K+S Aktiengesellschaft

# Q2 2018 – Conference Call

August 14th, 2018

Dr. Burkhard Lohr, CEO
Thorsten Boeckers, CFO

Experience growth.

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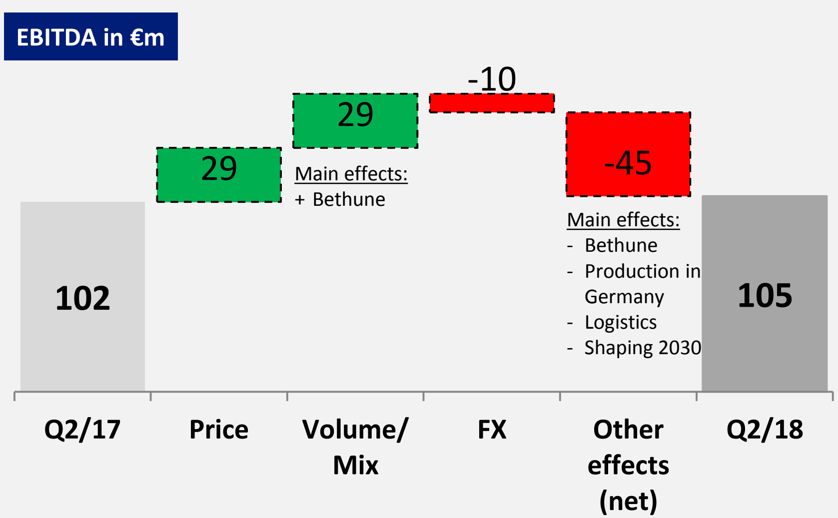
# Q2 2018 Overview

## Highlights

- Potash market supportive
- Revenues and EBITDA up versus last year
- Cash and cost discipline across the group
- FCF and Net debt/EBITDA improved
- Challenges: Production in Germany, product quality Bethune, FX, higher logistics costs




## Financials

| € million | Q2/17 | Q2/18 | YoY |
|---|---|---|---|
| **Revenues** | **742** | **812** | ***+9%*** |
| t/o Potash | 387 | 441 | *+14%* |
| t/o Salt | 316 | 327 | *+4%* |
| **D&A** | -73 | -92 | *-25%* |
| **EBITDA** | **102** | **105** | ***+3%*** |
| t/o Potash | 71 | 91 | *+27%* |
| t/o Salt | 29 | 23 | *-20%* |
| **EBIT I** | **29** | **13** | ***-53%*** |
| **Adjusted net profit** | **19** | **-9** | **-** |
| Adjusted EPS (€) | 0.10 | -0.05 | - |
| | | | |
| **Operating cash flow** | **117** | **59** | ***-49%*** |
| Adj. free cash flow | -81 | -49 | *+40%* |
| **CapEx** | **133** | **91** | ***-31%*** |
| **Net debt[1]/EBITDA** | **8.1** | **6.8** | - |

[1] LTM, including provisions.

# Background on our guided EBITDA range

**Why are we not meeting market expectations?**

- **Some challenges are holding us back somewhat longer than expected**
- **Latest assessment of all findings is now reflected in our 2018 budget**
- **While guided range is still in line with our former wording ("significantly up") …**
- **… our expectation for 2018 is now clearly below latest consensus**

# Bethune Has Come a Long Way ... With Success!

**2011**

Acquisition Potash One.

**2013**

Drilling of the first two production pads completed.

**2015**

Plant reaches full construction:
~ 1700 People on site.

**2017**

Plant operational and demonstrates ability to achieve two million tonnes/yr production capacity.

**2018 and beyond**

A)
Stable production and continuous improvement of quality

B)
Keeping on track - increasing production capacity & commencing secondary mining

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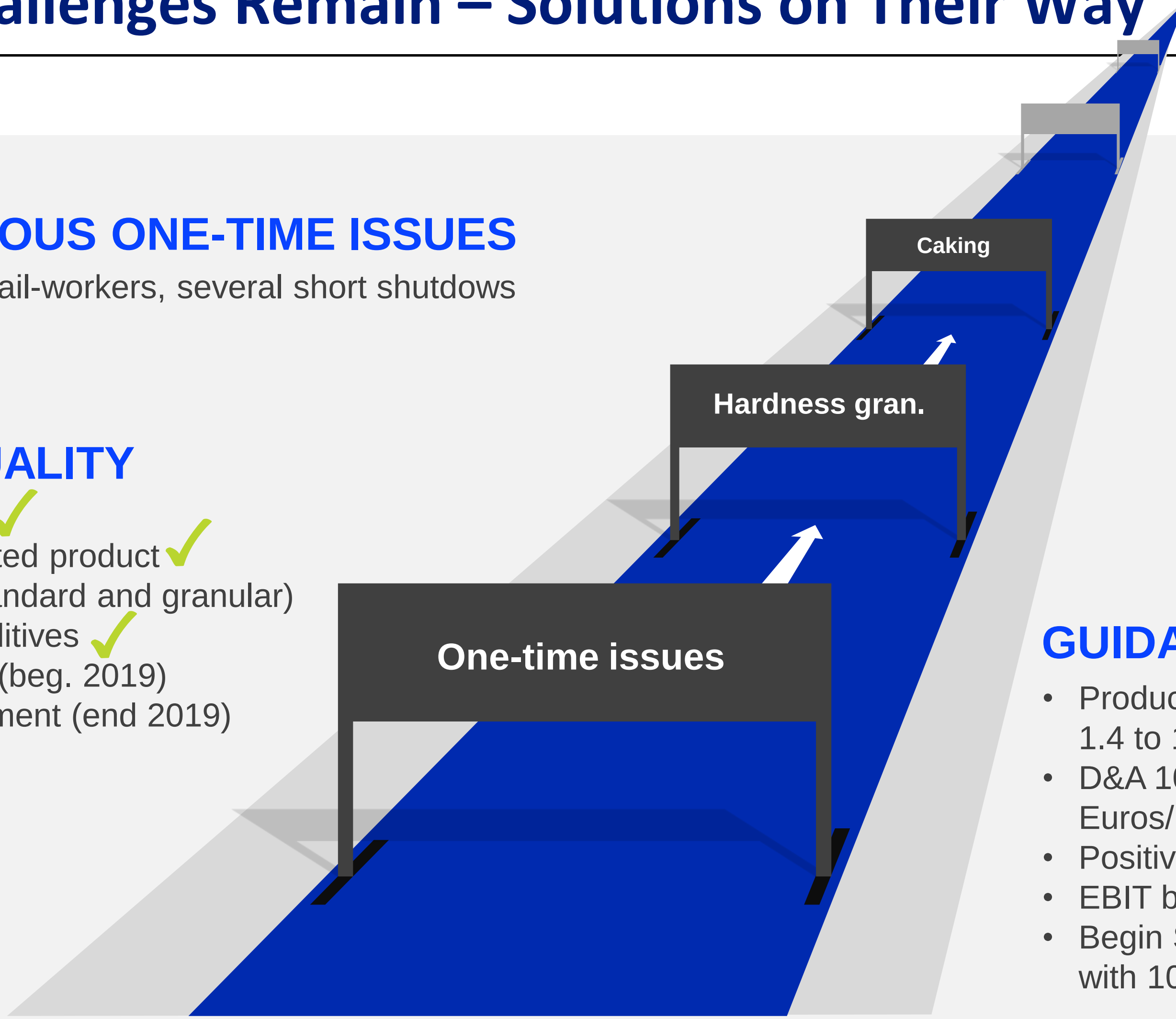
# A Few Challenges Remain – Solutions on Their Way

## VARIOUS ONE-TIME ISSUES

Strike rail-workers, several short shutdows

## PRODUCT QUALITY

- High $K_2O$ content ✓
- Hardness granulated product ✓
- Caking issues (standard and granular)
  - Finetuning additives ✓
  - Grinder pump (beg. 2019)
  - Cooling equipment (end 2019)




## GUIDANCE

- Production 2018: 1.4 to 1.5 million tons
- D&A 10 to 15 million Euros/month
- Positive EBITDA in 2018
- EBIT break even in 2019
- Begin Secondary Mining in 2019 with 100 to 200K tons

**- First greenfield mine in Sakskatchewan in 40 years -**

**- Going through a lot of “firsts” and we are learning how to adapt -**

**- Well experienced and highly motivated staff in place -**

# Production Issues - Germany

**Werra:** 100kt of lost production in Q2/18 (again)

- **Lack of staff / Illness rate:** open vacancies, high illness, lack of motivation
  Achievements so far: management changed, vacancies partly filled, illness rate halved
  Further measures: qualifying new staff, filling remaining vacancies,
  moving workers from SI, to be resolved by end of 2018
- **Machinery/Equipment:** extensive maintenance breaks led to downtimes in production
  Countermeasure: prioritized maintenance and replacement
  -> ongoing improvement, 50% to be fixed by end of 2018
- **Extraordinary low nutrient content ($K_2O$):** Crossing field with lower content
  at Unterbreizbach (UB)
  -> Effect resolved by the end of 2019

**Neuhof:** 50Kt of lost production in Q2/18

- **Geology issue:** low roof stability -> additional safety measures needed
- Countermeasures: new production technologies to be installed (by end Q3 2018)

# Nutrient content in Germany is diminishing

- In Germany we operate mature potash mines
- Nutrient content ($K_2O$) is diminishing
- Overall impact 2018: 100Kt of product (annualized)

**Countermeasures: Operational Excellence (OpsEx)**

- Starting Operational Excellence program with a consultant
- Site-by-site investigation with management and consultants
- We have identified many opportunities to increase efficiency across all sites
- Start of implementation in 2019 to stabilize current production in Germany

=> Further details to be released at our CMD

# Expected development of our Potash Production

- Expected production 2018:
  - Germany: 6.4 to 6.5mt
  - Bethune: 1.4 to 1.5mt
  - Huludao 0.1mt

  **7.9 to 8.1mt**

- Expected Production 2019:
  - Germany: 6.4 to 6.5mt
    - Sigmundshall - 0.6mt
    - $K_2O$-Content - 0.1mt
    - Improvement against 2018 + 0.3mt
    - KCF + 0.1mt

    **6.1 to 6.2 mt**
  - Bethune: 1.7 to 1.9mt
  - Huludao 0.1mt

  **7.9 to 8.2mt**

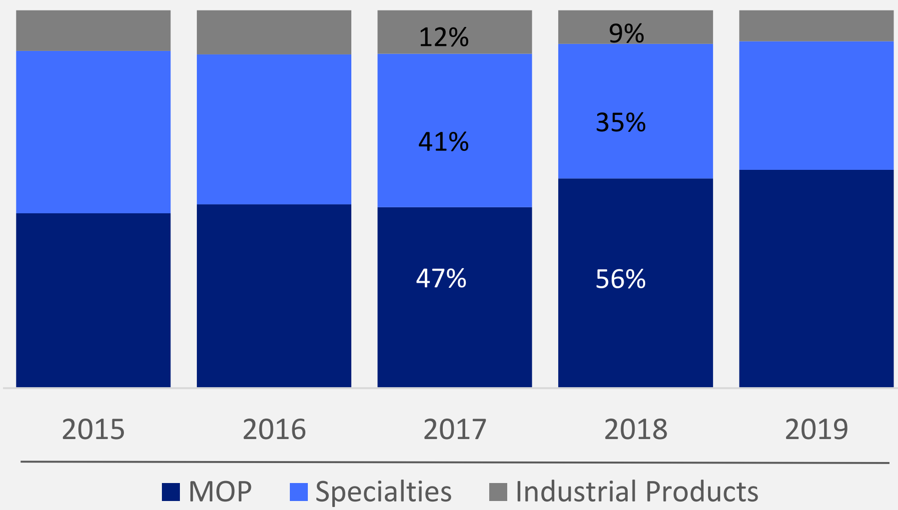
**=> OpsEx Program to compensate declining nutrient content after 2020**

# Partial closure of Sigmundshall Potash Mine

- Provisioned for the closure of the Sigmundshall Potash Mine in 2017
- Since redundancy program was finalized and dismissals announced, operating procedures disturbed.
- Retention payments of € 7m throughout H2 securing orderly closure
- However, production in H2 2018 will be affected
- We expect the EBITDA contribution of Sigmundshall in the magnitude of about minus 20 million Euros in 2018

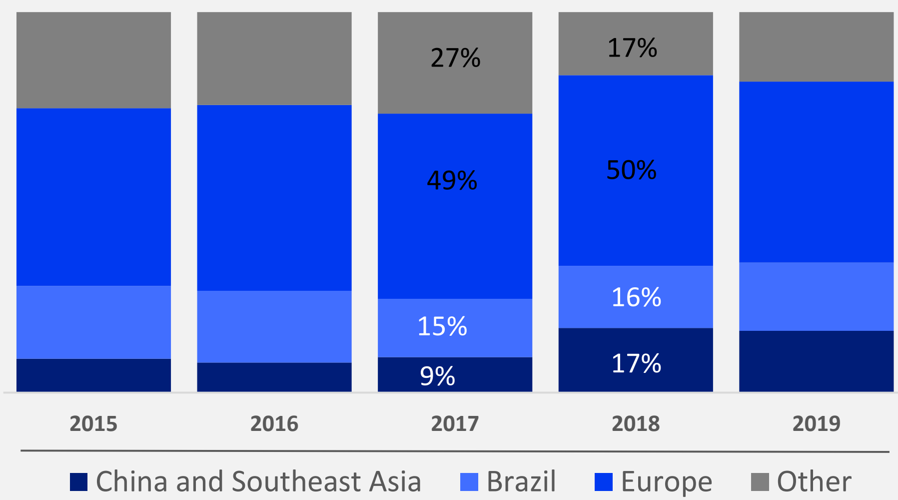
# Shift to lower priced products/markets – Impact on ASP

Product Mix




- **MOP vs. Specialties**
  - Ramp-up of Bethune leading to higher share of lower priced MOP compared to our specialties

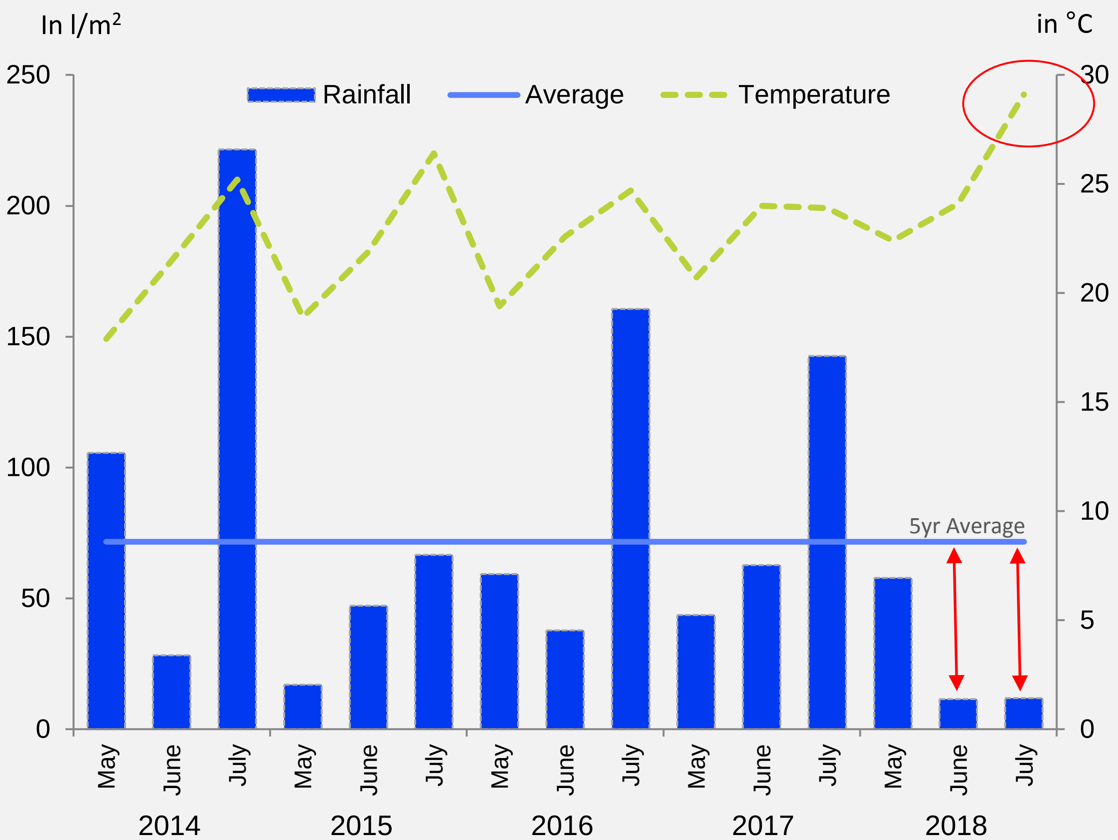
Regional Mix




- **Regional Mix**
  - Current MOP market price increases not fully reflected in K+S product portfolio due to increasing volumes shipped to China

# Record Summer in Germany - Implications

**May – July rainfall vs water temperature on a 5-yr comparison (Werra)**




Source: Wetterkontor.de

## Impact on K+S

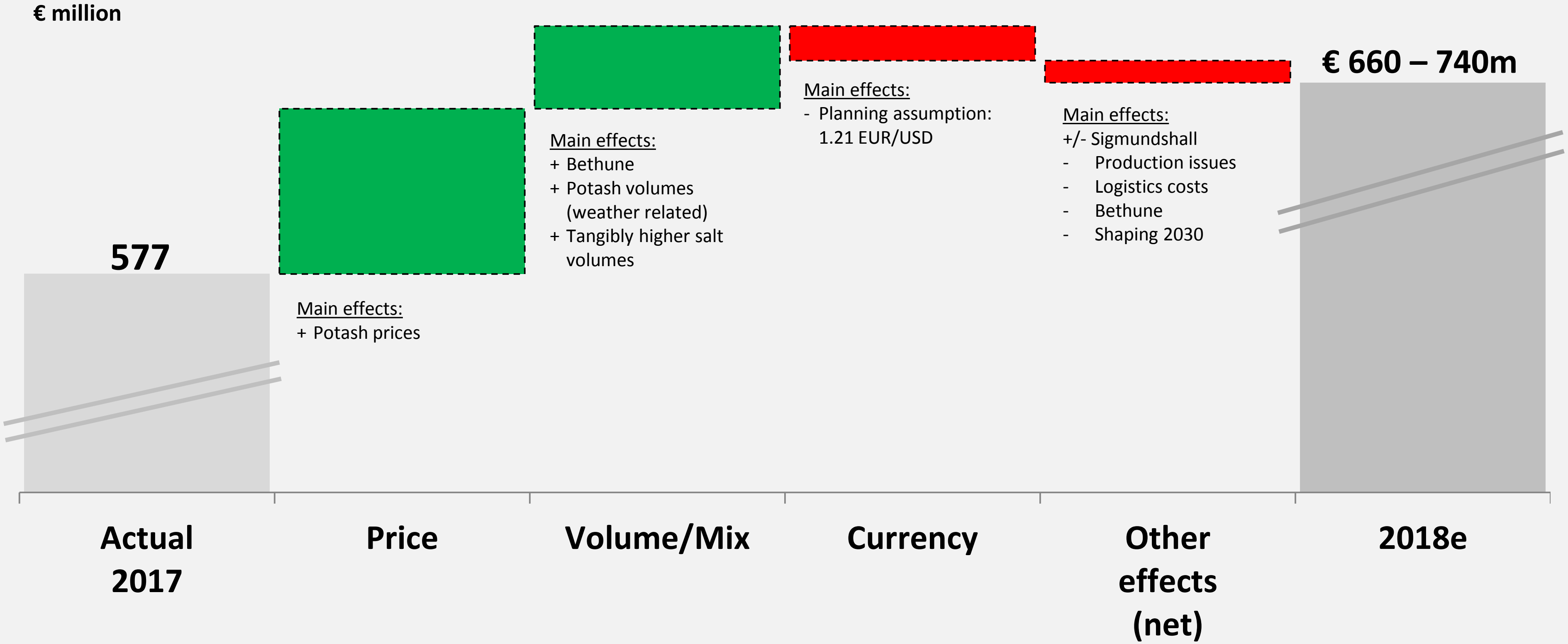
- Lack of rainfall leads to low water levels
  - Production in August secured due to KCF, basin capacities, and countermeasures
  - More intensive use of additional measures causing higher logistics costs in the amount of c. € 20m in 2018
- Inland shipping is already affected
- Tangible impact on capacities (ships only 50% loaded)
  - Partly higher logistics costs due to different routing and surcharges
- Impact on farmers' yield still not clear

# Appraisal of our current situation

- Problems have been discovered and addressed
- However, challenges in Germany are holding us back somewhat longer than expected
- The entire management team has started working off the list

- Bottom-up findings of our Shaping 2030 strategy have disclosed cost-cutting and efficiency potential

# Guidance 2018: EBITDA between € 660 – 740m




**Full year guidance is not including weather-related outage days**

**Cash unit cost per ton (2017: 214€/t) likely to be in the range of 205-210€/t in 2018**

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# Backup

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# Housekeeping items

## Additional information on Outlook FY 2018[1]

| | |
|---|---|
| ▪ Tax rate: | ~26-28% |
| ▪ Financial result: | ~-110 to -120 million EUR |
| ▪ CapEx: | below 600 million EUR |
| ▪ D&A (incl. Bethune): | 380 to 400 million EUR |
| ▪ Reconciliation (EBITDA): | ~-60 to -70 million EUR |
| ▪ Production outages: (based on normal rainfall) | ~0 days |

FY 2018 Guidance mainly determined by:

- Ramp-up at Bethune
- Capacity utilization at German plants
- Winter conditions in Q4
- FX and potash price development
- Cash unit cost per ton in PMP between 205-210€/t

[1] Incl.~ 4mt of potassium sulphate and potash grades with lower mineral content

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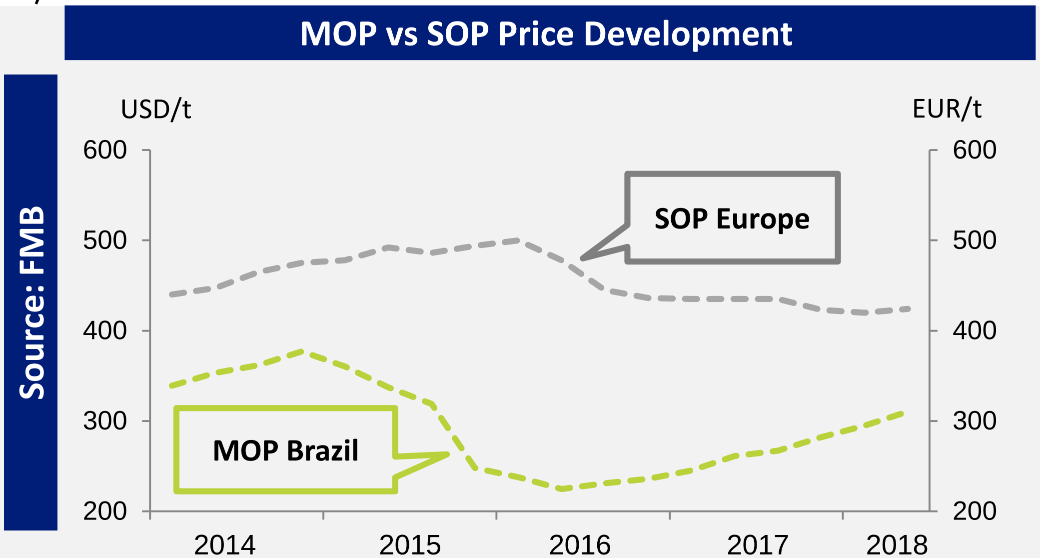
# Potash and Magnesium Products



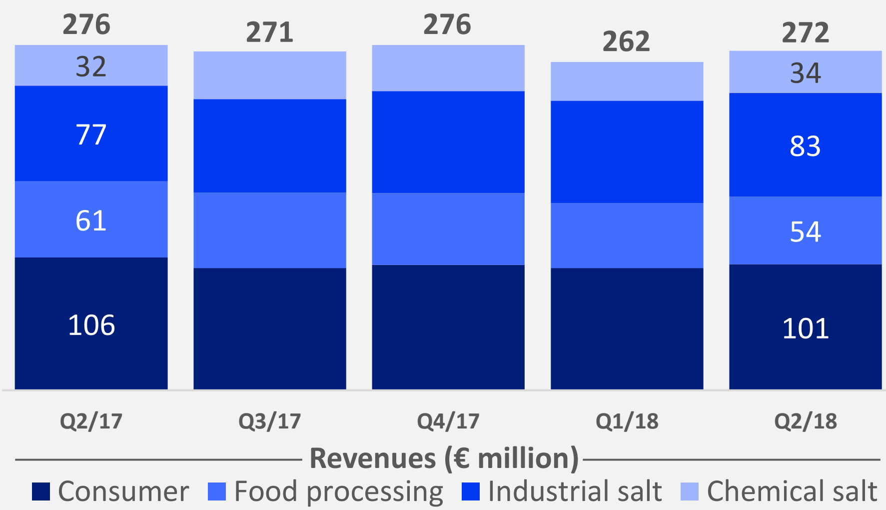

| € million | Q2/17 | Q3/17 | Q4/17 | FY/17 | Q1/18 | Q2/18 |
|---|---|---|---|---|---|---|
| Revenues | 387 | 358 | 485 | 1,704 | 489 | 441 |
| **EBITDA** | **71** | **42** | **74** | **269** | **121** | **91** |
| *Margin* | *18%* | *12%* | *15%* | *16%* | *25%* | *21%* |
| **EBIT** | **31** | **2** | **6** | **81** | **53** | **21** |
| Avg. selling price (€/t) | 252 | 253 | 250 | 254 | 252 | 257 |
| Sales volumes (m tonnes) | 1.54 | 1.41 | 1.94 | 6.71 | 1.94 | 1.71 |
| Cash Unit Costs [1] | 205 | 224 | 212 | 214 | 190 | 205 |

[1] (Revenues – EBITDA) / Sales volumes.

- **Market**
  - Good demand across all regions prevailing
  - In H1 imports to China up 14%, to India 20%, and to Brazil on last year's high level
  - Many producers are sold out towards the end of the year
  - Recovery of MOP prices continued
  - Specialty-prices remain strong
- **Financials**
  - ASP slightly higher than last year:
    - Positive market price development
    - However, product mix (more product from Bethune) and FX burdening ASP
  - EBITDA 27% up YoY, mainly due to higher volumes and prices
  - Cash unit costs flat YoY due to high cost discipline, despite production issues

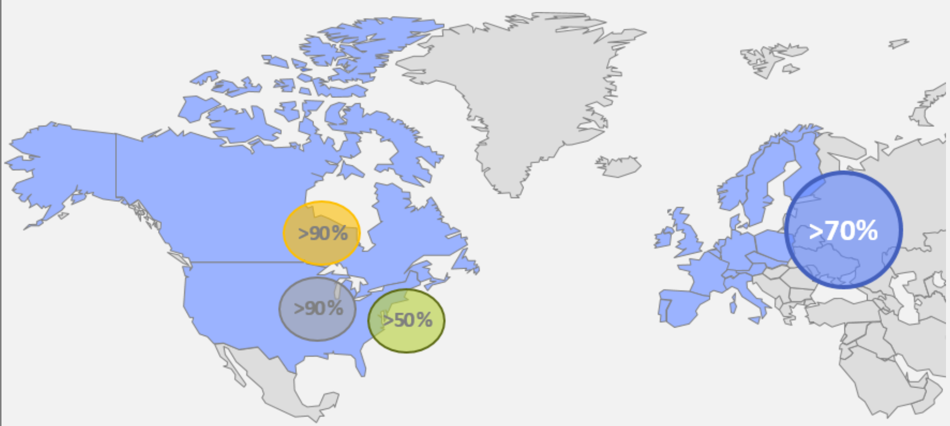
# Salt

Non de-icing




- **Non de-icing**
  - Revenues slightly up (+3%)
  - Volumes at 2.51 million tons compared to 2.26 million tons in Q2/17
  - ASP at €108 (Q2/17: €119)
    - Greater share of lower yielding industrial salt products
    - Negative FX impact

De-icing*




*Biddings regionally by percentage of completion

- **De-icing**
  - Increase in demand both in NA and EU
  - However, sales were partly still on old contracts with lower prices
  - Biddings underway, supportive indications for next season

# Financial Calendar

| | |
|---|---|
| Roadshow Frankfurt with CEO, KeplerCheuvreux | 15 August 2018 |
| Roadshow London with CFO, UBS | 15 August 2018 |
| **Capital Markets Day in Bethune, Canada (save-the-date)** | **5 September 2018** |
| Roadshow US West Coast, Commerzbank | 7 September 2018 |
| Roadshow Boston, Scotiabank | 7 September 2018 |
| Berenberg Food & Chemicals Conference, London | 12 September 2018 |
| Credit Suisse Annual Basic Materials Conference, New York | 12/13 September 2018 |
| Goldman Sachs/Berenberg German Corporate Conference, Munich | 24/25 September 2018 |
| Baader Investment Conference, Munich | 26 September 2018 |
| Bernstein Annual Strategic Decisions CEO Conference, London | 27 September 2018 |
| **2018 Annual Report** | **14 March 2019** |

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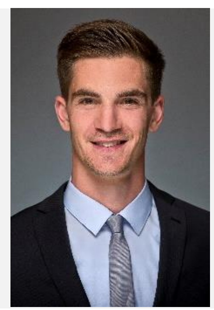

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