



K+S Group

Quarter Two 2018 Results Conference Call

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K+S Group

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Questions From

Markus Mayer, Baader Helvea

Christian Faitz, Kepler Cheuvreux

Thomas Swoboda, Société Générale

Thomas Wrigglesworth, Citi

Chetan Udeshi, JP Morgan

Charlie Webb, Morgan Stanley

Patrick Rafaisz, UBS

Neil Tyler, Redburn

Andreas Heine, MainFirst

Philipp Currie, DZ Bank



Introduction & Key Highlights

Dr. Burkhard Lohr, CEO

Good morning ladies and gentlemen and welcome to today's Q2 conference call.

During the next hour we will not proceed as usual. After a very short overview of Q2, we will spend some time giving you the background on our guided EBITDA range for 2018, which we have already pre-released last week. After that the team here in Kassel will be happy to take your questions.

Now let's start with the highlights on the second quarter on slide 3. When we are talking about the second quarter 2018 the emphasis is that the market conditions remain supportive and that is very important.

On the back of higher volumes from Bethune, increasing potash prices and solid salt demands our revenues and EBITDA rose compared to last year. Net profit is down, reflecting the Bethune related depreciation and interest charges which are now running through our P&L.

EBITDA could have been even better but topics to be discussed later also had a negative impact on profitability in Q2.

However, we were able to increase our key financial figures compared to Q2 2017. Our adjusted free cash flow improved and our financial leverage was down as a result of our very disciplined cash and cost management.

For 2018 we now expect capex to be below €600m and we are making good progress to deliver on our target to becoming free cash flow positive in 2019.

And now let's get started with our outlook on 2018 on slide 4. The already pre-released EBITDA range has not met market expectations, what happened? Some challenges are holding us back somewhat longer than expected. After discussing and assessing all findings over the course of last week we came to the conclusion that we need to adjust our internal forecast for the year.

While our former working on the outlook for 2018, expecting that full year EBITDA should be up significantly is still true we also had to accept that that the now guided range with an EBITDA mid-point of €700m is clearly below the latest consensus.

There were other findings which we need to talk about, please turn to slide 5. First of all let us talk about our new Bethune mine which has come a long way and I want to emphasise that we are making very good progress. From now on we have to get this mine to a stable production and continued improvement of quality.

We are going to increase production capacity and are commencing secondary mining very soon. However, Bethune is still in the ramp up mode, what does that mean? Please turn to slide 6.

While K2O content is excellent and that is very important and our Canadian team is doing a great job, we still have to be aware that we are ramping up the first greenfield mine in Saskatchewan in 40 years. This also includes a learning process on production, processing and shipping.



Product quality and availability is the most important task for us to ensure that we satisfy our customers. The hardness of our granulated product was a challenge until Q2; however, it is now fixed. Regarding the caking, we know precisely what to do and are already making progress. We expect top quality by the end of 2019 at the latest.

However, there will be an impact on this year's Canadian production. When you are modelling our forecast it might be helpful to indicate that we now expect our full year production in the range of 1.4 to 1.5 million tonnes, granular and standard.

Already in 2019 we intend to start secondary mining with a volume of 100,000 to 200,000 tonnes, making us confident to reach a total production of about 1.7 to 1.9 million tonnes. Nevertheless we confirm our former given targets to achieve a positive EBITDA contribution in 2018 already and to reach EBIT breakeven in 2019. Bethune remains an excellent investment.

However, Germany remains challenging and some issues take longer to be resolved. Please turn to slide 7.

Where do we stand at our German potash sites? A shortage of staff, high illness rates and a lack of motivation are still issues at the Werra which need to be managed. After changing the management team vacancies have been partly filled and illness rates have already been halved. We are now in the process to qualify the new colleagues and to fill the remaining open headcounts until the end of 2018. This also includes moving experienced colleagues from Sigmundshall to our Werra site.

Furthermore, machinery and equipment required extensive maintenance breaks, which led to downtimes in production. We have changed our maintenance schedules and started to replace outdated machinery. We expect 50% to be fixed by the end of this year and the remainder by the end of 2019.

The Werra site in Unterbreizbach is currently suffering from extraordinary low nutrient content as a result of crossing a field with lower quality. This will be resolved by the end of 2019.

And finally our site in Neuhof has lost about 50,000 tonnes of production in the second quarter on the back of lower roof stability. We have implemented additional safety measures and expect production to start to improve in the third quarter of 2018.

However, overall nutrient content in Germany is not improving, please turn to slide 8. In Germany we are operating mature potash mines and the overall K₂O content is diminishing. Compared to 2017 the annualised impact in 2018 will be about 100,000 tonnes, however this trend is not coming as a complete surprise and we have talked about that several times. And together with our consultants McKinsey, which is very experienced in this field, we are currently evaluating counter measures.

This programme, called operational excellence, has started with a site by site investigation and today we have already identified many opportunities to increase the efficiency across all sites. The current schedule implies an implementation starting in 2019 which should stabilise our current production in Germany on the back of significantly increased efficiency, showing the compensation of the effect as of 2020. Further details will be released on our capital markets day in September.



To give you some more insights into our production please turn to slide 9. In the past when we talked about volumes we were talking about the products sold to customers. Today we want to give you a better feeling for our production base.

In 2018 we expect the German production of about 6.4 to 6.5 million tonnes. Bethune is likely to add about 1.4 to 1.5 million tonnes of granular and standard products. Next year after the closure of Sigmundshall with an annual production of about 600,000 tonnes, we have scheduled a German production of about 6.1 to 6.2 million tonnes. This number includes an improvement on the back of the above discussed measures of about 300,000 tonnes to the German production.

Bethune should add 1.7 to 1.9 million tonnes including about 100,000 to 200,000 tonnes of low cost secondary mining and supporting our target to reach breakeven on an EBIT level. All in all our operational excellence programme is in favour of compensating the declining nutrient content in Germany after 2020.

Let's turn to slide 10 and the closure of Sigmundshall. Already at the end of last year we provisioned the closure of Sigmundshall in the magnitude of €40m. However, since we have finalised the redundancy programme and dismissals were announced our productivity in Sigmundshall is far from normal business. We therefore expect in 2018 a negative EBITDA contribution of Sigmundshall in the magnitude of €20m.

Some of you seem to wonder about the expectations of our average selling price in the potash and magnesium division for 2018. Please turn to slide 11. For our potash and magnesium division we expect this year's average selling price to be up slightly over 2017. While we agree on market expectations on the overall potash price development we also have to take into consideration that our product and regional mix is reflecting the production start of Bethune.

Compared to our specialties MOP is lower priced and an increasing part of business with customers in China and South East Asia is also having an impact on our reported ASP.

Finally, the weather is also having an impact on our current earnings. Please turn to slide 12. This year's record summer in Germany is stretching our logistics, mainly at the Werra site. The good news is that so far we have not been faced with any standstills related to the weather levels - the water level of the Werra.

The KCF is fully up and running and reducing the salty water - wastewater by 20%. Furthermore our additional measures that we implemented last year are also quite supportive.

The entire team is doing a great job, on the other hand inland shipping capacities are short and freight rates are increasing.

All in all the extreme weather situation is causing additional logistics costs, which we expect to impact this year's profitability by about €20m.

Finally, it is still too early to get a feeling for the impact on farmers' yields and the implications for our business.

What is our appraisal of the current situation? Please turn to slide 13. First of all we are pretty sure that the problems now have been discovered and addressed. However, we have to admit that our challenges are holding us back somewhat longer than previously



expected. Nevertheless the entire management team has started working on the list and the button up findings of our Shaping 2030 programme on efficiency and cost effects will be supportive in reaching our targets.

What are the moving parts of our EBITDA guidance for 2018? Please turn to slide 14. This year's EBITDA will be burdened by the topics we have just discussed. However, we will also be supported by higher potash volumes and prices. Profits from Bethune are increasing and EBITDA is scheduled to be positive in 2018.

However, currencies, higher logistics costs and the discussed production issues remain challenging. As said earlier, in 2018 we do expect some costs related to our new Shaping 2030 strategy which should turn into net savings already next year.

For the full year 2018 we expect good EBITDA to significantly improve over last year's achievements in the range of €660 to €740m. Please note that it implies no outage days in 2018.

As already mentioned the adjusted free cash flow showed a strong development and should improve significantly year over year.

Ladies and gentlemen there are many balls in the air, Bethune is the first greenfield potash mine for 40 years and the Sigmundshall closure, a mine that ran for more than 100 years, is also weighing on the organisation. Furthermore the Shaping 2030 related reorganisation is demanding and requesting the utmost of all our colleagues. Please note that this is the first time ever that K+S is facing such an intense cost cutting and efficiency programme. Shaping 2030 will transform K+S into a new company and rest assured that the target of becoming free cash flow positive in 2019 has the highest priority for the entire organisation.

As we will start road showing in Frankfurt and London tonight there will be plenty of additional opportunities to intensify the discussions. Thank you for now. Operator please open the lines for the first question.

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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 keypad. If you change your mind and wish to withdraw your question please press *2.

If you would like to ask more than one question please submit one question at a time, once answered we'll move onto your next question. You will be advised when to ask your question.

Please stand by while we prepare the first question.

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

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Markus Mayer, Baader Helvea

Good morning gentlemen. Three questions, I will ask one by one. Firstly, can you reminder us what would be the potential costs per outage day, as now the draw towards the summer remains as it is right now in Germany?

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Dr. Burkhard Lohr, Chief Executive Officer

Thank you for the question. First of all I would like to again mention that we have really improved the situation, if we would have had that summer two years ago we would have had significant outage days already. So we have really seen significant progress.

In the past we have given you a number of roughly €1m a day, but it would be slightly higher as the prices are higher than we had in 2016 for example when we had the significant amount of outage days. But the rough number of slightly more than a million is a good rule of thumb.

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Markus Mayer, Baader Helvea

Okay, and then the second question is on this lower nutrition content at your German mines. With this new fact in mind could you give us a new kind of cash breakeven point for your German mines?

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Dr. Burkhard Lohr, Chief Executive Officer

First of all that is not a new effect, I think we have talked several times about the situation that we have said of all mines with the perfect deposit because we make all our specialities out of this and we have high margins with our products. But on the other hand if we lose some production that has a significant impact because in addition to that we have high fixed costs. So it's not really new and we also talked about the fact that year by year the distance from the shaft to the face is getting longer and longer. So it's something that one should have assumed in a way.

But the cash cost per tonne - is of course affected by that as well, but I cannot give you a precise number. But again 100,000 tonnes in a year based on the volume of 6.5 million tonnes doesn't have such a significant effect. Most importantly is we see the opportunity with our operational excellence project with a lot of measures to stop this development from 2020 on. So the production number that we give you for next year should be a base which is good for at least the next couple of years.

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Markus Mayer, Baader Helvea

And then the third question is with these quality issues in Bethune but also in Germany could you quantify the EBITDA impact so far and what do you expect for the full year and how long do you also expect to remain at this into 2019?

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Dr. Burkhard Lohr, Chief Executive Officer



Yeah, first of all the quality issues are only Canadian topics, we have no quality issues in Germany; it is top quality that we produce. The only issue is that we are not producing currently the amount that we have expected at the beginning of the year.

But talking about the quality in Bethune we have taken the very important first steps, we have developed a binder which gives our granular product the hardness which is expected by the customer, so ticking in the box that it's done. And we are improving the caking situation month by month. I said the final step would be done at the end of last year with this cooling facility. But this I already taken into account with the numbers we have given you, so this year 1.4 million to 1.5 million and next year 1.7 million to 1.9 million tonnes is reflecting the development of these quality issues.

In Germany the situation that we have described at the Werra and in Neuhof, it's also totally reflected in the numbers that we have given you for the production. And in 2019 we will have solved the last of these mentioned issues.

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Markus Mayer, Baader Helvea

Okay then, I had a question on this - so we should expect then after 2019 that the ramp up of Bethune is running as expected, is this a fair assumption?

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Dr. Burkhard Lohr, Chief Executive Officer

That is a fair assumption, because only that that I described is hindering us from being on the expected ramp up curve. Once we have overcome the situation, that is improving month by month, and will be completely done by the end of next year we are back on the ramp up phase.

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Markus Mayer, Baader Helvea

Okay, perfect, thank you very much.

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Dr. Burkhard Lohr, Chief Executive Officer

You're welcome.

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Telephone Operator

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

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Christian Faitz, Kepler Cheuvreux

Yes good morning Sirs, a couple of detailed questions.

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Dr. Burkhard Lohr, Chief Executive Officer

Mr Faitz, the line is not very good, can you speak up a little bit.

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Christian Faitz, Kepler Cheuvreux

Do you hear me now?

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Dr. Burkhard Lohr, Chief Executive Officer

That's better, thank you.

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Christian Faitz, Kepler Cheuvreux

So a couple of questions please. Can you please elucidate the roof stability issues you have faced in Neuhof and what are your geologists saying about any future potential problems?

And then the second question ...

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Dr. Burkhard Lohr, Chief Executive Officer

Can we do one by one?

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Christian Faitz, Kepler Cheuvreux

Okay, go on, yes.

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Dr. Burkhard Lohr, Chief Executive Officer

Yeah the roof is - we ran into geology, we knew that this would be a problem, but we did not expect that we would lose so much volume. So the second quarter was affected with 50,000 tonnes and we now have adjusted our blasting and saving technology to diminish these effects, so we're expecting to be back on normal production in Neuhof in the fourth quarter.

So far our geological forecasts are not showing any further areas like this, but again, of course we are not foreseeing the whole area which is in front of us. But again we have found solutions but adjusting the normal way of drilling and blasting and saving to come back normal in Q4, starting in Q3 already.

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Christian Faitz, Kepler Cheuvreux

Okay and then a second question and there will be a third one, you mention the lack of motivation on slide 7 that is plaguing your workforce at the Werra sites, what have you done to resolve these issues other than moving the workforce from Sigmundshall down to the Werra sites? Thank you.



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Dr. Burkhard Lohr, Chief Executive Officer

Yeah, first of all we have not moved people from Sigmundshall to the Werra yet because we will produce until the end of this year. But we are very happy that we could convince more than 100 colleagues to move in January from Sigmundshall to several other German mines, so that will finally sort our open issue situation and most importantly they are qualified, so mining is not - there are not so many miners available in Germany any more, but that will help a lot.

We had a big programme, a motivation programme, the first and most important step I believe is that they understand and believe that this site has a bright future. Maybe you remember the mentioned event - a demonstration against the behaviour of our authorities which did not hand over our environmental approval in 2016, that was a very big event. And they really asked themselves do we have a future in this site. And I think we have done a lot of events, town halls, Q&As to get this confidence back. And a good indicator is always illness rates, we know that it's a mix of different effects and motivation is one effect, which impacts the illness rates. And we have halved this rate and we have seen even future improvements in July. So I am very confident that this will be history from next year on, definitely.

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Christian Faitz, Kepler Cheuvreux

Okay and then the last question, continuing with motivation McKinsey - why do you have to bring in McKinsey, are there any steps in operational excellence in mining where they are any better versus your own in-house mining know how? I mean I'm fully aware that consultants are often used as an excuse, but why not optimise the mature minds yourself?

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Dr. Burkhard Lohr, Chief Executive Officer

That's a very good and valid question, but it's not only the knowledge, it is the process as well. So if you really want to undertake what we are doing now, we question everything we are doing, every single step we are doing in operations and that we're doing on all of our mines. We need to have somebody who is managing this.

Also, we are not always talking about the big measures which deliver hundreds of millions, sometimes it's small ideas and somebody who has advised almost all mining companies worldwide brings a lot of good ideas and best practices into the company. And it is not only in identifying it but in changing the processes, changing the steps in production and in mining and that is a big programme ahead of us. And I think without experienced advisers that would have been far more difficult, maybe impossible, to do such a big move that we are doing currently.

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Christian Faitz, Kepler Cheuvreux

Okay thank you.

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Dr. Burkhard Lohr, Chief Executive Officer

You're welcome.

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Telephone Operator

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

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Thomas Swoboda, Société Générale

Yes, good morning gentlemen, I have a couple as well. Starting with the potash unit costs, in Q1 you hit €190 per tonne I think your target was below €200 for 2018, I perfectly understand that you have given that up for this year given the unexpected headwinds. My question is, is this target given up for the longer term, or is there any chance you can achieve this unit cost again, how about specifically in 2019 please?

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Thorsten Boeckers, Chief Financial Officer

Without giving you now a 2019 and beyond guidance, but I think the target for the cost per tonne is especially given up for this year 2018, because we have lower volumes, we have extra costs in order to resolve that, some of that will spill over in to 2019. But for the longer term we certainly haven't given up our target of cost per tonne going below €200.

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Thomas Swoboda, Société Générale

Right perfect, so just for the record 2019 you probably will still be above?

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Thorsten Boeckers, Chief Financial Officer

Again, we don't want to guide on 2019 now, let's first see the year 2018 and then what will spill over into 2019 or not.

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Thomas Swoboda, Société Générale

Right and a little bit more specifically on Sigmundshall, I mean from previous discussions I remember that you were commenting that Sigmundshall is rather breakeven or slightly negative EBITDA. Now we have this €20m of costs for obvious reasons and we'll lose the volumes from Sigmundshall from 2019 onwards if I remember correctly, how should we read the impact from Sigmundshall beyond 2018? Will you lose some EBITDA now or how should we see that?

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Dr. Burkhard Lohr, Chief Executive Officer

Yeah, first of all we have already taken the decision to close Sigmundshall earlier than originally planned. Originally we thought we would run that mine until 2020 and now we have seen the negative development due to the fact that we are the deepest operating



mine worldwide and efficiency went down quicker, as we assumed, so we have taken the decision last year to have the last shift on the 31st of December.

We have indicated, if I remember correctly, already in our Q1 call that we are running into a situation that there is a slight negative impact on profit, the profitability and cash flow level. So once the mine is closed - and now we expect €20m EBITDA negative, so once the mine is closed it's done because we have provisioned everything that we have to do after 2018 that is mostly closing the mine, flooding the mine, etc, so there is no running operational impact any more from 2019 on.

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Thomas Swoboda, Société Générale

Right, perfect. And the last question I promise, coming back to McKinsey I can understand your motivation getting a consultant, but if I look at your others line, it looks like you're having quite significant costs there, so it's not just that we see the disappointment in potash, but the others line is more negative than we expected it to be. So how big will the burden be from getting, again, consultants in the company again, should we be going for €70m negative for 2018 and perpetual or is the run rate of €50m something you would like to go back to?

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Dr. Burkhard Lohr, Chief Executive Officer

First of all I think I need to put that into perspective. That is not a reaction on the current situation. We have always - part of our new strategy Shaping 2030 is our synergy programme and we have promised you to save more than €150m by the end of 2020. And we have identified five different areas, one is SG&A, we are quite advanced here. Another one and the biggest one is operational excellence, so we have started that early, this year already. And we have some others that we want to elaborate on the capital markets day. And we are quite advanced here.

And we have engaged an advisor for SG&A and we are happy that we have done that. We have engaged an advisor for operational excellence as well. But we are not talking the numbers you just mentioned, we're talking about I think it's roughly €10m this year. So we will have a negative impact of cost this year but we will have a positive impact of savings already next year. So again that is not a reaction that is part of our strategy. It's a transition phase, yeah.

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Thomas Swoboda, Société Générale

Perfect. Thank you very much, understood.

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Dr. Burkhard Lohr, Chief Executive Officer

You're welcome.

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Telephone Operator



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

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Thomas Wrigglesworth, Citi

Good morning. The first question, if I look at the second half run rate for Bethune versus the guidance of 1.7 to 1.9 million tonnes for 2019, based on my rough calculations the run rate of the second half for Bethune to achieve, you know, the guidance for 2018 would actually have to be above the guidance for 2019. Is there some kind of maintenance scheduled that's put in place for 2019, or is it just conservatism as to why the 2019 number looks so low relative to a reasonable estimate of the run rate from the exit of 2018?

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Dr. Burkhard Lohr, Chief Executive Officer

I'm not 100% sure if I got your question, but we indicated for this year 1.4 to 1.5 million tonnes and we will add a number between 300,000 and 400,000 tonnes for next year in Bethune having in mind - taking into account that we still have not fully solved our caking issues, but we will have by the end of next year. So that has an impact, not in the possibility to produce, but in the supply chain.

So caking means a delay in unloading and that means that we cannot fully produce the volumes that we could produce. And we will have overcome the situation by the end of 2019, so that's why we are going back to the original ramp up curve by 2020.

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Thomas Wrigglesworth, Citi

Okay, so you're currently building significant inventories of unprocessed ...

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Dr. Burkhard Lohr, Chief Executive Officer

No, no, no, we are not building significant inventories; it is a small but very effective and clever additions to our mine, so a grinder pump is something which reduces the volume of the crystals and it is a very small additional facility. The cooling facility is the same; we're talking about small but clever additions.

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Thomas Wrigglesworth, Citi

Okay, because if I look at - you know in the first half, if I double what your first half production is that leaves me around 600,000 tonnes below the low end of your 2018 guidance, of which you say 100,000 of that 600,000 is Huludao, so 500,000 incremental tonnes look like they have to come from Bethune in the second half and if I assume that Bethune did, you know, again, which would kind of imply that if Bethune's run rate currently was 500,000 tonnes I'd get 1.5 million tonnes for 2018, right, as per your guidance. But that would imply that the run rate, the annualised run rate for 2019 - yeah is around two million tonnes which is below the 2019 production rate, that's my rough maths.



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Dr. Burkhard Lohr, Chief Executive Officer
Hmmm.

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Thomas Wrigglesworth, Citi

So you know it just looks like you're quite conservative on your 1.7 to 1.9 given that you're implying the second half of 2018 will be at around 2 million tonnes, hence my question?

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Dr. Burkhard Lohr, Chief Executive Officer

I think a little bit of conservatism is advised in the current situation. But again we are still in the ramp up and we might have the one or the other maintenance stop and the grinder pump and the cooling facility they are not big facilities, we're not talking about big capex, but we need to install them and that has an effect as well.

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Thomas Wrigglesworth, Citi

Okay, the second question if I may, could you provide a little bit more detail around the improvements you're expecting in Germany that add the 300,000 tonnes in 2019? Thank you.

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Dr. Burkhard Lohr, Chief Executive Officer

Yeah that is the whole bunch of measures that I have mentioned. So we will not have the impact in Neuhof for example that we have seen in the second quarter. We are talking about 50,000 tonnes here. We have a lost in the Werra, 100,000 tonnes in the first quarter, the same amount in the second quarter and we are not expecting that to get down to zero impact in Q3 and Q4.

So roughly we lose 400,000, 450,000 tonnes this year and by solving our HR issues I'm 100% sure that this will be solved by the end of this year; solving a good part of our machinery issues at the Werra and also having the K2O contents - not with the same impact in 2018 and having solved Neuhof we are very confident to have 300,000 additional tonnes available compared to 2017.

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Thomas Wrigglesworth, Citi

Okay very clear, thank you.

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Dr. Burkhard Lohr, Chief Executive Officer

Thank you.



Telephone Operator

The next question comes from the line of Chetan Udeshi, calling from JP Morgan. Please go ahead.

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Chetan Udeshi, JP Morgan

Hi, thanks for letting me ask a few questions. Maybe first just a clarification, can you give us what was the actual production from Bethune in the first half this year?

And the second question related to that is - if I take your full year guidance it still implies second half EBITDA to be up slightly versus the first half and when I go back and look for the past, you know usually the second half EBITDA is down more than 20% versus the first half, so why - what is going to drive such a better seasonality for you in the second half of this year versus the first half, when you know historically it's been more - you know of a reduction?

.....
Dr. Burkhard Lohr, Chief Executive Officer

Yeah let's start with your first question; we have produced slightly more than 700,000 tonnes in the first half of this year in Bethune, both products, standard and granular. And more important we have shipped this to our customers and now we have reached a quality which is fine for them, but again we have to improve the situation to have a perfect supply chain running, up and running.

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Thorsten Boeckers, Chief Financial Officer

Yes and with regard to what do we expect for the remainder of the year, I mean what you need to see is that Burkhard talked in the beginning for example about increasing MOP prices, this is not only MOP, this is also the specialty prices which are going up. So the realisation of these prices comes within the time lag, so this is what we will see in our accounts more in the second half of the year than in the first half and especially more than in the second half of last year.

And when you look back into the last winter we have seen a decent winter in most of our de-icing regions and we also expect higher volumes year over year and also better pricing in our salt business, and this is, from my point of view, the most of the rises.

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Chetan Udeshi, JP Morgan

And I follow up with one question on just the quality issue that you mentioned on Bethune, I mean given the quality issue how are you selling it to your customers? So you know in the sense - is there some sort of price mechanism to sell the volumes, or are you doing something to improve the quality before you ship for customers to accept it at the market pricing?

And maybe just the second question is I mean to some extent it seems that there is a - you know some sort of execution issues here because you know sometimes it is a German mine, sometimes there is quality issues, so is there something you guys are



doing about it in terms of just maybe improving the operational execution within the company at different levels? Thank you.

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Dr. Burkhard Lohr, Chief Executive Officer

Let's start with the second question, the operational excellence programme and we will give you a flavour of what we're doing, that's the real big one, comes to the perfect moment. Again, that was triggered by Shaping, but it is timewise perfect. So we really make it an efficiency programme of all our sites to get hands on these issues that we are reporting here.

The first question, we are selling our Bethune volumes on market prices. As now as we have the perfect hardness of the granular product we sell both products granular and standard on the current market price. From time to time we give some - we recover some extraordinary handling costs which might occur with the caking situation but that's all.

Does that answer your question?

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Chetan Udeshi, JP Morgan

Thank you very much.

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Telephone Operator

The next question comes from the line of Charlie Webb calling from Morgan Stanley. Please go ahead.

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Charlie Webb, Morgan Stanley

Morning gentlemen, just a couple from me. So first off, just on the volumes you've guided to production volumes being fairly stable I guess 2018 / 2019, sales volumes are obviously below that for this year, guiding I think 7.4 to 7.8 million tonnes, how should we think about sales volumes in 2019, do you still need to replenish your inventories and therefore something similar in terms of a proportion of sales volumes versus production volumes, that will be helpful, maybe if you could start there?

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Dr. Burkhard Lohr, Chief Executive Officer

Yeah, thank you for that question. First of all when we talk about the production volumes you're right, we are more or less in 2019 on the same level that we are in 2018, but it has another quality, we reduce the volumes from Sigmundshall, 600,000 tonnes and we indicated that we are losing money currently with that production. And we increase the volumes from Bethune, and importantly there is already some volumes from the secondary mining in Bethune incorporated here with very nice low cost production.



And due to the current situation we have to increase our inventory situation in the company, that's why we are expecting the lower sales volume than production volumes in 2018, that is not market driven, you know that the markets are bullish currently. And next year we should - the sales volumes should be on the level of the production volumes.

.....

Charlie Webb, Morgan Stanley

Okay understood. And then just on SOP volumes given the nutrient issues you guys are flagging around the nutrient content in the German mines, can you remind us what the SOP volumes were - or SOP and specialty volumes were in 2017 and now your expectations for 2018 and moving forward given the lower nutrient content you're getting out of mines?

.....

Thorsten Boeckers. Chief Financial Officer

So in 2017 our SOP volumes were about 700,000 tonnes, also keeping in mind that we have in the first quarter more than 20 outage days, 25 outage days which also affected mainly Hattorf which is mainly producing SOP.

So we will - the case of the nutrient content and this is why you are talking about nutrients is not only affecting KCL it's also affecting Kieserite and Kieserite is what we need for the production of SOP, so it will also slightly impact our SOP volumes. And yeah of course this also has a value effect because the price of SOP of course will be higher than MOP. But we don't have a split right now of the 100,000 in MOP and in SOP.

.....

Charlie Webb, Morgan Stanley

Would it be fair to suggest that SOP volumes will be down year on year, or even adjusting for that 25 outage days or something similar?

.....

Thorsten Boeckers. Chief Financial Officer

To be cautious I would say something on the level of 2017.

.....

Charlie Webb, Morgan Stanley

Okay and then moving forward with the nutrient problem or the availability of the nutrients in those German sites, is that a kind of continual degradation process as in that ability to produce more specialty and SOP grades becomes increasingly difficult because of availability, is that something that we should as a mix effect continue to expect to see in 2019 and 2020, that kind of negative mix effect, or is it once we've got through this year that is the run rate going forward?

.....

Dr. Burkhard Lohr, Chief Executive Officer



It should not have an impact on the mix; it only has an impact on the total volume. So if we want to produce the same - if we don't stop that development and we are going to do that, but then we have to source more rock salt to get the same amount of product out of it and process more rock salt. And that is the problem. It's related with higher costs that are diminishing productions. And we have a lot of ideas of how to change things to stop this development. But that is - you should not expect that before 2020. And that does not really impact our product mix.

.....

Charlie Webb, Morgan Stanley

Understood and then just lastly, one last question, can you remind us of the kind of - obviously you're giving Bethune production guidance for this year and next, when do you - I mean I presume 2020 you'd expect to get to the 2 million tonnes you kind of originally targeted. But is there a new timeframe to peak production and also what is peak production for Bethune, has that changed at all or is it still somewhere around - I think it was around 3 million tonnes. Maybe you can just update us with the latest?

.....

Dr. Burkhard Lohr, Chief Executive Officer

Yeah, as I said earlier, we will be back on our original ramp up curve by 2020. There is - the whole capacity is still 2.86 million tonnes and we will achieve that, we will achieve that by 2023 as originally planned.

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Charlie Webb, Morgan Stanley

Thank you very much.

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Dr. Burkhard Lohr, Chief Executive Officer

You're welcome.

.....

Telephone Operator

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

.....

Patrick Rafaisz, UBS

Thank you and good morning everyone, the first question - can I please follow up on the last one we just heard for the potash production bridge, that was a very helpful chart you provided for 2019, but thinking beyond 2019, can you confirm the around 2 million tonnes or 2.1 or so just mentioned before? And can we also add in the lost nutrient content for the 2020 bridge for total potash production? Thanks.

.....

Dr. Burkhard Lohr, Chief Executive Officer



Yeah, please don't force me to give you a number for 2021, '22 and '23, I gave you one number for '23, 2.86 million tonnes. And as we will overcome the last quality issue by the end of next year I think the development from 2020 to '23 will be quite linear, so you can make up your calculation.

I didn't get the second part of your question, sorry for that?

.....

Patrick Rafaisz, UBS

No that was just related to the nutrient content which you specify as minus 0.1 million tonnes in the 2019 bridge, should we add the 0.1 to 2020 here as well?

.....

Dr. Burkhard Lohr, Chief Executive Officer

No, no - you should not add but we do not need to reduce the 2020 numbers by another 100,000 - that is the target.

.....

Patrick Rafaisz, UBS

Okay, understood. The second question is on the operational excellence counter measures you talked about. We saw in the 2018 EBITDA forecast bridge the impact from one offs, should we model any material costs associated with these additional measures in the 2020 bridge - 2019 sorry?

.....

Dr. Burkhard Lohr, Chief Executive Officer

Give us a chance to talk a little bit more intensely and with more material about that on the capital markets day and that is not so far away, it will be at the beginning of September. But I think we have already indicated that we will see out of the whole synergy project a positive net effect in 2019. The savings will be higher than the costs that we have to take - yeah - achieving big savings.

.....

Patrick Rafaisz, UBS

Okay good. And the last question is on salt, obviously seasonally not an important quarter, but can you give us an update on how price negotiations went here so far and can you quantify the logistics costs you are assuming for 2018. You did become a bit more cautious right, saying EBITDA 2018 will be flat now versus 2017?

.....

Dr. Burkhard Lohr, Chief Executive Officer

So we are quite far with our bidding - in the bidding season, we have - in Canada we are already done. We are only - at the East Coast we have 50% of our bids done, in all the other areas we are between 70 and 90%, so we have quite a good indication of where the price is tending to and we are seeing a slight decrease at the East Coast, but in all other areas including Europe, very nice increases of prices.



So that gives us hope for the next season, which as you know will have its biggest impact in the first quarter. But with this price base and with the low inventories at our customers, besides the US East Coast we are quite optimistic.

But freight costs are still an issue, they rocketed in the first quarter, we have not seen the calming down of the situation in the second quarter, we now expect that they stay on that level and we have started, as we have indicated in the Q1 call, transferring these costs to our customers via higher prices. That is a process which had a significant delay of course, which means incurring of the cost and then agreeing and achieving the higher prices. So that is why we see here a significant negative impact on the salt business. But that I believe is not only a K+S issue, that is true for all our peers as well.

.....

Patrick Rafaisz, UBS

Okay, thank you very much.

.....

Dr. Burkhard Lohr, Chief Executive Officer

Thank you.

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Telephone Operator

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

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Neil Tyler, Redburn

Good morning two from me please, both relating to I suppose price mix effect. Apologies if I missed this in your earlier answers, but with regards to the lower ore grade that you've encountered, could you help me understand, or help us understand at what point that became apparent and how you at this point have confidence that that is not going to recur over the remainder of the year or over particularly '19 and '20? That's the first question.

The second one relates to the Bethune output ...

.....

Dr. Burkhard Lohr, Chief Executive Officer

Maybe do one by one, that was not really a question related to our average selling price, but again I understood that you were asking about the decreasing K2O content in our German mines and that is something that we have not talked about in every single call because this is an ongoing situation. But if this comes together with all the other issues that have been mentioned earlier it of course has other relevance than in the past.

So that is something that every mine in the world is facing, where are the shafts, of course in the best areas of the deposit. And the more you move away from the shafts you - the possibility is high that you come into areas with lower K2O content and that is the case with K+S as well in Germany.



It's completely different in the solution mine that's why we are not talking about such a situation at Bethune for example. And we have in the past not given you a number, but this time, we said that it is special situation and we want to be even more transparent than normal. That it is why we have indicated we are seeing 100,000 tonnes.

At the same time we have started this operational excellence programme and we have not only identified opportunity to save significant costs in operations, but also to work against this development. And that is why we believe we can stop that by the end of next year.

Does that give you a flavour?

.....

Neil Tyler, Redburn

Yes that does, thank you. So this - I mean this has been happening in the past but on this particular occasion the incidence is just greater?

.....

Dr. Burkhard Lohr, Chief Executive Officer

No, not greater, it's together with all the others it has a higher relevance.

.....

Neil Tyler, Redburn

I see, okay, thank you. So moving on to Bethune in that case, the - I don't know if you'll be able to, but can you help us sort of breakout the - and perhaps in a euro per tonne quantity the price mix effect of the product that you are selling out of Bethune and how that impacted the average selling price in the business?

.....

Dr. Burkhard Lohr, Chief Executive Officer

We have tried to give you an indication for that on the slide 11, that shows the change in our regional mix and in our mix between MOP and specialties between the step up we would say between '17 and '18. I'm not able now and here to give you an exact euro number per tonne, maybe therefore you should come back to IR.

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Neil Tyler, Redburn

Okay, thank you.

.....

Dr. Burkhard Lohr, Chief Executive Officer

You're welcome.

.....

Telephone Operator



The next question comes from the line of Andreas Heine calling from MainFirst. Please go ahead.

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Andreas Heine, MainFirst

Yes, thank you for taking my question; I basically would like to ask two. Starting with the first one, looking on your slide 9 where you give the break up, what we can expect from the potash production in Germany in 2019. I think the Sigmundshall mine is - minus 600,000 tonnes is all KCF so not affecting the specialties so that should not change the mix. Then looking on the KCF ...

.....

Dr. Burkhard Lohr, Chief Executive Officer

May I answer that directly, it makes it easier for me? Thank you very much. No that is both, that is MOP and specialties a 50/50 split roughly.

.....

Andreas Heine, MainFirst

Okay, than coming to the KCF, it was said in former calls that the KCF plans in the first place solved the wastewater issue, but it does not contribute to the earnings, so it's fair to assume that these 100 kilotonnes from the KCF plant are basically neutral if it comes to the profitability from '18 to '19?

.....

Dr. Burkhard Lohr, Chief Executive Officer

That's true because we said - yeah it's not neutral because - let me start with the following, we said and we have calculated the KCF - that way with the additional volumes we gain we are able to cover the operational costs. So it's a zero game if you wish. We do good for the environment and we save costs with having an opportunity to reduce the salty waters by 1.5 million cubic metres and on the other hand we gained some additional product and that is - we end up in a zero game.

But as we are ramping up the KCF this year we have not the whole quantity available that we are expecting in a completely up and running status which will be the case next year with roughly 200,000 tonnes. And the additional 100,000 tonnes is the ramp up of this KCF if you wish. So with only 100,000 tonnes this year we have a slight negative impact and next year it will be zero.

.....

Andreas Heine, MainFirst

Okay, understood. But the main achievement then if it comes to the bridge is taking out the €20m of Sigmundshall, is the improvement by 200 kilotonnes in the German mine, 100 you lose with the lower K2O content and then 300 you get with the additional improvement measures you will take from this year, from this year to next year, is that the right reading. So that effectively a little bit from KCF but other than that it's 200 kilotonnes with a decent profitability which you should add in next year.



Dr. Burkhard Lohr, Chief Executive Officer

Yeah, that's the right way to read it.

.....

Andreas Heine, MainFirst

And on top of that you have potentially 400 or 500 kilotonnes more that you have to build up in inventories this year to be able to deliver in the high seasons in cover next year?

.....

Dr. Burkhard Lohr, Chief Executive Officer

Right, right and it's both in Germany and in Canada.

.....

Andreas Heine, MainFirst

Both, okay thanks. The very last one on SOP, so having in mind what you said in Sigmundshall and having the lower K2O content in mind what will be then the future SOP capacity do you have let's say mid-term, so after 2020 when all these measures are in place, I have in mind that your capacity is 800 kilotonnes, you produced 700 last year, as much probably this year, but what will be mid-term your SOP capacity?

.....

Dr. Burkhard Lohr, Chief Executive Officer

Yeah, our target should be coming back to the 800,000 tonnes.

.....

Andreas Heine, MainFirst

Okay, despite Sigmundshall being off?

.....

Thorsten Boeckers, Chief Financial Officer

Sigmundshall Andreas produced MOP and Kieserite, but the Kieserite from Sigmundshall was not used for the SOP production, we sold it straight into the Kieserite industry.

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Andreas Heine, MainFirst

Thank you. So SOP should stay at 800 kilotonnes then. Thank you very much these were my questions.

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Dr. Burkhard Lohr, Chief Executive Officer

Thank you.

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Telephone Operator

The next question comes from the line of Philipp Currle, calling from DZ Bank. Please go ahead.

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Philipp Currle, DZ Bank

I've three questions if I may, the first one, you don't give a guidance for the cash unit costs beyond 2018, but for 2018 you forecast cash unit costs of €205 to €210 per tonne, so the midpoint would be €207, which is €7 below, the 2017 level of €214. With the increased contribution of Bethune there would be a cash unit cost to rise faster than we would see in the 2017/'18 period? That's my first one.

.....
Dr. Burkhard Lohr, Chief Executive Officer

First of all the additional volumes in Bethune in '18 compared to '17 is higher than '19 to '18, but there is an additional effect, a positive effect with the secondary mining which is very low cost production. So it's difficult to precisely figure out what the effects on Bethune in 2019 is, of course we have an idea about that but please give us the time until we guide the whole set of numbers for 2019. But you should expect a positive development.

.....
Philipp Currle, DZ Bank

Okay. And the second question is on Neuhoef again, you said that you lost 50,000 tonnes in Q2 due to the roof stability problem, when do you expect to resolve this problem, in Q4, or does that mean that you will lose a similar volume in Q3 as in Q2?

.....
Dr. Burkhard Lohr, Chief Executive Officer

No it should be less and that is all modelling into the numbers we have given you for 2018 and Q4 should not be affected any more.

.....
Philipp Currle, DZ Bank

Okay. And the last question it's more a current question, what expectations do you have regarding the contract negotiation with Chinese and Indian potash fertiliser customers and will K+S play a stronger role in these negotiations as a result of the start-up of Bethune?

.....
Dr. Burkhard Lohr, Chief Executive Officer

Yeah I think we are still a couple of years away from the stronger role of K+S in that game. Maybe when we are fully ramped up in Bethune and again, even with the upper end of the production guidance for Bethune that we gave you there is another million tonnes to come until 2023.



So - but the core of your question is what is the outcome? I think it's well known that we are talking about a range of between \$40 and \$70 per tonne and there was a short rumour the Canpotex had already agreed on \$40, I didn't believe that and the next day they said that was not true. Obviously part of this negotiation that rumour, but it's impossible to predict and outcome. So it's very probable that it will be in that range, but no idea will it be closer to \$40 or closer to \$70.

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Philipp Currle, DZ Bank

Okay, thank you for the clarification.

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Dr. Burkhard Lohr, Chief Executive Officer

Somebody told me that this was the last question. I would like to thank you all for being on the call. I'm aware that the situation is not that easy, I think - we hope that we have helped the situation with the higher transparency that we have given you.

Is there another question still?

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Lutz Grüten, Head of Investor Relations

There was another question that has disappeared, are they still on the line?

.....

Dr. Burkhard Lohr, Chief Executive Officer

It's not the case, sorry for that, but this gentlemen will have the opportunity later on to ask. So it was an intense call, I really enjoyed the questions because it helps us to make the situation transparent.

You see us here sitting and still being optimistic for the time to come and we are looking forward to seeing you very soon in Frankfurt and in London. Thank you and bye-bye.

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END

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