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PRESENTATION

Operator

Welcome to the K+ S conference call regarding the publication of the Quarterly Financial Report Q1 2014, hosted by Dr. Burkhard Lohr, CFO. For the duration of the call, you will be in listen-only. However, at the end of the call, you will have the opportunity to ask questions. (Operator Instructions)

I'm now handing the call over to Thorsten Boeckers to begin. Please go ahead.

Thorsten Boeckers *- K+S AG - Head of IR*

Good afternoon, in Europe; good morning to the US. Welcome to our Q1 2014 conference call. As you may have already seen from the invitation, we have amended the setup for this kind of call a bit. In future, Dr. Lohr, our CFO, will be your host, talking you through the presentation and being around for Q&A. Our CEO, Mr. Steiner, will, of course, join us if we believe there are messages that should be commented on by the CEO. Also here with us is our Head of Finance and Accounting, Jorg Bettenhausen, and the IR team.

So, the numbers were published yesterday. We will keep this presentation as concise as possible, and allow sufficient time for Q&A. And I'm now going to hand it over to Dr. Lohr.

Burkhard Lohr - *K+S AG - CFO*

Thank you, Torsten. Ladies and gentlemen, a warm welcome from my side as well. Let's start with the highlights of the quarter on slide number 2. The group EBIT I of EUR220 million in the first quarter of 2014 represents a significant year-on-year decline, but certainly does not come as a surprise. The prices declined in the business unit potash and magnesium products could only partially be offset by the strong North American winter benefiting our salt business.

Nevertheless, I think we can say that we had a good start in 2014. Demand for potash and magnesium products was robust; and prices, despite being lower year-on-year and quarter-on-quarter, seem to have bottomed in Q1. Legacy is progressing as planned. And, with this project, our group CapEx increased as expected.

Our salt business performance confirmed that our presence on three continents pays off. The strong North American winter has offset an extraordinarily mild winter in the Europe. Last, but not least, Fit for the Future is delivering first successes, and not only with regards to the identification and implementation of cost-saving measures. Q1 already contains small but solid savings compared to Q1 2013.

Now let's turn to slide 3 to look at the group performance in more detail. Here, again, the 7% decline in group revenues is due to lower potash prices that could only partially be offset by higher salt sales. This is also true for the EBIT I. The financial results declined from minus-EUR18 million to minus-EUR27 million, as this quarter includes for the first time the interest expenses of the two bonds issued in December last year. Subsequently, the net income [increased] by 25% to EUR142 million.

Now please turn to slide 4. The market development for potash and magnesium products can now be described as robust. Demand, especially in our key markets, was relatively good in 2013, and this continued into the first quarter of 2014. Four weeks ago, the IFA expected global sales volumes of about 56 million tonnes in 2013. But recent knowledge based on IFA data suggests that global demand was even stronger at about 59 million tonnes.

You are aware that we include in these numbers what makes K+ S unique, roughly 3 million tonnes of potassium sulfate products and potash grades with lower K2O content. Also, first time since what we call, internally, the Black Tuesday of the potash industry, it seems that prices have found a bottom. Regional differences still remain with particular strength in Europe and Brazil. Together, with good demand in those regions, we saw a tendency of increasing prices there, while price recovery in Southeast Asia is still lagging behind.

Now please turn to slide 5. The reason for the year-on-year decline in revenues and EBIT of the potash and magnesium business unit is well-known -- the decline in average selling prices. Sales volumes were slightly lower than last year, but last year's volumes were at a record level. We could have sold more, but the production limitation at our Unterbreizbach site did not allow for that. Production is fully back on track after the accident last year. However, we may still see some effects on our delivery capabilities for a while.

Looking at cost per tonne, we see an improvement of 6% versus last year, despite lower year-on-year volumes. The main reason for that was besides lower energy costs, the fact that we sold more product in Europe instead of overseas, which led to lower freight costs in this quarter. In addition, we have also achieved cost savings as an effect of our Fit for the Future program. We are very happy about this development, but to be very clear, that was one quarter only; our best guess is that cost per tonne on a full-year view will remain flat, about 2013. This expectation, of course, includes higher depreciation and increased year-on-year OpEx for legacy.

Now, let's look at this in more detail on slide 6. Here you see that overall demand was good, resulting in a 28% increase in volumes, but you also see that our deliveries to European customers outpaced overseas deliveries. Our reduced production capabilities at Unterbreizbach in Q1 affected overseas deliveries most. In addition, European demand was especially strong for specialities, thanks to the mild winter, which resulted in an early application season.

Pricing was only marginally down quarter-on-quarter, giving us confidence that we should have seen the worst. Why is it down at all? Because of a different regional end product mix.

Let's move to our salt business on slide 7. You may recall that we already showed you these pictures eight weeks ago, but we did not find any others that described the situation in Q1 better. Strong winter in North America and nothing worth mentioning in terms of winter across Europe. Inventories in North America are now at a very low level. The opposite is the case in Europe. And here you see that the K+ S strategy works. No winter on one side of the Atlantic is offset by stronger winter weather on the other side.

So, K+ S did and will continue to make use of its production on three continents. Our European sides help out our North American customers this year, and will certainly do so when we need to renew inventories to prepare for the next season.

Now, please turn to slide 8. The strong winter in North America clearly drove the performance of both revenues and EBIT in our salt business. Here we have also seen the first results from Fit for the Future and an absence of nonrecurring affect in a year-on-year comparison. At this point, I would like to remind you that despite strong volumes and considerable results, earnings won't go through the roof this year. Especially in the US, business is still working on the basis of prices at low levels because of two consecutive mild winters.

On the other hand, we expect better price conditions there in the next bidding season, with positive effects in Q4 2015 -- 2014, sorry -- and especially in 2015. That being said, let's have a closer look at volumes and pricing on slide number 9.

This table confirms what I already mentioned about volume and pricing development. You see here that prices are down, both year-on-year and quarter-on-quarter, mainly due to the US business. Monthly icing salt sales were in a relatively normal stable pattern with regard to volumes and pricing.

Now let's move on to group cash flow on slide 10. The operating cash flow, adjusted for funding of plan assets and security transactions, increased strongly. Cash conversion was strong, especially due to the effect of the strong North American winter on inventories. In a year-on-year comparison, lower working capital was mainly the result of a decline in receivables. The higher CapEx for legacy, which came in as planned, offset the effect from a lower working capital. As a result, free cash flow was slightly below last year. Our net debt, including pension and mining provisions, increased to EUR832 million.

Now let's wrap up with our guidance on slide 11. Ladies and gentlemen, this guidance is unchanged compared to mid-March. The EBIT I is still expected to be significantly below the 2013 number. Despite this, we are cautiously optimistic with regards to pricing in potash and we had a decent start. We should also not forget that we are not yet in a blue sky scenario, and that prices will not go up in a straight line. I can only repeat that we believe we have seen the bottom in Q1 2014; but frankly, visibility into the second half of the year is still low.

Having said that, with our expectation of a significantly lower EBIT, we are in line with our policy providing guidance at this time of the year. Of course, we also understand your need to better understand what that could mean, especially in times of low visibility like now. Perhaps consensus is a good reference here. When we look at the estimates for the group's EBIT I -- and I'm talking about our own consensus poll, which we published last week -- we see a broad range of estimates, but with a median somewhere around EUR440 million.

Even in light of the comments as I've made and, of course, assuming no major hiccups from now, this number is a bit too conservative from our point of view. And it seems the difference comes especially out of the business unit potash in the median product.

Ladies and gentlemen, many thanks for listening. We will now open the lines for the Q&A. The team assisting from our IR team and Jorg Bettenhausen and me is happy to answer any questions you may have. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Joel Jackson, BMO Capital Markets.

Adam Barlow - *BMO Capital Markets - Analyst*

This is actually Adam Barlow for Joel. I have a few questions. My first question is on potash prices. So Southeast Asian standard prices have been a sizable discount to Brazilian prices -- granular prices for many months. Do you believe it's more likely that Southeast Asian prices rise, Brazilian prices fall? Or these two prices meet somewhere in the middle?

Burkhard Lohr - *K+S AG - CFO*

Do you want to continue with your questions or --?

Adam Barlow - *BMO Capital Markets - Analyst*

Oh, I'll just -- I'll ask the next question after you answer.

Burkhard Lohr - *K+S AG - CFO*

Okay. Yes. First of all, we are quite happy with the price development in the markets which are the most relevant market for us, Europe and Brazil. Southeast Asia, yes, you are absolutely correct. The current competitive environment is most -- maybe the most difficult there, and that's why the price is the most under pressure in the Southeast Asian area.

It's difficult to predict to the development of the prices per region, especially when you ask for the rest of the year. So, you might potentially hear what our view is on this development quarter-by-quarter. Tendency is what we had said in my presentation. We believe after we've seen the bottom positive development, which will most probably be not flat, there might be quarters with a small dip again. But the trend should be positive, and that would be true for all regions. I know that I'm not 100% answered your question, but I hope you are confident with that.

Adam Barlow - *BMO Capital Markets - Analyst*

No, I get it. Thank you. My second question is on SOP prices. So the SOP over MOP price premium has been expanding for many months. It's at a very high level. Do you expect this premium to erode as SOP production at K+ S and to Sindirello normalizes over the next few months?

Burkhard Lohr - *K+S AG - CFO*

Yes. I have to confess we are a bit surprised at the premium and the status of the premium compared to MOP in the SOP markets. But of course, the explanation of the demand is strong. Some of our competitors who are not able to deliver the volume what they have done in the past, that looks like the situation comes a bit back to normal. But we, frankly, don't believe that this premium will remain on that level. But of course, we would love to see that the premium decreased by higher MOP prices and not by lower SOP prices.

But this is surely a special situation where some positives from our view came together. And this is not something we should expect in the long run. But it does not mean that we expect a sharp decrease of SOP prices; more or less a slight adjustment of the current situation.

Adam Barlow - *BMO Capital Markets - Analyst*

Okay, thanks. And then, finally, I know it's really early on in the North American highway deicing bid season, but do you have a sense of the year-over-year bid season price growth for the US East Coast, US Midwest and Canada for the upcoming season?

Burkhard Lohr - *K+S AG - CFO*

No, it's, as you said by yourself, it's too early. We can only look into the past, what have we seen in comparable situations, and there were partially quite significant increases in the bidding prices. But that is only, again, a lesson from the history what the current situation -- the situation this year will be like. It's even too early.

Adam Barlow - *BMO Capital Markets - Analyst*

Okay. Just actually one more just on the salt. Do you expect Morton Salt to gain share in North America this year?

Burkhard Lohr - *K+S AG - CFO*

In the deicing sector?

Adam Barlow - *BMO Capital Markets - Analyst*

Yes.

Burkhard Lohr - *K+S AG - CFO*

Definitely. Because now that our big politics, we are -- we have more opportunities to increase our inventory situation, and that is key for the development of the market shares than others. So as you know, we are strong with our network in North America itself, but that will most probably not be efficient. We can ship material from Chile. We even started shipping material from Germany last season. So the one with the best inventory position will most probably have the best opportunity to move positively in terms of market share. (multiple speakers)

Adam Barlow - *BMO Capital Markets - Analyst*

Okay, great. Thank you.

Thorsten Boeckers - *K+S AG - Head of IR*

Next question, please.

Operator

Lutz Grueten, Commerzbank.

Lutz Grueten - *Commerzbank - Analyst*

Thanks for taking my question. The first one and the second one also regarding the unit cost per tonne. The reduction of -- from EUR205 per tonne to now EUR192. Can you give us a split? What's related to the shift from Latin American business to European business? And what's related to the cost-cutting initiatives? That's my first question.

The second question is, trying to get a bit of feeling on the bottom of unit cost per tonne. Did I get you right -- at the bottom of that would have been in Q1? Or can we expect lower unit cost per tonne in the course of the year?

And finally, also on the prices and the average selling price of EUR262 in Q1, was this the bottom? It's a feeling I got from the comment on the market. But the question is regarding the reported average selling price in your accounts. Was this already in Q1? Or you expect the second quarter coming down a bit further? Thank you.

Burkhard Lohr - *K+S AG - CFO*

Okay, Mr. Grueten, thanks for your questions. The line was not perfect. It was a bit clicky. I hope that I got all your questions. Otherwise, if I not precisely answer your question, please repeat.

First question concerning the low cost per tonne, in fact, was EUR192 per tonne. We have achieved quite low level, which will not remain in the course of this year on that level. And I think that was the second part of your question -- or your second question. In a way, this might be the bottom because we will have some items which will compensate this positive development. But coming back, why are we on that level EUR192?

Maybe you will remember that we have signed a new gas delivery contract, which was really key for our business in 2012 already. And we said that the full effect we will see in the end of 2013 and beginning in the full-year 2014, and that is the case now. And a good portion of this decrease on the cost per tonne segment goes back to the new gas delivery price. So, lower energy costs.

On the other hand, a good portion of our sales were European sales. And that, of course, is linked to lower freight costs. And here we have the other good part -- or other reason for the lower cost per tonnes. And, of course, we see positive effects from our Fit for the Future program. And in total, these are the reasons for that development.

Unfortunately, we will see some developments which will compensate for that. We will have higher depreciation, due to our investment into the barrier area, the environmental measures, which are finished step by step, and run into the depreciation. And we will have a higher OpEx from the legacy side. And, as you know, there are no sales so far from legacy. And, in total, we are expecting about the volume the cost per tonne number that we have seen in the course in average in 2013, which was already taking into account the higher cost legacy depreciation, a positive development.

And number three will be answered by Thorsten Boeckers.

Thorsten Boeckers - *K+S AG - Head of IR*

Yes, it's Thorsten. So, our remarks were that we have seen the bottom of the market prices in the first quarter during the first quarter. And you know also that we have a time lag when it comes to reconciliation in our average portfolio price. So what you call the realized prices. So we expect that we will also see the bottom here in the second quarter. So we won't go below the first quarter.

Lutz Grueten - *Commerzbank - Analyst*

That's really helpful. Thank you very much.

Thorsten Boeckers - *K+S AG - Head of IR*

You're welcome.

Operator

Ben Isaacson, Scotiabank.

Carl Chen - *Scotiabank - Analyst*

This is actually Carl Chen stepping in for Ben. And I just have a quick question about the potash price premium. So, for the past two quarters, K+ S has realized a price premium above the European benchmark, as opposed to the price discount that we usually see. Is this because mainly of the forward selling? And is this price premium sustainable going forward?

Thorsten Boeckers - *K+S AG - Head of IR*

It was not only for selling. When we listened to our customers and talked to our salespeople, they tell us that we have seen demand that was then also applied to the fields or going into feed for animal. So it was not a lot of pre-buying we have seen; some customers may have done that. But this is the feedback we got from our customers. So we are not very pessimistic about the demand continuing into the second quarter.

Carl Chen - *Scotiabank - Analyst*

Okay, great. Thanks.

Operator

Jeremy Redenius, Sanford Bernstein.

Jeremy Redenius - *Sanford C. Bernstein & Company, Inc. - Analyst*

It's Jeremy Redenius. Just a couple of clarification questions. First of all -- sorry, Thorsten, I think I might have misheard or the line broke up on your very last comment. I just wanted to confirm you said there is a lag between the market price and your realized price, such that your realized price will bottom in Q2 --?

Thorsten Boeckers - *K+S AG - Head of IR*

Yes, let me go question by question. Yes, that's right. I mean, it's not new that we have a price lag between the market prices you usually gather from green market or from FNB, until they translate into our average portfolio price. And with regard to this, we expect, given that there is a certain delay in that, we expect the bottom to be -- to happen in the second quarter. So we won't see -- we don't expect average prices in the second quarter that are below the first quarter.

Jeremy Redenius - *Sanford C. Bernstein & Company, Inc. - Analyst*

Great. Thank you very much. And then second, on SOP, we've already discussed the premium. I'm wondering if you are already seeing a, let's say, a production response from competitors? Any evidence of production increasing to showing up elsewhere to compete away some of that premium?

Burkhard Lohr - *K+S AG - CFO*

To be quite frank, we haven't seen that, but we heard about that. It is in the pipeline. But on the marketplace, we are not seeing any change, any price movements due to higher volumes. But we heard that this -- the hiccups, I would like to mention them, are partly solved.

Jeremy Redenius - *Sanford C. Bernstein & Company, Inc. - Analyst*

Okay, great. Thank you. And then lastly, we talked about unit cost inflation. I understand depreciation and legacy startup costs are a big driver. If we stripped those out, what does the underlying cost look like? Are you actually reducing unit costs per tonne for your production in Germany? Or are you seeing cost inflation net-net this year in Germany?

Burkhard Lohr - *K+S AG - CFO*

No. If you strip the two items out, we will have a cost per tonne number for 2014 which is below 2013.

Jeremy Redenius - *Sanford C. Bernstein & Company, Inc. - Analyst*

Great. Thank you very much.

Operator

Sophie Jourdier, Liberum.

Sophie Jourdier - *Liberum Capital Limited - Analyst*

The first question, just about volumes actually, you had a good volume in the first quarter, even though you had some production limitations. Your full-year guidance of flat volumes seems quite low, given you're quite positive about underlying market demand. I just -- is there anything really that's going to stop you producing 1.9 million tonnes a quarter -- if the demand is there? And, obviously, second-half is normally weaker. Just on your production capabilities. And I've got a second one as well, but perhaps (multiple speakers) --.

Burkhard Lohr - *K+S AG - CFO*

Yes, I'll answer the first one. Maybe it's easier if we directly answer. Then we get a better flow in this Q&A session. Yes, we would love to sell more. And I believe taking into account the development in our markets, we could sell more, but we have the capacity limitation, which will not allow us this year to sell more than 7 million tonnes. We will, in fact, be slightly below 7 million tonnes.

And the -- when we saw very strong first quarter, we partially shipped material from our inventories. But now we are on a level which will not allow us to further decrease inventory volumes. So, the remaining three quarters will be totally be shipped out of our running production. And so, that's why we will end up with our 6.9 million tonnes for this year. But we are quite positive for the next couple of years, of course.

Sophie Jourdier - *Liberum Capital Limited - Analyst*

Okay. And you're not -- there's no sort of maintenance shutdowns beyond what's normal this year?

Burkhard Lohr - *K+S AG - CFO*

That is incorporated into what I just said. We will have maintenance shutdowns in the third quarter, but that, as I said, is already priced in here.

Thorsten Boeckers - *K+S AG - Head of IR*

Not beyond normal, Sophie.

Sophie Jourdier - *Liberum Capital Limited - Analyst*

Okay. Okay. Thank you. And then the second question, just actually on depreciation and amortization. Could you just remind us sort of what the likely the number is for this year? But also perhaps beyond this year, as your CapEx ramps up for legacy, could you just talk a bit about the shape of depreciation and amortization over the next few years? Thank you.

Burkhard Lohr - *K+S AG - CFO*

Yes, you know the CapEx number and the part of the portion out of that CapEx number for legacy for 2014, I think it's no secret that the number will be quite comparable next year, and we will have another peak year in 2016. But the depreciation will -- for the legacy project will start when we start production. So, summer 2016.

Sophie Jourdier - *Liberum Capital Limited - Analyst*

Right.

Burkhard Lohr - *K+S AG - CFO*

So in case of this year and next year, we will see no influence from the legacy project in the depreciation line. It is another animal with our package of measures at the Werra, because here we have a number of small investments which are a project by itself, which starts being productive month-by-month, quarter-by-quarter, and the depreciation is starting on that. So we have to, in fact, this year and next year, higher depreciation for the Werra investments. And in 2016, that's a quite big number for the first time depreciation coming in for legacy.

Sophie Jourdier - *Liberum Capital Limited - Analyst*

Great. Thank you very much. And then just one final quick question. Can you just remind me, how much now of your energy contracts in Germany are linked to spot gas prices?

Burkhard Lohr - *K+S AG - CFO*

Roughly 1/3 is linked to the spot market.

Sophie Jourdier - *Liberum Capital Limited - Analyst*

Lovely. Thank you very much.

Burkhard Lohr - *K+S AG - CFO*

You're welcome.

Operator

Andrew Stott, Bank of America.

Andrew Stott - *BofA Merrill Lynch - Analyst*

Thanks for taking my questions. I've got a couple. Can I start with guidance on salt? Given such a strong start on tonnage, why just flat for the year? Is that just a conservatism or hesitation based upon Europe and the inventories that have sat in Europe? Or is it just plainly conservative?

My second question is again sort of guidance. A bit confused, Thorsten, by what you were just saying on pricing sequentially into Q2. I heard you say it wouldn't be lower, and you are past the point of the first quarter. But then I think I heard you say the average pricing could indeed be lower due to lag. So I just really didn't get the message there, if you could be a bit more precise -- sorry.

Thorsten Boeckers - *K+S AG - Head of IR*

Okay, to clarify that. Maybe I didn't pronounce the word "won't" good enough. We do not expect the prices in the -- I'm talking about our average selling price, right? We do not expect this to be below Q1. So that means, on the other hand, that the bottom is -- was in Q1.

Andrew Stott - *BofA Merrill Lynch - Analyst*

Okay. But that's sort of a neutral-ish comment. I mean, to all intents and purposes, it really should be up, no? Am I missing something?

Burkhard Lohr - *K+S AG - CFO*

Yes, the prices -- we expect -- maybe, sorry for a misunderstanding, but we expect the prices, the average prices, to increase.

Andrew Stott - *BofA Merrill Lynch - Analyst*

Right. (multiple speakers)

Burkhard Lohr - *K+S AG - CFO*

Compared to the prices from the -- in the first quarter.

Andrew Stott - *BofA Merrill Lynch - Analyst*

Yes, yes, fine. That makes sense. Perfect. Thank you.

Burkhard Lohr - *K+S AG - CFO*

Perhaps we should be a bit more cautious. (laughter) But that's why we have this call to clarify things to say they are not 100% precise. On the other hand, the salts guidance, now we have some overletting developments.

We had a record winter in North America, but as you know, we went into the season with the prices which were under pressure after two mild winters before. So, we could not gain the whole effect we would have gained if we would have two winters like that in a row.

On the other hand, we started with good prices in Europe into the season and had almost no winter at all in Europe. Now we expect for the new bidding season a bit higher price pressure in the European business, and very probable higher prices in North America. And if we mix that all up, that is the reason for the guidance for this year. But we are quite positive for the following year, at least for the North American business, because we will then be in a full season with better prices.

Thorsten Boeckers - *K+S AG - Head of IR*

Yes, Andrew, maybe I can add that, because you also talked about the sales volumes (multiple speakers) --

Andrew Stott - *BofA Merrill Lynch - Analyst*

Sorry, yes, my question was specifically about tonnage. Because of the implied -- so let me be clearer. The implied Q4 number, if you assume really flattish Q2 and Q3 out of seasonality, is double-digit decline for deicing. Now that's a very strong view on the quarter for Q4. And I'm just wondering why you're taking such a strong view?

Thorsten Boeckers - *K+S AG - Head of IR*

Yes, we should not forget that the 2013 volumes were above average already as well. We had a pretty good quarter quarter-one 2013 [here in Europe]. And also when you look at the Q4 2013 numbers, it was also pretty strong in North America already. So, this means we have tough comparisons versus 2013. And don't forget that we are always looking about for the remainder of the year looking at the long-term averages, and assuming that there was as good as no winter over in Europe in the first quarter, and then applying the long-term averages for the rest of the year, that this brings us to this expectation.

Andrew Stott - *BofA Merrill Lynch - Analyst*

Okay, thanks. And sorry, one tiny question -- do you sell any SOP to Brazil? Or is it all into Europe?

Burkhard Lohr - *K+S AG - CFO*

Not all but small volumes.

Andrew Stott - *BofA Merrill Lynch - Analyst*

Small volume. Okay, thank you.

Thorsten Boeckers - *K+S AG - Head of IR*

Thanks.

Operator

Ben Scarlett, JPMorgan.

Ben Scarlett - *JPMorgan - Analyst*

Just a couple of questions. I won't directly ask you where you think potash prices are going, but I think maybe to sort of tiptoe around the subject, I mean, I think China in H2 could potentially be quite a big catalyst in terms of sort of standard MOP. What are you guys -- I know it's not a particularly big market for you, but what are you thinking in terms of potential import demand from China in H2? And would there be another big contract potentially? Or would they just buy it on the spot market? Question one.

And question two, maybe without -- you can ignore me if you want, but I guess in terms of pricing discipline in the market, I know sort of anecdotally I've heard that Valeries Colley, for example, have been maybe quite aggressive trying to regain market share. Maybe you could comment a bit on that dynamic? And then have you seen what we hope, I guess, in terms of better pricing discipline within the industry? Question two. Thank you.

Burkhard Lohr - *K+S AG - CFO*

Okay. First of all, we would never ignore you. Maybe we are not able to answer your questions the way you would have loved to get the answer, and I'm afraid that will at least be the fact for when you ask for -- when I come back to your first question, that would all be speculation. Where will the prices be? You said by yourself you're not expecting a number from me. Only -- and I think we are in line with our competitors that we expect increasing prices most probably. It will take quite a while, meaning a couple of years, before we are on the level where we came from. But what the precise development will be is hard to predict.

And the Chinese behavior is the same. I have an idea but it's speculation. And as you know, as long as legacy is not in the market, the volumes are -- in the market, we are more only very indirectly linked to that market. The pricing discipline, I think it's what we see is that everybody is aware that the short attempt volume over prices was a big mistake, and we are not seeing it any longer.

But that does not mean that we have no price pressure. We had that before. We always had tough negotiations and tough price pressure in all markets. But that's our business and that's normal. And that's not everything what we can see and what our salespeople can see. Nothing we would mention there is a special development or one player is more aggressive than in the past. But it's normal business behavior as we have seen before the dramatic development of last year.

Ben Scarlett - *JPMorgan - Analyst*

Okay, thank you.

Thorsten Boeckers - *K+S AG - Head of IR*

You're welcome.

Operator

Patrick Lambert, Nomura.

Patrick Lambert - *Nomura International - Analyst*

Thanks for taking my few questions. The first one regards natural gases and overall energy costs for potash. And you mentioned gains. Can you quantify a little bit maybe on a yearly basis how much improvement you've done on your energy costs per tonne or in absolute terms? And looking at the development of nat gas prices, that should even get bigger in the second part of this year. So, can you comment on that? That's question number one.

Question number two is on your guidance for OpEx. I guess I think it was [EUR4 to EUR5]. Can you comment also a little bit more on 2015 if you see that a little bit more clearer now? And I think that will be my two questions. Yes, thanks.

Thorsten Boeckers - *K+S AG - Head of IR*

Yes. Hi, Patrick, Thorsten here. So when I look into the numbers, we have seen an improvement in the first quarter in the energy costs, which was about I would say EUR4.00 to EUR5.00 per tonne. And this -- our expectation is that this will approximately be left also for the remainder of the year.

Patrick Lambert - *Nomura International - Analyst*

Okay.

Thorsten Boeckers - *K+S AG - Head of IR*

And then the second question, with regard to the OpEx of legacy, yes, we expect approximately EUR35 million for the full-year 2014 and this will go up to about EUR55 million in 2015.

Patrick Lambert - *Nomura International - Analyst*

Thank you. Perfect. Can I ask one more question regarding your savings and how you -- try to reconcile your savings targets and the cost per tonne flat for the full-year. How should I see that? Is it just most of the savings will be either not on potash or inflation somewhere else, your depreciation in Werra will take a lot of it out? Thank you.

Burkhard Lohr - *K+S AG - CFO*

Yes, first of all, we are very happy with the development of -- for the future program. As you know, we -- our plan for 2014 is to save EUR150 million compared to the business plan for 2014, which came from last summer. Makes it, granted, difficult to make it visible, but we are thinking about the methodology to make it more visible to you all. Maybe -- or not maybe; most probably the cost that we will be able to give you that visibility.

But in a very positive impact already in the first quarter of this year. I personally am expecting such a development already in the first quarter of the whole year period, and it stems from all sources of the business. A big portion, of course, of the cost basis is a big here comes from the potash business, but the salt business and our complementary businesses and the holding and IT are contributing to that as well.

And as we have a list and we know which (technical difficulty) we are very sure that we will achieve the EUR150 million this year. And we are sure that we will achieve the target for 2015 and 2016 as well. And we think in this context it's important to remember that we will see only sustainable measures in the year 2016, which will help us in the period 2016 to work against inflation and other effects.

Thorsten Boeckers - *K+S AG - Head of IR*

Patrick, forgive us. We have a long queue still, so maybe we can go on to the next question.

Patrick Lambert - *Nomura International - Analyst*

Okay. Thank you.

Operator

Peter Mackey, Morgan Stanley.

Peter Mackey - *Morgan Stanley - Analyst*

I've got four questions, I hope you'll permit me. First two on the cost side again, I'm afraid. And going back to this issue about natural gas costs. Did you benefit in any way unusually in Germany from the warm winter, and therefore sort of more attractive gas prices than you would otherwise have expected?

And my second question on costs is, we haven't touched on costs in salt. It looks like the salt business also had a sort of maybe 10% reduction, if I do cost per tonne at the EBITDA level, for instance. It was about 10% down on last year. And yet you talk about shipping salt from Europe to the US. So, I'm surprised about that. I'm wondering if you can could talk about the cost structure in salt, and whether -- how significant that shipping cost effect might've been in the first quarter? Is that something we're going to see in the second quarter, as you move product around?

Third question is a quick one on the European potash market. Are you seeing -- is there any sign of product coming in from Belarus or from Ukraine into the European market? Obviously, there used to be anti-dumping duties on product from that region of the world. I just wondered if you had seen any sign of that starting again?

And the final question is, your report suggested a pretty significant shift from potassium chloride, basic potash to fertilizer specialties, in terms of the breakdown of revenues. Is that simply a pricing affect? Or is there a volume affect in there as well? I mean, do you have some sort of flexibility in terms of upgrading product or what -- I mean it's a very naïve question. I apologize for it.

Burkhard Lohr - *K+S AG - CFO*

No question is naïve, but let's try to answer in that order. Second question will be answered by Thorsten. Gas price, there is a slight effect from the warm winter but it is not really accountable when we talk about the effect in the cost per tonne. So it's not even worth mentioning. Second question?

Thorsten Boeckers - *K+S AG - Head of IR*

Yes, second question, Peter. Yes, of course, I mean, but Burkhard said already that we have seen a positive impact from Fit for the Future in coming from all parts of the business here at K+ S, and also the salt business. We are a bit reluctant to quantify them more because of the described methodology of comparing it to the plan in 2013, which no one outside of K+ S obviously knows. But yes, so we have also seen first effects there.

Peter Mackey - *Morgan Stanley - Analyst*

They seem quite significant effects, though. And particularly if you were talking about this shipping product from Europe, I would've thought that the cost of shipping relative to the value of the product would be pretty significant, you know?

Thorsten Boeckers - *K+S AG - Head of IR*

Not everything is the Fit effects. And we have also foreign exchange effect in that. And I think, yes, we shipped product -- salt products from here to the US East Coast. We are talking here, if I'm not mistaken, about three ships in total. So this -- I mean it's compared to what we have sold in the first quarter in total, relatively negligible.

Peter Mackey - *Morgan Stanley - Analyst*

Okay, understood, thank you.

Burkhard Lohr - *K+S AG - CFO*

Yes. And so Thorsten already answered part -- question number three partially. We shipped salt from Europe to the US, three ships. So quite small volumes. But strategically important, because we are able to help in special situations when it comes to a strategic inventory in special areas, especially East Coast US, which is in itself not a tremendous profitable deal, because you are absolutely right -- the freight costs are significant. But it gives us a huge a strategic advantage in that situation in that market. And it was the deicing salt shortness was a huge event in the political event in the US business.

Your fourth question, European markets, how did Belarus and Ukraine behave or develop? Yes, historically, they have always delivered to the European NPK industry. That's nothing new. But we have not seen volumes in our, what we call, our home markets, especially in Europe and in France, and into the client base that we serve.

You've seen a shift from MOP to our specialities, and both mentioned reasons are the key for that, price and the volume effect, as you most probably know. We have a production limitation. We cannot easily increase the speciality volumes and decrease the MOP volumes. There's production-wise only a small room for us to maneuver. But as the new maneuver could do, due to the strong demand in specialities we've done in the first quarter.

I hope that answered your question.

Peter Mackey - *Morgan Stanley - Analyst*

It did indeed. Thank you very much.

Thorsten Boeckers - *K+S AG - Head of IR*

Yes, thank you. Next question, please.

Operator

Rajesh Singh, Societe Generale.

Rajesh Singh - *Societe Generale - Analyst*

This is a Rajesh Singh. Thanks for taking my few questions. My first question is with respect to energy costs. Given two-thirds of gas contracts are oil-linked, are you further renegotiating with your gas suppliers to increase the share of spot gas link in your overall mix of gas consumption? And what is the time lag in the impact of lower spot gas prices on the K+ S income statement?

And my second question is regarding the capitalization of interest on debt borrowed for a legacy project. Are we -- will we see any capitalization of interest during this year or in the next year? These are the two questions for the time being.

Burkhard Lohr - *K+S AG - CFO*

Yes, first of all, we have a huge gain from the gas delivery contract, but we are now fixed for the next couple of years. We are -- we have to stick to that contract, and what you propose is in a way renegotiation with -- which is not possible. So we will have to stick to the current split, meaning spot oil and the other element of this contract.

I'm not sure if I got to the second part of the first question. Can you repeat that, please?

Rajesh Singh - *Societe Generale - Analyst*

Yes, it's regarding capitalization of interest on debt borrowed for legacy project.

Burkhard Lohr - *K+S AG - CFO*

Yes, okay. Jorg Bettenhausen will answer that.

Jorg Bettenhausen - *K+S AG - IR Contact*

Yes, hello. In 2014, we'll have the first year where we have to capitalize part of our interest expenses. As you know, we have issued two further bonds end of last year. And so far, we have a clear combination asset in this, our investment. And though we have the qualified asset which you have to capitalize. And though we expect the first part of our interest which you have to capitalize this year.

Rajesh Singh - *Societe Generale - Analyst*

Sorry, I couldn't get the last part of your answer --?

Jorg Bettenhausen - *K+S AG - IR Contact*

We have to capitalize the first part of our interest expense this year.

Rajesh Singh - *Societe Generale - Analyst*

This year. Okay. And next year we will see like full-year of capitalization of interest on that debt?

Jorg Bettenhausen - *K+S AG - IR Contact*

It will increase year-by-year, over the next years, until we start production.

Rajesh Singh - *Societe Generale - Analyst*

Right. Well, thanks.

Thorsten Boeckers - *K+S AG - Head of IR*

So, as far as I can see, we have three more questions on the line. We will take them. So the next question, please.

Operator

Thomas Swoboda, MainFirst Bank.

Thomas Swoboda - *MainFirst Bank - Analyst*

I have two questions. The first is on CapEx. You have just invested EUR400 million in the environmental improvements in your mines. You have another environmental permit running out in 2015. Do we expect additional CapEx for environmental measures in the short-term again? That was the first one.

And the second one is on the press release boards, I've been seeing here in Germany suggesting that you discontinued your collaboration with Moody's. So it seems you just want to keep one credit rating in the future. Is there any special background behind that? Could you please explain? Thank you.

Burkhard Lohr - *K+S AG - CFO*

Thank you, Mr. Swoboda. Yes, we are, in fact, investing EUR400 million in the environment in the Werra Valley that is, if you want, we could reach a kind of agreement between us and the political parties to make sure that we get the environmental approvals -- which, for example, the first to Canada, where we have the approvals for the whole mine life of the legacy project. And we have to go for it every fifth year, and we have to -- we expect the next approval in November 2015.

We will finish the package of measures in the course of next year, and we're not expecting, in the short-term, further investments. There are some issues in the press. I know pipelines here and there, but these all would not be in CapEx program in the short-term, because we would go for these approvals as well. We are talking at least about 5 to 10 years before we could start such a CapEx program, if it makes sense at all.

Second question, how we decided not to continue with Moody's rating. As you know, we are no frequent issuer, and we just recently have issued two bonds. And for the next couple of years, most probably there will not be a further transaction like that. So we believe that one rating, the Standard & Poor's rating is enough to give the investors proper visibility. And that's why we decided to go with only this one rating. And by the way, we save a significant amount of money, which is good for our Fit for the Future program.

Thomas Swoboda - *MainFirst Bank - Analyst*

This is crystal clear. Thank you very much.

Burkhard Lohr - *K+S AG - CFO*

Thank you.

Thorsten Boeckers - *K+S AG - Head of IR*

Next caller for the question? Next, please?

Operator

Martin Roediger, Kepler.

Martin Roediger - *Kepler Cheuvreux - Analyst*

Two questions from my side. First, on the potash market, you forecast an increase in the global potash volumes by 1 million to 16 million tonnes next year -- oh, sorry for 2014, which includes the 3 million tonnes of SOP and other grades. Can you help me to understand why you are more cautious than your competitors where our collie or potash carpool both assume basically an increase by 2 million to 4 million tonnes for this year compared to last year?

The second question is on the Fit for the Future program. I understood that you don't want to disclose the cost savings from the first quarter coming from this EUR150 million savings compared to the planning horizon you had last year. But could you, a little bit, give us, let's say, a hint to which extent we should factor in this -- these cost savings to materialize within the quarter? So is it more a ramp-up effect? Or more equal split over the four quarters? Thanks.

Burkhard Lohr - *K+S AG - CFO*

Yes, first of all, the market volume. We were a bit surprised when the IFA changed the volume for 2013. It went up to almost 59 million after our way of counting it with the 3 million specialities. In fact, we are with our 60 million very conservative, and you shouldn't be surprised when, in the course of the year, we adjust that number to a higher number. Maybe it's a bit linked to the surprisingly adjustment of the base, which was 2013.

And for the future, maybe it's more light when I tell you that we have seen already double-digit, small-double-digit number of savings. But again, compared Q1 2014 to the original business plan for 2014, which was put together in the summer of last year. So that is a quite good achievement for the first quarter because the savings will not come in line. It will most probably meet more quarter-by-quarter. Because we started the measures and we have the first successes now, but some measures with real huge potential will be effective more in the second half of this year.

Martin Roediger - *Kepler Cheuvreux - Analyst*

Thank you.

Burkhard Lohr - *K+S AG - CFO*

You're welcome.

Operator

Lutz Grueten, Commerzbank.

Lutz Grueten - *Commerzbank - Analyst*

Just regarding a headline I picked up in the newspaper today regarding a statement from your colleague Ramahal, on the reopening of a mine, Siegried-Giesen in Germany. Any details on CapEx which is needed and on the capacity would be really helpful. Or if it just was an update on the current situation here. Thank you.

Burkhard Lohr - *K+S AG - CFO*

Yes, sorry to finish this Q&A call with being not precise, but that is definitely too early, because we have not even made an investment decision. We started -- we applied for the environmental approvals to reopen that mine, and we expect, in a good scenario, to be -- to have this approval in-hand in 2015, and then the Board would make an investment decision. Most probably on a different base as we could do that today, cost-wise and price-wise. So it would by far be too premature to give you numbers.

Lutz Grueten - *Commerzbank - Analyst*

Okay. So (inaudible) that was a bit too pushy on that. Thanks a lot.

Burkhard Lohr - *K+S AG - CFO*

You're welcome.

Operator

There are no further questions. So I will now hand back to Dr. Burkhard Lohr for the conclusion of the call. Please go ahead.

Burkhard Lohr - *K+S AG - CFO*

Yes, ladies and gentlemen. As you heard in the presentation and the Q&A session, we had a good start into the new year with strong demand in both business units. The fact that prices found a bottom in potash and especially -- is especially encouraging. And the strong winter in North America should help salt pricing in the next bidding season in that region in particular. Our two main projects in focused legacy and Fit for the Future are making good progress, so that we are positive.

And now let's conclude the call. We would like to appreciate you for your time and interest in K+ S. And have a good day. Bye bye.

Operator

Thank you. This will conclude today's conference call. Thank you for your participation and have a pleasant day.
