflect competitive pressure of imports from China, Israel and Africa.

Phosphate production costs were positively affected by 11 percent lower rock costs year-over-year, but this was more than offset by rising prices for the key inputs of sulfur and ammonia, up 54 percent and 47 percent, respectively, or a total of \$73 million. DAP start-up costs at White Springs also increased total costs by \$7 million. Start-up issues at the new DFP plant in Aurora increased costs by \$15 million in 2003. Inventories for our finished feed products were significantly reduced over the year as feed operating rates were reduced to draw down this inventory. This raised unit costs of production as proportionately higher fixed costs were spread over fewer tonnes, further impacting feed margins.

2003 Rock and Acid Production

	Phosphate Rock (million tonnes)				Phosphoric Acid (million tonnes P ₂ O ₅)				Employees (active)
	Annual Capacity	2003 Production	2002 Production	2001 Production	Annual Capacity	2003 Production	2002 Production	2001 Production	
Aurora NC	6.0	3.078	3.444	3.938	1.202	.919	.852	.916	995
White Springs FL	3.6	2.686	1.547	1.677	1.093	.777	.480	.473	880
Geismar LA	—	—	—	—	.202	.165	.180	.184	85
Total	9.6	5.764	4.991	5.615	2.497	1.861	1.512	1.573	1,960

2003 Phosphate Production (million tonnes product)

		Aurora				White Springs				Geismar			
		Annual Capacity	2003 Production	2002 Production	2001 Production	Annual Capacity	2003 Production	2002 Production	2001 Production	Annual Capacity	2003 Production	2002 Production	2001 Production
Liquids:	MGA ¹	1.835	1.522	1.336	1.377	1.908	.966	.828	.834	.337	.272	.324	.332
	SPA	.676	.285	.200	.219	1.138	.748	.639	.662	.196	.091	.117	.116
Solids:	DAP	1.247	.377	.495	.791	.710	.625	.028	—	—	—	—	—
	MAP	.469	.469	.255	.071	—	—	—	—	—	—	—	—

¹ A substantial portion is consumed internally in the production of downstream products. The balance is exported to phosphate fertilizer producers and sold domestically to dealers that custom-mix liquid fertilizer.

2003 Phosphate Feed Production (million tonnes)

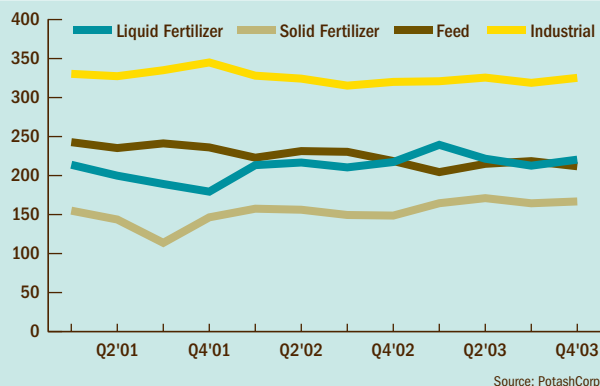
	Annual Capacity	2003 Production	2002 Production	2001 Production	Employees (active)
Marseilles IL	.278	.151	.177	.192	36
White Springs FL (monocal)	.272	.060	.137	.154	32
Weeping Water NE	.209	.147	.166	.170	46
Joplin MO ¹	.163	.088	.104	—	35
Aurora NC (DFP)	.159	.050	.004	—	38
Kinston NC ²	.141	.008	.054	.063	3
White Springs FL (DFP)	.100	.059	.096	.089	0
Fosfatos do Brasil	.110	.051	.047	.053	76
TOTAL	1.432	.614	.785	.721	266

¹ Purchased March 1, 2002

² Ceased production February 19, 2003

PotashCorp Phosphate Prices

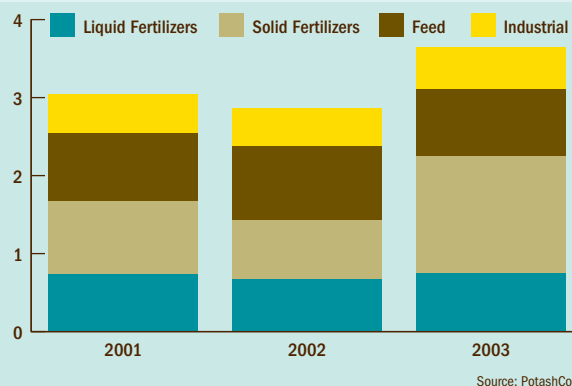
\$/tonne



Prices increased for phosphate fertilizer and held stable for industrial products, while feed prices were squeezed by competitive pressure along with tighter formulations and reduced beef production.

PotashCorp Phosphate Sales Volumes

Million Tonnes



Higher DAP operating rates increased solid fertilizer volumes. Industrial volumes were also up, but feed was down as the market absorbed new competitive capacity.

2002 vs 2001

Overall phosphate net sales volumes decreased slightly in 2002, mainly because we decided not to participate in low-priced offshore markets for liquid fertilizers and, for the first half of the year, solid fertilizers. Increased DAP imports by China encouraged a return to the offshore market in the second half of 2002. North American feed sales volumes were flat as a competitor brought on new capacity, customers tightened feed formulation and competition increased from meat and bone meal and from phytase. Offshore feed volumes increased significantly with higher sales to Mexico and the Philippines, and from our Brazilian feed plant. Industrial sales volumes and prices were each down 4 percent.

Overall liquid fertilizer prices were up due to product mix, as less low-priced product was sold into the offshore market. Tighter supply pushed up prices for solid fertilizers. Competitive pressures also pushed down feed prices in both domestic and offshore markets as new capacity came on stream. Prior period contract adjustments with a major customer, plus competitive pressures, kept industrial prices down.

Several factors joined to raise phosphate production costs. Lower production volumes meant fixed costs had to be allocated over fewer tonnes. We used high-cost inventoried rock from an area where dredging costs were incurred. Sulfur shortages late in the year cut operating rates and raised input costs, increasing unit costs. The purified acid plant at Aurora experienced operating problems in the third quarter, which affected costs.

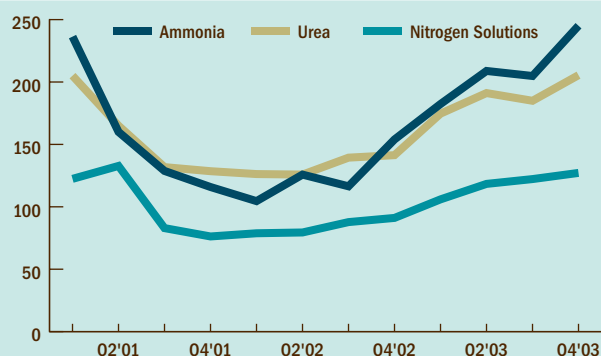
Nitrogen Results

	Dollars (millions)			% Increase (Decrease)		Tonnes (thousands)			% Increase (Decrease)		Average per MT			% Increase (Decrease)	
	2003	2002	2001	2003	2002	2003	2002	2001	2003	2002	2003	2002	2001	2003	2002
Net Sales															
Ammonia	\$ 368.0	\$ 232.7	\$ 313.6	58	(26)	1,755	1,867	1,993	(6)	(6)	\$ 209.63	\$ 124.66	\$ 157.35	68	(21)
Urea	276.9	212.0	215.4	31	(2)	1,470	1,592	1,346	(8)	18	\$ 188.33	\$ 133.16	\$ 160.03	41	(17)
Nitrogen Solutions	85.8	93.3	114.9	(8)	(19)	730	1,097	1,156	(33)	(5)	\$ 117.52	\$ 85.04	\$ 99.39	38	(14)
Nitric Acid / Ammonium Nitrate	165.0	127.5	136.2	29	(6)	1,414	1,361	1,258	4	8	\$ 116.70	\$ 93.65	\$ 108.27	25	(14)
Purchased	149.6	61.1	93.4	145	(35)	711	474	628	50	(25)	\$ 210.53	\$ 128.89	\$ 148.73	63	(13)
	1,045.3	726.6	873.5	44	(17)	6,080	6,391	6,381	(5)	—	\$ 171.92	\$ 113.69	\$ 136.89	51	(17)
Miscellaneous	19.5	20.8	21.9	(6)	(5)	—	—	—	—	—	—	—	—	—	—
	\$ 1,064.8	\$ 747.4	\$ 895.4	42	(17)	6,080	6,391	6,381	(5)	—	\$ 175.13	\$ 116.95	\$ 140.32	50	(17)
Fertilizer	\$ 480.0	\$ 317.4	\$ 424.7	51	(25)	2,810	2,976	3,270	(6)	(9)	\$ 170.82	\$ 106.64	\$ 129.88	60	(18)
Feed and Industrial	584.8	430.0	470.7	36	(9)	3,270	3,415	3,111	(4)	10	\$ 178.83	\$ 125.92	\$ 151.30	42	(17)
	1,064.8	747.4	895.4	42	(17)	6,080	6,391	6,381	(5)	—	\$ 175.13	\$ 116.95	\$ 140.32	50	(17)
Cost of Goods Sold															
Cash Costs	782.0	612.0	727.9	28	(16)						\$ 128.62	\$ 95.76	\$ 114.07	34	(16)
Depreciation and Amortization	89.6	88.0	72.8	2	21						\$ 14.73	\$ 13.77	\$ 11.41	7	21
	871.6	700.0	800.7	25	(13)						\$ 143.35	\$ 109.53	\$ 125.48	31	(13)
Gross Margin	\$ 193.2	\$ 47.4	\$ 94.7	308	(50)						\$ 31.78	\$ 7.42	\$ 14.84	328	(50)

Note 17 to the Consolidated Financial Statements provides additional information pertaining to our business segments.

PotashCorp Nitrogen Prices

\$/Tonne

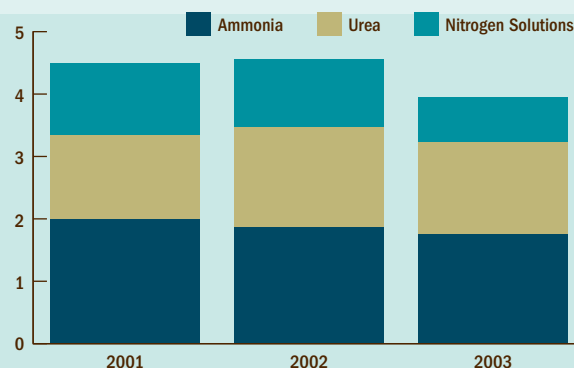


Source: PotashCorp

Nitrogen prices decoupled from natural gas prices for the first time since the mid-1990s because of tight supply/demand. This drove up prices for the three primary nitrogen products, with ammonia showing the largest gains.

PotashCorp Manufactured Nitrogen Sales Volumes

Million Tonnes



Source: PotashCorp

Nitrogen sales volumes were affected by the shutdowns of ammonia and urea production at Memphis along with ammonia and nitrogen solutions production at Geismar.

2003 vs 2002

Nitrogen gross margin more than quadrupled in 2003, reflecting sharply increased prices that benefited PotashCorp's Trinidad production, and liquidation of certain natural gas hedge contracts in February.

Poor margins at our US plants due to high natural gas costs led to the indefinite shutdown of the Memphis plant and of Geismar's ammonia and nitrogen solutions production. The reduced production of ammonia, urea and nitrogen solutions was more than offset by considerably higher prices. Nitric acid and ammonium nitrate volumes increased to meet demand, as did purchased sales volumes. The company's warehouse and distribution network was used effectively for these imports.

As more shutdowns in the US industry tightened supply, prices increased significantly. Product prices, which had previously reflected the cost premium on natural gas, began trading off the

supply/demand fundamentals during the fourth quarter, providing unhedged margin to our US plants.

Nitrogen production costs reflected the higher natural gas prices. PotashCorp's average gas costs in the US and Trinidad were up 33 percent over 2002. However, since the Trinidad facility operates with favorable natural gas contracts which mitigate the impact of volatility, the company is a net beneficiary of high-priced US natural gas. Trinidad provided 52 percent of nitrogen gross margin. The remainder came from our 2003 natural gas hedges in the US, which provided a gross margin contribution of approximately \$90 million.

High ocean freight rates – detrimental for potash – worked in the company's favor for nitrogen as they made imports from the Middle East less competitive in North America and helped tighten market supply.

2003 Nitrogen Production (million tonnes)

	Ammonia ¹				Urea Solids				Nitrogen Solutions ²				Nitric Acid/Ammonium Nitrate				Employees (active)
	Annual Capacity	2003 Production	2002 Production	2001 Production	Annual Capacity	2003 Production	2002 Production	2001 Production	Annual Capacity	2003 Production	2002 Production	2001 Production	Annual Capacity	2003 Production	2002 Production	2001 Production	
Trinidad	1.851	1.759	1.768	1.835	.631	.647	.674	.514	—	—	—	—	—	—	—	—	395
Augusta GA	.688	.655	.689	.612	.381	.334	.363	.335	.581	.223	.220	.292	1.053	1.073	1.051	.988	112
Lima OH	.542	.510	.496	.488	.329	.280	.208	.191	.227	.120	.124	.113	.097	.097	.098	.096	5 ³
Geismar LA ⁵	.483	.116	.369	.475	—	—	—	—	1.028	.250	.721	.807	.844	.589	.731	.706	53
Memphis TN ⁶	.371	.154	.324	.288	.409	.178	.374	.295	—	—	—	—	—	—	—	—	6 ⁷
TOTAL	3.935	3.194	3.646	3.698	1.750	1.439	1.619	1.335	1.836	.593	1.065	1.212	1.994	1.759	1.880	1.790	571⁴

¹ A substantial portion is upgraded to value-added products.

² Based on 32% N content.

³ BP Chemicals operates the Lima facility under an operational agreement with PCS Nitrogen.

⁴ 319 contract employees work at the nitrogen plants, for a total active workforce of 890.

⁵ Indefinitely shut down production of ammonia and nitrogen solutions June 4, 2003.

⁶ Indefinitely shut down production June 4, 2003.

⁷ Includes reassigned employees.

2002 vs 2001

Nitrogen net sales were down in 2002 primarily due to lower prices. Total nitrogen sales volumes were flat in 2002, as higher sales of urea and nitric acid more than offset lower sales of ammonia and nitrogen solutions. Urea volumes rose as field conditions drove farmers away from ammonia, and stronger industrial demand raised nitric acid and ammonium nitrate sales volumes. We shut down nitrogen solutions production at Geismar for three months due to oversupply and low prices caused by large imports, primarily from Russia, in the first half of 2002. As a result, nitrogen solutions sales volumes were down.

Until very late in the year, low natural gas prices made it feasible for North American competitors to produce at higher rates than in 2001. In addition, new capacity came on stream in Trinidad at mid-

year. The resulting oversupply drove product prices down. Higher gas prices near the end of the year led to improvements in most product prices but this improvement was tempered as US plant curtailments were lower than anticipated. Late in the year, nitrogen solutions prices improved in anticipation that anti-dumping duties would be levied on imported product from certain competitors.

The unit cost of sales fell in 2002, primarily because the average unit cost of natural gas was down 15 percent on a year-over-year basis. These reductions were partially offset by increased depreciation and amortization due to a full year's depreciation of the Trinidad plants, whose long-term leases we purchased in May 2001, and accelerated amortization of turnaround costs.

Expenses and Other Income

	Dollars (millions)			% Increase (Decrease)	
	2003	2002	2001	2003	2002
Selling and Administrative	\$ 96.1	\$ 91.7	\$ 99.7	5	(8)
Provincial Mining and Other Taxes	57.0	68.0	70.0	(16)	(3)
Provision for Plant Shutdowns	123.7	—	—	—	—
Provision for PCS Yumbes S.C.M.	140.5	—	—	—	—
Foreign Exchange Loss (Gain)	51.9	5.5	(13.7)	844	n/m
Other Income	33.2	24.8	18.4	34	35
Interest Expense	91.3	83.1	80.3	10	3
Income Tax (Recovery) Expense	(20.6)	30.2	68.2	n/m	(56)

n/m = not meaningful

2003 vs 2002

Selling and administrative expenses increased by \$4.4 million, primarily due to the stronger Canadian dollar. Other contributing factors were increases in amortization expense, consulting and professional fees, fringe benefits and stock-based compensation expense. These were substantially offset by company-wide cost restraints, including pay reductions for the executive management team, a salary freeze for middle management and reduction in company contributions to employee savings plans.

A revised tax structure for potash producers in Saskatchewan contributed \$5.6 million to earnings, the equivalent of \$0.06 per share. Saskatchewan's Potash Production Tax is comprised of a base tax per tonne of product sold and an additional tax based on mine profits. Effective January 2003, the provincial government reduced the profits tax on all incremental sales tonnes above the 2001 and 2002 average of 5.722 million tonnes. In addition, to the extent that net capital spending is greater than 90 percent of 2002 net expenditures, the excess is fully deductible in the current year. This will benefit the company to the extent that we increase sales with improved market demand. The Saskatchewan divisions and the New Brunswick division also pay a provincial Crown royalty, which is accounted for in cost of goods sold.

In 2003, the company recorded a provision for plant shutdowns of \$123.7 million. This related to the indefinite shutdown of Memphis,

the suspension of ammonia and nitrogen solutions production at Geismar and the closure of Kinston, a phosphate feed supplement plant maintained as a warehouse after ceasing operations earlier in the year. The plant shutdown provision recognized a writedown of certain plant assets and costs associated with eliminating job positions, primarily by the end of the year. High US natural gas costs and low product margins affected both Memphis and Geismar. Kinston's closure reduces feed supplement production capacity by 0.141 million tonnes annually. Note 21 of the consolidated financial statements provides additional information on the provision for plant shutdowns.

In August, after providing SQM with an irrevocable option to acquire our interest in PCS Yumbes, PotashCorp recorded a charge of \$140.5 million, recognizing a writedown of certain assets and costs associated with workforce reductions and contract terminations. Acquired in 1999, PCS Yumbes produces potassium nitrate, sodium nitrate and iodine in the Atacama Desert in northern Chile. On November 20, 2003, PotashCorp and SQM entered into a share purchase agreement whereby SQM is to acquire the shares of PCS Yumbes for \$35.0 million (including the price of the option), subject to adjustments. Note 22 of the consolidated financial statements provides additional information on this agreement and the provision for PCS Yumbes.

The company's foreign exchange loss increased significantly over 2002 due to the strengthening of the Canadian dollar relative to the US dollar. The foreign exchange loss arose primarily from the year-end translation of the Canadian-dollar denominated monetary items on the consolidated statement of financial position. At December 31, 2003, the Canadian dollar was \$0.29 higher than at December 31, 2002, compared to a \$0.01 increase the preceding year. This was the equivalent of \$0.60 per share, compared to \$0.02 in 2002. Exposure to the Brazilian real had a nominal impact on the company in 2003 but contributed a loss of nearly \$0.05 per share in 2002.

For the year, other income was up \$8.4 million, primarily due to APC equity earnings, nitrogen insurance proceeds, the excess of 2003 equity earnings from SQM over 2002 equity earnings and dividends, and higher ICL dividends.

Interest expense increased, primarily due to the issuance of \$250.0 million of 4.875 percent 10-year notes in March 2003 under the company's shelf registration. These notes replaced lower-cost commercial paper. Weighted average long-term debt outstanding for the year was \$1,230.9 million, compared to \$1,023.3 million in 2002, with a weighted average interest rate of 7.0 percent (2002 – 7.4 percent). The weighted average interest rate on short-term debt for 2003 was 1.4 percent (2002 – 1.7 percent).

The effective consolidated income tax rate in 2003 was approximately 40 percent of income before income taxes (exclusive of the charges relating to PCS Yumbes described previously and a future income tax reversal of \$6.5 million). This compares to a rate of approximately 36 percent for 2002. The increase was primarily due to the expiration of the last tax holiday in Trinidad. The 2003 tax provision was all future income taxes, compared to a current/future split of 80/20 for 2002. The decrease in the current portion was primarily due to utilization of tax losses in the US as well as certain reclassifications from current to future income taxes.

2002 vs 2001

Selling and administrative expenses decreased due to spending restraint in all areas of PotashCorp, and an accounting policy change that eliminated amortization of goodwill. The reduction in gross margin per tonne on potash sales meant lower provincial mining and other taxes.

For the year, the company incurred a foreign exchange loss of \$5.5 million compared to a gain of \$13.7 million in 2001, a swing of \$19.2 million. The 2002 foreign exchange loss primarily related to the devaluation of the Brazilian real throughout the year as well as the strengthening of the Canadian dollar. In 2001, the Canadian dollar weakened considerably against the US dollar, resulting in the majority of the large foreign exchange gain for the year.

Other income increased as compared to 2001, primarily due to the adoption of equity accounting for SQM after we increased our ownership from 18 percent in 2001 to 20 percent in 2002. This increase was partially offset by a reduction in miscellaneous items.

Interest expense on long-term debt increased as the \$600.0 million of notes issued in May 2001 were outstanding for the full year. However, this increase was largely offset by reduced interest expense on short-term debt as commercial paper average balances and interest rates were lower than in 2001. Weighted average total debt outstanding increased from \$1,205.7 million in 2001 to \$1,511.7 million in 2002. The weighted average interest rate on total debt outstanding was 6.0 percent (2001 – 6.2 percent).

The effective consolidated income tax rate remained at 36 percent of income before income taxes. The current/future split approximated 80/20, compared to a 30/70 split in 2001, primarily because of higher proportional earnings in Canada in 2002.

Liquidity and Capital Resources

Cash Requirements

The following aggregated information about our contractual obligations and other commitments aims to provide insight into our short- and long-term liquidity and capital resource needs and demands. The information presented in the table below does not include obligations that have original maturities of less than one year or planned capital expenditures.

Contractual Obligations and Other Commitments

	Total	Payments Due By Period			
		Within 1 year	1 to 3 years	3 to 5 years	Over 5 years
Long-term Debt	\$ 1,269.9	\$ 1.3	\$ 11.6	\$ 400.9	\$ 856.1
Operating Leases	380.8	69.6	107.9	67.3	136.0
Purchase Obligations	1,045.5	152.0	189.9	171.7	531.9
Other Commitments	69.2	18.4	20.7	17.5	12.6
Other Long-term Liabilities	309.8	34.0	42.8	34.8	198.2
Total	\$ 3,075.2	\$ 275.3	\$ 372.9	\$ 692.2	\$ 1,734.8



Long-term Debt

Long-term debt consists of \$1,250.0 million of notes payable that were issued under our US shelf registration statements, \$9.0 million of Adjustable Rate Industrial Revenue and Pollution Control Obligations, a net of \$5.9 million under a back-to-back loan arrangement (described in Note 11 to the consolidated financial statements) and other commitments of \$5.0 million payable over the next five years. The notes payable are unsecured. Of the notes outstanding, \$400.0 million bear interest at 7.125 percent and mature in 2007, \$600.0 million bear interest at 7.750 percent and mature in 2011 and \$250.0 million bear interest at 4.875 percent and mature in 2013. There are no sinking fund requirements. The Adjustable Rate Industrial Revenue and Pollution Control Obligations bear interest at varying rates, are secured by bank letters of credit and have no sinking fund requirements. 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 million. Neither the Industrial Revenue and Pollution Control Obligations nor the other long-term debt instruments are subject to any financial test covenants but each is subject to certain customary covenants and events of default, including, for other long-term debt, an event of default for acceleration of other debt of \$25.0 million or more. Non-compliance with any of the above covenants could result in accelerated payment of the related debt. We were in compliance with all covenants as at December 31, 2003.

The company manages interest rate exposures by using a diversified portfolio of fixed and floating rate instruments. Our sensitivity to fluctuations in interest rates is substantially limited to certain of our cash, short-term investments, short-term debt and long-term debt. In January and February 2004, we entered into interest rate swap contracts that effectively converted a notional amount of \$300.0 million of fixed rate debt into floating rate debt based on LIBOR rates. Net settlements on these swap instruments will be recorded as adjustments to interest expense. We did not enter into any interest rate swap contracts in 2003 or 2002.

Operating Leases

We have long-term operating lease agreements for buildings, port facilities, equipment, ocean-going transportation vessels and railcars, the latest of which expires in 2020 (excluding mineral leases).

The most significant operating leases consist primarily of three items. The first is our lease of railcars used to transport finished goods and raw materials. These leases extend to approximately 2020. The second is the lease of port facilities at the Port of Saint John for shipping New Brunswick potash offshore. This lease runs until 2018. The third is the lease of three vessels for transporting ammonia from Trinidad, which extends to 2011.

Purchase Obligations

We have 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 above table are based on the market prices at December 31, 2003.

Our Trinidad subsidiaries have entered into long-term natural gas contracts with the National Gas Company of Trinidad. The contracts provide for prices that vary with ammonia market prices, escalating floor prices and minimum purchase quantities. The commitments included in the above table are based on floor prices and minimum purchase quantities.

We also have a long-term agreement through 2010 for the purchase of phosphate rock used at our Geismar facility. This agreement set base prices (less volume discounts) through December 2003. Prices in subsequent years are subject to renegotiation. The commitments included in the above table are based on the expected purchase quantity and the set base prices (less applicable discounts).

Other Commitments

Other operating commitments consist of amounts relating to an acid storage agreement that is in effect until 2004, our Rocanville expansion and compactor upgrade project through 2005, contracts to purchase limestone that run through 2007 and various rail freight contracts, the latest of which expire in 2010.

Other Long-term Liabilities

Other long-term liabilities consist primarily of accrued post-retirement/post-employment benefits and accrued reclamation costs.

Capital Expenditures

During 2004, we expect to incur capital expenditures of approximately \$95.0 million for opportunity capital and approximately \$110.0 million for sustaining capital. The most significant single project relates to the expansion and increase of granular production capacity at Rocanville.

We have also exercised an option agreement to purchase certain corporate office facilities for approximately \$8.1 million in 2005.

We anticipate that all capital spending will be financed by internally generated cash flows supplemented, if and as necessary, by borrowing from existing financing sources.

Sources and Uses of Cash

Dollars (millions)	2003	2002
Cash provided by operating activities	\$ 381.5	\$ 316.4
Cash used in investing activities	\$ 357.7	\$ 271.4
Cash used in financing activities	\$ 43.6	\$ 65.8

PotashCorp's principal sources of funds include the cash generated from our operations, short-term borrowings against our line of credit and commercial paper program, and long-term debt issued under our US shelf registration statement and drawn down under our syndicated credit facility. Our primary uses of funds are operational expenses, sustaining and opportunity capital spending, dividends, and interest and principal payments on our debt securities.

Cash provided by operating activities was \$381.5 million, up \$65.1 million from 2002. The increase was primarily due to the

significant improvement in nitrogen margins and record potash volumes, offset by weaker phosphate results. Although we recorded a net loss of \$126.3 million, \$245.9 million of that related to non-cash provisions for plant shutdowns (\$118.3 million) and PCS Yumbes (\$127.6 million).

The increase in accounts receivable was due to fourth-quarter net sales being 26 percent higher than in the same period last year. Our customer credit policies have remained substantially consistent with 2002. The increase in accounts payable reflected the related costs of the stronger fourth-quarter net sales. The decrease in inventories reflected management's efforts to reduce phosphate work in process and feed inventories to more sustainable levels and the reduction in the carrying amount of inventory at the Yumbes operations, as described in Note 22 to the consolidated financial statements.

Cash used in investing activities was \$357.7 million, an increase of \$86.3 million over last year. Additions to property, plant and equipment totalled \$150.7 million, with 75 percent for sustaining capital. The decrease from \$212.2 million in 2002 was primarily due to opportunity capital spending that year on the DFP plant and expansion of the purified acid plant at Aurora.

On October 16, 2003, we purchased from Jordan Investment Company, an arm of the Jordanian government, 26 percent of the shares of APC. The purchase price of \$178.3 million was financed by short-term debt. The equity method is being used to account for this investment. APC is publicly traded on the Amman Stock Exchange. It produces potash from the Dead Sea and is the world's eighth largest producer, with 2 million tonnes of annual capacity. Its primary markets are India (22 percent), China (16 percent) and Europe (16 percent), a good complement to PotashCorp's 2003 sales to North America (41 percent), Brazil (16 percent) and China (11 percent).

Cash used in financing activities was \$43.6 million, \$22.2 million less than in 2002. During the first quarter, we issued \$250.0 million of 4.875 percent notes due in 2013, under our US shelf registration statement. The net proceeds from the notes were used to repay short-term debt in that quarter. For the entire year, PotashCorp repaid \$296.8 million of short-term debt. We maintained our dividend and paid out \$52.3 million in dividends, similar to the amount paid in 2002. As our share price appreciated during the year, stock options were exercised. This, along with our dividend reinvestment plan, contributed \$58.9 million in financing activities, compared to \$4.4 million in 2002.

PotashCorp believes that internally generated cash flow, supplemented by borrowing from existing financing sources, will be sufficient to meet our anticipated capital expenditures and other cash requirements in 2004, exclusive of any possible acquisitions, as was the case in 2003. At this time, the company does not reasonably expect any presently known trend or uncertainty to affect our ability to access our historical sources of cash.

Debt Instruments

Dollars (millions)	Total Amount	Amount Outstanding at December 31, 2003	Amount Available at December 31, 2003
Syndicated Credit Facility	\$ 750.0	\$ —	\$ 573.8
Line of Credit	75.0	11.2	45.3
Commercial Paper	500.0	176.2	323.8
US Shelf Registration	2,000.0	1,250.0	750.0

PotashCorp has a syndicated credit facility, renewable annually, which provides for unsecured advances. During third-quarter 2003, it was increased to \$750.0 million from \$650.0 million. The amount available is the total committed amount less direct borrowings and commercial paper outstanding. The line of credit is also renewable annually and the amount available is reduced by outstanding letters of credit and direct borrowings. During the third quarter, it was reduced to \$75.0 million from \$120.0 million. Both the line of credit and the syndicated credit facility have financial tests and other covenants with which the company must comply at each quarter-end. Principal covenants under the credit facility and line of credit require debt to capital of less than or equal to 0.55:1, long-term debt to EBITDA (defined in the respective agreements as earnings before interest, income taxes, provincial mining and other taxes, depreciation, amortization and other non-cash expenses) of less than or equal to 3.5:1, tangible net worth greater than or equal to \$1,250.0 million and debt of subsidiaries less than \$590.0 million. The line of credit is also 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 million. Non-compliance with any of the above covenants could result in accelerated payment of the related debt and termination of the line of credit. We were in compliance with all covenants as at December 31, 2003.

We also have a commercial paper program of up to \$500.0 million. Access to this source of short-term financing depends primarily on our rating by Dominion Bond Rating Service (DBRS) and conditions in the money markets. PotashCorp's commercial paper is currently rated by DBRS as R1 low, which should allow unrestricted access to the money markets.

We have a US shelf registration statement under which we may issue up to an additional \$750.0 million in unsecured debt securities.

At the end of 2003, our weighted average cost of capital was 7.7 percent (2002 – 7.0 percent), of which 26 percent represented debt and 74 percent equity. The increase was primarily due to a shift in mix to equity – which carries a higher cost than debt – as the stock price closed 36 percent higher this year-end compared to last. As well, the risk-free rate used in calculating the cost of equity increased over 2002.

Off-Balance Sheet Arrangements

In the normal course of operations, PotashCorp engages in a variety of transactions that, under Canadian GAAP, are either not recorded on our balance sheet or are recorded on our balance sheet in amounts that differ from the full contract amounts. Principal off-balance sheet

activities we undertake include issuance of guarantee contracts, certain derivative instruments and long-term fixed price contracts. We do not reasonably expect any presently known trend or uncertainty to affect our ability to continue using these arrangements. These types of arrangements are discussed below.

Guarantee Contracts

In the normal course of operations, we provide 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 us to compensate the counterparties for costs incurred as a result of various events, including environmental liabilities, 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 the indemnification agreements prevents us from making a reasonable estimate of the maximum potential amount we could be required to pay to counterparties. Historically, we have not made any significant payments under such indemnifications and no amounts have been accrued in our consolidated financial statements with respect to these indemnification guarantees.

We have guaranteed various debt obligations (such as cash management facility overdrafts, lines of credit with counterparties for derivatives, and back-to-back loan arrangements) for certain subsidiaries. We 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. Note 29 to the consolidated financial statements provides detailed information regarding the nature and potential maximum exposure for these guarantees.

PotashCorp has guaranteed the gypsum stack capping, closure and post-closure obligations of White Springs and PCS Nitrogen, in Florida and Louisiana, respectively, pursuant to the financial assurance regulatory requirements in those states. The State of Florida is presently reviewing, and is expected to revise, its financial assurance requirements to ensure that responsible parties have sufficient resources to cover all closure and post-closure costs and liabilities associated with gypsum stacks. This review may result in

the imposition of more stringent requirements to demonstrate financial responsibility and/or inclusion of a greater scope of closure and post-closure costs than under current law. Note 14 to the consolidated financial statements provides additional information regarding our gypsum stack obligations.

The environmental regulations of the Province of Saskatchewan require each potash mine to have decommissioning and reclamation (D&R) plans. In 2001, agreement was reached with the provincial government on the financial assurances for the D&R plan to cover an interim period through to July 1, 2005. A government-industry task force has been established to assess decommissioning options for all Saskatchewan potash producers and to produce mutually acceptable revisions to the plan schedules. In July 2001, a Cdn \$2.0 million letter of credit was posted that will remain in effect until the revised plans are accepted.

Derivative Instruments

In addition to physical spot and term purchases, PotashCorp employs futures, swaps and option agreements to manage the cost on a portion of our natural gas requirements. These instruments are intended to hedge the future cost of the committed and anticipated natural gas purchases primarily for our US nitrogen and phosphate plants. By company policy, the maximum period for these hedges cannot exceed five years. We use these instruments to reduce price risk, not for speculative or trading purposes. Derivative instruments which have not yet been settled are not recognized in our consolidated financial statements under Canadian GAAP, and gains or losses arising from settled hedging transactions are deferred as a component of inventory until the product containing the hedged item is sold, at which time both the natural gas purchase cost and the related hedging deferral are recorded as cost of goods sold.

The fair value of our gas hedging contracts at December 31, 2003 approximated \$59.8 million (2002 – \$52.7 million). Note 27 to our consolidated financial statements provides detailed information regarding the nature of our financial instruments.

Long-term Fixed Price Contracts

Certain of our long-term raw materials agreements contain fixed price components. Our significant agreements, and the related obligations under such agreements, are discussed in “Contractual Obligations and Other Commitments.”

Market Risks Associated with Financial Instruments

Commodity Risk

PotashCorp’s nitrogen operations are significantly affected by the price of natural gas. We employ derivative commodity instruments related to a portion of our natural gas requirements (primarily futures, swaps and options) for the purpose of managing our exposure to commodity price risk in the purchase of natural gas. Changes in the market value of these derivative instruments have a high correlation to changes in the spot price of natural gas. Gains or losses arising from settled hedging transactions are deferred as a component of inventory until the product containing the hedged item is sold. Changes in the market value of open hedging

transactions are not recognized as they generally relate to changes in the spot price of anticipated natural gas purchases.

A sensitivity analysis has been prepared to estimate our market risk exposure arising from derivative commodity instruments. The fair value of such instruments is calculated by valuing each position using quoted market prices. Market risk is estimated as the potential loss in fair value resulting from a hypothetical 10 percent adverse change in such prices. The results of this analysis indicate that as of December 31, 2003, our estimated derivative commodity instruments market risk exposure was \$27.5 million (2002 – \$17.6 million). Actual results may differ from this estimate. Changes in the fair value of such derivative

instruments, with maturities in 2004 through 2009, will generally relate to changes in the spot price of anticipated natural gas purchases.

Foreign Exchange Risk

The company also enters into forward exchange contracts for the sole purpose of limiting exposure to exchange rate fluctuations relating to certain trade accounts. These contracts are not designated as hedging instruments for accounting purposes. Gains or losses resulting from foreign exchange contracts are recognized at the time the contracts are entered into and are included in other income.

As at December 31, 2003, the company had entered into forward exchange contracts to sell US dollars and receive Canadian dollars in the notional amount of \$46.0 million (2002 – \$28.0 million) at an average exchange rate of \$1.3315 (2002 – \$1.5855). As at December 31, 2003, the company had also entered into a forward exchange contract to sell US dollars and receive euros in the notional amount of \$1.9 million (2002 – \$NIL) at an exchange rate of \$1.1707. Expected maturity dates for all forward contracts are within fiscal 2004.

Interest Rate Risk

We address interest rate risk by using a diversified portfolio of fixed and floating rate instruments. We are exposed to risk resulting from changes in interest rates as a result of the issuance of variable rate debt and commercial paper. The company manages this exposure by

aligning current and long-term assets with variable and fixed rate debt, limiting variable rate and fixed rate exposures to percentages of total capitalization and by monitoring the effects of market changes in interest rates.

As at December 31, 2003, our short-term debt (comprised of commercial paper) was \$176.2 million, our current portion of long-term debt was \$1.3 million and our long-term debt was \$1,268.6 million. Long-term debt is comprised primarily of \$1,250.0 million of notes payable that were issued under our US shelf registration statements at a fixed interest rate. Subsequent to year-end, we entered into contracts that exchanged a notional amount of \$300.0 million of our 7.75 percent fixed rate notes into floating rate debt based on LIBOR rates.

One means of assessing exposure to interest rate changes is a duration-based analysis that measures the potential loss in net earnings and cash flow resulting from a hypothetical 10 percent change in interest rates across interest rate sensitive maturities. Under this model, it is estimated that, all else constant, such a change would not materially impact our 2004 net earnings or cash flows based on the same level of borrowing. If interest rates changed significantly, management would likely take actions to manage our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in our financial structure.

Related Party Transactions

The company sells potash from our Saskatchewan mines for use outside of North America exclusively to Canpotex Limited, a potash export, sales and marketing company owned in equal shares by the three potash producers in the Province of Saskatchewan. Sales to Canpotex for the year ended December 31, 2003 were \$260.6 million (2002 – \$241.2 million; 2001 – \$237.6 million). Sales to Canpotex are at prevailing market prices and are settled on normal trade terms.

In connection with entering into the option agreement with SQM on August 27, 2003, PCS Yumbes has agreed to purchase potash from

SQM at a negotiated price that approximates market value. In addition, PCS Yumbes has agreed to sell to SQM all of its potassium nitrate production at a negotiated price that approximates market value. Both agreements are in effect until no later than December 31, 2004. Potash purchases from SQM for the year were \$13.1 million (2002 – \$17.9 million). Potassium nitrate sales to SQM for the year were \$25.8 million (2002 – \$2.1 million). All transactions with SQM are settled on normal trade terms.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in Canada. These principles differ in certain significant respects from accounting principles generally accepted in the United States. These differences are described and quantified in Note 34 to the consolidated financial statements.

Our significant accounting policies are contained in Note 2 to the consolidated financial statements. Certain of these policies involve critical accounting estimates because they require us to make particularly subjective or complex judgments about matters that are

inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

We have discussed the development, selection and application of our key accounting policies, and the critical accounting estimates and assumptions they involve, with the audit committee of the Board of Directors, and our audit committee has reviewed the disclosures described in this section.

Other accounting policies, primarily those requiring estimates with lower levels of uncertainty than those discussed below, are also important to understanding our consolidated financial statements.

As such, the notes to our consolidated financial statements should be read in conjunction with this discussion.

The following section discusses the critical accounting estimates and assumptions that management has made under these principles and how they affect the amounts reported in the consolidated financial statements.

Asset Impairment

We review long-lived assets and certain identifiable intangible assets to be held and used 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.

We believe that the accounting estimate related to asset impairment is a critical accounting estimate because: (1) it is highly susceptible to change from period to period as it requires management to make assumptions about future sales and margins and market conditions over the long-term life of the assets; and (2) the impact that recognizing an impairment would have on the assets reported on our balance sheet as well as our operations may be material. During 2003, we indefinitely shut down our Memphis nitrogen plant, suspended production of ammonia and nitrogen solutions at our Geismar facilities, ceased operations at our Kinston phosphate feed plant and entered into an agreement to sell our shares of PCS Yumbes. In connection with these activities, we reassessed the recoverability of our long-lived assets and determined that the carrying amounts at these locations were not fully recoverable based on our best estimates. As a result, asset impairment charges totalling \$183.0 million (before tax) were recognized, as more fully described in Notes 21 and 22 to the consolidated financial statements. As at December 31, 2003, we determined that there were no other triggering events requiring additional impairment analysis. In each of the last two years, we have tested the long-lived assets at the above facilities for impairment and in each year, we determined that based on our assumptions, the sum of the expected future cash flows (undiscounted and without interest charges) exceeded the carrying value and therefore we did not recognize an impairment.

Goodwill impairment is assessed at the reporting unit level annually or sooner if events or changes in circumstances indicate that the carrying amount could exceed fair value. 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. In each of the

last two years, we have tested goodwill for impairment and in each year, we determined that based on our assumptions, the fair value of our reporting units exceeded their carrying amounts and therefore we did not recognize an impairment in such periods.

We believe that our estimates of future cash flows and fair value are reasonable. Although we believe these estimates are consistent with current conditions, internal planning and expected future operations, such estimates are subject to significant uncertainties and judgments. As a result, it is reasonably possible that the amounts reported for asset impairments in connection with the above-described initiatives could be different if we were to use different assumptions or if market and other conditions were to change in the future. It is also possible that forecast cash flows used to support the remaining carrying values of the assets may change in the future due to uncertain market conditions, changes to our strategies and product portfolio, or other factors and could also result in higher charges than estimated to date. The changes could result in non-cash charges that could materially affect our results of operations and financial position.

Restructuring Charges

As described in Notes 21 and 22 to the consolidated financial statements, we approved plans to restructure the Memphis, Geismar, Kinston and Yumbes operations in 2003. In addition to asset impairment analyses, these plans required us to make critical estimates regarding employee termination, contract termination and other exit costs. We make these estimates based on the terms of the contracts involved, the number and pay scale of employees scheduled for termination and other related factors. Because such activities are complex processes that can take several months to complete, they will involve periodically reassessing the estimates made when the original decision to exit the activities was made. As a result, we may have to change originally reported estimates when actual payments are made or the related activities are completed.

Post-Retirement and Post-Employment Costs

We maintain plans that provide pensions and other retirement and post-employment benefits for most of our employees. We believe the accounting estimates related to our employee benefit plan costs are critical accounting estimates because: (1) the amounts are based on highly complex actuarial calculations utilizing several assumptions; and (2) given the magnitude of our estimated employee benefit plan costs, differences in actual results or changes in assumptions could materially affect our results of operations and financial position.

Our pensions and other retirement and post-employment benefits expense is calculated by our actuaries based on key assumptions determined by management. The valuations use management's assumptions for the discount rate, expected long-term rate of return on plan assets, rate of compensation increase, health care cost trend and expected average remaining years of service of employees.

The two most significant assumptions are the discount rate and the expected long-term rate of return on plan assets. The discount rate is the interest rate used to determine the present value of the future cash

flows that we expect will be needed to settle employee benefit obligations. It is usually based on the yield on long-term high-quality corporate fixed income investments. We determine the appropriate discount rate at the end of every year. Our discount rate was 6.10 percent at December 31, 2003, compared to 6.50 percent at December 31, 2002. Changes in the discount rate may affect earnings and the projected benefit obligation. For example, a 0.5 percent reduction in discount rate could increase our 2004 expense for our major plans by approximately \$4.0 million. Additionally, a lower discount rate results in a higher obligation, which could require us to make additional contributions to the plans. In 2003, we assumed an expected long-term rate of return on plan assets of 8.50 percent. We estimate that a 0.5 percent reduction in the expected asset return rate could increase our 2004 expense for our major plans by approximately \$1.6 million. Additional information regarding our accounting for pensions and other employee benefits, including other sensitivity analyses for key assumptions, is included in Note 13 to the consolidated financial statements.

Environmental Liabilities

We have significant liabilities relating to environmental matters. The two primary sources of these are the requirements to close the gypsum stacks and to reclaim the land mined in our phosphate operations.

We believe the accounting estimates related to reclamation, closure and other environmental costs are critical accounting estimates because: (1) we will not incur most of these costs for a number of years, requiring us to make estimates over a long period; (2) environmental laws and regulations and interpretations by regulatory authorities could change in the future or circumstances affecting our operations could change, either of which could result in significant changes to our current plans; and (3) given the magnitude of our estimated reclamation and closure costs, changes in any or all of these estimates could have a material impact on our results of operations and financial position.



Each segment of our business faces different environmental issues. We ensure PotashCorp is meeting our current responsibilities through a series of rigorous benchmarking activities and through annual capital and operating expenditures.

When it is probable that environmental costs will be incurred and can reasonably be estimated, we accrue costs associated with environmental obligations at the most likely estimate. Accruals for closure costs, reclamation and other environmental matters totalled \$100.0 million at December 31, 2003. In arriving at this accrual amount we considered the nature, extent and timing of current and proposed reclamation and closure techniques in view of present environmental laws and regulations. It is reasonably possible the ultimate costs could change in the future and that changes to these estimates could have a material effect on our results of operations and financial position.

Depreciation and Amortization

We depreciate certain mining and milling assets using the units of production method based on the shorter of estimates of deposit or service lives. We have other assets that we depreciate on a straight-line basis over their estimated useful lives.

We believe the accounting estimates related to depreciation and amortization are critical accounting estimates because: (1) the determination of deposits involves uncertainties with respect to the ultimate geology of our deposits and the assumptions used in determining the economic feasibility of mining those deposits, including estimated sales prices and costs of conducting future mining activities; and (2) changes in estimated deposits and useful asset lives can have a material impact on operations.

We perform annual assessments of our existing assets, including a review of asset costs and depreciable lives, in connection with the review of mine operating plans. When we determine that assigned asset lives do not reflect the expected remaining period of benefit, we make prospective changes to their depreciable lives.

There are a number of uncertainties inherent in estimating quantities of deposits, including many factors beyond our control. These uncertainties relate to assumptions regarding future prices, the geology of our mines, the mining methods we use and the related costs we incur to develop and mine our deposits. Changes in these assumptions could result in material adjustments to our deposit estimates, which could result in changes to units of production depreciation and amortization expense in future periods, with corresponding adjustments to results of operations. Although some degree of variability is expected, we believe the extent of our technical data and operating experience mitigates the potential for significant changes in deposit estimates. On a periodic basis, management reviews the deposits that reflect estimates of the quantities and grades at our mines which we believe can be recovered and sold at prices in excess of the total cost associated with extraction and processing. Management's calculations of potash deposits are based on in-house engineering and geological estimates using current operating costs, prices and demand for our products. Deposits should not, however, be interpreted as assurances of mine life or of the profitability of current or future operations.

As discussed above, we review and evaluate our long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable and changes to our estimates of deposits could have an impact on our assessment of

asset impairment. However, we believe it is unlikely that revisions to our estimates of deposits would give rise to an impairment of our assets because of the significant size of our deposits in relation to our asset-carrying values.

Income Taxes

We operate in a specialized industry and in several tax jurisdictions. As such, our income is subject to various rates of taxation. We are required to estimate our income taxes in each of these jurisdictions as part of preparing our consolidated financial statements. These estimates consider, among other factors, differing tax rates between jurisdictions, allocation factors, tax credits, nondeductible items, changes in enacted tax laws and rates, and management's expectations of future results.

We estimate future income taxes based upon temporary differences between the income and losses that we report in our consolidated

financial statements and our taxable income and losses as determined under applicable tax laws. We record the tax effect of these temporary differences as future income tax assets or liabilities, as applicable, in our consolidated financial statements. Future income tax assets generally result in deductible amounts in determining taxable income of future periods when the carrying amount of the asset or liability is recovered or settled. Future income tax liabilities typically reflect taxable amounts in determining taxable income of future periods when the carrying amount of the asset or liability is recovered or settled.

We use judgment and estimates when calculating income taxes. If our judgments and estimates prove to be inaccurate, or if certain tax rates or laws change, our results of operations and financial position could be materially impacted in future periods.

Recent Accounting Pronouncements

In December 2003, the FASB revised FIN No. 46 "Consolidation of Variable Interest Entities", which clarifies the application of Accounting Research Bulletin No. 51 "Consolidated Financial Statements" to those entities (defined as Variable Interest Entities ("VIEs")) in which either the equity at risk is not sufficient to permit that entity to finance its activities without additional subordinated financial support from other parties, or equity investors lack voting control, an obligation to absorb expected losses or the right to receive expected residual returns. FIN No. 46 requires consolidation by a

business of VIEs in which it is the primary beneficiary. The primary beneficiary is defined as the party that has exposure to the majority of the expected losses and/or expected residual returns of the VIE. FIN No. 46 is effective for the company no later than March 31, 2004. In Canada, Accounting Guideline 15 "Consolidation of Variable Interest Entities" has harmonized with FIN No. 46 and is effective for the company no later than December 31, 2004. We expect no material impact on our financial position, results of operations or cash flows from adoption.

Risk Management

An important part of PotashCorp's strategic planning process is understanding and managing risk. Our approach to this responsibility begins with our identification and analysis of the specific risks we face. We then rank them in order of importance, according to their likelihood of occurring and the significance of the consequences, and determine the most effective ways to manage them. Tier I risks are ranked the highest with Tier II considered less likely and with less consequence.

In 2002, management reported to the Board on our most significant risks, our risk response options and our risk administration. In 2003, we updated the Board on the progress made on those risks, and reported on the next tier of risks.

Tier I Risks

Risk to Reputation is key with investors, whose general confidence in corporations has been shaken by scandals. With the public, reputation risk revolves around a lack of understanding of and growing concerns about fertilizer production and use.

For investors, PotashCorp implemented a leading edge practice in corporate governance and reaffirmed our commitment to timely and complete disclosure. To educate the public on the science of fertilizer, we developed a grassroots program called Fertile Minds.

We support our strategy with improved disclosure, believing that better transparency and clearer information reduce uncertainty and perceived risk. This enhances our reputation with our stakeholders, providing our license to operate and platform for growth.



We adopted best practices in production and implemented a crisis communication program with regular drills to handle any possible mishaps. To maintain and build on our credibility with the public, in 2003 we produced our first sustainability report.

Commodity price volatility affects a bulk commodity business in which product quality differentiation is negligible, prices are affected by supply/demand dynamics and products may be susceptible to large price swings.

PotashCorp aims to manage this risk generally through product and sales diversity. We have three nutrients and many products within each nutrient, and sell to diverse markets (North America, offshore) for diverse end uses (fertilizer, industrial, feed). We also manage this risk

through alternative product sourcing – such as was made possible by our recent 26 percent investment in APC in Jordan – in an effort to minimize the cost of delivering a bulk commodity.

There is a particular risk in the price volatility of natural gas, our highest-cost raw material input and essential to our nitrogen production. We reduce this risk through our hedging program and our long-term gas contracts in Trinidad.

Foreign country risk arises because many future growth opportunities are likely to be outside North America, and may include exchange rate risk as well as political and/or security risks.

These risks can be reduced through financial hedges for exchange rates, by insuring against political risks, and by requiring higher investment return thresholds for potential offshore transactions. A supplemental benefit of our involvement in Jordan is that it combats price volatility, but it increased our foreign country risk, although we chose to remain self-insured. This illustrates the interrelatedness of risks. In such circumstances, we analyze our choices with a view to minimizing risk and maximizing benefit.

Risk of access to capital to finance growth. We aim to manage this risk by maintaining strong cash flow, a conservative balance sheet and management credibility through high-quality disclosure and transparency.

Security risks around some of our products. We have increased security measures at all plants producing and/or storing ammonia, with such methods as enhanced perimeter security with restricted storage areas, searching of incoming and outgoing trucks and extra security on site, including 24/7 patrols.

Risk to information systems involves the security of data from accidental or deliberate destruction and from outside intrusion, and the security of corporate hardware from failure, destruction or theft.

We secure data with modern systems of access and protection, and regular backup. Our hardware is protected from physical loss, and we have backup site availability and appropriate insurance.

Workplace safety and health risks to workers arising from safety and health hazards in their normal work activities. These risks are managed directly by individuals or front-line teams and involve the use of measures such as structured risk assessments, permits to work, or written procedures, safety audits and process hazard analyses.

Risks to human resources come from replacement of an aging, highly-skilled workforce, medical benefit cost inflation, and increased pension liability due to lower market returns on invested funds compounded by lower prescribed discount rates for calculating pension liabilities.

We aim to manage these risks by maintaining policies and programs aimed at positioning us as an employer of choice, balanced with the need for cost control through plan design, administrative controls and employee cost-sharing.

Tier II Risks

Risk from possible illegal acts could expose the company to civil damages and/or criminal or regulatory penalties.

PotashCorp has responded to this risk by implementing a code of conduct. In addition, policies were put in place in many areas including corporate ethics, corporate governance, compliance training, foreign corrupt practices, insider trading and anti-trust. We benchmark the policies of companies that lead in these areas and incorporate elements of their policies into our own. We then communicate these policies to our employees to raise awareness, institute employee education through training and drills, and monitor for compliance and effectiveness.

Financial risk at present is most closely associated with changes in interest rates for short-term or fixed rate debt. A higher short-term rate increases our interest expense; with fixed rate debt, the risk is that rates may float lower, on average, than the fixed rate over the term of the debt.

We cannot control interest rates, but in a market where the short-term rate is expected to increase, our fixed rate debt will avoid any additional costs.

Acts of nature, such as weather, flooding or power outages, can pose risks to our operations. None of these is predictable, nor can we easily relocate our plants to avoid risk since their location is usually driven by economic factors or proximity to the nutrient source.

One of our best defenses is our geographic dispersion; we do not rely on a single plant in any of our businesses. We have insurance to mitigate loss from wind, surface flooding, earthquakes, equipment damage and associated business interruption, and we self-insure our potash underground assets. We also rely on careful seismic testing, geological and hydrological models and safety procedures in anomalous conditions.

Cash flow volatility can result in maintaining excess cash balances, thus forgoing interest income, or in excess overdrafts, increasing short-term interest costs.

PotashCorp controls this risk by carefully managing our cash balances and by investing surpluses for longer terms.

Tax compliance is the most significant tax risk. Failure to comply with regulations in the jurisdictions in which we operate could in some cases significantly affect our business. All our operations must be aware of potential tax and filing requirements, and our accounting and other corporate data must be both accurate and complete.

It is necessary to be informed and educated on jurisdictional matters. We have been able to compare our existing tax practices to those of companies we acquire, and have sought improvements.

Credit risk reflects the situation that we have receivables in the agricultural sector, that we have little recourse for collection of accounts receivable overseas, and that counterparties may default on natural gas hedging contracts. Such failure of counterparties is the hardest to control.

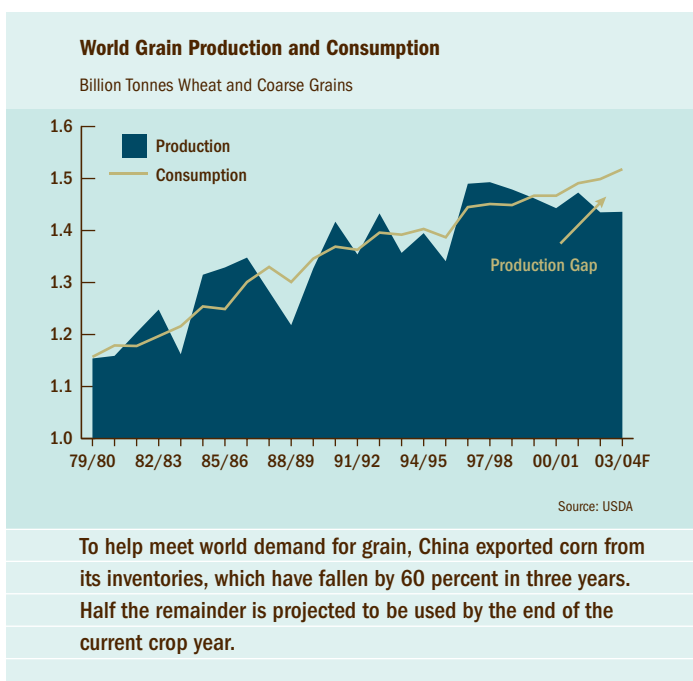
PotashCorp's bad debts amounted to .0001 percent of our net sales in 2003, which reflects our careful evaluation of credit-worthiness among our customers. To protect our interests, we require offshore customers to provide letters of credit or bank guarantees, and we insure offshore receivables in both Canada and the United States. Our credit department evaluates counterparties before we enter into contracts for gas hedging.

Outlook

Agriculture

Low world grain inventories and a tight supply/demand balance for grains, oilseeds and commodities such as rubber, cotton, palm oil, coffee and cocoa are expected to support rising prices. This should encourage global producers to increase yields of these crops. Higher fertilizer application rates and increased crop acreages are key to achieving this.

In the US, record net farm income and the recent strength in markets for corn, soybeans and cotton are expected to encourage farmers to plant more acres to these crops. In 2004, stronger crop prices and the shift in planted acres are projected to raise US consumption of nitrogen, phosphate and potash fertilizers by 1-2 percent, while global consumption is expected to rise by more than 2 percent.



Economy

In 2004, the global economy is expected to grow at 3-3.5 percent, according to certain economic consultants. China and India are expected to lead in GDP growth, China in the 8 percent range and India exceeding 5 percent.

US economic growth of approximately 8 percent in the third quarter of 2003 set the stage for anticipated growth of approximately 4-5 percent in 2004. With consumer confidence good, both auto sales and housing starts are projected to continue at high levels. Business confidence is improving, and inventories are being replenished.

Ocean Freight Rates

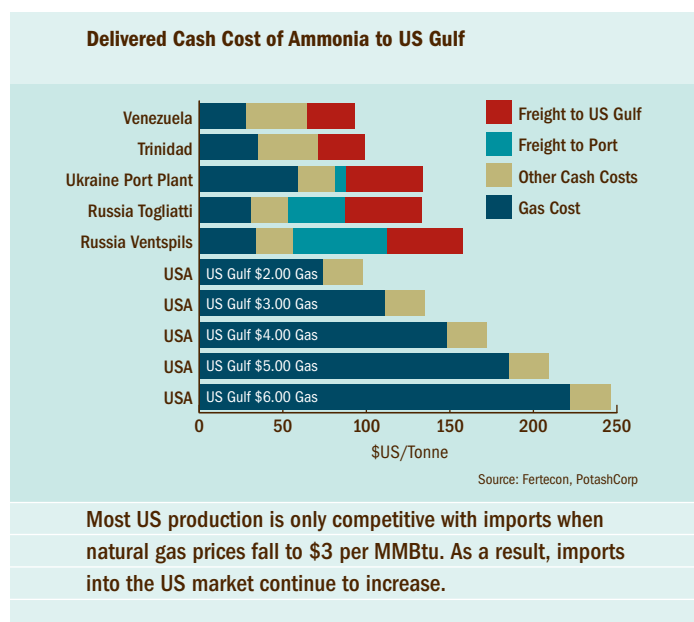
At the end of 2003, ocean freight rates jumped to 260 percent of the levels at the beginning of the year. Demand for bulk carriers surged at a time when the fleet had aged and shipbuilders were unable to quickly meet the need.

Shipyards around the world are expected to maximize their resources dedicated to building bulk carriers. However, the lengthy lead time for construction, continued decommissioning of older vessels and growth in demand are expected to keep bulk carrier rates high during 2004.

Natural Gas

Futures price projections for natural gas in the next few years are in the range of \$4.50-\$6.00/MMBtu, as drilling and development costs for reserves have increased and the life of reserves brought into production has been shortened.

Gazprom, the natural gas supplier to Russian nitrogen producers, is under increasing pressure to be profitable in the domestic market. Gas consumers who once did not pay bills are now expected to do so, to work with Gazprom on a tolling basis, or to provide it with equity participation in their operations. This has encouraged Russian industries that use gas to pass these costs on to their customers.



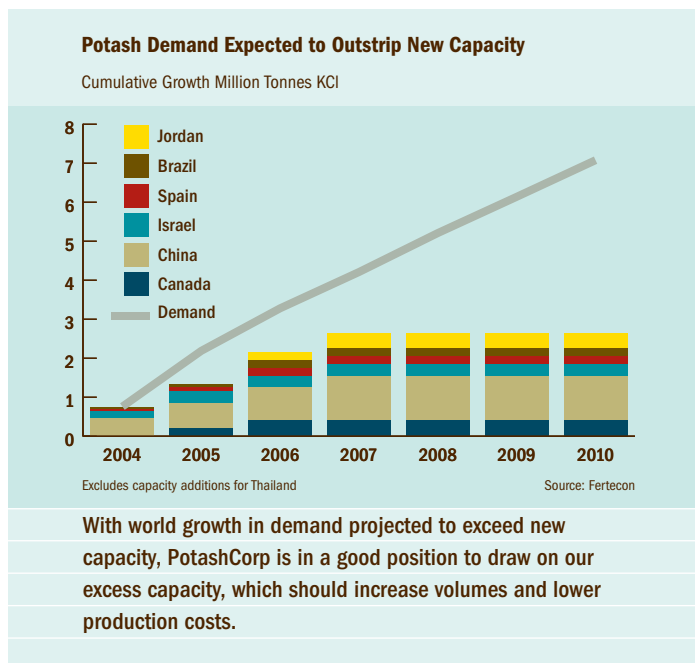
Potash

With 86 percent of production controlled by privately held companies, the global potash industry is expected to operate in 2004 with little interference from government agendas. The strong growth in demand experienced in Latin America and Asia in 2003 is expected to continue to tighten the supply/demand balance in 2004. Anticipated growth in soybean production in Brazil should encourage potash demand there.

In North America, prices are expected to continue to rise in response to higher costs and tight supply. Offshore, higher freight costs pressured margins in late 2003 for product delivered under contracts requiring the supplier to pay freight. Customers were advised that future contracts would address the impact of these higher freight

costs, and in 2004 the costs are expected to be passed on to them as their contracts become due.

Potash gross margin should benefit from the sale of Yumbes, which previously reduced margins by approximately \$23.0 million annually.



Phosphate

The supply/demand balance tightened and prices improved late in 2003. This is expected to continue through the spring season in 2004. However, the phosphate industry continues to face issues of oversupply.

China and India, large potential markets for US phosphate exports, are expected to continue to support their domestic industries in 2004.

Input costs are expected to continue to be high. US natural gas prices should support ammonia prices, and a close balance between supply and demand, led by China's increasing need for sulfur to grow its domestic phosphate production, is keeping sulfur prices up.

Single cases of BSE in each of Canada and the US in 2003 are expected to reduce consumption of meat and bone meal (derived from animal byproducts), which competes with phosphate feed supplements such as dical, monocal and DFP.

PotashCorp expects better results from our phosphate operations in 2004 than in 2003 as certain costs, such as those associated with the move to the new ore zone at Aurora and the start-up at White Springs, are now behind us.

Nitrogen

Higher natural gas prices are expected to continue to challenge US nitrogen producers. Approximately 3.5 million tonnes of US ammonia production capacity have been permanently curtailed since 1999, with another 4 million tonnes considered vulnerable to continued high levels of imports.

Global supply/demand in nitrogen products has been tight, as close to a quarter of US ammonia capacity is curtailed and the new world capacity coming on stream will not match expected growth in demand during 2004.

We will continue to evaluate our plant shutdowns at Geismar and Memphis, basing any potential restart decisions on a combination of market conditions and the right balance of prices versus volumes.

The company was approximately 80 percent hedged at \$2.85 per MMBtu for our 2004 natural gas needs, as of February 5, 2004. On that date our 2004 hedge was valued at approximately \$33 million. Our US hedges are subject to collared profits through the second quarter of 2004.

Gas escalators have been included in certain industrial contracts to help offset cost volatility.

PotashCorp will continue to maintain appropriate levels of security at nitrogen production facilities and terminals and during transit of our products.

PotashCorp Financial Outlook

Capital expenditures for 2004 are expected to approximate \$205.0 million, of which approximately \$110.0 million will be for sustaining capital. This is up from \$150.7 million in 2003, due primarily to opportunity capital set aside for the expansion of granular production capacity at Rocanville. Depreciation and amortization are expected to approximate \$220.0 million, similar to 2003 levels.

The effective consolidated tax rate for 2004 is expected to approximate 35 percent. This is down from the 2003 rate of 40 percent (exclusive of charges for Yumbes and a fourth-quarter income tax reversal) due to Saskatchewan tax incentives and Canadian statutory rate reductions. In 2004, one-quarter of the consolidated tax rate is anticipated to be current and three-quarters future. The increase in the current tax provision from zero percent in 2003 to 25 percent in 2004 is primarily due to an expected increase in potash operating income. Provincial mining and other resource taxes are expected to approximate \$6 per KCl tonne, compared to \$8 per KCl tonne in 2003. The decrease from 2003 is largely due to the accelerated depreciation on the Rocanville expansion for profits tax purposes in 2004.

Stock option expense is expected to approximate \$11.0 million in 2004, or approximately \$0.13 per share, up from \$1.0 million in 2003, as it will include a full year's expense compared to the one month charged in 2003. This non-cash expense is due to our adoption of a new provision of Canadian GAAP. (See Notes 3 and 26 of the consolidated financial statements for more detail.)

Given what we perceive to be positive industry fundamentals, PotashCorp expects our 2004 net income to be in the range of \$2.70-\$3.50 per share. This annual range of earnings should generate approximately \$100 million more in cash from operating activities in 2004 over 2003.

Items that could result in earnings at the lower end of the range include lower potash prices and volumes, lower nitrogen prices and a higher than expected Canadian dollar. Items that could result in earnings at the higher end include a reduction in phosphate operating costs, an

increase in phosphate feed volumes following a recently announced competitor shutdown, a weakening of the Canadian dollar or lower freight rates. The company expects the Canadian dollar to remain flat from the end of the year and has estimated it to approximate 1.2900 for most of 2004.

Several factors could swing our annual earnings projection positively or negatively, including natural gas prices, sulfur prices, spring planting conditions, level of imports, world economic and political conditions and trade patterns of major consumers of potash, phosphate and nitrogen.

INDICATORS TO WATCH

Fertilizer	Feed and Industrial
<ul style="list-style-type: none"> • Weather and acreage planted • China's grain stocks and corn exports • Crop prices • US dollar exchange rates • Ocean freight rates • Prices for natural gas, sulfur and ammonia • Russia's protectionist trade policies versus WTO entry • India's reform of DAP subsidies • Impact of European Union enlargement on Russia's exports 	<ul style="list-style-type: none"> • Health of US and world economies • Effect of livestock diseases and restrictions on meat trade • Possible tightening of restrictions on meat and bone meal in animal feeds • Consumer spending and inventory levels of vehicles, housing and retail goods

Key Earnings Sensitivities

Earnings of the company's three nutrient segments are sensitive to a number of factors. The key factors and their approximate effect on EPS based on assumptions comparable to 2003 actuals are shown here.

INPUT COST SENSITIVITIES			Effect on EPS	PRICE AND VOLUME SENSITIVITIES			Effect on EPS
NYMEX natural gas increases by \$1/MMBtu	Nitrogen		+ 0.27	PRICE	Potash changes by \$5/tonne		± 0.29
	Potash		- 0.08		DAP/MAP changes by \$5/tonne		± 0.09
Sulfur changes by \$5/long ton	Phosphate		± 0.12		Ammonia increases by \$10/tonne		Nitrogen + 0.13
					Phosphate - 0.04		
Canadian to US dollar changes by \$0.01	Canadian operating expenses net of provincial taxes		± 0.02		Urea changes by \$10/tonne		± 0.15
	Foreign exchange gain/loss		± 0.03		VOLUME	Potash changes by 100,000 product tonnes	
			Phosphate changes by 50,000 P ₂ O ₅ tonnes			± 0.11	
			Nitrogen changes by 50,000 N tonnes			± 0.09	

Due to the large volumes of potash sold as compared to DAP/MAP or urea/ammonia, the change in potash prices has a much larger effect on EPS than do the products with lower sales volumes. Changes in potash sales volumes have much less impact due to the additional cost of sales associated with the extra tonnes sold.

The above sensitivities affect cash flow as well, except foreign exchange gain/loss which is primarily non-cash.

Forward-Looking Statements

Certain statements in this annual report and this Management's Discussion and Analysis of Financial Condition and Results of Operations, including those in the "Outlook" section relating to the period after December 31, 2003, are forward-looking statements subject to risks and uncertainties. A number of factors could cause actual results to differ materially from those expressed in the forward-looking statements, including, but not limited to: fluctuation in supply and demand in fertilizer, sulfur, petrochemical and transportation markets; changes in competitive pressures, including pricing pressures; risks associated with natural gas and other hedging activities; changes in capital markets; changes in currency and exchange rates; fluctuation in costs of distribution and

transportation; unexpected geological or environmental conditions; imprecision in resource estimates; the outcome of legal proceedings; changes in government policy and regulation; worldwide political conditions; acquisitions the company may undertake in the future; and the Fertilizer and Feed and Industrial Indicators to Watch as described herein. The company sells to a diverse group of customers both by geography and by end product. Market conditions will vary on a year-over-year basis and sales can be expected to shift from one period to another. The company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by applicable law.

Shareholder Information

Annual Meeting

The Annual Shareholders meeting will be held at 10:30 a.m. Central Standard Time May 6, 2004 in the Adam Ballroom, Delta Bessborough Hotel, 601 Spadina Crescent East, Saskatoon, Saskatchewan.

It will be carried live on the company's website, www.potashcorp.com.

Holders of common shares as of March 18, 2004 are entitled to vote at the meeting and are encouraged to participate.

Dividends

Dividend amounts paid to shareholders resident in Canada are adjusted by the exchange rate applicable on the dividend record date. Dividends are normally paid in February, May, August and November, with record dates normally set approximately three weeks earlier. Future cash dividends will be paid out of, and are conditioned upon, the company's available earnings. Shareholders who wish to have their dividends deposited directly in their bank accounts should contact the transfer agent and registrar, CIBC Mellon Trust Company.

Registered shareholders can have dividends reinvested in newly issued common shares of PotashCorp at prevailing market rates.

Information for Shareholders Outside Canada

Dividends paid to residents in countries with which Canada has bilateral tax treaties are generally subject to the 15 percent Canadian non-resident withholding tax. There is no Canadian tax on gains from the sale of shares or debt instruments owned by non-residents not carrying on business in Canada. No government in Canada levies estate taxes or succession duties.

Ownership

On February 27, 2004, there were 2,096 holders of record of the company's common shares.

Shares Listed

Toronto Stock Exchange
New York Stock Exchange
Ticker Symbol: POT

Common Share Transfer Agent

In Canada:
CIBC Mellon Trust Company
Suite 750 – One Lombard Place
Winnipeg, Manitoba R3B 0X3
Phone: (204) 987-2490
(800) 387-0825
Website: www.cibcmellon.com

In the United States:
Mellon Investor Services, L.L.C.
85 Challenger Road, Overpeck Center
Ridgefield Park, New Jersey 07660
Phone: (800) 526-0801
Website: www.melloninvestor.com

Shareholders with address changes or those with inquiries concerning their Potash Corporation of Saskatchewan Inc. stock are invited to contact:

CIBC Mellon Trust (address above), or
John Hampton, Corporate Secretary
PotashCorp
Suite 500, 122 - 1st Avenue South
Saskatoon, Saskatchewan S7K 7G3

Investor Inquiries

Betty-Ann Heggie, Senior Vice President, Corporate Relations
Canada: (800) 667-0403
US: (800) 667-3930
e-mail: corporate.relations@potashcorp.com

Visit us at www.potashcorp.com

Interim Reports, News Releases and Form 10-K

Non-registered shareholders who wish to receive quarterly reports should contact the Corporate Relations department. News releases are available via fax and e-mail.

Copies of the company's most recent Form 10-K are available upon request or on our website.

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