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**K+S**

Q1 2020 Results Presentation

11th May 2020

**K+S**

**Thorsten Boeckers, Chief Financial Officer**

**Questions From**

**Christian Faitz, Kepler**

**Markus Mayer, Baader Helvea**

**Alexander Jones, Bank of America**

**David Symonds, JP Morgan**

**Knud Hinkel, Pareto Securities**

**Patrick Rafaisz, UBS**

**Thomas Swoboda, Société Générale**

**Markus Schmitt, ODDO**

**Stephanie Vincent, JP Morgan**

**Lisa De Neve, Morgan Stanley**

**Oliver Schwarz, Warburg**

**Michael Schäfer, Commerzbank**

**Marc Gabriel, Bankhaus Lampe**

## **Introduction**

**Thorsten Boeckers, Chief Financial Officer**

Thank you, Judy.

Good health and good morning, everybody, and welcome to our Q1 conference call.

Before I go through the presentation, I would like to mention two things. First of all, Burkhard Lohr asked me to take over this call. He has tested positive for Corona. In his case, the course of the disease is a mild one; however, he stays in current quarantine this week.

Secondly, some background on our announcement from last Friday. So far, we have come through Corona operationally well. In Q1, we had some smaller burdens, for example, because of efficiency losses due to health measures to ensure the safety of our employees, or the delayed new contract with Chinese customers had an impact on the timing of recovery in potash prices. Also, we cannot rule out that access to liquidity remains difficult because of further uncertainty in the markets about the future economic developments.

As a precautionary measure, we have decided to adjust the dividend proposal to the minimum to maintain eligibility for a state-secured KfW loan.

So, let me start our presentation on page 3. The Corona crisis is keeping all of us on edge. In some industries, sales have dropped overnight. It is different for us because we offer essential products. It is also part of our social responsibility to serve the needs of our customers in the fields of medicine, pharmaceuticals, food production, animal feed and agriculture in the best possible way and to ensure safe waste disposal.

Particularly in these times, we are proving that we are a reliable supplier but focused. Every day, our employees are making great contributions with their personal commitment and flexibility by keeping our production and the whole supply chain up and running.

We optimise the shifts at the production plants to ensure social distancing, e.g., on the way into or out of the mines on in the changing rooms.

We have expanded Home Office Regulations for administrative staff. Social distancing also applies in our offices.

On slide 5, please. Corona will trigger an economic downturn. Based on our product portfolio, we analyse that 77% - so, a clear majority of our total sales - is not or only slightly, dependant on the general GDP development. This should provide us a certain resilience against what's coming up.

On slide 6, I would like to give you a brief update on our package of measures to reduce debt, and the biggest measure is certainly the sale of the OU Americas.

In March, we informed you about that, that we now plan to fully divest the Americas Operating Unit. Despite the current Corona crisis, the same process is going according to plan, and signing in 2020 remains our goal.

We still see a lot of interest from potential buyers, including everything from family-run offices to private equity and strategic investors.

What is also a major part of our package of measures is what you see on slide 7 because, with the complete sale of the Operating Unit Americas, the restructuring of the rest, and especially of SG&A functions, has to be done.

With only one remaining operating unit, all of the administrative functions have to be adapted to the new K+S structure. We are doing this to reduce our costs and complexity, and to focus on our core business.

We also ensure that all production sites are able to generate positive free cash flow, even in difficult market conditions. Future-oriented solutions in the Environmental sector, that sustainably reduce our capex, have also to contribute to this target. We will keep you posted throughout this process. I'm convinced that the realignment of K+S will result in a leaner and more efficient company.

Moving onto slide 8 - Our EBITDA reached €201m compared to €270m in the previous year. The main reasons were a very mild winter which led to significantly lower sales in the Communities business and lower average selling prices in Agriculture. Good cost discipline and higher earnings contributions from industry and consumer sectors, we're able to partially offset this.

However, the coronavirus, as mentioned earlier, affected us too. Compared to other industries, we are in the favourable situation that our products are considered essential and, therefore, we only had small losses. We did not have losses on the sales side, but the measures to protect the employees and to ensure production and ensure there were shutdowns at some smaller sites cost us around €10m in this first quarter.

On slide 9 - the customer segment, Agriculture - The Chinese import stop for potash was still in place in the first quarter. As a result, prices in our overseas markets, like Brazil, continued to fall due to temporary product overhang and missing price orientation.

In Europe, prices were almost stable.

The good weather conditions in Europe helped us to return to normal phase levels after the production cuts in the second half of last year.

At the end of April, we finally saw the signing of the Chinese supply contract at US\$220 per tonne. We, therefore, assume that MOP downward trend has bottomed, and we have already seen the first positive reaction in the Brazilian market.

On slide 10, just briefly because I've mentioned it already, the mild winter has led to a significant drop in sales and earnings in all regions. In total, De-Icing volumes in the first quarter were almost 50% below the highest level of the previous year.

On slide 10, in the Industry segment, we offer products for a variety of applications. Some sectors, such as chemical source, or the supply of hotels and restaurants, are affected by corona. Other segments, such as the Pharmaceutical business, or the production of cellulose, has so far more than compensated for the negative effects on our earnings.

The significant improvement in operational performance also contributed to this, but we suffered a little with lower prices of our potash-based industry product range.

What we lost to footfall in the B2B area was more than compensated by the demand in the Consumer segment. The more people cooked at home, the more table salt was bought in the supermarkets. In these uncertain times, customers buy well-known branded products that they trust, like Morton Salt and its 'Umbrella Girl'.

And then, finally, the outlook on slide 12. We had a good start into 2020, however, mainly due to the late China contract and ripple effects on other markets, we see our EBITDA at about €520m now for 2020.

We also see further optimisation potential in working capital and will be capex disciplined. So, we still expect the free cash flow to be around the breakeven point.

Because we have already received several questions regarding the impact of the dry weather on our waste water disposal, due to the additional local storage capacities installed last year, we can state that, even if we have a dry summer, like in 2018, we do not foresee any standstills.

This concludes my presentation and, Judy, we can now go into the Q&A session, please.

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### **Questions and Answers**

#### **Telephone Operator**

Thanks.

If you would like to ask a question, please press '\*1' on your telephone keypad. If you change your mind, and would like to withdraw your question, please press '\*2'. If you would like to ask more than one question, please submit one question at a time. When answered, you will move onto your next question. You will be advised when you ask your question.

And the first question is coming from the line of Christian Faitz from Kepler. Christian, you are now unmuted. Please go ahead.

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#### **Christian Faitz, Kepler**

Yeah, so, thank you. Good morning, everybody. Good morning to Thorsten.

First question and then I'll add the second - How much is your Industry segment actually impacted by the slowdown in chemical production because, at least some of your salt clearly goes into the chlorine chain as well. Can you comment on that?

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#### **Thorsten Boeckers, Chief Financial Officer**

Yeah, Christian, that's what I mentioned briefly in the speech. We saw that the Chemicals business was affected already by the downturn in the Chemicals industry, however, in the first quarter we haven't seen the full impact yet. So, it was only, when I

look at the revenue development, only marginally down. But we certainly expect a higher impact here in the coming quarters.

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**Christian Faitz, Kepler**

Okay. Fair enough. Thank you.

Then my second question is: can you comment your aspiration to go for a state-secured credit facility, and how would that improve your financial flexibility when it comes to refinancing your debt in 2021? Thank you.

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**Thorsten Boeckers, Chief Financial Officer**

Yeah. I think, first of all, it is important to maintain liquidity for 2020 and what else is coming. As we said, it's a precautionary measure.

The first quarter was good, and we have some hope that we come through the year without bigger distortions of the operating business, but, can we rule this out? No, we cannot, because, when you look at markets like Brazil, we may not have seen the negative effects from the corona crisis yet.

And, here, given that we have already first distortions by Corona, and what I've just described is maybe coming in the next quarters, it is, for us, important to have access to liquidity sources.

And, I mean, we are non-investment grade rated, right, so, some of the liquidity sources are closed for us, and, here, KfW offers us help, so, it's a precautionary measure. And that's not looking at refinancing next year. I mean, the maturities next year are in May and in December, so we've got some time, but this is more to keep the liquidity and keep the business running in case we will come into issues for the remainder of this year.

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**Christian Faitz, Kepler**

Okay, great.

And then, just finally, all the best to Burkhard Lohr and his recovery.

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**Thorsten Boeckers, Chief Financial Officer**

Thanks.

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**Telephone Operator**

Thank you, Christian, for those questions.

And the next question is coming from the line of Markus Mayer from Baader Helvea. Markus, you're now unmuted and may now ask your question.

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**Markus Mayer, Baader Helvea**

Yeah, good morning, gentlemen. Three questions, if I may, as well. Maybe the first one on the Ag business. If I look on the Q1 MOP volumes and also the revenue, the implied price would be around €202 per tonne, or if you take 1,10 US dollar to euro exchange rate to USD222, this is substantially below the current market price no matter in what kind of market. Could you explain this please?

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**Thorsten Boeckers, Chief Financial Officer**

I'm not sure if I've fully got your question, Markus. Can you repeat this?

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**Markus Mayer, Baader Helvea**

If you take the revenues of potassium chloride divided by the volumes of potassium chloride, so there's €246m revenue divided 1.22m tonnes, then you come with an average price of €202 per tonne MOP of potassium chloride.

.....

**Thorsten Boeckers, Chief Financial Officer**

Just MOP? Yeah, so, when I look at our average selling price for the total portfolio, we stand, at the first quarter, at 239. And you know that our specialities, and we have seen virtual no negative effect on specialities, and not on the European business, in the first quarter, kept this price higher than, of course, the MOP price where we have essentially seen a decline in the Brazilian markets.

So, I think, when I follow your calculation for MOP overseas, it is certainly - I mean, we were showing this as well in the table. We are there at 225, and this is in line with that the trade journals are also reporting, but, yes, we saw a strong decline in prices. This was driven by MOP only, and in overseas only. So, that's what I can confirm.

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**Markus Mayer, Baader Helvea**

But, if you're basically undercut then prices which are officially in market, what is the explanation for this very low MOP price?

.....

**Thorsten Boeckers, Chief Financial Officer**

Well, I mean, one reason is certainly that we saw a strong business in March. Also, with the start-up of the Brazilian season end March, so at the end of the quarter, the sales price was lower than at the beginning of the quarter, but we haven't really undercut any prices, right. So, we are in line with what competition is offering.

.....

**Markus Mayer, Baader Helvea**

Okay. Thank you.

And then my second question is on the consumer segment. There's a significant volume drop. Can you explain this a little bit more? I thought, out of my maybe blue-eyed thinking that, if consumers are more at home and maybe would use more of your products, then why this sharp volume drop in the consumer segment?

.....

**Thorsten Boeckers, Chief Financial Officer**

Yeah. It's mixed. So, when I look at the Culinary business, so really the table salt and also water and pool, you're absolutely right, people are at home. And the Germans bought toilet paper, and the Americans bought salt. What's driving down the volumes was the De-Icing business. So, we are also selling de-icing salt for consumers, which is reflected here and not in the Communities business, obviously. And this led to a drop. So, there, the revenues, they are 10% of what we have achieved last year. So, the volume drop you see comes from De-Icing.

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**Markus Mayer, Baader Helvea**

Okay. Okay. Understood. Makes sense.

And then the last question. You said there was a first initial positive reaction in the Brazilian market. Have you meant this pricewise or volume-wise?

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**Thorsten Boeckers, Chief Financial Officer**

No, volume is, anyway, not an issue. Pricewise.

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**Markus Mayer, Baader Helvea**

Okay. Okay. Thank you.

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**Thorsten Boeckers, Chief Financial Officer**

You're welcome.

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**Telephone Operator**

Thank you, Markus, for that question.

And the next question is coming from the line Alexander Jones from Bank of America. Alexander, you're now unmuted and may now go ahead.

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**Alexander Jones, Bank of America**

Thank you very much. Two questions, if I may.

The first is on your guidance for sales prices in Agriculture this year. Could you just give us a bit colour around the potash price recovery trajectory, or assuming in that what potash price you're assuming in Brazil, for instance, by the end of the year? That'll be helpful. Thank you.

.....

**Thorsten Boeckers, Chief Financial Officer**

Yeah, Alex.

We do see from here, for the rest of the year, a slight recovery of the market prices. And I mentioned earlier, when Markus asked about this, we saw already a first positive reaction in Brazil that prices are no longer on the downward trend there.

And, with continued good demand, and with continued good - under normal circumstances, so not referring to any possible Corona effects - we would expect a slight recovery of the prices in the second half of the year.

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**Alexander Jones, Bank of America**

Okay. Thanks.

And then the second question's going back to the Industrial volumes. Do you have a sense, in April, for example, or in Q2 as a whole, the volume trajectory in terms of whether that's now gone into a decline or, yeah, that rate there would be helpful?

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**Thorsten Boeckers, Chief Financial Officer**

I mean, not yet because the thing in Industrials is we are serving more than 10,000, almost 14,000 different industries with potash-containing products and non-potash-containing products, and it is a broad range from chemical, where I said earlier to Christian, we have seen here, certainly, a negative impact on the volumes. On the other hand, we have food and animal nutrition and pharmaceutical, which is offsetting a volume decline here.

So, I would say we see a mixed picture. In general, we have not seen a significant drop yet.

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**Alexander Jones, Bank of America**

Okay. Thank you.

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**Thorsten Boeckers, Chief Financial Officer**

You're welcome.

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**Telephone Operator**

Thank you, Alex.

And the next question is coming from the line of David Symonds from JP Morgan. David, you're now unmuted and may now go ahead.

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**David Symonds, JP Morgan**

Morning, guys. Thanks for taking the questions.

The first one, on volumes, I think it was a surprisingly strong first quarter given that, you know, Nutrien and Mosaics saw volumes flat to down. So, can you talk maybe about the new markets that you were able to enter with the higher Bethune quality? And was this the main driver for your higher volumes? Thank you.

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**Thorsten Boeckers, Chief Financial Officer**

Okay, David, first of all, we are happy that we have seen this volume development, of course, and Bethune is contributing here. So, the Bethune quality, when you look at the granulated product but also the standard product, has improved significantly.

And, when we talk about new markets, I mean, it is clear that we wanted to tap the US market always, and this is what we still plan.

The volume development, this is something one should not forget when you compare our volume increase with one of the competitors, last year, in the first quarter, and after the closure of our Sigmundshall mine in Germany and some issues in our production on our production plants, we are stronger recovering because last year's Q1 was affected by extraordinary negative effects in availability of product here. So, this is certainly why our growth rate is larger, and what these same volumes show is certainly that there is a strong demand for the products, and that's what we are happy for and, for the first time, we can deliver.

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**David Symonds, JP Morgan**

That's clear. Thank you.

And then, secondly, are you still willing to access your revolver, or is there a concern that you hit the leverage covenant whilst it's drawn and that that causes cross-default. So, in other words, is the €800m revolver, firstly, is it still undrawn today, and, secondly, are you willing to access that, or are you looking elsewhere for sources of liquidity? Thank you.

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**Thorsten Boeckers, Chief Financial Officer**

It's fully undrawn, and, I mean, we have this RCF in order to use it if necessary, and I think this answers the question.

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**David Symonds, JP Morgan**

Right. Thank you.

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**Telephone Operator**

Thank you, David.

And the next question is coming from the line of Knud Hinkel from Pareto Securities. Knud, you're now unmuted, and may now ask your question.

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**Knud Hinkel, Pareto Securities**

Okay. Can you hear me?

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**Thorsten Boeckers, Chief Financial Officer**

Yeah.

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**Knud Hinkel, Pareto Securities**

So, my first question will be on cost per tonne in Agriculture. It seems that it's significantly lower compared to last year. Is that because of the mix effect, because of more volumes from Bethune? That would be my first question.

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**Thorsten Boeckers, Chief Financial Officer**

It's indeed the reason that the first quarter saw a variable production level in Bethune and also in Germany. It's part of my answer from the question before because we saw a production without any major distortion here in Germany, and one part here is certainly the much better product quality in Bethune contributed also there to higher production, and this is why we have seen a drop of the cost per tonne on this revenue over EBITDA basis from €205m to €188m. But it's the production level.

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**Knud Hinkel, Pareto Securities**

Okay. Second question - Do you still disclose how much Bethune contributes to the overall production level? And, if yes, how much was it?

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**Thorsten Boeckers, Chief Financial Officer**

So, we're not breaking this down by quarter, but we saw, in last year, production there which was burdened by the production cuts. So, Bethune only produced 1.6m tonnes.

And we will, this year, certainly, come closer to the 2m level, but I don't want to break this down by quarter.

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**Knud Hinkel, Pareto Securities**

Okay. Great.

Then, third question, you said in the statement from Friday, that you were now expecting a slight earnings drop in the Operating Unit Americas for 2020. Does that affect your price expectations for the intended disposal of the unit?

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**Thorsten Boeckers, Chief Financial Officer**

It's a good question, but we don't expect that this will majorly distort this process.

We see, as I said in my speech as well, we still see a very good interest from the broad variety of investors, potential investors, and, I mean, you know it better than I do probably, the investors look at earnings quality and earnings stability. And here the business has shown, even in this crisis, that it still can generate, despite the drop in de-icing salt volumes, which are obviously only weather-related, and this can change again, we have seen a very stable contribution. You see the revenue drop. You see that the EBITDA only decreased marginally.

So, there's a higher cost discipline in the OU Americas, like in the rest of the Group, but there's also an ability to offset lower de-icing salt by, I mentioned it, consumer by pharmaceutical products. So, we don't expect that this will have a negative impact on how investors look at this business.

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**Knud Hinkel, Pareto Securities**

Okay. And my fourth and last question would be on the dividend. My question would be could you remind me why there is a minimum dividend? So, is that stated in the bylaws or what's the reason for a minimum dividend you have to pay?

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**Thorsten Boeckers, Chief Financial Officer**

No, this is something which is stated in the German Aktiengesetz that there are very strict requirements for not paying a dividend at all. And there's a minimum dividend mentioned of 4% of the nominal capital, and this is what we mean with minimum dividend.

So, we applied for this for precautionary reasons, and we are not economically in deep trouble that we could delete the dividend totally.

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**Knud Hinkel, Pareto Securities**

Okay. Thanks.

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**Telephone Operator**

Thank you for that. And the next question is coming from the line of Patrick Rafaisz from UBS. Patrick, you're now unmuted and may now go ahead.

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**Patrick Rafaisz, UBS**

Thanks then. Good morning, Thorsten and the K+S team. Three questions, please.

The first, I want to follow-up on financing. If I go back to the release on Friday, you talked about exploring all options, including the KfW state loan, so if you wouldn't be able to secure that loan, what kind of alternatives were you thinking about, and by what time would you want to have additional liquidity sources secured before you would have to resort to maybe capital increase, for example? That's the first question.

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**Thorsten Boeckers, Chief Financial Officer**

Yeah, Patrick, really this is a precautionary measure, and we are talking to KfW, like we are also talking to our banks. So, it is not that we are in urgent need right now. I called it a precautionary measure. It's because we don't know what's coming up over the next quarters. And, for example, when and how will the commercial paper markets open up again, or at what point in time would you also be able to place a bond or something similar?

So, it's really we want to have this liquidity just in case we need it. And we also said earlier that there was fully undrawn RCF which we would also use if necessary. So, the short view that there's no immediate need right now, so I would quote the liquidity situation for now as sufficient, again, not knowing what comes. And this is how you should read the KfW loan. It's an additional source for liquidity for us which is now offered.

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**Patrick Rafaisz, UBS**

Okay. Thanks.

And then a question on capex. You were talking about capex discipline earlier today, but the guidance, at least qualitatively, remains the same, right, in terms of reporting significant increase. Is that significant increase a smaller significant increase than we had before or how should we think about that also into next year, maybe? I remember all the comments you made in previous calls around the minimum required capex, but is that something that's moving down currently or are we still talking about the same orders or magnitude?

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**Thorsten Boeckers, Chief Financial Officer**

You've heard me saying that we can run the company at capex levels of about €450m to €500m. In this year, and also partly in next year, we have some environmental projects

running that we need to execute. Look at the tailings pile expansions at the Werra and also in Zielitz. And there are some more we have to invest in.

So, we cannot come down, despite all disciplines, to this level in this year and in next year. On the other hand, I think the consensus is at around 550, right, and, from today's point of view, my best guess that this is a number I would put into the model if I would be you.

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**Patrick Rafaisz, UBS**

Okay. That's very helpful. Thanks.

And the last question is also on guidance, on EBITDA, the €520m, that's a surprisingly precise guidance given that you are still very early in the year. What draws that decision to go for such a precise guidance rather than a range as you have in the past?

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**Thorsten Boeckers, Chief Financial Officer**

I can tell you it was a long discussion - What we should do with the guidance? - And, having said that, we do not know how the next couple of quarters will develop because of the further Corona impacts which are possible.

We also considered not to give a guidance at all, but we said if we do see, and especially now, after the contract conclusion in China, we have a certain expectation that pricing will bottom and that we do also see a slight increase of the price levels compared to the first quarter. That's what I said earlier. And we said if this is the case, we can be reasonably safe with the consensus number of €520m and we have baked this into our guidance.

I mean, we could have given you a range. On the other hand, you would have looked at the mid-point only. So, we would also be at €520m. And this was, in the end, where we said - Okay, let's give a concrete guidance at this point in time. - explicitly said, this is without any major Corona impacts, right. Then we need to talk about this again if this happens.

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**Patrick Rafaisz, UBS**

Thank you very much, Thorsten.

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**Thorsten Boeckers, Chief Financial Officer**

You're welcome, Patrick.

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**Telephone Operator**

Thank you so much, Patrick, for that.

And the next question is coming from the line of Thomas Swoboda from Soci t  G n rale. Thomas, you're now unmuted and may now ask your question.

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**Thomas Swoboda, Soci t  G n rale**

Hi there. Good morning. I have two questions, please.

Firstly, on the inventory situation at the end of the application season, obviously there is some talk in many markets that there might have been some bulk buying amid this stress of COVID-19. Do you have any insight on how the inventories at the end of the season are going to be? Are farmers applying all they buy or will there be an overhang?

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**Thorsten Boeckers, Chief Financial Officer**

We follow strong demand, Thomas, and this is also confirmed by our salespeople, it gives us confidence that there's no significant overhang despite the Corona situation.

Now, with the China contract, we do see a better utilisation of the large suppliers as well, and this should also help to even the situation.

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**Thomas Swoboda, Soci t  G n rale**

Fair enough.

My second question is on the planned disposal of Salt Americas. In your prepared remarks, you say no impact from the COVID-19 situation. I'm wondering, because most of the other companies have been saying that due diligence, for example, right now is barely possible, and a lot of transactions are in a stand-by mode, so could you just explain to us, if possible, at what stage your process actually is and when you do you expect to do go into due diligence? Thank you.

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**Thorsten Boeckers, Chief Financial Officer**

I'm not going to give you a more precise timeline, but what I can tell you is, and I really can confirm this, we are talking about a business with leading brands and with a high emotional customer loyalty. And this, obviously, means that there's still a lot of interest. We haven't seen any parties dropping out, so we feel very happy. And I repeated this already that we expect the signing in 2020, but, Thomas, please understand that I'm not going to give any more precise details of where we are in the process.

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**Thomas Swoboda, Soci t  G n rale**

Yeah. Thanks.

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**Telephone Operator**

Thank you, Thomas, for that question.

And the next question is coming from the line of Markus Schmitt from ODDO. Markus, you're now unmuted and may now ask your question.

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**Markus Schmitt, ODDO**

Yeah, thanks for taking the questions.

So, one is on the KfW loan. Do I understand it correctly that you have not applied yet for the loan or did you apply already and, if so, at what envisaged terms, such as amount, length and assuming instrument will be super senior because I understand that these loans are granted on a super senior basis, and also in what timeframe do you think you will be able to collect the funds?

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**Thorsten Boeckers, Chief Financial Officer**

We said that we want to keep the channels and all options open, and I want to leave it there. And I'm not going to give today any volume or any further conditions out because, let us first do our job there, and then we will certainly provide you with more details on how successful we were.

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**Markus Schmitt, ODDO**

Okay. And, on the answer, have you started with banks to waiver reset covenant, or will this not be necessary with the new EBITDA guidance?

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**Thorsten Boeckers, Chief Financial Officer**

Well, I mean, I said earlier, we have sufficient liquidity with the instruments we have in place at this point in time, and I can only repeat what we also said earlier, that we will make sure to meet our contractual agreements, and there are covenants in some debt instruments which are, obviously, along with our company objectives. So, we make our best to meet our contractual agreements with the banks.

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**Markus Schmitt, ODDO**

Okay. Good. Thank you very much.

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**Telephone Operator**

Thank you, Markus.

And the next question is coming from the line of Stephanie Vincent from JP Morgan. Stephanie, you're unmuted and may now go ahead.

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**Stephanie Vincent, JP Morgan**

Hi. Just a couple of questions from me, not to labour the point about covenants, but it would be very helpful to know if the covenants only come into place upon drawing or not, and, if so, if you would talk about, potentially, the amount? I mean, I know you say that you have access to this liquidity, but it just helps to know, you know, what absolute number?

.....

**Thorsten Boeckers, Chief Financial Officer**

So, I mean, when you look in our balance sheet, you see the cash in hand, and we have, when I say we have, in some of our instruments, the covenants, I think you can also find this out when you look into the prospectus of the bond that there are no covenants included, so this leaves us mainly with our RCF.

And the RCF has a volume of €800m, and, as I said earlier, fully undrawn.

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**Stephanie Vincent, JP Morgan**

Okay. But sometimes the leverage covenants only come into place when you draw over a certain amount. Are you willing to speak to that?

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**Thorsten Boeckers, Chief Financial Officer**

No. The covenants are in place irrespective if the credit line is drawn or not.

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**Stephanie Vincent, JP Morgan**

Okay. Okay. That's useful.

And then just on my next question on your comments about this is precautionary for liquidity, and apologies if this has been asked in prior calls, but do you speak to your view, and particularly, sort of, volatile working capital swings in a quarter, what sort of top end of the range cash bonds do you expect from working capital in a given month?

.....

**Thorsten Boeckers, Chief Financial Officer**

Sorry, I was quiet because I needed to think about this briefly.

We normally have the high cash inflow from working capital in the first half of the year which normally leads to outcomes from the sales of de-icing salt where you get the money relatively quickly.

When I look at the first quarter working capital, we have, on the one hand, our working capital measures, which contributed positively, but we also were missing the de-icing sales, which had a negative impact, obviously, on working capital.

On the other hand, but this is not coming through in the first, and probably not in the second quarter, are the sales from the Agriculture business. Here, you have sometimes very long, with big customers in overseas markets, very long payment targets.

And so, I would say that we haven't seen the full potential from working capital in the first quarter yet.

.....

**Stephanie Vincent, JP Morgan**

Okay. Thank you very much. And I'll get back in queue.

.....

**Thorsten Boeckers, Chief Financial Officer**

Thank you.

.....

**Telephone Operator**

Thank you, Stephanie.

And the next question is coming from the line of Lisa De Neve from Morgan Stanley. Lisa, you're now unmuted and may now ask your question.

.....

**Lisa De Neve, Morgan Stanley**

Good morning, everyone. Two questions from my side.

I'll start with the first one. Could you please help us understand how you're getting to free cash flow breakeven guidance for the full year 2020? I'd just like to understand with an EBITDA guidance of €520m, capex of €550m, net interest expense is about north of €100m, I mean, what are the drivers to get to free cash flow breakeven, or how big does your working capital inflow need to be for that? Sort of a little bit of a granularity on that would be very helpful. Thank you.

.....

**Thorsten Boeckers, Chief Financial Officer**

Yeah, Lisa.

Again, we do our utmost to keep the capex under control, even despite the environmental investments we have to make.

Secondly, you're absolutely right. A lot of this comes from working capital, and, I just described, we had pretty good sales in the first quarter, and we will see this money coming in in Q2 and Q3. So, this was not yet reflected in the first quarter. And the rest is indeed coming from working capital.

There was one measure already in the - this is not working capital, but we sold our administrative buildings in Kassel, so we also had a positive €40m coming from this in the first quarter. This was already mentioned in the Annual Report as well. And we are

working on the working capital, and we believe that we can achieve here positive inflows. It's a broad range of projects contributing slightly but also some bigger measures. We could see another, on the full year basis, a low triple-digit million positive effect from working capital measures.

.....

**Lisa De Neve, Morgan Stanley**

Okay. Thank you very much. That's very helpful.

The second question, I would love to follow-up on the cash cost per tonne. I mean, congratulations on getting your cash cost per tonne down so much year-on-year. I would just like to understand a little bit of the dynamics there, specifically on Germany. I know you don't provide any specific numbers, but are you seeing any sort of tailwinds in your cost base, for example, from energy, that are very helpful to the German cash cost? I mean, any sort of movements that bring that cash cost down and sort of a better understanding around that would also be very helpful. Thank you.

.....

**Thorsten Boeckers, Chief Financial Officer**

I would say it's really the high production level. And Q1 was pretty high. It is seen, in the Agriculture business, one of the very strong quarters, so I wouldn't apply the number you have seen now for the rest of the quarters. Also, we still remain conservative there, and do not change our full year guidance yet.

We haven't seen any extraordinary positive effect from energy because most of our energy consumption is gas, and this is bought already.

What you saw in this number is that now Bethune, with the fact that we overcame the quality issues, has contributed significantly to this.

So, in order to sum this up, we saw, in both regions, in Bethune and also the German plants, an improvement in costs and business, from my point of view, especially volume-related, and you saw, of course, a higher contribution, so a higher positive contribution to the cost per tonne from the Bethune mine.

.....

**Lisa De Neve, Morgan Stanley**

Thank you. It's very helpful. If I may just sneak in a last one, on your cost programme, that is normally to be completed by the end of this year, could you just provide us with an update on where you are in achieving these targets? Thank you.

.....

**Thorsten Boeckers, Chief Financial Officer**

Which programme? Sorry.

.....

**Lisa De Neve, Morgan Stanley**

Your cost programme, those cost savings of €150m by the end of 2020.

.....

**Thorsten Boeckers, Chief Financial Officer**

Yeah, the project has started, and I think we said at the press conference in March already, that we expect somewhere around all the year, the first results, we can announce.

But, when I look at what we see so far, we are making progress, and we are very happy with this outcome.

.....

**Lisa De Neve, Morgan Stanley**

Okay. Thank you very much, Thorsten, and I hope that Burkhard gets better very soon. Thanks.

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**Thorsten Boeckers, Chief Financial Officer**

Thank you. I will pass it on.

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**Telephone Operator**

Thank you, Lisa.

And the next question is coming from the line of Oliver Schwarz from Warburg. Oliver, you're now unmuted and may now ask your first question.

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**Oliver Schwarz, Warburg**

Morning, Thorsten. Thank you for taking the questions. As usual, one-by-one.

I'd like to come back to what you just discussed, the unit costs. When looking through your guidance, given the year-on-year lower unit costs in the Agricultural segment, which seems to be mainly driven by volume, given your volume guidance here, I wouldn't expect that to fluctuate in the rest of the year too much from where we are today. Given that Q2 and Q3 are weaker quarters, I would say they would go up in the next six months, but, by Q4, they should come down again quite significantly. And, as you are planning for average selling prices a bit higher than the first quarter of 2020, that would give you quite a bit of tailwind in regard to the EBITDA progression in the Agricultural segment. And I would just like to connect that to the €520m you're currently guiding upon.

I guess my first question is how much Corona effects, basically, are baked into the guidance? You mentioned €10m for the first quarter. So, is that run rates you are working upon for the next quarters, or am I missing something here?

**Thorsten Boeckers, Chief Financial Officer**

No, Oliver, we haven't. And €10m is for the Group, right. So, we saw also effects in the Americas.

We haven't baked into this guidance any significant expectation of Corona effects because you don't know really what is coming. We know that we are a little bit less efficient, but this is then more baked into the volume expectations we have.

You're absolutely right, and I hear what you're saying, but I want to stay, at this point in time, on the conservative side with the cost per tonne guidance.

We should also not forget that I talked briefly about the potentially dry summer again which would then mean we have remote disposal to do from the Werra site, which would increase the costs because of transportation costs.

It is simply too early to change this number at this point in time.

.....

**Oliver Schwarz, Warburg**

Fair enough.

The second question is I think more concrete. It's about how you handled the drop in volumes in de-icing salt in your European business because, I mean, a cut-off of around about 50% in demand, that's a huge number when it comes to volumes. How do you handle that in your mines? Are they on short-term labour for the time-being, because it can't just go on producing flat-out with demand collapsing by 50% I guess, so something's got to give. How do you manage that in your mines, in your salt mines in Europe?

.....

**Thorsten Boeckers, Chief Financial Officer**

Yeah. There's no short-term work, but what the salt mines in Germany have done already in the last years - I mean it's not the first mild winter we saw in Europe - we have a lot of flexibility when it comes to the workforce. We have agreements in place with them that, at times where there's a high utilisation, we can call them in, and, at times where there's a low utilisation, they can stay at home, and it balances over the year. And this is what we are making use of right now, so there's no short-term work at this point in time necessary. It is all captured by the regular agreements we have made with the works councils and with them.

.....

**Oliver Schwarz, Warburg**

Yeah. But wouldn't it be, let's say, favourable from your point of view to do just there, because of all the Corona thing going on, short-term labour isn't something that really stands out at the moment, I guess, and it would be really beneficial to your P&L?

.....

**Thorsten Boeckers, Chief Financial Officer**

Believe me, our people running the mines, and also our HR guys, are doing everything that is favourable for our employees, but also for the company, and this may be a measure or not, but, at this point in time, it is not.

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**Oliver Schwarz, Warburg**

Okay. Thank you so much.

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**Thorsten Boeckers, Chief Financial Officer**

You're welcome.

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**Telephone Operator**

Thank you, Oliver.

And the next question is coming from the line of Michael Schäfer from Commerzbank. Michael, you're unmuted and may now go ahead.

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**Michael Schäfer, Commerzbank**

Yeah. Thanks for taking my two questions. Most of them have been answered already. So, one-by-one.

First of all, good morning, Thorsten and the team.

The first one is on the most recent news flow we have got, in the German press at least. There were some talks and reports on discussions you had with the Environmental Ministry here in the state of Hesse, basically, the expiration of the Deep Well Injection Permit 2022, so I wonder whether you can provide us an update there, whether there is any major risk from today's point of view that you may significantly reduce, basically, waste water injection into the Werra River from 2022 onwards, basically? This would be my first question.

.....

**Thorsten Boeckers, Chief Financial Officer**

Yeah. This popped up in the news right now, only the last week, I think, but is not really something new. This is for a while that we are saying that, with the measures we are taking, and we do what we can, we cannot achieve the very low limits from 2022 on, but this is something Burkhard and the team have also discussed with the politicians already.

So our goal is - and this is the basis we are discussing - we will meet the target values for 2028, and we'll no longer discharge processed water into the Werra then, but we need to bridge the time until then. And, with all the measures we are currently undertaking, I'm also sure that we will find an agreement with the politicians and other interested parties.

I mean, this was a press release out a week or two ago. We were very successful in what we have agreed with the BUND in order to reduce the deep well injection volumes significantly. So, we are doing our utmost, and very important is we are in good contact with politicians, and we are in good contact with communities and with NGOs, and we will overcome any issues there.

.....

**Michael Schäfer, Commerzbank**

Okay. Leave it there.

The second question is on today's press in the German Frankfurter Allgemeine, there was an article on some disagreement when it comes to taxes and I thought maybe you can elaborate on this one, whether there is any material risk coming from this end.

.....

**Thorsten Boeckers, Chief Financial Officer**

This is from a very early tax audit, and I think we elaborated on this already in the Annual Report, and this was now picked up by the Frankfurter.

We have an office on Malta, but we have very good substance there which means we're not giving out licences. We have financial activities there. We have a bunch of people there working in the offices. We have regular meetings in there. So, in the discussions we have with tax authorities, we have made this point, and we have appealed against this decision for a while, and there's currently not a lot happening. And this procedure is at the beginning so that an outcome is, of course, hard to predict, but we are also, with the advisors we have there, are pretty sure that it goes into our favour.

.....

**Michael Schäfer, Commerzbank**

Okay.

And then last, not least, is a housekeeping one. In the first quarter, the P&L, there is another financial result, a major negative one of €-26m, so I wonder whether this is a significantly negative if you compare this with, basically, previous years. So, maybe you can shed some light on this one and how this is baked into what's behind this first, and, the second one, how this is baked into your full year net financial result outlook, I think it's at -140, -150. So, is there any reversal expected in the quarters that come, such as housekeeping?

.....

**Thorsten Boeckers, Chief Financial Officer**

I mean, the number looks strange because it's always been mark to market valuation, for example, of lease contracts or in-house cash we have in US dollar and in Canadian dollar, and especially the Canadian dollar moved a lot. So, it depends a little bit on the development of the Canadian dollar, also the US dollar, over the next couple of quarters.

We have increased the expectation for a negative financial result, already now 140, 150. It was lower before. So, we have baked some of this into this, but it's hard to predict the

currency developments and then hard to predict the exact outcome of the other financial results.

But, with 140, 150, I think we feel fine for now.

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**Michael Schäfer, Commerzbank**

Okay. Thank you.

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**Thorsten Boeckers, Chief Financial Officer**

You're welcome.

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**Telephone Operator**

Thank you, Michael, for that question.

And the last question is coming from the line of Marc Gabriel from Bankhaus Lampe. Marc, you're now unmuted and may now ask your question.

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**Marc Gabriel, Bankhaus Lampe**

Hi. Good morning, and get well soon for Burkhard as well from my side.

.....

**Thorsten Boeckers, Chief Financial Officer**

Thank you.

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**Marc Gabriel, Bankhaus Lampe**

First of all, could you give us a spirit of the de-icing salt business between the US and Europe in terms of volumes? That would be helpful.

.....

**Thorsten Boeckers, Chief Financial Officer**

So, you mean for the first quarter, right? Not in general?

The first quarter sales volumes in Europe were about 200,000 tonnes, and the rest comes from the Americas.

I mean, the Americas have the advantage of having not only bigger markets, but also a more stable market, like Canada, in there, and this is why this number was bigger there.

.....



**Marc Gabriel, Bankhaus Lampe**

Okay. Big difference.

My second question is on the US and volumes for the Potash business. When are you going to deliver significant volumes on the contract which you signed a few years ago with Koch fertiliser or has that already started in the significant volume, or could you share some volume figures here? That would be my second question, yeah.

.....

**Thorsten Boeckers, Chief Financial Officer**

No, Marc, I haven't checked any figure volumes. We had some smaller deliveries, but this would not be visible in the market.

And we have, now, the right product quality and this is what we mean if we use opportunity in other markets, if they are there, and the US is certainly one of those, but it's too early to talk about any volume expectations for the next couple of weeks. So, let us do the first shipments and then we can quantify this data.

.....

**Marc Gabriel, Bankhaus Lampe**

Okay. Thank you.

And, finally, the EBITDA performance of Americas, that was a big surprise in Q1, especially with you say in you report that the drop in the de-icing salt business has been compensated by earnings from Industry and Consumer customers. But, when I compare the volumes in these two segments, we saw a total of 3%, and some 3.7% in sales, while EBITDA was only up in both segments by 1.9%, and that does not really fit to a 50% drop in the Communities business.

And then I can understand that if you have lower deliveries that you have lower costs for trucks and for diesel, etc, but what was really the costly facts here that helped to bring the EBITDA only down by 5%? That would be great. Thank you.

.....

**Thorsten Boeckers, Chief Financial Officer**

Yeah. So, first of all, the cost flexibility in the US mines is higher than it is in Germany because of labour market conditions over there, and I can only send my kudos to my colleague, Mark Roberts, who has really trimmed this organisation to an even bigger cost focus.

We have done a lot, also, in SG&A. We have done also a lot in efficiency. I mean, what you see when you look at the Consumer segment, for example, you see the highline number, right. You shouldn't forget that that's also the European business which has some counter effects, especially from the De-Icing business. And this was also the case in the De-Icing business in the US.

But, I talked this earlier, when you look at Culinary, when you look Water and Salt, when you look at all these speciality salts, but, with a high margin contribution, this was really phenomenal, and this is how we could cushion the strong decline in the revenues, and there was no one-off effect if you are assuming that.

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**Marc Gabriel, Bankhaus Lampe**

That's okay. Thank you. Bye-bye.

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**Telephone Operator**

Thank you, Marc, for your question. And that was the last question for today, so I'll now hand it back to Thorsten Boeckers for a conclusion of the call.

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**Thorsten Boeckers, Chief Financial Officer**

So, thanks, everybody, and thank you for the regards also to Burkhard. I will certainly pass this onto him.

And I'm proud that we had a pretty good quarter given the circumstances. I think the most important thing is that everybody stays now healthy and safe, and, if there are further questions, please refer to our Investor Relations Department, and I just want to say, for now, have a good day.

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END

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