

# WORLD TELEVISION

K+S Group

Q1 2016 Conference Call - 10th May 2016

**K+S GROUP**

**Dr. Burkhard Lohr, Chief Financial Officer**

**Jörg Bettenhausen, Head of Finance and Accounting**

**Thorsten Boeckers, Head of Investor Relations**

**QUESTIONS FROM**

**Lutz Grüten, Commerzbank**

**Yonah Weisz, HSBC**

**Jeremy Redenius, Bernstein**

**Sophie Jourdier, Liberum**

**Christian Faitz, Kepler Cheuvreux**

**Paul Walsh, Morgan Stanley**

**Peter McKay, Exane BNP Paribas**

**Andrew Benson, Citi**

**Oliver Schwarz, Warburg Research**

**Markus Mayer, Baader Helvea**

*Presentation*

**Dr Burkhard Lohr, Chief Financial Officer**

Ladies and gentlemen welcome to our Q1 '16 Conference Call. As always I'm joined here by our Head of Finance and Accounting, Jörg Bettenhausen, and our Head of IR, Thorsten Boeckers.

As you may have seen we have streamlined our reporting package, so Deutsche Börse now allows for less formal quarterly reporting in Q1 and Q3. This gives us the opportunity to provide you with a package that is more designed to your needs. IR highly appreciates any feedback that you may have on this.

Let's have a look at the highlights of the quarter on slide two. Our two pillar strategy has shown again that it works. Despite a mild winter our salt business contributed strongly to the Q1 results.

In the potash business our colleagues were busy managing the production; while only have a limited deep well injection permit Werra site. So far the impact of temporary production outages was limited; we continue to expect that we will receive the long term permit by summer this year.

Our projects, namely Legacy and Salt 2020 are well on track and also the cost discipline in the Group remains high.

We have just concluded the issuance of a schuldschein, with a total volume of €600m at very attractive interest rates. This underpins the chart of investors and strengthens our balance sheet to support the further strategic development of K+S.

Despite potash prices in overseas market continuing to stabilise we keep our 2016 outlook unchanged. Now please turn to slide 3.

We have guided for significantly lower operating results in 2016 just a few weeks ago and the first three months confirm our cautious vision. Lower average selling prices in potash and less sales volumes in both business units led to a 31% EBIT 1 decline to €218m.

Our business unit salt held up well despite the mild winter. We could achieve an overall small margin increase thanks to product mix effects, our ability to leverage on our strong brands, and due to cost savings.

The strong decline in potash earnings is mainly due to significantly lower prices in Brazil. Our core market in Europe remains robust. Also, our speciality business still contributes strongly.

I mentioned earlier that the cost discipline remains high. A very good example is our potash business which decreased its cost per tonne from €212 to €201, the progress we made is due to our Fit for the Future measures. Also lower energy costs and freight rates contributed to this effect.

Now we calculate cost per tonne like this, we look at revenues, minus EBIT, over volumes and adjust this for the Legacy opex. So this number is even more impressive when we keep in mind that Q1 '16 has about 30% sales volumes.

Let's have a look at the progress of our Legacy project on slide 4. Legacy continues to make good progress; we have now invested around 90% of the CAD \$4.1bn budget. During the quarter we focused on the production facilities, also the first rail tracks were built to connect the site with Canadian Pacific's network to transport our potash to Vancouver. The construction of the port facility there is also well underway. The project remains on track for commissioning this summer and to produce the first tonne of potash by the end of this year. Now please turn to slide 5.

We told you in our Q4 '15 conference call a few weeks ago that we saw first-hand at this time of improvement in the potash markets. This continues as prices in overseas markets for MOP have shown stability for a number of weeks now. This gives us confidence that we have seen the bottom.

While the markets are still waiting for direction, especially from China, we have seen trading activity picking up slowly. We had, volume wise, a slow start into the year and this mainly affected our specialities. There was good buying activity from customers in Europe by the end of 2015, moreover the season started here about four weeks later than last year.

Prices in our European core markets are robust; also prices for our specialties remain on a healthy level. And now please turn to slide 6.

While our salt business experienced a revenue and volume decline we were able to improve our EBIT 1 margin slightly from 19.5% to 20.6% in the first quarter.

Our salt unit provides stability despite a volatile winter business. Our ability to leverage our strong brands in the Americas contributed in the non-de-icing area, the de-icing business on the other hand was faced with the challenge of a mild winter on both sides of the Atlantic throughout the season. However, I want to stress again that we managed this pretty well and still delivered a decent Q1 EBIT with €123m.

Our efforts regarding the Salt 2020 strategy which aims for an EBIT of more than €250m under normal winter conditions are well on track. Now please turn to the outlook on slide 7.

We have kept our assumptions unchanged compared to a few weeks ago, although we are seeing stabilisation of overseas potash prices we stick to our outlook for 2016. Soft commodity prices remain low, and will together, with continued strong competition lead to significantly lower average selling prices compared to last year.

The fact that we are still working under limited permits for deep well injection makes us especially cautious. We continue to expect the long term permit for summer this year. The Q1 impact was very small, however, we are now approaching spring, which is usually dryer than winter time and thus further outages at the Werra plant cannot be excluded.

Our salt business is faced with higher inventories left in the system after the mild winter season and production is being adjusted accordingly. We are doing our utmost to further improve profitability of the business. However, lower de-icing sales volumes for the upcoming season cannot be ruled out.

All in all we stick to our qualitative guidance of significantly lower operating results for the full year 2016.

Allow me a few words on the mid-term perspective we are seeing for the Group before we open the line for questions. Please turn to slide 8.

We still believe that the current turmoil in the potash market is not sustainable and the mid-term fundamentals remain intact. Our Legacy project will give our earnings a boost, in addition the progress we are making with Salt 2020 and the ongoing cost discipline makes us confident that our EBITDA goal of €1.6bn by 2020 remains realistic.

We are working hard on the various items of our management agenda which will bring K+S back into cash. Ladies and gentlemen thank you for your patience, we are now ready to answer any questions.

.....

**Questions and Answers**

**Telephone Operator**

Ladies and gentlemen if you would like to ask a question please \*1 on your telephone keypads. If you change your mind and wish to withdraw your question please press \*1 again. You will be advised when to ask your question.

The first question comes from the line of Lutz Grüten, from Commerzbank. Please go ahead.

.....

**Lutz Grüten, Commerzbank**

Hi there, thanks for taking my three questions. The first one is on potash, the excellent unit cost per tonne of €201 per tonne, would you consider that as sustainable, at least for the second and third quarter, as long as Legacy is not starting producing, the second question ...

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

Can we do it as usual one by one?

.....

**Lutz Grüten, Commerzbank**

Yeah, sure sorry.

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

Thank you very much. First of all we are very happy about the outcome of the first quarter in terms of cost per tonne. I mentioned that this was in fact of Fit for the Future, of course lower energy and freight costs as well. But the development over the following quarters will of course be affected by the volume and that again is affected the good development on our Werra site.

So I cannot give you guidance for that, but we should not expect to remain at that number on the current low level.

.....

**Lutz Grüten, Commerzbank**

The guidance you have given earlier regarding the Werra issue and the environmental outages, you set a low double digit million euro amount might be the effect for the full year, is this right?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

That is still our view on that, yeah.

.....

**Lutz Grüten, Commerzbank**

Okay. The second question then on the Canadian fires, I know that you're plant is far away from the fires, but any impact on the infrastructure you needed on that issue?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

I expected this question for this call, that's why I called our project manager Ulrich Lamp yesterday. It had no effect, not currently and no expected.

.....

**Lutz Grüten, Commerzbank**

Okay, and finally on the salt, on the non-de-icing salt here the average selling price of €121.5 is nicely up, would you consider that as sustainable given the improved product mix, or was there a one off impact in Q1?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

Yeah, the strong price development in the non-de-icing sector is more or less a sustainable development. Of course there might be smaller hiccups, but we see a nice and a very strong development that should not turn into another direction.

.....

**Lutz Grüten, Commerzbank**

Okay, thank you very much.

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

You're welcome.

.....

**Telephone Operator**

The next question comes from the line of Yonah Weisz, from HSBC. Please go ahead.

.....

**Yonah Weisz, HSBC**

Hi good morning and thank you for taking my questions. The first would be I guess on Brazil, could you give a bit more colour on either the markets that you're seeing in Brazil and the types of sales that you made to Brazil, did you reduce any sales volumes to Brazil in the first quarter because of very low prices there?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

It was a bit difficult to understand, but I guess I've got your question and to give you the answer if that was not precisely what you wanted to know please ask again. Yeah Brazil is definitely the weakest market currently and we are very happy that have this stabilising European business in both terms, in volume terms and in price terms.

Brazil I guess you followed that we were even below \$230, \$220 per tonne. But we have seen, as I mentioned in my speech, bottoming the price - it came back now in the last week, there were some transactions again with a lower price. So it is a bit volatile, but we believe, and our sales people who are the closest in the market believe that we have seen the bottom in that market.

What that means for the further development - when we see a strong pick up, volumes are great in Brazil in the first quarter and have been in April as well. so the demand obviously is not the problem, it's the mechanism of pricing I would like to call it and as every player in the market is having an eye on that and is doing the utmost to support a healthy price we should see a recovery.

.....

**Yonah Weisz, HSBC**

Okay, but did you sell any less volumes, or did you cut any shipments to Brazil in the first quarter because of low prices there?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

We are a bit more cautious of course with sales in these areas with the lowest prices, but we also have a limited production as you know so we of course serve the European markets first. So it's a mix of different reasons why we were a bit behind volume wise overseas.

.....

**Yonah Weisz, HSBC**

Okay. And with regards to the European markets, I mean the price - the quoted prices in Europe seem to be extremely high compared to the rest of the world, do you see any first cracks in the European prices converging lower with the rest of the world?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

Yeah, we have always said that the European market is less volatile, so when prices overseas go up it doesn't follow one by one and the same in the other direction. Luckily for us, because it's our home market, the price that you can see is of course - the mix out of different products I would say we cannot 100% decouple of what's going on in overseas, but the development is robust and we expect it to remain robust.

**Yonah Weisz, HSBC**

Okay. With regards to the salt disposal issue on the potash side, from all the issues that you're facing at the moment could we expect that you would have to spend some more capex or significantly more capex to find your way to reach proper disposal procedures for the salt water?

---

**Dr. Burkhard Lohr, Chief Financial Officer**

We have always disclosed the number of another €400m for the so called Four-Phase Plan which is not one by one exactly was agreed on, but we are not seeing significant additional capex for changes on that plan.

So I think with the €400m you are still on the safe side. And I hope that you remember that this - we are talking about a very long time for spending this money so it's annually only a double digit number million.

---

**Yonah Weisz, HSBC**

Okay. I guess the last question to ask would be on the salt business. De-icing salt volumes were very, very low but it seems that the price barely moved compared to the first quarter 2015. With all the excess inventory, with the warm winter in the past two quarters, I mean that seems a bit counterintuitive. Could you give more colour, more kind of detail on how demand is disappearing but prices are staying the same?

---

**Dr. Burkhard Lohr, Chief Financial Officer**

Yeah you're correct the prices in the first quarter were on the good and high level that we have agreed in the late summer 2015 for that last winter season. So there were not many prices renegotiated due to the situation. That's why we have this solid pricing. What the pricing will look like in the next season remains to be seen. We expect lower volumes but not necessarily lower prices, that of course depends on the discipline of the bidder in these individual bids.

---

**Yonah Weisz, HSBC**

Right, but generally would you not say lower demand would translate into sometimes lower prices?

---

**Dr. Burkhard Lohr, Chief Financial Officer**

It sounds logical but it doesn't have to be this way because we are talking about hundreds of different bids and it depends on the discipline of the bidder. So I wouldn't dare to give you a guidance here.

.....

**Yonah Weisz, HSBC**

Very good, thank you very much.

.....

**Telephone Operator**

The next question comes from the line of Jeremy Redenius from Bernstein. Please go ahead.

.....

**Jeremy Redenius, Bernstein**

Thanks for taking two questions. Firstly I'm just asking about the lower costs in potash in a slightly different way, I'm just again wondering about the sustainability. And instead of talking about them in terms of unit costs per tonne could you talk about them a little bit more in absolute terms? So for example in absolute terms in euro would personnel costs be down year over year? The same with energy, freight etc.?

.....

**Thorsten Boeckers, Head of Investor Relations**

Yeah Jeremy, Thorsten here, hi. You know that we tend not to break these single cost items down but I think you have really touched the cost lines that contributed most except for the Fit for the Future effective cost lines which are across all lines actually. We have seen a good deep line in Q1 year over year in both freight and energy, but again we're not going to lay out concrete numbers.

.....

**Jeremy Redenius, Bernstein**

Is lower maintenance or deferred maintenance an aspect of it as well?

.....

**Thorsten Boeckers, Head of Investor Relations**

No this was not an effect.

.....

**Jeremy Redenius, Bernstein**

Okay. And then secondly just observing that potash prices in Europe, your realised potash prices in Europe, are up quarter over quarter and also year over year despite some of the benchmarks being down in Europe, could you talk about how you achieved that please?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

Yeah again we always said Europe is a very stable market but this is more or less a product mix effect. We are not 100% decoupled from the development in overseas markets so we have seen product wise a slight effect. But as we have product change and that is not the same quarter over quarter in every year. This year for example we had a later application season starting that means directly affecting our product mix. So a slight effect on the prices if you look product by product, but due to the mix we see this nice development that due to European prices are even slightly up quarter over quarter.

.....

**Jeremy Redenius, Bernstein**

And were SOP or specialties volumes still good in Q1 because I remember you saying they were abnormally good in Q4?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

SOP in Europe when we still talk about Europe was good in Q1 in both ways, volume and price. We had lower volumes in overseas but SOP also is affected by our Werra side which means we have increased slightly our stocks because we have to be a bit more cautious not knowing what's going to happen when it's getting dryer.

.....

**Jeremy Redenius, Bernstein**

So you'll still have SOP to sell during the summer?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

To be able to sell SOP in summer even when we are short in production.

.....

**Jeremy Redenius, Bernstein**

Great. Okay very good, thank you very much.

.....

**Telephone Operator**

The next question comes from the line of Sophie Jourdier from Liberum. Please go ahead.

.....

**Sophie Jourdier, Liberum**

Morning and thank you. The first question I've got is just around customer inventory levels. If you could give us an idea of how you see those in both the salt and potash business versus I guess this time last year or some sort of quarterly, normal quarterly level? That's the first question.

**Dr. Burkhard Lohr, Chief Financial Officer**

Okay. Yeah it's a bit of guessing because there are - there is no statistics besides the US which is not yet our market, lots of statistics about inventory levels. But the two business units showed two different developments. Of course the salt business, the season ended with high inventories in the customer stocks and in our stocks, so we will reduce over the summer the production a bit to not produce overcapacity for the next season. So inventories in both sides of the Atlantic are on a quite high level, that's why we guided we might see lower volumes. But again that does not necessarily affect the prices.

In potash we haven't seen high inventories for quite a while because there is the tendency to keep the stocks low because of the higher volatility of the prices, that's one reason for that. We are not expecting to have too much in the system.

---

**Sophie Jourdier, Liberum**

Thank you. And then the second question, just a number question really, could you just remind me how you expect your depreciation and amortisation to evolve during this year and if possible into next? I'm thinking particularly as Legacy starts operations. Thanks.

---

**Thorsten Boeckers, Head of Investor Relations**

Yeah Sophie I think we can here stick to the number we have given out in the Q4 conference call. We saw in 2015 D&A of €275m for the Group, and we said that we expect this number to increase by €25m to €30m for 2016. We see at the end of this year the Legacy D&A starting to materialise which is only for a couple of weeks so it's not the total D&A yet but this will of course be then in full effect for next year so we would see a significant increase in DNA in '17 because of the Legacy project mainly.

---

**Sophie Jourdier, Liberum**

And could you help us quantify that in any way?

---

**Thorsten Boeckers, Head of Investor Relations**

Well, I think we said last time that the Legacy D&A for this year for about one month represents about €10m of €15m and if you take this for a full year.

---

**Sophie Jourdier, Liberum**

Great, thank you very much.

---

**Telephone Operator**

The next question comes from the line of Christian Faitz from Kepler Cheuvreux. Please go ahead.

.....

**Christian Faitz, Kepler Cheuvreux**

Yes good morning gentlemen. Two questions if I may. First question would be with the overly wet conditions in Europe dominating the first quarter do you see catch up potential during Q2?

And then actually related to Q2 is there any negative influence from a cold April which for example the plant protection companies are complaining about? So maybe you can loosen that a bit and then I'll ask my second question later.

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

Yeah - thank you for the question. Yes we should expect a kind of catch up in the following quarter, but unfortunately we have a limiting factor to participate here. When we see a Drier second quarter this means lower production so it remains to be seen what this means for K+S, but generally we should see that and we don't expect that the weather conditions in April will have a significant impact on our business.

.....

**Christian Faitz, Kepler Cheuvreux**

Okay, great thanks. And then the second question actually related to Sophie's question earlier. In salt can you give us an idea how the inventory situation at your customers is for de-icing salt, and in that respect is Q3 going to be a low quarter in terms of early stocking into the next season?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

I can only give you as I said earlier a qualitative impact that we are facing high inventories and yes that means lower volumes early stocking in the third quarter so that will affect us definitely.

.....

**Christian Faitz, Kepler Cheuvreux**

Okay but like for example the inventories which were or are at the municipalities are not being bought back so they're staying with the municipalities for the - ?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

No, no they keep it and they could keep it for more than only one season. We don't hope so but it could happen.

**Christian Faitz, Kepler Cheuvreux**

Okay great, thank you.

.....

**Telephone Operator**

The next question comes from the line of Paul Walsh from Morgan Stanley. Please go ahead.

.....

**Paul Walsh, Morgan Stanley**

Good morning guys, thanks very much for taking my questions. I'll just give them one by one. I'm afraid the focus is on P&P as well. Pricing, if I look at European granular prices they've clearly come down by somewhere in the order of magnitude of €50, €40 a tonne over recent weeks. Are you saying that you can maintain ASP in Europe in Q2 versus Q1 by either premium, it goes up because of mix, or are you going to feel some impact from the weaker trajectory we've seen more recently in European MOP prices? That's my first question please.

.....

**Thorsten Boeckers, Head of Investor Relations**

Paul it's Thorsten. Yeah I mean the thing is you know where do you look at? I mean when you recall K+S's European business we do the biggest chunk of our business in a couple of core markets where we serve more than 1,000 so it's a rather fragmented market with small order lots where we have seen prices being relatively stable. When you look at the overall European price and especially in coastal regions there we have indeed seen a decline in pricing which is explainable with always having been there competition, bid from Russia and sometimes also from Americans.

.....

**Paul Walsh, Morgan Stanley**

And sorry does that mean you expect ASP in Europe to be down in Q2 versus Q1 or not sorry?

.....

**Thorsten Boeckers, Head of Investor Relations**

Well as Dr. Lohr said earlier Europe cannot be covered from the overall price development but it will relatively be more robust than for example the Brazilian market. But of course we cannot exclude that obviously this year.

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

And at least don't force us into a guidance -

.....

**Paul Walsh, Morgan Stanley**

No sorry I didn't mean to do that.

.....

**Thorsten Boeckers, Head of Investor Relations**

The one thing we want to serve in summer this year ...

.....

**Paul Walsh, Morgan Stanley**

No absolutely I didn't mean to do that, it was just to understand sort of much of your production was sort of linked to maybe some of that pricing data versus how much is more resilient, but you've made that clear.

In terms of the volume developments, I mean the flow rates we can see in the Werra are pretty low at the moment and I'm just curious as to when you feel that might knock into further production curtailments until you secure the permits in the summer?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

Yeah as we still speak we have an effect already. We are working for it at the Werra because the water flow is too low. There is no rain for the next couple of days expected here but that was - we knew that May would deliver other weather patterns than the first quarter so we are still in line with our expectations. So when receive our longer lasting permits by summer we should be fine with what we expected for this year.

.....

**Paul Walsh, Morgan Stanley**

Okay fine. And are you able to give us a sense for how much production is currently offline?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

In terms of volume or - ?

.....

**Paul Walsh, Morgan Stanley**

Well I think you made an announcement at the beginning of April for a few days about which sites were impacted and so on. Of course you can't be expected to do that every time you have to reduce output but I just wondered if - you said no impact on volumes in Q1, I'm just wondering what the volume impact could be in Q2?

.....

**Thorsten Boeckers, Head of Investor Relations**

Yeah Paul it's very, very tough to break that down quarter by quarter because we do not know really for how long this situation will last, it's just currently pretty dry. So off stream are two of the three sites which belong to the Werra plant, it's out of ..... The three plants of the Werra site stand for 45% of our total production capacity year round, which means when only two of these sites are currently not in operation it's of course tough to calculate what does it mean for just a couple of dates when we do not even know how many days the situation will last.

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

You also have to take into account that this is production; it does not necessarily mean that this translates one by one into sales volume because we have for cautious reasons increased our stocks a little bit.

.....

**Paul Walsh, Morgan Stanley**

Okay that's very clear. So one last question if I can, so just thinking about the overall pricing and volume developments as we move through the rest of this year, it feels with Europe edging down a bit, overseas stabilising sequentially flat from my data at the moment, volumes - I guess later start to the European season but are we looking at a scenario where volume declines will be more or less similar in Q2 to Q1 in terms of year on year?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

We guided that we expect lower volumes than last year, but again for the - I'm talking about the full year 2016. Impacted by the Werra the expectation for the worldwide demand is very strong and promising, only slightly below last year, so - without our Werra issue we would not expect these lower volumes.

.....

**Paul Walsh, Morgan Stanley**

Okay that's clear. That's helpful guys, thank you very much.

.....

**Telephone Operator**

The next question comes from the line of Peter McKay from Exane BNP Paribas. Please go ahead.

.....

**Peter McKay, Exane BNP Paribas**

Yes morning everybody. I've got three or four questions, apologies I'll try and whizz through them. Going back to Jeremy's question about the European average potash price, I'm still a little bit stumped here. You say that you can't decouple from what's going on in global prices, but suggest the first quarter number effectively did and the

comments that you've been making suggest that the mix was weaker in Q1 than it was in Q4 when you had, as Jeremy pointed out, some exceptionally high sales of specialty. So again I just want to press you on mix effect and if you can just talk about some of the product areas in P&P that explain that that have buoyed up the average share price in P&P please?

.....

**Thorsten Boeckers, Head of Investor Relations**

Hey Peter we had - I mean when you look at the European average selling price it was more or less stable year over year in the quarter. We have seen - we were able still on the specialty side to get in favourable SOP prices in Europe. We have seen our Korn-Kali product to be very stable. But volume wise we had a favourable mix towards SOP and this was the positive mix effect we were talking about in the first quarter. This was unfortunately offset by the MOP price development and this is what we sell, as I said earlier, mostly into coastal regions where the competition is higher than it is in our core markets.

.....

**Peter McKay, Exane BNP Paribas**

Okay perfect. So that sounds like the big decline that you had in specialty fertilisers at the group level, that was almost entirely the overseas market, is that fair?

.....

**Thorsten Boeckers, Head of Investor Relations**

Yeah.

.....

**Peter McKay, Exane BNP Paribas**

Yeah okay. Next question just to touch on SOP can you make any comments what you're seeing in the SOP markets? We've obviously seen some slightly more cautious commentary from some of your competitors in the SOP market just very recently. Are you seeing any change in trend at all?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

I wouldn't call it a change in trend but again it's true for SOP as well what we said earlier for other products, of course we feel that there is a bit of turmoil in the potash market generally, and we see lower volumes overseas but a strong demand in Europe and prices are still on a higher level, especially the premiums are even a bit higher than they were due to the low MOP prices. So I wouldn't call it a change in the trends of the SOP business.

.....

**Peter McKay, Exane BNP Paribas**

Are you seeing any narrowing of that premium at all? You're absolutely I mean right we've seen - it's been going up in a straight line, just wondering if you're seeing any stabilisation of that at the moment, i.e. SOP pricing starting to come down?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

If you only look at the premium it hasn't come - it did not come down. So still very stable.

.....

**Peter McKay, Exane BNP Paribas**

Okay. And then I've got two questions on salt if I can please.

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

Of course.

.....

**Peter McKay, Exane BNP Paribas**

It sounds as if you are - your message around pricing has changed a little bit in salt. So last time at the fourth quarter you were talking about the inventory situation in de-icing leading to a tendency towards lower pricing in the non-de-icing business, yet now you sound a lot more optimistic both about - potentially about de-icing prices in the next contract round but particularly about non-de-icing salt prices. Has something changed that makes you feel a little bit more comfortable that things are sustainable there please?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

Not really, not really. It's always difficult to give a general answer because it's a very local business and for example the non-de-icing salt prices in North America are more impacted by the de-icing business than this is the case in Europe. But as we have seen very strong development in the non-de-icing business, we believe that this is sustainable development. There might be a weaker quarter but again this is in the mining business not really something we should overestimate. Of course what happens in the de-icing business we really don't know and we don't want to be too bearish because volumes will go down, there will be more competition but that does not necessarily mean that we will see a strong decline in pricing. So it remains to be seen.

.....

**Peter McKay, Exane BNP Paribas**

Okay thank you. And just last question is actually on salt costs. If I look at cost per tonne in the salt business there was hardly any increase year on year despite a big mix away from de-icing towards industrial. Can you talk about some of the cost items and within the salt business please?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

Sure that's even more difficult because we are talking in potash about six German sites and the future of the Canadian site. But we talk about a very high number of sites in our potash business with very different cost per tonne items. If you for example take Chile there we have a single digit dollar cost per tonne and we have of course completely different cost per tonne here in our German sites, so it's really difficult to elaborate on that especially on such a call, but the numbers are quite stable, they are not as volatile as for example our potash numbers. The potash business is more energy intensive, especially gas and that is the energy bill in the salt business is by far lower. Sorry only a qualitative answer but it's difficult to be more precise on that in that call.

.....

**Peter McKay, Exane BNP Paribas**

No, entirely understand but basically we shouldn't think that this is anything unusual going on within salt over and above the Salt 2020 programme?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

Absolutely not, no.

.....

**Peter McKay, Exane BNP Paribas**

Thank you.

.....

**Telephone Operator**

The next question comes from the line of Thomas Wrigglesworth from Citi. Please go ahead.

.....

**Andrew Benson, Citi**

Good morning. It's actually Andrew Benson, but Tom's on the other line as well. A couple of questions - and I may just have completely missed this - but with the Legacy project are there any sort of one-off start-up costs this year and possibly next year that are kind of definable? I mean, for example BSF is indicating around €200m of start-up costs which won't recur, but it will adversely impact EBIT this year.

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

Yeah, the opex - it's not only start-up costs; we have been running opex costs, including the start-up, of €110m to €120m for 2016. So then you have the total costs bill for Legacy for this year.

**Andrew Benson, Citi**

All right, so that's effectively - How much of those would be ongoing and how much would be off-spec material that you have to kind of get rid - Do you get off-spec material with potash? I don't know. But that is effectively a recurring opex which will then be offset by sales and volumes?

---

**Dr. Burkhard Lohr, Chief Financial Officer**

Yes, we stop guiding opex costs from 2017 on because then it's not a project any longer, it's a site with sales and cost, and we expect - and I'm happy to confirm that, our break even on the EBITDA level for 2017. Of course that is due to the development of the market price, it's clear, so we're not talking about the opex number only for 2017.

---

**Andrew Benson, Citi**

Okay. Can you try to put a little bit more colour on the river basin issues that you've talked about, and your salt reduction master plans and all of those? I mean, you're hoping for a long-term, if you like, discharge approval. What, apart from the water levels, what is the challenge? Are there any long-term constraints on underground - ? If you'd just provide a little bit more colour so I can understand what's going on there and what the constraints are for the business in the long term.

---

**Dr. Burkhard Lohr, Chief Financial Officer**

Yeah. Currently we have two permits to handle our residues - production saltwater residues. We can put a special quantity directly into the Werra and we have the so-called deep well injection. We practically do the underground. And we have currently not the permit that we expected until 2021, to use this methodology to press it into the underground. And we only have a short-term and limited permission, which forces us to reduce production if there's not enough water flow in the Werra, to use the other methods to get rid of this saltwater.

When we look at this long-term - because we will overcome this this year, we will get the permit in 2021 - and we have agreed with the politics on a way to handle this in the future without the deep well injection. So that would then be the last permit that we need. And therefore we would have to invest another €400m. But the package out of the pipeline, covering our stockpile, etc., so we're talking about quite a long time for injecting that money, so that means we'll only have small portions out of the €400m affecting our capex.

---

**Andrew Benson, Citi**

I see. If it started raining like mad today and within a very short period of time there were no further constraints, what would you estimate that so far this year is the level of lost production?

**Dr. Burkhard Lohr, Chief Financial Officer**

Yeah, that is - we only gave the indication that if we receive the long-term permit in summer this year, that is what we expect and that is what is indicated we would lose EBIT-wise lower double-digit demand. We cannot be more precise on that; that really depends on weather, etc., and what is the best way to drive our sites at the Werra, so please understand that we only give this indication.

---

**Andrew Benson, Citi**

Okay, so if I can understand - you're saying that the worst case, based on the scenarios you believe are highly likely, is less than 100,000 tonnes of lost production?

---

**Dr. Burkhard Lohr, Chief Financial Officer**

No, I didn't use the words worst case. I said if we receive the permit in summer this year, we would lose a small double-digit EBIT amount. Yeah.

---

**Andrew Benson, Citi**

Okay, brilliant. Thank you very much.

---

**Telephone Operator**

The next question comes from the line of Oliver Schwarz from Warburg Research. Please go ahead.

---

**Oliver Schwarz, Warburg Research**

Yes, good morning, gentlemen. Thank you for taking my questions. Firstly, just for confirmation, have there been any orders in Q1 that you are not able to fulfil due to the production problems at your Werra site? Or have you been able to handle that via inventory levels?

---

**Dr. Burkhard Lohr, Chief Financial Officer**

We were able to fulfil every obligation. And by the way, I think I mentioned that earlier we have increased our inventory a little bit to be able to do that in the future as well.

---

**Oliver Schwarz, Warburg Research**

Okay, perfect. To my calculations, you've spent like 17 million in opex for Legacy in Q1. Would I be correct to assume that the 100 - 120 million of start-up costs in opex in Legacy would be rather back-end loaded than front-end loaded?

**Dr. Burkhard Lohr, Chief Financial Officer**

Yes. Back-end loaded because commissioning starts in summer this year and that is linked to higher opex numbers.

---

**Oliver Schwarz, Warburg Research**

Right. And now to something a bit more complex, I have to admit. Coming back to what you said about mix effects, volume effects in the potash part of your business. In the presentation you stated that there were pre-buying effects in specialties; that's page 5 of the presentation. Pre-buying effects of specialties in Europe in December. However, you stated that the price decline, especially the overseas market, was mainly a function of lower - if I get you correctly at least - was the function of a lower percentage of specialties going into the overseas market, while Europe was more or less on a steady level. Which implies to me, given pre-buying in December and good business, or let's say average business in Q1, that farmers are applying more specialties or more SOP specialties to their produce. Is that so? And if so, why?

---

**Dr. Burkhard Lohr, Chief Financial Officer**

You have also to take into account that the total volume was down.

---

**Oliver Schwarz, Warburg Research**

So basically you sold lower specialties in Europe as well?

---

**Dr. Burkhard Lohr, Chief Financial Officer**

No, in the mix. In the mix the portion of SOP was higher than it was in the first quarter of 2015 -

- It does not mean that the total number went up.

---

**Oliver Schwarz, Warburg Research**

Correct. So basically - just to be plain here - what's the amount of specialties you have been selling to the customers in Q1 year on year? Was that basically a flat number or has there been declines or increases? After the pre-buying in December. If we just look at talking absolute numbers.

---

**Thorsten Boeckers, Head of Investor Relations**

Volume specialties in Europe? There was a decline in the first quarter.

---

**Oliver Schwarz, Warburg Research**

Okay, got you. Okay, thanks. That's very helpful. And last one - FX effects. If you don't mind talking me through the FX effects you're expecting in 2016. Because last - Page 7 on the presentation, FX Effects are expected to be slightly positive based on your assumption of 1.10 exchange rate of the US dollar to the euro. How much would that change if we would assume a more - let's say from today's point of view - a more negative environment like 1.15 euros to dollar?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

Okay, we started giving you these numbers on our Capital Markets day and I'm happy to update you here - quarter changes quarter by quarter, but not dramatically because we have our instruments in place. And if you would see 1.10, that would have a positive effect against 2015 of roughly €20m. And 1.15 would mean there's only a very small positive number.

.....

**Oliver Schwarz, Warburg Research**

Okay, very clear. Thank you very much.

.....

**Telephone Operator**

The next question comes from the line of Markus Mayer from Baader Bank. Please go ahead.

.....

**Markus Mayer, Baader Helvea**

Good morning. Only two questions remaining. One on the salt business for chemical applications. Here the demand seems to be quite good in Q1. Is this sustainable in the development or is it just a kind of a shift effect?

And then secondly, do you also see that credit risks at Latin American farmers has an impact on your business here as well? And are there also kind of risk mapping you're doing there for your customers?

.....

**Thorsten Boeckers, Head of Investor Relations**

So, Markus, let's start on the chemical salt collection. I mean, we have said that - and you know that in all of the segments this side, we are now showing four star segments, or even five star segments instead of what we report. We still have a bunch of different applications we are serving, and we have seen a good development, as you said, in the chemicals business in the first quarter, and with salt and there is - if we do not see a significant change in GDP growth, be it in the US or be it in Europe, there should be no significant change to expect in that area.

.....

**Jörg Bettenhausen, Head of Finance and Accounting**

And on the last question on credit - Jörg Bettenhausen speaking - it is the general policy to insure all our receivables and this is also the case of all sales to Latin America, and especially the potash business. There is more or less - more than 95% of our sales are insured against any creditors.

.....

**Markus Mayer, Baader Helvea**

Okay. Perfect, thanks.

.....

**Telephone Operator**

Thank you. We have no further questions coming through, so I will hand back to Dr Lohr for the conclusion of the call. Please go ahead.

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

Thank you. Thank you for joining us today and for your interesting questions. Obviously we are in a transition here in many respects, but I hope you could realise again that we are well in a position and financially equipped to handle this, and we are looking forward to talk to you soon - maybe one or the other of you - even following our AGM tomorrow.

Thank you, and goodbye.

.....

END

**DISCLAIMER**

**This transcription has been derived from a recording of the event. Every possible effort has been made to transcribe this event accurately; however, neither World Television nor the applicable company shall be liable for any inaccuracies, errors or omissions.**