

# WORLD TELEVISION

K+S

Quarter 3 Conference Call  
11th November 2015

**K+S Group**

**Dr Burkhard Lohr, Chief Financial Officer**

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

**Thorsten Boeckers, Head of Investor Relations**

**QUESTIONS FROM**

**Yonah Weisz, HSBC**

**Peter McKay, Exane BNP Paribas**

**Paul Walsh, Morgan Stanley**

**Sophie Jourdier, Liberum**

**Heinz Müller, DZ Bank**

**Joel Jackson, BMO Capital Markets**

**Stephanie Boswell, Merrill Lynch**

**Markus Mayer, Baadus Helvier**

**Michael Schaefer, Equinet Bank**

**Andrew Benson, Citigroup**

**Neil Tyler, Redburn**

**Peter McKay, Exane BNP Paribas**

**Yonah Weisz, HSBC**

**Rajesh Singla, Société Générale**

***Presentation***

**Dr Burkhard Lohr, Chief Financial Officer**

Ladies and gentlemen, good morning and welcome to our Q3 conference call. As usual I'm here with our Head of Finance and Accounting, Jörg Bettenhausen, and our Head of IR, Thorsten Böckers.

We are very pleased with the overall performance of the K+S Group and I would like to start with a look at the highlights of the quarter on slide 2.

The EBIT came in at last year's level, while the EBITDA was even better, up 7%. Our Salt business showed another impressive quarter, while the business unit Potash and Magnesium products remained robust in a fairly adverse environment.

The progress on the Legacy site can be best described as on track, on time, and on budget.

We still expect a significant increase of the Group EBIT for the full year. We have trimmed down our range slightly, but kept the lower end where it originally was at €780m. From my point of view this once again underpins the potential of K+S to withstand market challenges.

Our 2020 EBITDA goal of €1.6bn is also still in place.

Let's now turn to slide 3 to look at our financial performance in more detail. The operating result was driven by our business unit Salt, better prices in salt and positive currency effects offset lower sales volumes in the business unit Potash and Magnesium products.

The overall financial result has improved significantly for reasons discussed in previous conference calls, the bond repayment in September 2014 and the capitalisation of interest costs for Legacy. Now please turn to slide 4.

Here you can see the breakdown of the components driving our EBIT. In addition to price, volume and currency effects, there was a positive contribution from the second instalment of an insurance payment last year which should also be considered. We have also seen an escalation in opex for the Legacy project as planned. Now slide 5 please.

Our operating cash flow generation has remained strong. Capex went up as planned, reflecting our investment in the Legacy project. This investment has resulted in an increase in our financial debt. On top of that the interest rate adjustment for provision in the first quarter of 2015 almost impacted the overall net debt. Please turn to our Potash business on slide 6.

The average selling price remains stable quarter on quarter and increased further last year. This was mainly due to our unique product mix and positive currency effects. Adversely there is a continued weakness in global potash markets, driven by low soft commodity prices and cash flow issues for Brazilian farmers. Our Specialty remains robust, especially SOP pricing. Slide 7 please.

The main reason for the decline in EBIT was higher depreciation, an increase in Legacy opex as planned and the missing contribution from the insurance payment. In addition we had lower sales volumes during the quarter. Hot weather and high temperatures in Germany in August and September resulted in the suspension of production at our Werra plant.

Adjusted for all these effects Q3 EBIT development was very robust, especially the lower volumes and the higher depreciation impacted cost per tonne. In addition Q3 is typically a quarter where we do a lot of maintenance work. This inflates cost, especially compared to the first half of the year.

Ladies and gentlemen what does that all mean for our 2015 volume and cost guidance? Due to the current weak demand in potash markets we no longer expect to make up for the lost volumes in the remainder of the year. This also means that due to lower volumes we will not be able to reach our targeted cost per tonne at the 2013 level. Now please turn to the Legacy project update on slide 8.

The development of our flagship project is still on time and on budget. We have spent about 70% of the capex allocated to the project. All main contracts with suppliers have now been signed, which means we have further reduced project risks. We are still very confident that the site will be commissioned in summer 2016, while still remaining in line with the allocated budget of C\$4.1bn. More details on our Legacy project will be presented tomorrow during our Capital Markets Day at Merkers which will also be webcast.

Let's move to our Salt business on slide 9. Our Salt business has once again delivered an extremely strong performance for the quarter. Thanks to strong pricing our operating results for the business unit increased to €43m for the quarter; we have already seen early buying activities in the de-icing business and make good progress on tenders for the coming winter season. Non-de-icing products all contributed to the unit's success. we were able to accomplish higher prices for food grade salt and industrial salt without the expense of volumes.

Now please turn to slide 10 for the 2015 guidance. Underlying assumptions for the 2015 full year guidance have changed slightly. Due to previously mentioned lower sales volumes in Q3 and a weakness in the MOP market we no longer expect to sell 7 million tonnes this year. We see sales volumes coming in slightly below the 6.9 million tonnes sold in 2014. As a result we have trimmed down revenue and bottom line ranges at the upper end. However, we continue to expect a significant increase in EBIT versus last year. The lower end, €780m remains in place.

From my point of view this is extremely good news for our shareholders after some guidance cuts by our peers.

I want to emphasise once again that this is a result of our unique product mix portfolio, Salt, Specialties and MOP all on a broad regional basis. Now please turn to slide 11 for a brief look at the various elements of the EBIT range.

Our EBIT development for 2015 is hampered by the absence of non-recurring insurance payments; higher incremental opex for the Legacy project and in increase in depreciation. In addition lower volumes in Potash are on the negative side. The positives are clearly the price development in both business units and favourable currency effects.

Ladies and gentlemen thank you for your attention; we will now open the line for 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 keypad. If you change your mind and wish to withdraw your question please press \*1 again. You will be advised when to ask your question.

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

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**Yonah Weisz, HSBC**

Yes thank you and good morning I have a couple of questions and I believe you prefer to have them one by one.

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**Dr Burkhard Lohr, Group Financial Officer**

Absolutely, thank you.

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**Yonah Weisz, HSBC**

Very good. I guess my first question group would be on costs. I'm just wondering if you could confirm in this quarter how much of the costs are due to Legacy? And could you discuss, aside from the Legacy cost what were the other drivers out of your potash costs being so extremely high compared to the past couple of years?

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**Dr Burkhard Lohr, Group Financial Officer**

Okay, thanks for that question. First of all the Legacy opex was in Q3 roughly €15m, and we have not changed our view for the development of the opex on the Legacy for the full year this year and for the development of next year.

But I think the main portion of your question was what has happened to our cost per tonne in this quarter. And I think the good message first of all is the underlying development has not changed against Q3 2014. But we had some non-operational effects, first of all depreciation went up by €4 per tonne; you know that we besides Legacy have some investments in our environmental obligations which slightly drive our depreciation.

00:10:48

We had some currency effects of €13 per tonne and as I stressed during my speech we have not achieved the target in volume which of course has an effect on the cost per tonne. That's why we peak in a way this number this year. But I know you are aware of that but I'm not getting tired of repeating, if you compare our number with the others you have to take into account that we are not a pure MOP player, we have Specialties which have another cost base and we show you a blended number. And I think for the full year 2015 still we see a number which allows nice and comparable profitability. I hope that answers your question.

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**Yonah Weisz, HSBC**

Yes it touches on the main points. I guess on the last question on the costs, you said you will not be able to meet your target of having full year per tonne costs equal or lower than 2013, where do you see full year 2015 out of that tonne per head being mixed?

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**Dr Burkhard Lohr, Group Financial Officer**

Yeah, our current projection is that it will be a bit more than €220 for the full year 2015, and that again is due to the missing of our volume targets of 7 million tonnes.

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**Yonah Weisz, HSBC**

Okay, very good. I have two more questions possibly, first of all on exchange rate sensitivity, I don't know if you've discussed this before in the past, but for the Salt business would you be able to give an impact on the EBIT for a change of 5 euro cents plus or minus, how much would that impact the Salt EBIT?

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**Dr Burkhard Lohr, Group Financial Officer**

Sorry we are not differentiating our currency effects between Potash and Salt, but you should be aware that our Salt business is either European business with European sales and costs, so no currency effects or the bigger portion is the North American business with US dollar cost and sales. So the only thing which is in our focus when we talk about hedges are the paid dividends from North America to Europe. And the effects are due to this structure significantly lower than what we see in the Potash business where we have an almost 100% cost base and a roughly US\$1bn sales per annum. So the Salt business is smaller translation while we are seeing and hedging transaction risks in the Potash business.

Long answer, but I could make it shorter and say sorry we're not giving a number for the Salt business but it's minor.

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**Yonah Weisz, HSBC**

I see, okay. And maybe just a last question and this could be more just out of curiosity, I see that you have reduced your revenue guidance on the lower end of the range by €50m, yet the EBIT lower range is unchanged, and I'm just curious are those €50m of missing revenues essentially with no margin whatsoever, or is it some other way or some other internal change which has allowed you to make up the margin of those €50m missing revenues on the lower end of your range, of your new range?

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**Dr Burkhard Lohr, Group Financial Officer**

No you should not expect any margin changes, only due to the fact that we have changed the revenue band slightly differently to the earnings band. But I can assure you we continue to have cost discipline; maybe later on we talk about Fit for the Future, if not in this call definitely tomorrow on the Capital Markets Day. We are not seeing weaker margins.

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**Yonah Weisz, HSBC**

Thank you very much.

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**Dr Burkhard Lohr, Group Financial Officer**

You're welcome.

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**Telephone Operator**

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

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**Peter McKay, Exane BNP Paribas**

Morning everybody, I've got three or four questions but they're all directly related. I'll just go through them one by one if that's okay. You talked about the production problems at the Werra site in the third quarter if that was the only problem why didn't you sell it into the sort of lowest sort of distribution cost market, i.e. Europe? Your European volumes were actually the lowest since the 4th quarter of 2009. So can you talk a little bit about the demand environment please in the European market?

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**Dr Burkhard Lohr, Group Financial Officer**

Yeah, the demand environment is very healthy, we are not seeing any significant pressure on the prices, of course we have seen a kind of shyness of our clients due to the uncertainty on the worldwide MOP market. We believe that this is a temporary development caused by the weakness in Brazil and Asia are taking advantage of that, everybody is waiting for the contracts in China and later on in India. And that has an effect into Europe, but as in the past with a significantly lower magnitude.

But in August and September we had this extremely hot weather and with a low water fall in the Werra and that effected our production and we easily have lost this production. And as you know usually we sell our entire production and that has an effect on sales volume in our Q3 in Europe.

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**Peter McKay, Exane BNP Paribas**

Okay, but you were able to - there was still a market for product that you were exporting, it was actually just European farmers in general that were a little reluctant to commit at that stage?

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**Dr Burkhard Lohr, Group Financial Officer**

Yeah, we tend not - we cannot quarter by quarter change our sales targets, we have reliable relationships to clients all over the world and we cannot not deliver into overseas just because of this shortage, which was of course not expected, of product in one quarter.

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**Peter McKay, Exane BNP Paribas**

Right, and so the next question sort of ties into the cost per tonne. Should we be aware of a sort of significant mix effect on the freight side in the third quarter that perhaps might balance up in the fourth?

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**Dr Burkhard Lohr, Group Financial Officer**

No the freight did not have any impact on our cost per tonne. It's what I said earlier, the three items, depreciation, currency and volumes have driven the cost per tonne number, but freight is still and we believe that will continue for quite a while on a low level.

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**Peter McKay, Exane BNP Paribas**

Okay, because if I take out DNA, if I look at absolute costs, not cost per tonne and I take out the DNA and I take out the Legacy opex, so I'm just looking at the sort of cash cost effectively, that's actually gone up year on year and quarter on quarter despite lower volumes and obviously included in that is some material cost, energy costs and so on and so to me it seems as if there must be something else that effected that cost ...?

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**Dr Burkhard Lohr, Group Financial Officer**

Have you taken into account the currency effect? Because as I said underlying there is - the numbers are almost precisely on the same level as it was in Q3 '14?

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**Peter McKay, Exane BNP Paribas**



Okay, but the currency - the vast majority of your cost base is in euros is it not?

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**Dr Burkhard Lohr, Group Financial Officer**

Yeah, but due to the way we show you our numbers the full pictures, sales minus EBIT, we have an effect in it. It's a bit complicated on the phone; maybe we have an opportunity to give you further input.

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**Peter McKay, Exane BNP Paribas**

That would be great, thank you. And the other part of my question, sorry about this, is those production problems did they affect your SOP availability to any greater extent than MOP, or how was SOP production in the third quarter?

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**Dr Burkhard Lohr, Group Financial Officer**

Werra Valley is a production site where we have all kinds of products; all products were affected, almost with the same magnitude.

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**Peter McKay, Exane BNP Paribas**

Right and then the last question from is is if I look at the pricing that you've reported and it's particularly noticeable in the overseas number, relative to the sort of lagged pricing effect that we see reported in the trade press, it does look as if you've had a little bit of a less of a positive effect from SOP in the last two quarters, particularly versus the first quarter when you acknowledged a lot of SOP share. Would you say Q1 was particularly strong, Q2 and 3 were particularly weak in terms of SOP share and the real level is somewhere in between or am I getting that wrong?

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**Dr Burkhard Lohr, Group Financial Officer**

No SOP price is still stable and we're not seeing any weakness of the SOP prices. And as the MOP at the same time is under pressure as we all know, we are talking about high premium, if you have made your own mess and you end up with changes it must be related to volumes but the prices are still on a still healthy and good level.

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**Peter McKay, Exane BNP Paribas**

And from a volume share of SOP versus MOP is there anything that we should note in the last three quarters particularly high SOP in Q1 share of volumes and particularly low in the last two quarters or not?

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**Thorsten Boeckers, Head of Investor Relations**

Yes Peter it's Thorsten here, I wouldn't say it's particularly higher but we had a bit of a stronger first half of this year in SOP than we had last year. But what you shouldn't

forget is that when you compare it with 2014 we also have this spill over effect from the accident in the Untrbreizbach mine. So I guess the year over year comparison - it's comparing against a bit weird volumes because of the mine accident last year.

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**Peter McKay, Exane BNP Paribas**

Wonderful, thank you very much indeed.

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**Dr Burkhard Lohr, Group Financial Officer**

You're welcome.

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**Telephone Operator**

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

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**Paul Walsh, Morgan Stanley**

Yes thanks morning guys, two questions if I can. The first is on the Salt business, de-icing salt, I think you guys are still guiding towards 14 million tonnes this year. And if I back it up that's implying you're going to do about 4.4 million tonnes in the final quarter which if my maths is correct is growth of some 20% versus the fourth quarter of last year. And given volumes were down in Q3 and it looks like the weather's fairly mild at this stage how you were feeling about 14 million tonnes in de-icing? Why don't I leave it at that and then ask the second question afterwards if that works?

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**Dr Burkhard Lohr, Group Financial Officer**

Yes first of all it's too early to predict an impact of the weather for the volume guidance because we have not expected to deliver much in November. Granted this is an extraordinarily mild November but as we all know that can change quickly. December we'll decide whether we achieve the 14 million or not - but as we speak there's no reason not to believe in that.

And it's every year the same we have to make an assumption for the winter weather and this is always the average of the last ten years, let's see what December will bring.

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**Paul Walsh, Morgan Stanley**

Okay I hear you but I'm just wondering if there's anything you're seeing that would warrant you to expect a 20% increase in year on year volumes in de-icing salt in the fourth quarter?

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**Dr Burkhard Lohr, Group Financial Officer**

No absolutely not.

**Paul Walsh, Morgan Stanley**

Okay fine so it feels like that's more a stretched target than sort of locked down at this stage?

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**Thorsten Boeckers, Head of Investor Relations**

Yes but Paul I mean we have seen a good pre-buying in the third quarter already, it looks a bit down on last year's quarter which was a good quarter already, this is why it's not going up and this gives an indication for where the Q4 could come out. And given that we only have milder weather now here in Europe this doesn't mean that we won't see any winter at all. So we are not too pessimistic on the goals we have given out.

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**Dr Burkhard Lohr, Group Financial Officer**

And I wouldn't call it a stretched target.

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**Paul Walsh, Morgan Stanley**

Okay no problem that's clear. And my second question was around pricing, we were picking up from PotashCorp that they're at least entertaining the possibility of looking at shipping to Europe and their New Brunswick facility and obviously European prices have remained remarkably solid. Have you sort of picked up from any other players that sort of incentive given the price differential getting product down to Brazil versus coming over to Europe, I guess not at this stage but if you've heard anything?

And secondly on pricing in your overseas markets I'm just surprised that pricing was sequentially so resilient in dollar terms given the weakness we've see in Brazil is that just because you're selling more SOP in the mix versus Q2 for example, ergo the average blended price is still pretty stable?

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**Dr Burkhard Lohr, Group Financial Officer**

First of all you know that the only product that could be shipped from wherever into Europe is MOP and Europe is a Specialty market, some products like Kieserite and Korn-Kali, SOP, etc, that we can deliver but others cannot.

Secondly everybody should be aware that Europe is a very fragmented market with small deliveries to many clients, we have the logistical network. If somebody from overseas is talking about deliveries into Europe most probably into the big harbours, into the NCK industry, we have seen that in the past and that will continue to happen but it will not affect our market. That is our reading of that.

The second part of the question could you please repeat?

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**Paul Walsh, Morgan Stanley**

Yes it's just your overseas average selling price in the third quarter was \$337 a tonne, sequentially that looks very solid and if I look at spot prices for example in Brazil they just kept sliding down for MOP, so I'm just wondering if the composition of your volumes in the third quarter was more higher mix products just to keep that pricing stable? I mean what I'm really asking is you know are you going to see that overseas price coming under pressure in Q4 and into next year because of what we've been seeing in Brazil?

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**Dr Burkhard Lohr, Group Financial Officer**

Yes we have a slight adjustment in our volumes that's correct; of course we cannot decouple from the MOP price development overseas. And I think I stressed it in my speech we are seeing this weakness and we believe this will not entirely end after this quarter.

But on the other hand we have seen this development in the industry, in the history and it will most probably find the bottom with the new prices in China and India and the underlying demand was strong and that is important for the market. And the suppliers are willing to adjust capacity necessary and that means the mechanisms are in place and therefore I'm optimistic for the near future.

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**Paul Walsh, Morgan Stanley**

Thank you very much guys.

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**Dr Burkhard Lohr, Group Financial Officer**

You're welcome.

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**Telephone Operator**

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

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**Sophie Jourdier, Liberum**

Good morning and thank you, I've got two questions and I'll give them one at a time. The first question is just again on your Specialty portfolio I wonder whether you could give us an indication of how the prices of Kieserite and Korn-Kali have been going?

And also just in terms of volumes of SOP, Compass Minerals were talking about quite a sharp slowdown in demand for SOP recently; I just wondered whether you'd seen that as well or whether your view is that that's just a North American effect? So that's the questions on the Specialties.

**Dr Burkhard Lohr, Group Financial Officer**

Yes first of all we have seen stability in all Specialities, which are dominated by European deliveries so the development was stable for all the products. Secondly SOP volumes we have not seen a weak - decrease in demand in Specialty and it's always difficult for us to comment on commentaries of competitors; but our view is that the current weakness in the market is a pure MOP problem which was caused in South America.

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**Sophie Jourdier, Liberum**

Okay thank you and then the second question I had just a modelling question just wondered whether you could help me on the outlook for depreciation charges at a Group level for FY'16 and '17? And also what the sort of capex outlook at a Group level is for next year?

And finally I know you've outlined them before but just to remind me what the Legacy operating cost outlook is for next year? Thank you.

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

So Sophie what we see for '16 is an increase in D&A because of the further investment into environmental protection measures in Germany. We also do see an increase because of the commissioning of Legacy in summer so that's a minor effect in 2016 but the D&A will be at around a good €300m for next year.

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**Sophie Jourdier, Liberum**

Okay thank you and presumably it goes up again in FY'17, is there any sort of early indication on the sort of level as we're getting the full year of Legacy?

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**Dr Burkhard Lohr, Group Financial Officer**

'17 of course is the first year of full production of the Legacy side, the depreciation will go up significantly, but it's too early to give you the precise number.

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**Sophie Jourdier, Liberum**

Okay thank you. And then just on capex and Legacy costs for next year?

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

The capex question so we expect this year around €60m impact on the EBIT out of legacy so the opex. We have always said this is going up to a bit more than €100m or north of €100m in 2016 and this is still the case.

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**Sophie Jourdier, Liberum**

Okay thank you.

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**Dr Burkhard Lohr, Group Financial Officer**

And capex has gone down slightly on the level of roughly €1.2bn for the Group.

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**Sophie Jourdier, Liberum**

Brilliant, thank you very much.

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**Telephone Operator**

The next question comes from the line of Heinz Müller, from DZ Bank, please go ahead.

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**Heinz Müller, DZ Bank**

Good morning I would like to ask a question regarding your injection permit; you have a permit to inject liquid saltwater residuals into the underground which terminates at the end of November this year. So have you received the new permit already or what is the status quo with regards to this issue? Thanks.

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**Dr Burkhard Lohr, Group Financial Officer**

Yes thank you for that question. You're correct we have requested for permission in April this year for the new, we call it deep well injection permission, we have to do that every fifth year and it runs until the end of November. You have to be aware or take into account that this is a very complex approval process, we're talking for example about a very complex 3D model that it takes its time to check and approve is natural, it's normal so we have not - in the past we have always, always received the permission very shortly before the old one went off.

And we expect that this will be the case this time again so there's no reason for us to believe that we will have no permission from the 1st of December on, we assume the production will continue. And by the way this is the last time that we have to follow this process when the ..... is planted into place, as you maybe remember we are working on an agreement which gives us long term secureness in the Werra Valley on how to proceed in the future.

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**Heinz Müller, DZ Bank**

Okay thank you.

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**Telephone Operator**

The next question comes from the line of Joel Jackson from BMO Capital Markets, please go ahead.

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**Joel Jackson, BMO Capital Markets**

Hi good early morning from North America. On sarcasm there.

Just back to Salt, some of the commentary I am confused by - so we talk about prices being up and then later on you talk about a normalisation of Salt prices in the Mid West. Now we know that Salt prices are down mid single digits in a lot of the parts of the middle of North America, can you talk about, when you say normalisation do you mean that Salt prices are down in the Mid West, in Canada but then have risen more on the East Coast so that you have an increase, can you just talk about the mix please?

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**Dr Burkhard Lohr, Group Financial Officer**

Yes thank you for the question and sorry for forcing you to get on the phone that early. Yes good news we have almost entirely finished on bidding processes, on the East Coast it's a bit behind but the picture we can already give because it will not change significantly due to the missing 20% of bidding processes in the USA East Coast. We are up with the prices on the East Coast, we are up with the prices slightly in Canada, we have stable prices in Europe and actually the Mid West was really a bit below the previous year.

Maybe you remember that we had two strong winters in a row but not in all areas of the same magnitude that is the reason for this development. But overall we are seeing a significant positive price development and that's key.

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**Joel Jackson, BMO Capital Markets**

Okay and following up on a prior question about volume that 14 million tonnes would be a stretched target. We know that awarded volumes have been down a fair bit in many parts of the US and we notice some of your competitors have actually been going out and gaining share. So I mean if we look into early '16 would we expect Q1 volumes to be down a fair bit year over year, assuming normal weather, because Q1 '15 was a pretty normal winter weather quarter so will we expect Q1 '16 to be maybe down volumes assuming normal weather?

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**Dr Burkhard Lohr, Chief Financial Officer**

As we said we always assume an average winter, and we do this because there is no chance to assume anything else. We do this for this winter season as well and that does not mean that volumes will go down compared to the first quarter of 2015.

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**Joel Jackson, BMO Capital Markets**

Well only because the awarded volumes are down in North America from bid season and then maybe some competitors are going for share. So I'm just wondering is apples to apples normal winter weather in Q1 versus what was a normal weather in Q1 '15, could you see lower volumes? So beyond just the weather, some of the other things going on in the market?

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**Dr Burkhard Lohr, Chief Financial Officer**

I'm not sure if I got your point, can you please repeat?

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**Joel Jackson, BMO Capital Markets**

Sure. So Q1 '15 was a normal weather for salt in North America. And if we assume Q1 '16 is similarly normal when we look at awarded volumes in North America they're down significantly, 20%, 25% in bid season. And we think some competitors are going for more share. So if Q1 of '16 is a normal weather year over year like it was this year, will K+S sell lower salt in Q1?

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**Dr Burkhard Lohr, Chief Financial Officer**

No we should be on the level of last year because the competition is already done when I talk about the status of the bidding processes. We are completely done in the Midwest, in Canada and almost done in Europe. And there are only 20% missing at the East Coast. So we know about the competition and the outcome of the bidding processes, and we can predict with your assumption that we will have a strong first quarter in '16, with volumes comparable to what we have seen in the first quarter '15.

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**Joel Jackson, BMO Capital Markets**

Okay. My final question back on Potash and Legacy. What can you tell us about the Coke (?) off take in terms of maybe mix, white, potash, industrial, I guess this is mostly Ag, timing? And should we look forward to you signing other offtakes in out of Legacy to try to lock up more of the supply? Thanks.

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

Joel I think that the line is not that good. Can you repeat the question again please?

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**Joel Jackson, BMO Capital Markets**

Sure. What can you tell us about the Coke (?) offtake out of Legacy? So in terms of seasonality, the number of years, the mix? And then will you be looking at more offtakes out of Legacy?

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

Into other regions or ...?

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**Joel Jackson, BMO Capital Markets**

Just other customers. New offtakes of other customers from Legacy, will that be a strategy going forward?

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**Dr Burkhard Lohr, Chief Financial Officer**

So we had to find a partner like Coke (?) in the US because we have no real network of sales, no owned sales organisations and we believe that we have found a right and a strong partner. And we have agreed not to give details about this contract, hopefully you're understanding that it's normal in a B2B business not to make visible what the precise conditions are.

But in all the other target areas of the Legacy product we have a strong sales organisation. But that of course does not mean that it can make sense to find another comparable partner, but we are not that dependent on it. And we are very happy with the current setup and ready to start our Legacy volume sales in early '17. I hope this answers your questions because unfortunately the line is really not very good.

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**Joel Jackson, BMO Capital Markets**

Okay thank you very much.

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**Telephone Operator**

The next question comes from the line of Stephanie Boswell from Merrill Lynch. Please go ahead.

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**Stephanie Boswell, Merrill Lynch**

Hi good morning, thanks for taking the questions. I just wanted to go back to some earlier questions that we had on unit costs. If I work back to 2014 and I strip out the depreciation on a per tonne basis and look purely at the opex, I get to unit costs having gone up by around €30 per tonne which is a reasonably large increase. Now in the release you've commented that higher maintenance spends and also on the call you said the impact of FX has impacted on that. But can you give us some additional colour on that maintenance element, whether or not it was completely remedial for the production stoppages that you had in the third quarter, or whether we should expect some of this maintenance capex to actually be recurring going forward? That's my first question.

.....

**Dr Burkhard Lohr, Chief Financial Officer**

As we said the only reason for - I come back to maintenance. The only reasons for the unit cost number in the third quarter compared to the third quarter '14 to go up was a volume effect, the currency effect and the depreciation. That means that all other effects have levelled out. We had higher maintenance for the reasons I just mentioned during my speech. We had advantages in other cost areas, energy and of course the effect from Fit for the Future, a good portion from the cost savings of Fit are delivered by the Potash business. So that's why I sum it up in the underlying you can compare the numbers from the Q3 '14 and '15.

.....

**Stephanie Boswell, Merrill Lynch**

Okay thanks. And on the 350 million in capex spend that you had in the third quarter are you able to provide us a split in terms of how much of that was allocated to Legacy and how much was maintenance capex on your existing operations? So then if I think about maintenance capex going forward what should be a reasonable level of maintenance capex spend once Legacy is ramped up? Thanks.

.....

**Dr Burkhard Lohr, Chief Financial Officer**

A good 250 out of that - 250 to 260 were Legacy.

.....

**Stephanie Boswell, Merrill Lynch**

Okay so around 100 million in maintenance capex per quarter is a reasonable number to assume going forward?

.....

**Dr Burkhard Lohr, Chief Financial Officer**

The rest is maintenance and the environmental cost - capex programmes. But please don't force me to split that again. We are so transparent already.

.....

**Stephanie Boswell, Merrill Lynch**

Okay fine. And just one final question, on the Specialty market, on SOP in particular, are you able to give us an update on the current supply situation for SOP particularly in Europe going into the fourth quarter and also into 2016? Has anything changed in terms of the supply outlook there?

.....

**Dr Burkhard Lohr, Chief Financial Officer**

Well I think the good news is as I said earlier, but so important to understand that when we talk about the weakness in the potash market that it's an MOP problem. SOP of course a much smaller market. It's stable not only pricewise, volume wise as well. And there are no signals that would make us believe that this will change significantly. Of

course you have always some ups and downs quarter wise but nothing worth mentioning or showing any trends. We are very happy with this development. We are not seeing significant additional competition in our markets, so again to sum it up stable price and volume wise.

.....

**Stephanie Boswell, Merrill Lynch**

Okay but given that MOP is a key input at least for a portion of the SOP production, could you just give us a sense of where you think a reasonable level of the premium should be going forward? I understand that it is on relatively elevated levels at the moment and may not collapse imminently, but I'd be keen to understand what you think is a more reasonable level of the premium going forward, especially if we see deterioration or further deterioration in the MOP pricing environment?

.....

**Dr Burkhard Lohr, Chief Financial Officer**

Yeah it's difficult to answer. In the past of course that was a pure premium play but that has changed because many clients with the end user farmers are seeing the value of SOP against other fertilisers, and so in a way it's not only a pure premium discussion any longer and that's why it is almost impossible for me to give you let's say a healthy premium, and of course that is always a function of what is the development of MOP. Should we see recovering MOP prices, of course that will lead to shrinking premiums because we think the price, the SOP price, will take a further stable development. But I'm not seeing a number which I would like to indicate as the one on normal premium.

.....

**Stephanie Boswell, Merrill Lynch**

Okay, that's helpful. Thanks for your commentary.

.....

**Telephone Operator**

The next question comes from the line of Markus Mayer from Baadus Helvier. Please go ahead.

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**Markus Mayer, Baadus Helvier**

Good morning gentlemen, two questions as well, again on SOP sorry for this. But recently I saw the news I think it was reported in A..... that you have cut your Korn-Kali price by 5% for November and December, and now you say that basically the price environment and also the volume environment is more or less stable. Is this just a seasonal effect or any news on this or any kind of flag on this would be helpful?

And secondly on your dividend and you said at your Q3 statement that potentially you will come up with a higher dividend for the full year. Is your dividend payment linked to the cash flow or to the earnings development? And should we then also expect a similar

improvement in the earnings from dividend? And maybe also an update on your dividend policy would be helpful.

And then lastly coming back to de-icing again. You said this bidding process has been finished so basically this means Q4 and Q1 next year are locked in, but beyond that any kind of bidding process which also has locked in volumes for prices beyond Q1 2016? That is the last question, thanks.

.....

**Dr Burkhard Lohr, Chief Financial Officer**

Let me start with the dividend and the de-icing question. Thorsten will then take the SOP - the Korn-Kali question.

Yeah our dividend policy has been and continues to be a payout ratio between 40% and 50% on our net profits. And that means if we guide and expect, and I think we can be sure about that, higher earnings and higher net profit that means - and we're going to stay in that range, that we are going to pay a high dividend or propose the AGM a higher dividend, you know there will be the final decision. And we are planning to continue to stay on this with this policy.

De-icing, yeah that is always a business which is more or less short term. We have no real visibility what the volumes and prices will be after the next season, but that's how this business works. And indication is always what was the weather like or the winter like or the season like last year, because then we see strong or low stocks at the clients and the competitors and that impacts then the next season. But you're right, there is no real long visibility but again that's the nature of the business.

.....

**Markus Mayer, Baadus Helvier**

For an add on question on the dividend, so last year if I'm right the dividend increase was basically linked to your cash flow. So then for this year basically that you have been sticking to the old dividend policy of a payout ratio on the net profit. And then looking forward that's also done to the net profit.

.....

**Dr Burkhard Lohr, Chief Financial Officer**

I'm sorry but I have to correct you slightly here. We always linked our dividend to the net profit and we paid 47% of the 2014 net profit as a dividend this year. And maybe you mixed up our argument of the previous year that we cut dividends due to the contribution to finance Legacy, but that did not mean that we have entirely changed our dividend policy. And that was history, we are fully financed, we are on a good track with Legacy, we will not see an overrun of the budget. That's why we are again back in the range. We are already in the payment for '14 and we continue to do so with the next dividend.

**Markus Mayer, Baadus Helvier**

Okay perfect.

.....

**Thorsten Böckers, Head of Investor Relations**

Markus with regard to Korn-Kali pricing I mean we said that Specialty pricing was pretty stable in the past quarter. And you know I don't know where the 5% comes from I must admit, you say A..... yeah but I don't know where they got it from. So I mean if we offer in the preseason our customers an incentive for early buying, that's what we do. If we were to compare the prices we are offering year over year there wasn't much of a change. So it is still the case.

.....

**Markus Mayer, Baadus Helvier**

Then maybe this was the pre-buying business, okay.

**Thorsten Böckers, Head of Investor Relations**

This is the idea of the price scuffle, yeah.

.....

**Markus Mayer, Baadus Helvier**

Yeah of course, that was the reason why I asked if it's a seasonal effect. Okay.

.....

**Telephone Operator**

The next question comes from the line of Michael Schaefer from Equinet. Please go ahead.

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**Michael Schaefer, Equinet Bank**

Thanks for taking my question, three if I may. First one a clarification question, on your TUC statements for 2015 you mentioned earlier are you referring to the TUC excluding Legacy costs of more than 220 or including? Because previously back in August you always referenced to TUC excluding Legacy opex when you said back in August that this may come in below the 2013 level excluding Legacy. Just a kind of clarification on this one what the 220 means, or more than 220?

.....

**Thorsten Böckers, Head of Investor Relations**

To translate TUC it's cost to tonne right?

.....

**Michael Schaefer, Equinet Bank**

Yeah units costs, yeah.

**Thorsten Böckers, Head of Investor Relations**

Okay yeah, this is the number excluding Legacy.

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**Michael Schaefer, Equinet Bank**

Excellent. Okay thanks. Second question is on other costs I was surprised to see them significantly down quarter over quarter by €5m while you have baked in or should have baked in kind of PotashCorp related type of cost inflation on all the advisers etc. So what's the reason behind this and what should we expect then in the fourth quarter on this line because it was made deviation here on this one? Second question.

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**Dr Burkhard Lohr, Chief Financial Officer**

Yeah it's really difficult to give guidance for every single P&L line. There is lots of movement in a big group like ours so maybe I should pick up one item you mentioned, the transaction. I think in the last call we said that it will be a low double digit number. We have now of course no visibility as we move the outcome, and we are talking about roughly €10m so a bit below what we expected earlier. But please allow us not to guide every single P&L item.

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**Michael Schaefer, Equinet Bank**

No just sort of clarification on the third quarter thank you is helpful.

And the last question is given that tomorrow we are all meeting at the Capital Markets Day, I wonder whether you could already kind of sneak preview what we should expect from tomorrow's Capital Markets Day, where are your focus on is and on the Capital Markets Day tomorrow.

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**Dr Burkhard Lohr, Chief Financial Officer**

Yeah we hope that you all are looking forward to that. We will first of all show you the environment where we are working in, and for everybody who has not seen the mine you have to do so because that is really impressive. Then we want to let you look a bit behind the scenes. Four or five Board members will be present and will report about their responsibilities, but of course you should not expect any bombastic news, it will be just give you more transparency and more visibility of our business. And of course lots of opportunity to ask further questions.

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**Michael Schaefer, Equinet Bank**

Okay will do so. Thank you.

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**Dr Burkhard Lohr, Chief Financial Officer**

For those who are there.

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**Telephone Operator**

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

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**Andrew Benson, Citigroup**

It's actually Andrew Benson here so thanks for taking the questions. On credit in Brazil, is that having any sustained impact on your volumes or are you too far upstream for that to matter is the first question?

.....

**Dr Burkhard Lohr, Chief Financial Officer**

No that is of course the source of the current weakness in the MOP market. The different issues which are not really Ag related issues or purely Ag related issues have weakened the prices there, and as I said earlier I would interpret it the way that some Asian markets have taken advantage of the situation and we of course have been impacted as well. And looks like we are not going to sell our entire production this year for the first time after a long history of selling 100%, but if you wish our participation in stabilising of course a lower magnitude than others because our MOP share is not that big. We are proud to have to a broader portfolio. But yes Brazil has an impact on us as well.

.....

**Andrew Benson, Citigroup**

But it doesn't affect your receivables; you're not extending credit or anything like that to -?

.....

**Dr Burkhard Lohr, Chief Financial Officer**

Oh sorry, no we are insured and we have not had any bad receivables for years and that has not changed currently.

.....

**Andrew Benson, Citigroup**

Okay. I saw some of the announcements on river levels in Germany still being low, but you appear to indicate that there are no productions issues now, that everything is back on stream. I just wanted to confirm that?

.....

**Dr Burkhard Lohr, Chief Financial Officer**

No that was an extreme situation in August and September. Although we have for the season not much rain that does not impact us any longer. And there is unfortunately a lot of rain to come the next couple of days, but that was only due to the extreme situation in August and September.

.....

**Andrew Benson, Citigroup**

Okay brilliant. And lastly on the variants between - obviously you've changed that somewhat, is the scope of variants mainly to do with salt and weather, or are there other factors? Just interested in what your rationale for the peak and the trough of your guidance is?

.....

**Dr Burkhard Lohr, Chief Financial Officer**

Sorry I didn't get that. Which variants?

.....

**Andrew Benson, Citigroup**

Yeah, you've given a target range for full year EBIT and I was just interested to know what the criteria that drove the top and the bottom were?

.....

**Dr Burkhard Lohr, Chief Financial Officer**

Yeah we have seen that the situation in the market has further deteriorated and that's why we have cut the upper end. But we are happy to be quite sure, and we are in the middle of November, to achieve an EBIT which is still in the range of - in the previous range, but not in the upper area as we have indicated earlier by the way, and we feel very comfortable with the range between 780 and 830.

.....

**Andrew Benson, Citigroup**

Yeah I know but is the sort of weather - I mean I just wondered what the main factors were in the creation of that range.

.....

**Dr Burkhard Lohr, Chief Financial Officer**

The main factor was the weakness of the MOP business. I would even say the only factor.

.....

**Andrew Benson, Citigroup**

Okay. All right, well thanks.



**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. Three small ones from me please. Firstly a point of clarification on the additional Legacy opex for 2016 you mentioned to us and something over €100m. Just to clarify does that exclude additional depreciation, that €100m figure?

Secondly you mentioned you would discuss it tomorrow but I'll give you the opportunity today. The Fit for Future programme, can you give us your estimate of where you expect to get to in terms of year on year savings in 2015 versus '14, and whether there's any more savings to come in 2016?

And then finally the agreement that you've signed for the take off of Legacy, obviously you're not disclosing the terms but perhaps you could give us an indication whether, you know, when we're modelling the revenues from that project whether it's a sensible assumption to just basically the Vancouver FOB price as we forecasted? Thank you.

.....

**Dr Burkhard Lohr, Chief Financial Officer**

Yeah first of all the number that Thorsten just gave you was the number without any depreciation to opex, the Legacy number.

Fit yeah it's always a bit tricky. You know that we started giving numbers compared to an all budget but you might remember the €120m savings that we have achieved in '14 compared to '13 which additionally with the €30m that we have already sustainably saved in '13 we have achieved a number of more than €150m. And this year we are going to have a slight increase of that savings. And we expect for '16 even a further slight increase of the savings compared to '15.

Please don't force me to give you a number, it will not be a significant further increase but it should show you that we are not finishing our efforts to not only have cost in '15 but to find ways to further save costs. And I think I can already today elaborate on that we are thinking what will be next. You know that Fit runs off after '16, we are looking for further opportunities to even increase cost savings in '17 and '18 as well.

.....

**Andrew Benson, Citigroup**

Okay thank you.

.....

**Telephone Operator**

The next question comes from the line of Peter McKay from Exane.

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**Dr Burkhard Lohr, Chief Financial Officer**

Sorry we have not answered the last question of the -

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

Peter before we open the line for you there was one more question from Neil on the coke contract, and yes Neil I mean we have agreed with Coke not to publish details of the contract but with regard to the prices they get, I mean we should receive market prices and of course make at a discount for services they agree for us like logistics otherwise we would have to build our own logistics network. So that is the way you should look at it.

.....

**Andrew Benson, Citigroup**

Thank you.

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**Telephone Operator**

My apologies for that, and Peter your line is now open.

.....

**Peter McKay, Exane BNP Paribas**

Just a quick follow up thank you. Relating to the slide 8 with the Legacy project capex. There seems to have been a bit of a difference in if I just measure the size of the bars, for '15 and '16 between the second quarter and the third quarter of this year. So now the capex spend for '15 is going to be lower than it was for '14, and obviously '14 has already been booked, it's already in. '16 is actually not that much higher than '13 was, whereas in the second quarter stage it was going to be somewhat higher than 2013. And you talked earlier I think about the capex coming in within budget rather than - I think you used the word within rather than on budget. Are you - is there some potential here for you to come in below budget? Have you actually cut your capex expectations for Legacy?

.....

**Dr Burkhard Lohr, Chief Financial Officer**

I always use the word on budget and I pronounce it very intensively - things like this. Because we are really proud, really proud, that is a flagship project. One day you have to travel there, it is really impressive and it is perfectly managed and we will make it in time, on time and on budget and of course there are in between the years always some adjustments. It depends on payment conditions with suppliers etc. but that does not mean anything which would be related to the progress. So when we talk about the €4.1bn we guide it on budget, but I'm not getting tired to mention that we have hedged

the Canadian dollar and we are going to save an amount of more than €100m compared to the original business plan. But we always reported the project in Canadian dollars so we continue to do so.

.....

**Peter McKay, Exane BNP Paribas**

Yeah okay so we shouldn't interpret anything from the phasing that you've indicated?

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**Dr Burkhard Lohr, Chief Financial Officer**

No absolutely not.

.....

**Peter McKay, Exane BNP Paribas**

Okay thank you.

.....

**Telephone Operator**

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

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**Yonah Weisz, HSBC**

Hello and thank you for a follow up question or maybe even two follow up questions. First of all looking on your balance sheet it seems as if cash on hand and securities combined, around €410m or €415m, seems to be extremely low compared to the historical numbers which I see here. So could you perhaps talk about the next steps in your - next financing steps over next four or five quarters as the spending on Legacy continues? Your sources of financing and how that will kind of play out over the next four, five quarters?

.....

**Dr Burkhard Lohr, Chief Financial Officer**

Yeah of course. Of course our cash is going down due to the capex programme, but we are still better than originally assumed. We thought that we would at the end of '15 draw our syndicated trade facility which is totally undrawn so that gives you another proof for the fact that our cash situation is better than we let's say two years ago expected. And we don't need to do any further financing transactions because we have a €1bn syndicated trade facility and we are going to use it, and we most probably will not even be forced to use it 100% before we will be done with the capex programme. And we then receive further nice and increasing cash flows from our Legacy project.

.....

**Yonah Weisz, HSBC**

Okay and I mean is there a time - will you cap this facility in the first quarter, second quarter, fourth quarter '15? When do you start having to draw down that facility?

.....

**Dr Burkhard Lohr, Chief Financial Officer**

In the course of next year.

.....

**Yonah Weisz, HSBC**

Okay. In addition some of your earlier comments I think you mentioned in your prepared comments at the beginning of this call a weakness in the MOP market in both - and Brazil and also in Europe. I'm just curious given the way you see these markets now what type of risk can you talk about not being able to sell your full volumes in 2016?

.....

**Dr Burkhard Lohr, Chief Financial Officer**

'16?

.....

**Yonah Weisz, HSBC**

2016 yes. Well I can add to that, well even attach fourth quarter 2015 as well if you wish.

.....

**Dr Burkhard Lohr, Chief Financial Officer**

We have indicated already and our guidance is modelling already a situation where we are not going to sell our entire production in '15, but it's far too early to give any indication for the volumes of our Potash business in '16. We will step into the New Year most probably with a still depressed situation, but that can change quickly as we have seen in the past, and please give us until March next year to guide you for '16.

.....

**Yonah Weisz, HSBC**

Okay but again not looking for guidance just in general I mean is there some type of thought that this is - is there a possibility here? Is there a type of risk which you can quantify, little, medium, high in terms of not being able to sell full volumes next year?

.....

**Dr Burkhard Lohr, Chief Financial Officer**

I'm sorry it's too early.

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**Yonah Weisz, HSBC**

Very good, thank you very much.

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**Telephone Operator**

The next question comes from the line of Rajesh Singla from Société Générale. Please go ahead.

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**Rajesh Singla, Société Générale**

Hi thanks for taking my question. I have two questions to ask. First one is on energy cost. Can you give us some guidance on how your energy cost savings or energy cost will look into 2016 given the way we are seeing lower energy prices in Europe?

And second question is are you seeing any kind of capacity constraint from the SOP producers who use MOP? Because in that process you usually get a hydrochloric acid which is an industrial commodity, and given the weak industrial demand environment globally, so are you seeing any kind of capacity constraint from those producers for SOP?

.....

**Dr Burkhard Lohr, Chief Financial Officer**

Okay energy cost, we have two years in a row seen partially decreasing energy costs, and that - we should not expect that in 2016 we see further significant savings. But on the other hand we should not expect an increase again so we more or less would see energy costs in '16 on the level of '15.

And about this SOP question, I am not 100% sure if I've got you precisely, can you please repeat?

.....

**Rajesh Singla, Société Générale**

Yeah. This is regarding the SOP production process, like I think around 40% of the global SOP capacity uses MOP for production of SOP, and in that process you usually get hydrochloric acid which is an industrial commodity.

.....

**Dr Burkhard Lohr, Chief Financial Officer**

Correct yeah.

.....

**Rajesh Singla, Société Générale**

And given the weak industrial demand environment globally especially in Asia are you seeing any capacity constraint or production curtailment in China from these producers?

.....

**Dr Burkhard Lohr, Chief Financial Officer**

It's difficult to answer, but I think in part is that the Chinese production will for many reasons, especially tax reasons, most probably not be delivered into our markets. So I think that is important to know. But yeah, I would have to speculate to answer your question but again China - most probably Chinese SOP production will not be seen in our market.

.....

**Rajesh Singla, Société Générale**

Okay thank you.

.....

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

And the transparency Rajesh about Chinese producers is not very good, so it's easier for us to look at production setup and if there are constraints or not at the western producers. For China it's hard to get any insight.

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**Rajesh Singla, Société Générale**

Thanks.

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**Telephone Operator**

Thank you. We have no further questions coming through so I will now hand back over to Dr Burkhard Lohr for the conclusion of the call.

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**Dr Burkhard Lohr, Chief Financial Officer**

Yeah ladies and gentlemen after a long Q&A session thank you for your interest in K+S. We are very excited about the strong performance of the Group. Legacy project is well on track. Our Salt business continues to deliver an excellent performance and our Potash business remains robust despite adverse market conditions. And we are happy to invite you to follow our capital markets day tomorrow; it will be webcast including Q&A. And we look forward to meeting those of you who have registered to join us in person. Thank you again and have a great day.

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