



K+S Group

Q2 Conference Call

15th August 2017



K+S Group

Dr. Burkhard Lohr, CEO

Thorsten Boeckers, CFO

Jörg Bettenhausen, Head of Finance and Accounting

Questions From

Paul Walsh, Morgan Stanley

Michael Schäfer, Commerzbank

Jeremy Redenius, Bernstein

Christian Faitz, Kepler Cheuvreux

Markus Mayer, Baader Helvea

Neil Tyler, Redburn

Patrick Rafaisz, UBS

Thomas Swoboda, Société Générale

Oliver Schwarz, Warburg Research

Andrew Benson, Citi

Markus Schmitt, Oddo Seydler

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Introduction & Key Highlights

Dr. Burkhard Lohr, CEO

Thank you very much. Ladies and gentlemen welcome to our Q2 conference call.

Since I have taken over my new responsibilities this time has been quite a busy one for many of us at K+S. My team and I have many ideas to give the company a new fresh shape. The outcome of our new strategy will be published in the autumn. We are looking forward to the upcoming months, working hand in hand with all our stakeholders, our employees, customers, societies and of course our investors.

I'm joined by my colleague and CFO Thorsten Boeckers and our Head of Finance and Accounting, Jörg Bettenhausen. Lutz Grünen, our new Head of Investor Relations is not present today, his youngest daughter has her first day at school and nothing is more important than family. But now let's get started on page 3.

I'm very proud to announce that we have the first potash volumes from our new Bethune Mine in hand and even two weeks earlier than we expected. Many of our colleagues have been working very hard on this, now the first trains have started to Vancouver. We do expect about 600,000 tonnes production in 2017, which is mainly backend loaded. We will reach our capacity of two million tonnes annual run rate by the end of this year.

Here we want to repeat due to our low fixed cost basis at Bethune we have the flexibility to adjust production for the very first time. That means we are not flooding the market with additional potash if it cannot be used. Please also keep in mind that Bethune is partly replacing our depleting capacities, for instance our Sigmundshall Mine which is to be closed by 2020 at the very latest.

Now please turn to slide 4 and let us have a look at the situation at our Werra plant. Last year we were hit hard by low water levels and missing permits, this has turned positive in 2017. After 25 days of production outages we did not have to put production on hold with regards to wastewater disposal in the second quarter as we made good progress with our countermeasures and also the expansion of basin capacities helped a lot.

However, further production limitations in long period of low water levels in the River Werra, as have seen in the first quarter, cannot be ruled out for the rest of the year. That means that production cannot yet run at full capacity in 2017. This will change in 2018. We are making good progress with our KCF facility. The start is scheduled for early 2018 and we continue to expect a reduction of tailings wastewater by 1.5 million cubic metres on a full year basis. This will help us to secure production to a larger extent and will make us much more independent of water levels.

Meanwhile the expansion of the tailings pile capacity at Hattorf remains challenging; we are working on a solution along with the regulator. At the same time we are optimising



the capacity of the existing tailings pile. The important message is that we believe to solve the issue without further standstills in Hattorf.

Now please turn to slide 5 to talk about the Potash market. In the quarter under review the MOP market has been pretty strong. For example Brazilian market demand rose by 50% in the first half year over year, the Chinese and Indian contract prices met market expectations and underpinned the recent global price levels of about US\$260 per tonne in Brazil.

However, this also means that there is still a notable gap to our price assumption of US\$330 per tonne in Brazil, made in 2015 for the year 2020. That's why our EBITDA target for 2020 of 1.6 billion no longer looks realistic from today's point of view. But we are nevertheless doing our utmost to close the gap with further measures; moreover with our strategic review Shaping 2030, which will be released in autumn this year, we will also give you an update on our financial aspirations.

Back to the market, the demand for specialty products remains strong in the second quarter. We saw continued good demand for our SOP products and market prices have remained healthy. Nevertheless due to a somewhat less favourable regional mix, our average selling prices come down slightly quarter on quarter. For the remainder of the year we expect our average selling price in potash and magnesium products to move up slightly on last year's achievement.

On slide 6 we give you an update on Salt, here we saw stable revenues year over year in the non-de-icing business, also the average selling price remained on last year's level.

On the de-icing side a better winter business in Europe was able to partially offset lower volumes and prices in the US. The business is done now by roughly 80% in North America and about 50% in Europe. The trends that we have already seen in Q2 can also be applied to the remainder of this year.

So what is the bottom line - and therefore please turn to slide 7. Whereas revenues stayed firm we achieved an EBIT 1 of €29m, which is almost twice the figure of last year's Q2. Our Potash business improved from the very depressed second quarter 2016, mainly due to higher product availability. In Q2 we built up some inventories on a generally low level, unfortunately we had to cope with some small hiccups. Production fell a bit short on our potential, due to some logistical problems at our rail partner in Germany on the back of stormy weather. In addition we had hot weather and high temperatures in Germany in June, resulting in a short suspension of production at our Werra plant.

Higher costs with respect to our counter measures to maintain production, lower de-icing prices in the US and planned higher ramp up costs at Bethune affected our earnings negatively in the second quarter.

Nevertheless on a cash perspective free cash flow improved significantly due to lower investment in Canada. Please turn to slide number 8.



The start of Bethune and the start of depreciation from the 1st of July onwards K+S has harmonised its useful life of similar assets globally and across business units. This has been the first adjustment for more than ten years. We have been guided by tax accounting in the past, but now we use the actual life of our assets which is in line with IFRS.

This procedure has led to overly high D&A in the past; the impact in 2017 should be about a positive €40m, the full year 2018 impact equals more than twice the 2017 value. As a remark our new D&A policy as compared to our peers is still on a more cautious side.

Now let's come to the outlook for 2017 on slide 9. All in all we expect an EBIT 1 between €260m and €360m for the full year. This is in line with our previous wording stating that we expect a tangible increase over last year's achievement. Our guidance is based on the assumption that the overall product availability and the Potash and Magnesium product business unit will be significantly up on last year. We expect normal weather and water conditions for the rest of the year and again the successful execution of our countermeasures to reduce the disposal of tailing wastewater into the River Werra.

In total we expect potash sales in the range of 6.8 to 7.2 million tonnes. On top of the volume increase we would not be surprised to see a slightly higher average selling price for potash and magnesium products compared to last year's level. On the other hand the start of our production in Canada will burden our EBIT by about an additional €60m compared to 2016.

In Salt we expect a moderate increase in volume, but selling prices are soft as a result of the mild winter season at the beginning of this year. The upper and lower end of our guided EBIT 1 range is determined by the still ongoing ramp up of Bethune, uncertainties about the weather conditions and the water levels at our Werra site. Furthermore our guidance is based on normalised winter conditions and a ten year average.

Currency effects and the potash price development remain uncertain. When talking about 2017, please keep in mind that the current year remains a transitional year for K+S as we stated earlier.

On page 10 we want to show you why we are that optimistic with respect to the upcoming years. My colleagues and I are working hard on giving K+S a perfect facelift. As I said earlier in the autumn we are going to release the first details of our all new strategy called Shaping 2030. We are very excited about the outcome. There is so much more to come, in 2018 our new Bethune mine in Canada is ramping up quickly and EBITDA contribution is turning positive. Our Salt activities will be even more profitable than we are today as we are going to merge some of our sites and logistical hubs which will further reduce our costs.

Finally in 2018 our new KCF facility will help us to reduce the volume of tailing wastewater by 1.5 million cubic metres per year. This means that we will diminish the



risks of product standstills significantly, another huge tailwind. And the KCF will deliver additional specialty volumes. At the same time our investment will come down significantly in 2018 and we expect our adjusted free cash flow to turn positive. 2018 will therefore be the year when we start reducing our financial debt and strengthen our balance sheet again.

So ladies and gentlemen many good reasons to be positive, for the time being thank you for listening and now we are happy to take your questions.

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Questions and Answers

Telephone Operator

Thank you. Ladies and gentlemen if you would like to ask a question please press *1 on your telephone keypads. If you change your mind and wish to withdraw your question please press *2. Please be advised if you would like to ask more than one question please submit one at a time, once answered we will move to your next question. You will be advised when to ask your question.

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

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Paul Walsh, Morgan Stanley

Hi there guys, thanks very much for taking my questions. I'll start with my first question, on the D&A charges, Dr. Lohr, for 2017 do I back out that the D&A charge for Bethune is about €50m for this year? And can you give some guidance on what the D&A charge for Bethune will be in 2018 and beyond? Thank you, that's my first question.

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Dr. Burkhard Lohr, CEO

Thank you Paul. We have guided in the past that we are expecting D&A monthly of €10m to €15m and that is still the case. So that will be the case for this year and for 2018 and the time to come.

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Paul Walsh, Morgan Stanley

That's great. The second question, just on capex, €900m this year, can I tempt you into giving a steer for 2018 as well please?

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Thorsten Boeckers. CFO



Yeah, we always said that we expect in 2018 the capex to drop again and currently we would expect about €600m for next year.

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Paul Walsh, Morgan Stanley

Okay, thanks very much. And the final question from me if I may, the cash costs per tonne, so sales minus EBITDA in PMP fell to about €205 a tonne in the second quarter, again just on that front I wondered if for the full year you can give any steerage on what the cash costs per tonne are going to be because that's a clear step down in Q2 versus Q1 and I know the reasons why, you know the additional wage costs, the days outages and the countermeasures and so on, but any steer for the year as a whole would be helpful? Thank you.

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Thorsten Boeckers. CFO

Yeah Paul, there are different ways to look at it, I mean we always strip out the EBIT contribution from Bethune because it's negative and we also strip out the effect from the lower water levels in the Werra. And you know that we expect for the remainder of the year still 30 days of production standstills. But including all we would expect to stay at about the level we came out in the second quarter.

I mean we are working hard internally on costs, we always said that our Fit for the Future programme will also have ripple effects into 2017 and 2018 and we have on top of that, but we've not given this another name internally, installed further cost discipline measures which we are executing and this is the reason why we can counter the higher costs from driving away the brine from the Werra to somewhere.

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Paul Walsh, Morgan Stanley

Okay, thanks very much guys.

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Dr. Burkhard Lohr, CEO

Thank you, bye-bye.

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Telephone Operator

The next question comes from the line of Michael Schäfer, from Commerzbank. Please go ahead.

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Michael Schäfer, Commerzbank



Thanks for taking my two questions. Basically the first one is on the ASP, you reported a quarter on quarter decline in the second quarter, referring to some adverse regional sales mix and lagging phasing in effects. So nevertheless you confirmed basically that for the full year 2017 you would expect the ASP to be slightly up year over year, so I wonder whether you can shed some light on the phasing we should expect over the third quarter and the fourth quarter, because basically what you said for the full year implies significant increase compared to what you have reported in the second half of 2016? This would be my first question.

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Dr. Burkhard Lohr, CEO

Thank you Mr Schäfer, first of all one quarter is only a snapshot and the positive message and the most important is there is again a quite long lasting positive trend in the prices. We have seen MOP prices rising, we have seen specialty stable, but we know that we are talking especially about SOP very high premium and this has continued to be the case. And the snapshot always - it has an impact of the regional mix.

I think it is well known that we have especially in the SOP business old contracts which from today's perspective has unfavourable conditions, that is running off at the end of the year. And we believe with the trend that we are seeing for the remainder of the year this will compensate for what we have seen in the third quarter. So in total we should see our average selling price, a price which is slightly higher than the average selling price from last year.

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Michael Schäfer, Commerzbank

Okay, the second one is on German operations basically, you've managed to basically keep production up and running in the rather dry and low water levels in the second quarter, water flows have improved significantly now heading into the third quarter, so I wondered whether you could shed some light on the visibility you have when it comes to product and if I get you right basically your outlook is still including some significant outage days, so how likely is this, how conservative is this basically baked into your outlook statement? Thank you.

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Dr. Burkhard Lohr, CEO

Thank you another good question, first of all we still have in our midpoint of the guidance for 2017 55 days of production standstills in Hattorf incorporated. 25 days occurred and it's a price we have to commit in the first quarter because usually the first quarter is not as dry as it was this year. We did not have any impacts in the second quarter, mostly due to our very intelligent water handling systems, bigger basin capacities, capabilities to bring waters to Bergmannsseggen, to Springen, to other locations and at the end of the year we should also be able to bring waters to B..., which is a big one again, but it is not incorporated in our guidance because it might - this opportunity might occur at the end of this year.



But still there is a dependence on weather and if we will have a very dry period from now it is not completely unrealistic that we need this additional 30 days, but I would call this more conservative. And the good news is that from next year on we are going to have basically more or less independent from this situation because we have in addition to the KCF plans it allows us lower tailings wastewater to handle. This is only a matter for the remainder of 2017.

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Michael Schäfer, Commerzbank

Okay, pretty clear thank you.

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Dr. Burkhard Lohr, CEO

Thank you very much.

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Telephone Operator

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

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Jeremy Redenius, Bernstein

Hi, I just wanted to ask one question about the 2020 guidance. You've mentioned that \$330 per tonne looks unrealistic now, what are you seeing that causes you to make that change at this point in time?

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Dr. Burkhard Lohr, CEO

Thank you Jeremy, first of all you are correct, I said it's no longer realistic but it's not impossible. But it's not entirely in our end and we see positive trends of prices increasing, but we have seen an additional \$11 in China and there is up to 2020 only a little bit more than two years because we would have to step into 2020 with a price of \$330 to have a year's average on that base. And we easily believe from today's perspective it is less realistic to believe that we will have two huge steps in prices until 2020. That's why we indicated into the market that this is no longer realistic. I believe in further price increases, but maybe not of that magnitude. And by the way we all know that there is a guidance out for 2020 for our EBITDA which already takes into account that we have disclosed today.

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Jeremy Redenius, Bernstein



I guess then do you expect the additional supply coming into the market to make those price increases difficult, because I think you could argue on one hand that you sound like you're willing to moderate the pace at which you increase new capacity and you're shutting down capacity. I would imagine your competitors would also be willing to moderate the rate of products to absorb new capacity as it comes to the market. So wouldn't you think that that might enable the market to still increase prices?

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Dr. Burkhard Lohr, CEO

Yeah, yeah what I said earlier took already into account that there are additional volumes coming into the market without these next - last additional capacities in the market there might have not been a reason to say it's no longer realistic, but taking into account these additional volumes and the market behaviour and we want to participate in it, it's still fair to believe in rising prices, but not in rocketing prices. But maybe having a look a couple of years down the road there are no additional capacities planned, due to the pricing situation and the volatility of the last years, and we are at the beginning of a very positive long cycle in this market. I think one should take that into account as well.

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Jeremy Redenius, Bernstein

Great, thank you very much for that.

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Dr. Burkhard Lohr, CEO

Thank you.

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Telephone Operator

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

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Christian Faitz, Kepler Cheuvreux

Good morning gentlemen, first of all a follow up question to Michael Schäfer's question. Your old rule of thumb, ex obviously the KCF plant, etc, used to be that you need 40 cubic metres per second through flow at the Werra River at a certain point. We've been below that quite a few times and still you were able to fully produce, so could you give us a new rule of thumb to basically follow up what's happening in terms of cubic metres per second? That would be my first question.

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Dr. Burkhard Lohr, CEO

Thank you for that, but it's not that easy because as I said earlier we have the basin capacities and we can use these capacities for quite a while, for a couple of weeks, to, in periods where we are below this 40 cubic meters per second which is still necessary to have normal operations without any additional measures. So the second opportunity is of course to bring the water into Bergmannssegen-Hugo, etc.

So with empty basins we can, and the basins are empty currently, we can secure for a couple of weeks full production even in times when the water flow is below this 40 cubic metres, so we have a bit of visibility for the next couple of weeks, but that's it. And we do not know what's going to happen after that. That's why we follow this cautious approach and leave the additional 30 standstill days in our forecast, again it is cautious, again that is only a matter of the remainder of this year, we come back to more normal behaviour and a more manageable situation in 2018.

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Christian Faitz, Kepler Cheuvreux

Thanks. Then my second question actually staying on wastewater disposal could you please give us an update on the planning for the Oberweserpipeline, timing, costs, etc, if there is an update?

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Dr. Burkhard Lohr, CEO

Yeah, first of all I would like to put this into perspective, the masterplan which we have agreed with all states which are relevant for Werra and Weser have seen - are foreseeing two alternatives to the deep well injection which will end by 2021.

First is to bring this water in our old mines and deposit this in our old mines, in the Werra Valley there is a lot of capacity and that will easily be good for the remainder of the sites until 2060. We have to solve a lot of technical issues to make this happen. But the plan is we are going to have a solution for that in 2018, in the middle of 2018 and this discuss with the states and go for permission. We need that at the end of 2021 to continue after we have not got a deep well injection any longer.

If this is not possible for technical reasons then the alternative would be this pipeline to the Oberweser. And we are working - the works are in plan, we believe that it is possible to build this pipeline until the end of 2021, challenging but possible and the costs would be €250m, which are in our forecasts already and in our mid-term planning. That is still valid. But potentially, as I said earlier, maybe we do not need this option. But that will be known more or less in the middle of next year.

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Christian Faitz, Kepler Cheuvreux

Okay great, then the final question we know that de-icing salt inventories are high, as seen in your Salt results over the past few quarters. Could you give us a guesstimate of



how high they are in a sort of context and when would you expect pre-buying to kick in, would you expect that to be in September as usual in Europe, or would that be at some point earlier in Q4? And what's new with your Salt asset in Australia, I think it's called Ashburton Salt? Thanks.

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Dr. Burkhard Lohr, CEO

Yeah the inventories actually really are on the higher level than the long term average I think Thorsten can you please have a look at exactly how much that is, but I'll continue with the question. And that has had already and impact in the bidding season, I said earlier that we have 80% bids done in North America and 50% in Europe and the outcome was that we have a strong decrease in prices in the Mid West, a slight decrease in prices in the US East Coast, Canada is flat and Europe, after a very good January this year we had prices even going up a bit.

So all these price trends, which will of course be relevant for the rest of the year are incorporated in our forecast and we believe that this will of course be a normal winter and of course this always our assumption because it's not possible to predict something else. And as you might know yes the inventories are high, but two weeks of good winter weather can change the picture entirely. Two years ago remember we did not have any material left in the middle of the winter in some areas in North America. So that does not really concern us a lot.

Australia, the potential new mine to deliver the very interesting Asian market is on time. We are still working at what is planned, it takes a long time in Australia on environmental approvals and if we have this in hand we have to decide - and to make a final decision on the investment, but we always indicated that there will not be production before 2021.

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Christian Faitz, Kepler Cheuvreux

Thank you very much.

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Dr. Burkhard Lohr, CEO

Thorsten do you have that number?

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Thorsten Boeckers, CFO

I mean Christian we are a bit reluctant to give out concrete numbers there for two reasons. I mean first of all the market is always a guesstimate, we know what we have in terms of inventories. And so we would not give out the concrete numbers for competitive reasons. But I can tell you that you need to distinguish between the regions, I mean North America, especially the US is well above the long term average



and Europe is - thanks to the good quarter was below the long term average. But this is where I would like to leave it for now.

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Christian Faitz, Kepler Cheuvreux

Okay thanks.

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Telephone Operator

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

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Markus Mayer, Baader Helvea

Good morning gentlemen, several questions from my side as well, I'll start first one by one. On this new accounting maybe can you shed some light what kind of assumptions have changed with regards to that, and also what was the base previously and how - what kind of assumptions do you now have? And as far as I understood this is purely for the German mines, am I correct? What other effect does this accounting have on the mining obligation, what kind of impact, and also if theoretically the potash price would fall below the €200 per tonne level would you have to reduce the life time of the asset again? That's my first question.

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Thorsten Boeckers. CFO

That's your first question with four or five sub questions, Markus let us know when we didn't cover everything. I mean we used the production start-up of Bethune to review our asset lifetimes globally actually. And we have different categories and the main change happened in technical equipment and machinery. And there we went from - 4 to 25 year to 8 to 40 years, but when we compared this with our competitors we are still not very aggressive there.

I must admit I forgot the rest of the other questions ...

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Dr. Burkhard Lohr, CEO

The impact on the provisions?

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Thorsten Boeckers. CFO

No, no impact on provisions.



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Markus Mayer, Baader Helvea

So if I am to understand this correctly, you only have changed basically the equipment - the lifetime of the equipment not of the end of lifetime of your mines, this is correct?

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Thorsten Boeckers. CFO

Yes exactly.

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Dr. Burkhard Lohr, CEO

Correct.

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Markus Mayer, Baader Helvea

Okay, I understand, okay then forget all the other questions.

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Thorsten Boeckers. CFO

That was easy.

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Markus Mayer, Baader Helvea

Second question, given your new mine in Canada can you update us on the forex sensitivity for next year and also this hedging, what does this mean, what kind of US dollar / euro rate would mean what, that would be very helpful?

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Dr. Burkhard Lohr, CEO

First of all we are quite happy with the situation, as I said in my speech the first trains are on the way. At the end of this month there will be an official opening of our facility in Vancouver. And we are quite happy with the quality of our product. Ramp up is doing fine so far, usually you are facing big problems, we only have faced small problems so far, we are hopeful that this continues, as optimal as the production phase of Legacy went obviously the ramp up goes as well.

Although we have an end date capacity at the end of the year of two million tonnes in hand we are not expecting two million tonnes production for next year because still ramp up there might be - there will be more maintenance and production than in a normal fully running situation, so a couple of hundred thousand will not be produced compared to the potential of two million tonnes. But everything is running so far fine. We know



precisely where to sell our first product, it will be Asia first of all because now we are producing standard white and we have not started granulating and the granulated product will then go into South America.

When it comes to currency hedging our policy is to have of course the full year fully hedging - the running year fully hedged and the following year up to 60, 70%. So in 2018 we have a good chunk of our expected sales and of course the Canadian dollar cost, which compared to the US dollar sales are already in a safe haven position.

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Markus Mayer, Baader Helvea

And so the sensitivity has not changed compared to the past?

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Dr. Burkhard Lohr, CEO

The sensitivity has not changed, of course there is now an additional currency to take into account, the Canadian dollar costs, but the system is the same and the activity to have a rolling hedging system is unchanged.

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Markus Mayer, Baader Helvea

My last question is on the increase of the logistic costs, if you so far already see this and how - if you have hedged or locked in your logistic costs for next year maybe some light on that would be helpful?

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Dr. Burkhard Lohr, CEO

Mostly the higher volumes were the driver of the additional logistics costs, there's only very, very small price effects, not worth mentioning. And we are hedging currencies, we are hedging gas prices with real deliveries, but we are not really hedging logistics costs. And that's why we have to take the market conditions, which are still very favourable.

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Markus Mayer, Baader Helvea

Perfect, thanks so much.

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Dr. Burkhard Lohr, CEO

Thank you.

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Telephone Operator

The next question comes from the line of Neil Tyler from Redburn. Please go ahead.

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Neil Tyler, Redburn

Good morning, the first question - hopefully a quick one, in respect of the combined wastewater costs this year which I think included in your guidance, amount to about €100m of which €40m is the additional measures and then sort of €60m or so the interruptions. Can you just clarify how you expect that to shape up in 2018, I know the €60m if falling way, but how much of the €40m? That's the first question please.

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Dr. Burkhard Lohr, CEO

Neil, thank you very much for the question; the situation will be by far more relaxed in 2018 with the KCF. I cannot stress this often enough because that is really a burden in 2017, it was last year and it is a burden this year, but it is going away. It will most probably not be not zero next year because part of that is not transfer cost, it's transportation cost. And we might be forced in dry periods last year to still bring our water to Bernburg or whatever is available next year. So it will be a very small number, maybe double digit, but not more.

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Neil Tyler, Redburn

That's great, thank you. Secondly with regard to the Bethune EBIT contribution, year to date I think it's about negative €50m at the EBIT level, can you help us with your expectation for the full year - the latest update on that number and if you're prepared to give anything for 2018 that would be great?

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Dr. Burkhard Lohr, CEO

Yeah, €50m for the first half is correct, now with the 1st of July the D&A kicks in and we always said in the past it might be €150m for the whole year and I can confirm that maybe a little bit below that.

From next year on we are not really talking about a production site any longer, it's a running mine and the only indication we are giving is the EBITDA contribution and that should be positive in 2018, a big achievement and again another factor which is not burdening our bottom line any longer.

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Neil Tyler, Redburn



That's helpful, thank you. The final question with regards to the Sigmundshall Mine closure, you said that that will stop producing from 2020 at the latest. How should we think about the output from that mine in the next two years then, '18 and '19?

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Dr. Burkhard Lohr, CEO

Yes, as I said that latest we might not see an output in 2020, but for sure there will be the full production in 2018 still because then if we would have decided to close it already then the decision would have been made. So a question mark about '19 and '20, but that will not have a huge - it will of course have an impact on our volumes, but no big impact on our bottom line because that is the reason why we're closing it because we are in a depth of 1,500 metres, efficiency is very low and there is no significant negative impact on the bottom line.

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Neil Tyler, Redburn

So more or less compensated by a change in the sort of cost per tonne effectively?

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Dr. Burkhard Lohr, CEO

Yeah, exactly.

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Neil Tyler, Redburn

Thank you that's everything, thank you very much.

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Dr. Burkhard Lohr, CEO

Thank you Neil.

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Telephone Operator

The next question comes from the line of Patrick Rafaisz, from UBS. Please go ahead.

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Patrick Rafaisz, UBS

Good morning, also three questions please. The first again on 2018, based on previous comments you just made on Bethune volumes, I assume the 1.7 to 1.8 million tonnes for 2018 still makes sense? And you said in the past that excluding Bethune 2018 volume should be rather flattish, i.e. not more than 7 million tonnes, is that still correct?



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Dr. Burkhard Lohr, CEO

Yeah, Bethune yes 1.7 to 1.8 is a fair assumption, but please take into account we are talking about a mine which is still in the ramp up and we should see clearer in the beginning of 2018. But 1.7 to 1.8 is very possible. And the reminder of the - the 7 million for the rest is a fair assumption as well, that would then mean a small increase compared to this year, because we lost production due to the Werra situation in 2017. So we increased significantly in the German mines the output and of course in Canada. That's why I'm not tired of saying how big the step will be next year.

.....

Patrick Rafaisz, UBS

Okay that makes sense, thank you. And then maybe you could give us an update on the permit for the tailings pile, with Q1 you were hoping to get it within a few weeks, but you haven't really given us the potential financial impact, you were just highlighting it to take it into consideration, can you update that, would it be possible to give us some ranges or indication on potential impacts here? Thank you.

.....

Dr. Burkhard Lohr, CEO

Yes of course, I'm happy to do that, but first of all we did not say that we expect it in a couple of weeks, we said we would need it in a couple of weeks to be sure to have no interruption in Hattorf in next year.

But the situation has changed a bit, we have optimised the lifetime of the existing tailings pile, so we are fine for the next couple of weeks or maybe even months. And currently we are working very cooperatively with the regulator on a solution for the new tailings pile. And I believe that there will be a solution in the next couple of weeks and there will then be no standstills in Hattorf. And without standstills there will then be no negative EBIT impact.

.....

Patrick Rafaisz, UBS

Okay, clear thank you. And the last question, you probably can't really answer it, but I was just thinking about your Shaping 2030 targets and the strategic review. Can you allow us a peep into exactly what is going on - I mean it's a very long term timeframe, should we expect some financial targets as well later this year in the autumn, or will it be more qualitative statements on strategy where you want to steer the company?

.....

Dr. Burkhard Lohr, CEO

Without saying too much I think we're talking about the year 2030 how do we believe the company will look like and in what condition will it be like, what will we be able to -



what will the profit contribution look like in 2030. But that is - granted that is very far away, but to comment to that to 2030 first of all we are a mining company and we need such a period to really radically shape the company. A long - in Legacy, from the first idea to the first tonne it was eight years in between, so now we are talking about 13 years. But I know for the capital markets this period is too long, that's why we are going to describe the way to this 2030 as well. So there will be information about what we are going to do in the next couple of years and maybe even financial targets which is in between today and 2030.

.....

Patrick Rafaisz, UBS

Okay thank you very much.

.....

Dr. Burkhard Lohr, CEO

Thank you for your questions.

.....

Telephone Operator

The next question comes from the line of Thomas Swoboda, from Société Générale. Please go ahead.

.....

Thomas Swoboda, Société Générale

Hello gentlemen, I have two questions. Firstly on your currency sensitivity in the past you were actually sharing with us the exchange rate levels you have locked in, I'm sorry if I missed it is it still possible for 2017/2018 what do you have in your books please?

.....

Dr. Burkhard Lohr, CEO

We have locked in our total volume, so all the expected US dollar sales are hedged, but as these are hedged from a cash flow perspective and we have some cash US dollar costs still on our Bethune site and there is still a small remaining impact with a weaker or a stronger US dollar. But from today's perspective there is only more or less a single digit million amount, which could be going in one or the other direction with a stronger or weaker US dollar for 2017.

.....

Jörg Bettenhausen, Head of Finance and Accounting

Thomas we have for this year, I mean it's not much less but even if the dollar goes to 1.20 we would see versus 2016 a low double digit positive contribution from that. And for 2018 we are not yet fully through, we are now hedged with our net position at about



60% and let us do the rest first and then we'll give you the best case and the worst case because it will change when we are going up with our hedging rate which would usually be above - or around 80% in autumn for the next year.

.....

Dr. Burkhard Lohr, CEO

But one thing is for sure without this instrument we would have a huge impact currently due to the very weak US dollar.

.....

Thomas Swoboda, Société Générale

That's pretty clear I think, that's fair enough. I will try a second question and it's regarding the potash volumes in H2. If I remember correctly in Q3 you started to ship increasingly to Brazil, question 2a, if you want, so do you see any negative impacts from the currency devaluation in Brazil and the political unrest, how are your shipments to Brazil going? And 2b, for the second half should the volumes be rather equally distributed over the two quarters or rather backend loaded? Thank you.

.....

Dr. Burkhard Lohr, CEO

Yeah, Brazil was very, very strong in the first half. If I remember correctly the volumes went up by 15%, 15% that's what I said compared to 2016 as they had such a strong demand in the first half, that should relax - the situation should relax a little bit for the rest of the year, but that is the only reason, not the environment - the political and currency impacts that we are seeing.

So Brazil is very strong and we believe remains to be strong and we believe that we will again sell our entire production, the problem is the shortage of production due to the Werra situation that we are of course still ramping up Legacy. So the guidance is 6.8 to 7.2 million tonnes and that is a clear message of how we see the second half of the year in terms of potash output.

.....

Thomas Swoboda, Société Générale

That's fair enough, thank you.

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Dr. Burkhard Lohr, CEO

Thank you.

.....

Telephone Operator



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

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Oliver Schwarz, Warburg Research

Thank you gentlemen for taking my questions. Just a quick one, a clarification one, I heard you saying that the FX sensitivity rule of thumb has not changed, is that correct, and if so why is that, because you are about to ship more volumes on US dollar prices into the market than you did in the past, so why - if I heard you right has the sensitivity not changed, or is not about to change? Thank you.

.....

Thorsten Boeckers. CFO

I think Burkhard said that system how we deal with it is not going to change. We will of course have a higher exposure to the US dollar.

.....

Oliver Schwarz, Warburg Research

But the rule of thumb change in US dollar by let's say by 10 cent how would that would unhedged affect you in your business model currently or is that not something you want to provide at the moment.

.....

Thorsten Boeckers. CFO

I think unhedged is what you can calculate on your own, hedged - as I said I mean we're currently expecting for the remainder of the year a higher dollar than we expected at the beginning of the year. So we went with the 1.10 into the new year, we now expect 1.15 and it may even go higher. So then the euro may go higher. But even if we go to 1.20 there will be no negative currency effect versus 2016.

.....

Oliver Schwarz, Warburg Research

Understood, thank you. The question I wanted to ask is about the alleged flexibility you have in your production given that Bethune is starting up. I heard you say that we might see the 1.7, 1.8 million tonnes which would indicate let's say given that you're still ramping up the plant full production next year. So I guess any flexibility that you might want to have would kick in only by 2019. If that is the case how would that affect your contracts, a) with Koch Industries that are taking on perhaps one third of the planned production in Bethune?

And how would that also impact your prices you're paying - or let's say that contracts - or let's say the contracts that you have struck with your gas suppliers, or those pay or take contracts, so are you flexible on the volumes for natural gas you've taken on as



well, or is there something that would trigger a payment to your supplier if you're not taking on the agreed volumes? That would be my second question.

.....

Dr. Burkhard Lohr, CEO

You're right maybe the year of ramp up 2018 is not a perfect year to not fully use the capacities. First of all we want to ramp up the site entirely before we cut production if necessary to calm down markets, so when we are talking about 2019 and I think it's obviously a mine, a solution mine which only has fixed costs of one third, the biggest cost item is gas has the possibility to bring such a contribution that was impossible in Germany, very high fixed cost base and combined production. So if we had to reduce MOP we would have an impact on the specialties as well, that is why we were not able to do that in the past. So in the future with Legacy that is possible starting in 2017 and our contract with Koch and our gas deliveries give us all the flexibility we need to play that game.

.....

Oliver Schwarz, Warburg Research

Very clear, thank you. Another one on the KCF plant that's about to start up in 2018, I'm under the impression that you'll reduce your wastewater by generating more solid waste basically, which then has to go to the mining tips, is there anything that we should be aware of essentially with the problem you are currently facing in Hattorf, is there probably something building up as well if your mining tips are basically growing faster than they had in the past in Germany due to the installation of the KCF plant?

.....

Dr. Burkhard Lohr, CEO

The KCF plant has no significant impact of the lifetime of the tailings piles, so that is very clear, that is only a reduction of wastewater and there is a little bit more dry material that we put to the tailings piles, but there is so little that this does not impact the lifetime of the tailings piles.

.....

Oliver Schwarz, Warburg Research

Brilliant. And just a quick one - credit rating, any indication that the outlook, or the rating as such is about to change?

.....

Thorsten Boeckers. CFO

Yeah, a short question maybe a longer answer, I mean we know that our debt is high and we also know why, we had significant investments into Bethune, we had a weak financial performance last year and we will be only tangibly better this year. We are far away from running out of cash, so the funds are in our hands and our financial needs are



sufficiently covered. And as Burkhard said this a couple of times now we expect 2018 to improve significantly due to the KCF, due to Bethune, and also due to ongoing costs and capex discipline.

So S&P usually review our historical financial performance, they will certainly do this also after Q2 and yeah like we said we cannot rule out further rating action, but we are positive for the future here as our leverage will start to decline quickly from next year and also our operating results should improve again.

.....
Oliver Schwarz, Warburg Research
Very clear, thank you very much.

.....
Dr. Burkhard Lohr, CEO
Thank you.

.....
Telephone Operator
The next question comes from the line of Andrew Benson from Citi. Please go ahead.

.....
Andrew Benson, Citi
Thanks very much. Just on the FX, if you can clarify that you're half covered for 2018, so if we stay where we are there will be some impact from currencies and then the full impact, assuming the dollar stays weak in 2019 - just if you can clarify and potentially dimensionalise that?

I know we talked about Bethune production and your potential to curtail, I was just wondering if there is much sort of storage, could you operate at full blast for a considerable period and perhaps build up volumes as a way of - and just limit the sales into the market, so is there a lot of flexibility on the storage in Bethune?

And lastly when you're talking about curtailing, is there any sense that you'll be sort of - I don't know whether it's feasible or not or possible, but could the Canadian assets join Canpotex?

.....
Thorsten Boeckers. CFO
Starting with the hedging question, the same answer as earlier, yes there may be an effect when the dollar stays where it is, so when it gets weaker - but we have a rolling hedging system, which means that we have also locked in already favourable rates. On



the other hand we now are locking in the rest so I'm not going to give you a number by now, but we will of course not have the same positive effect as this year.

.....

Dr. Burkhard Lohr, CEO

Your second question, yes we have significant storage capacities in Bethune and in Vancouver, 140,000 Bethune and 160,000 in Vancouver, so in total 300,000 currently they are more or less empty. That means that we have not only flexibility, but a necessity to have a base fill, that's why we are expecting to produce 600,000 tonnes this year, but only sell up to 500.000 tonnes, maybe a little bit less because we need this base. And when we talked earlier about 1.7 to 1.8 million output for 2018 there will be some stocking up that has to be deducted from that number as well and again having these high capacities - that gives us a kind of flexibility as well.

Now Canpotex and old question, it always comes up again, I think Canpotex itself understood that this does not make sense at all for us to join, one reason would be a Canpotex would be a competitor to us in Brazil because we continue to deliver from Germany into Brazil and that is a situation we cannot handle. That is only one easy to understand reason for us not to join Canpotex and that is I think it's clearly and fully understood and we go back to normalised friendly behaviours amongst the producers.

.....

Andrew Benson, Citi

That's very clear, thanks.

.....

Telephone Operator

The next question comes from the line of Markus Schmitt, from Oddo Seydler. Please go ahead.

.....

Markus Schmitt, Oddo Seydler

Good morning, I have just a quick question. On your goodwill accounting I saw in the second quarter that your goodwill came down by about €40m, could you explain the reason please?

.....

Thorsten Boeckers. CFO

It's currency effect.

.....

Markus Schmitt, Oddo Seydler



Just currency, okay good, many thanks.

.....

Telephone Operator

The next question comes from the line of C.... JPMorgan. Please go ahead.

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Analyst, JPMorgan

Thanks, I had a few questions mainly around cash, so if I look at your capex guidance for the full year it's still €900m you did around €400m in the first half, which implies around €500m in the second half. Now as I understand the bulk, or the peak capex has already been spend on your Canadian mine, so why is the capex rising in the second half?

And the second question related to ...

.....

Dr. Burkhard Lohr, CEO

Please wait, we have allowed once - somebody came up with all their questions it makes it difficult for us, we would like to answer one by one.

.....

Analyst, JPMorgan

Okay, sure.

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Thorsten Boeckers. CFO

I think the answer is we are still investing in Canada despite the production starting, but as we said a couple of times are in the ramp up phase two. And also we are still investing in environment protection as you'll see in Germany and mainly here it is the KCF price.

.....

Analyst, JPMorgan

So would you see €900m as the right run rate now?

.....

Thorsten Boeckers. CFO

€900m is what we still expect for 2017, yes.

.....



Analyst, JPMorgan

Okay fine, and the second question I had is on cash generation of this business, you know even with capex coming down in Q2, EBITDA improving significantly year on year, free cash flow is still negative, so what do you need the prices in the market to improve significantly from here to turn the corner on cash, how do you see the cash generation, or the profile of the company now that the Canadian mine is probably in the ramp up phase and will start contribution in the second half and in 2018?

.....
Thorsten Boeckers. CFO

For this year we are still expecting a negative free cash flow and this is what we also said in the past and it has not changed, from next year on we expect on a Group level to be free cash positive again. And here are the same effects as we earlier mentioned with regard to debt for example. Bethune will deliver a positive EBITDA. The cash drain will go down from €900m to €600m ish. And also in Germany you'll remember that we have production standstills incorporated in our expectations still and this will ease the situation significantly next year with the KCF being then in operation.

.....
Analyst, JPMorgan

But do you have a level that if the prices stay at this level, assuming all the - you know once your plant ramps up in Canada to full capacity what is the underlying cash generational profile of this business?

.....
Dr. Burkhard Lohr, CEO

That is less a function of a required price - that is a function that finally we are getting rid of the extraordinary burdens like €100m in the Werra and €150m in ramp up legacy and others and that will be the case in 2018 and even on today's prices we should be able to deliver a positive free cash flow.

.....
Analyst, JPMorgan

Understood, thank you.

.....
Telephone Operator

The next question comes from the line of Christian Aust, from UniCredit. Please go ahead.



Christian Aust, UniCredit

Good morning thank you, two questions please. The first one on liquidity pretty quickly by how much was the RCF available by end of June?

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Dr. Burkhard Lohr, CEO

By how much what?

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Christian Aust, UniCredit

The RCF, the syndicated loan?

.....

Dr. Burkhard Lohr, CEO

Fully.

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Christian Aust, UniCredit

Fully, okay, so you redeemed with the bond and the tap most of the RCF?

.....

Dr. Burkhard Lohr, CEO

Yes.

.....

Christian Aust, UniCredit

The second one on strategy again I'm afraid, connected to the 2020 strategy there was a target to return to maximum net leverage of 1.5 terms, I understand you will provide new mid and long term targets in the autumn, so the question is not on when you now expect to achieve this level so a new timeframe, but rather if you think that this is still the right balance sheet structure, leverage for the Group strategically?

.....

Dr. Burkhard Lohr, CEO

You know that 1.5 is very strict and it's by far stricter than what would be required to be back in the investment grade area. But please give us the opportunity to answer that question together with the strategy.

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Christian Aust, UniCredit



Okay, thanks.

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Dr. Burkhard Lohr, CEO

Okay, thank you.

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Telephone Operator

We will now take the last question from the line of Joel Jackson from BMO Capital Markets. Please go ahead.

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Dr. Burkhard Lohr, CEO

Joel? That is the easiest question.

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Telephone Operator

We will now take the last question from the line of Joel Jackson from BMO Capital Markets. Please go ahead.

.....

Joel Jackson, BMO Capital Markets

Can you hear me?

.....

Dr. Burkhard Lohr, CEO

Now we hear you.

.....

Joel Jackson, BMO Capital Markets

Sorry about that. So can you give a little bit of colour on first sale of activity out of Bethune, I don't know how much colour you can share now, but how meaningful will Bethune be for sales into the fall season in North America? And then alternatively looking into next year could we expect K+S to have larger shares of the Indian and the Chinese annual contract processes?

.....

Thorsten Boeckers. CFO



I'm not sure if we got the question right here Joel, the line is bad, but if I understood it right do you mean how much impact we would be on the US market this year for potash?

.....

Joel Jackson, BMO Capital Markets

For the fall season, right.

.....

Thorsten Boeckers. CFO

And then next year what we expect to do in China, is that right?

.....

Joel Jackson, BMO Capital Markets

China and India will you be a bigger player in the annual contract processes?

.....

Dr. Burkhard Lohr, CEO

Okay thank you for confirmation because the line is really bad. So this year we are not going to sell significant volumes into the US markets. As I said earlier we are producing standard white and that's more or less an Asian product and we are now shipping - we will ship the first volumes into Asia and I'm not talking about zero in the US market but very, very small amounts.

We ramp that up partially in the next couple of years, it's known that we have a contract with Koch who exclusively is selling our product into the US market until - up to 500,000 tonnes, but most probably the whole volume is not going to happen in '18 already.

And then with the higher volume in hand we continue to increase our volumes into Asia mainly China and India where we are a very small player currently and we believe the market has capacity and we have very promising contacts over there. And we also are looking into South America with the volumes. And that will be the split Asia something between zero and 500,000 tonnes in the US market and some volumes into South America.

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Joel Jackson, BMO Capital Markets

Good thank you very much.

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Dr. Burkhard Lohr, CEO

Thank you.



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Telephone Operator

Thank you this was the last question, I will now hand back to Dr. Burkhard Lohr for the conclusion of the call. Please go ahead.

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Dr. Burkhard Lohr, CEO

Thank you very much for joining this call, we are fully aware that 2017 is the transition year that we have indicated, but we're getting off that year as well. But I think it's more important to look into the future and we gave many reasons for being very optimistic in 2018 and there's nothing which is dependent on circumstances which are improbable, all that is going to happen and no further negative impact from the Werra situation, Legacy is going to deliver positive EBITDA, we believe prices are going to increase further and that should be the look on K+S, promising development together with the new strategy.

And thank you again for joining us today and we are very much looking forward to talking to you or seeing you soon again, bye-bye.

.....

END

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