

April 2013

Phosphate Rock from Western Sahara

PotashCorp has received requests for information regarding the importation of phosphate rock from the Boucraâ region in Western Sahara (or “the region”). As part of our ongoing efforts to operate with transparency, we are committed to providing updates to our stakeholders on this subject.

Background on PotashCorp’s Importation of Phosphate Rock

PotashCorp, through a wholly owned U.S. subsidiary, purchases phosphate rock from the Moroccan company OCP, S.A. (OCP). This rock is sourced in Boucraâ and is used at one of our 17 facilities. This particular site – Geismar, LA – requires very high-quality phosphate rock to meet the specifications required under a long-term agreement with a large customer that produces food-grade phosphoric acid. We inherited this contractual commitment from a predecessor company. We have concluded that the use of phosphate rock from other sources, including from our own mines in the United States, is not a viable option given sensitivities to the particular qualities of the rock source.

To provide context on the magnitude of the rock imported, the gross margin from Geismar accounted for 0.2 percent of our corporate total over the past five years, and the amount of phosphate rock imported accounted for approximately 6 percent of the phosphate rock we processed company-wide.

PotashCorp is mindful of the dispute between the Kingdom of Morocco and parties who claim to represent the interests of the inhabitants of Western Sahara. While we appreciate the concerns that have been expressed about the status of Western Sahara, we recognize the issue is both politically-charged and complicated. Like many interested parties to the dispute, we are looking forward to a peaceful United Nations (U.N.)-sponsored resolution and are encouraged that they continue to work towards this outcome.

In the absence of a permanent resolution, a distinction must be made between political issues and the legal and other responsibilities placed on companies operating in the region. A small group of politically motivated individuals claims that OCP's Phos-Boucraâ operations are not in conformity with international law, and have directly challenged the legality of our importation of phosphate rock produced by OCP in the region.

PotashCorp – and its U.S. subsidiary – has consistently adhered to applicable trade and customs laws regarding the importation of phosphate rock. Neither the U.N. nor any other competent legal authority has concluded that the production and use of phosphate rock from Western Sahara is in violation of international law. The U.N. Security Council previously sought a legal opinion from the U.N. General Counsel regarding the legality under international law of the exploration and extraction of mineral resources in Western Sahara where it was concluded that such activities would be illegal “only if conducted in disregard of the needs and interests of the people of that Territory.”

While the long-term governance of the region is an emotive issue, this standard provides a crucial framework for evaluating the legitimacy of business activities conducted there and PotashCorp has been rigorous in our evaluation of OCP's activities. We believe that Phos-Boucraâ's operations and investments in the region have significantly contributed to the development of Western Sahara and continue to provide substantial and sustainable economic and social benefits to the Saharawi people, all of which make it more likely rather than less likely that they can effectively exercise their right to self-determination.

PotashCorp's Commitment to its Code of Conduct

As a company, we know that living up to our commitments according to applicable trade and customs laws isn't necessarily enough. That is why we are committed to our Core Values and Code of Conduct, which define the standards that we abide by in our daily actions. The Code of Conduct helps us fulfill our broader responsibilities by outlining our commitments to integrity, describing our principles of conduct and guiding ethical decision making.

Beyond our own actions as a company, we are committed to ensuring that our suppliers not only comply with international law and labor practices, but the high ethical standards defined in our Code of Conduct.

PotashCorp's Due Diligence

In addition to obtaining assurances from OCP's senior management team regarding its compliance with our standards:

- We obtained confidential copies of two separate legal opinions provided by highly respected global law firms, DLA Piper together with Palacio y Asociados (led by Spain's former Foreign Minister, Ana Palacio) and Covington & Burling LLP. Both firms concluded that OCP's operations in the region directly benefit the people of the region and are consistent with international legal obligations.
- We obtained a confidential copy of the November 2011 "Phos-Boucraâ" report conducted by KPMG, which was commissioned by DLA Piper as part of the work necessary to provide its legal opinion. This report captures the economic and social impacts of OCP's operations in the region, as well as the sustainability of OCP's operations in the region.
- In January 2013, after in-depth reviews of the DLA Piper/Palacio opinion and KPMG report, members of PotashCorp's senior management team met with the authors of the DLA Piper/Palacio report to better understand the methodology and analysis that supported their legal opinion. Representatives of KPMG were also present to discuss the nature, scope and results of their work.
- In January 2013, PotashCorp's senior team visited Western Sahara – touring the Phos-Boucraâ operations and community of Laayoune – to observe firsthand the economic and social conditions, including opportunity, investment and infrastructure within the region.

From these discussions, we gained deeper insight and comfort around the methodology and analysis applied in the formation of the legal opinion. We affirmed that the highest standard was applied in assessing OCP's obligations regarding exploitation of natural resources in Morocco – specifically, the application of the U.N. defined obligations for an administering power or country rather than the less stringent obligations of a corporation. Further, in ascertaining whether

OCP's operations benefit the local people, the analysis went beyond direct and indirect impacts to more broadly include the stewardship and sustainability of OCP's operation. This involved an in-depth review of the company's capital investment program, maintenance of assets and efficiency of operations relative to industry practice. As well, mine reserve specialists were commissioned by KPMG to focus on the sustainability of the Boucraâ rock reserves.

The analysis took more than a year and affirmed significant benefits to the Western Sahara, including direct benefits in the form of employment, training and educational assistance, local spending, community investment and other direct impacts. Given the absence of formal regional data, indirect benefits could not be quantified, which is unfortunate since spin-off impacts (i.e. the "multiplier effect") would only add to the already demonstrable direct benefits. In terms of sustainability, KPMG reviewed the calculations of reserves and resources that impact the lifespan of the operation, and also affirmed that OCP's technology and processes demonstrated that reserves were being mined in an appropriate manner.

Our visit to Boucraâ included a visit to Laayoune where we were able to observe some of the infrastructure investments and social programs that OCP has supported. Through this, we observed OCP's commitment to delivering significant benefits in its communities and the strong relationships it has forged. On our tour of the operations, we had the opportunity to speak with a number of Sawahari employees and gained an appreciation for the quality of life they enjoy. Importantly, the company's commitment to local employment was evident. Dramatic increases in the number and skill level of Saharawi employees over the past couple decades have been driven by OCP's investment and commitment to training and education.

Key benefits from our discussions, visit and review of the KPMG study are highlighted below.

OCP's Commitment

Activities are beneficial to the local population and consistent with international law

- OCP has been a member of the community for over 30 years through its wholly owned subsidiary, Phos-Boucraâ, and its actions have directly benefitted and are in the interests of the local population.
- Phos-Boucraâ was founded in 1962 by the Spanish 'Instituto Nacional de Industria' (INI). OCP purchased a 65% stake in 1976 and the remaining 35% was kept under ownership of the INI. The Moroccan/Spanish joint venture continued until 2002 when OCP bought the remaining stake.
- Phos-Boucraâ is the largest private employer in the region, with more than 2,100 employees.
- In addition to its commitment to local employment (outlined below), the company is committed to local sourcing and plays a critical role in expanding economic development in the region. The acquisition of goods and services from the region supports more than 450 indirect jobs

A local operation, run by – and actively seeking to train and recruit – people from the region

- Phos-Boucraâ actively seeks to hire from the local population and the company is committed to providing advanced vocational and engineering skills training to enable the Saharawi to obtain good-paying, stable jobs with the company.
- The company's commitment to training is reflected in its company-wide 'OCP Skills' program, which involves the development of training centers in every region it operates.
- Following the opening of the Laayoune training center by OCP in 1995, the number of employees from the local population rose 15 percent between 1997 and 2011.
- This commitment to train and hire locally has dramatically changed the composition of the company's employee base. More than 50 percent of Phos-Boucraâ's employees are from the region, and more than 60 percent of hires since 1995 are Saharawi.
- In addition to increasing the number of qualified locals, the company's commitment to training has raised skill levels significantly. The number of Saharawi workers in higher-skills jobs has increased from eight to 60 percent since 1987.

- Executives and employees of local origin play key roles in both strategy and operations. The Director, who is responsible for the subsidiary's activities, and 19 senior executives are Saharawi.
- OCP's salary scale in Phos-Boucraâ is consistent with its salary scale at all other operations in Morocco – meaning that Saharawi employees are compensated like all other employees in the same professional group and at the same level.
- Retirement benefits are generally regarded as the best in the region, and medical care and dental benefits extend to all employees, pensioners and their families.
- Other benefits for employees include the provision of meals, a housing facilitation program, mortgage loans, education and training opportunities.

Investing in the community and long-term infrastructure

- Phosphate mining in Western Sahara presents economic, financial and engineering challenges, requiring significant investment. Since 1976, all earnings generated by Phos-Boucraâ have been reinvested in the development and viability of the operation and region. KPMG's November 2011 report outlines that the operations generated a cumulative loss between 1976 (when OCP first acquired a stake in the company) and 2010. Even in unprofitable times, OCP has taken a long-term view and made substantial efforts to ensure the sustainability of the operation.
- Over the coming years, the company has multi-billion dollar plans for development that include sustaining the level of activity while increasing the lifespan of the phosphate deposits (through access to lower layers), developing higher value added products locally and increasing port capacity.
- OCP's substantial investments in infrastructure (including energy, water and port infrastructure) have helped to create conditions for broader economic growth in its communities. This includes water desalination facilities for its operations that also contribute to Laayoune's water supply and port infrastructure that provides import/export capabilities for the entire region.
- As part of its investment in the overall region, Phos-Boucraâ has also contributed to the community by way of social projects for the wider benefit of the Western Saharan population.

- Between 2007 and 2010, the company provided MAD 38.8 million [EUR 3.5 million] for social projects, including support for city infrastructure, disadvantaged groups and local sporting, cultural and artistic activities.
- These long-term capital investments – as well as related business partnerships, local infrastructure development and support for social programs – provide a solid foundation for the region’s long-term economic growth.

Refugee Camps

PotashCorp is aware of the humanitarian concerns for historically displaced inhabitants living in refugee camps in Algeria and other regions. This again is where it is important to separate politics from the responsibilities of OCP as a company and its inability to influence or control the refugee situation, which was the result of an armed conflict.

Through our due diligence, we have affirmed that OCP has established a proactive affirmative action campaign to the benefit of the local people and, importantly, is making significant economic and social contributions to the entire region. As a result, we believe those who choose to make a political statement and black-list OCP due to the refugee issue are penalizing Saharawi workers, their families and communities.

PotashCorp Summary

As an ethical but non-political company, we have thoughtfully studied the issues surrounding Western Sahara. We appreciate the concerns that have been expressed, but also recognize that this issue is complex, highly-charged and political in nature. Even if our contractual commitments to our long-time customer did not require us to import this particular rock supply, any decision to cease doing so would constitute a political judgment on our part that we believe could undermine the very economic development in the region necessary to promote local self-determination.

As we believe the interests of our stakeholders are best served by a company that remains out of the political arena, we continue to support the efforts of the U.N. to broker a solution on the

future governance of Western Sahara and to ensure substantial benefits are being realized by the Saharawi and other members of the community in the meantime. In this regard, we are encouraged that the parties to the dispute have continued to engage in U.N.-sponsored discussions and we look forward to a peaceful resolution to this complicated dispute. As these efforts continue, we believe the best interests of the local Saharawi people are served by the continued employment and investment made possible by OCP's operations in the region.

As a company, we continue to assess OCP's social responsibility and the risks associated with sourcing this rock, but are assured that this practice is in accordance with international law and applicable customs and that the interests and needs of the people of the Boucraâ region are being met.

OCP has recently launched information on its corporate website and is committed to working towards publishing an annual sustainability report for 2013. More information about Phos-Boucraâ can be found at:

www.ocpgroup.ma/en/group/global-presence/subsidiaries/phosboucraa and
www.ocpgroup.ma/sites/default/files/filiales/document/Phosboucraa-website-en.pdf.