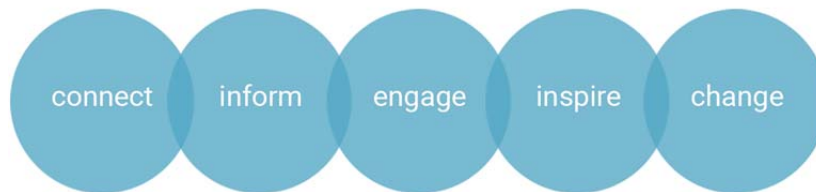


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K+S

Results Conference Call
11th August 2016

K+S

Dr. Burkhard Lohr, Chief Financial Officer

Thorsten Boeckers, Head of Investor Relations

QUESTIONS FROM

Joel Jackson, BMO Capital Markets

Andrew Benson

Markus Mayer, Baader Helvea

Sophie Jourdier, Liberum

Stephanie Bothwell, Bank of America Merrill Lynch

Neil Taylor, Redburn

Oliver Schwarz, Warburg Research

Jeremy Redenius, Bernstein

Michael Schäfer, Commerzbank

Stephanie Vincent, JP Morgan

Andrew Scott, UBS



Presentation

Dr. Burkhard Lohr, Chief Financial Officer

Ladies and gentlemen welcome to our Q2 conference call. As usual I have Jörg Bettenhausen and Thorsten Boeckers with me. Let's take a look at the highlights of a really challenging quarter.

Slide 2, please. We pre-released our Q2 results estimates on June 27th as the quarterly EBIT was significantly below the previous year and certainly below what was expected. We regret that this caused trouble in many ways but it was unavoidable. And why? Alongside developments like the significantly lower average selling price in potash and the low activity in salt because of the mild winter there was an unforeseeable factor. In the second half of June it became clearer that we faced more production still stands because of the dry weather in the Werra Valley than anticipated. This alone cost us around €60m in the second quarter.

Three weeks ago there was an incident at our Legacy site. During hydro-testing a crystalliser dropped. Of course this is not insignificant, but from today's point of view it will not have a material impact. I will come back to that later. Finally we expect an EBIT1 range between €200m and €300m for 2016.

Let's go into detail on all of this, starting on slide 3. We already talked briefly about the main effect. Alongside our inability to produce we saw a significant decline in potash prices. Overseas prices were a negative driver. Europe proved to be relatively stable despite it could not fully decouple from the overall developments in other regions. On top of that the production standstill at the Werra caused an unfavourable product mix. Q2 salt results also declined year on year which can be mainly attributed to the mild winter.

Please turn to slide 4. As I said earlier, during hydro-testing for pre-commissioning on July 17th, one of five ECC crystallisers fell. Of course the most important point is that nobody was injured. Together with our partners we are currently undertaking extensive efforts to fix and evaluate the damage. What does that mean? We can continue the gradual commissioning of the other parts of the plant. From today's point of view production of the first tonne will be postponed into Q2 2017. The expected 2017 production volume of up to one million tonnes will not be achieved.

No doubt this incident is serious, but the most important milestone seems not to be at risk from today's point of view. We expect to reach a production capacity of two million tonnes per year by the end of 2017.

Now please move to slide 5. Saline wastewater disposals remains a challenge. There is an ongoing review of the application submitted by us in April 2015 regarding the continuation of deep well injection until the end of 2021. Since the beginning of the year production has been largely based on water flow in the Werra River. In other words our ability to fully produce remains highly dependent on the amount of rainfall unless the new permits will be granted soon. To be very frank, the third quarter is usually drier than the second and the effect from an absent permit may hurt us even more in the current quarter.

Now please move to slide 6. The current situation is difficult but not without hope. We are working on measures that will help us to mitigate the effect from the missing deep well injection. The possible measures range from additional storage in owned and third party premises, to various smaller measures. We are currently working on implementing those requiring minimal effort, and are in talks with relevant authorities to get the necessary permits for the others.

Beyond 2017 the situation will ease significantly as we will then have the so-called KCF plant up and running. This new facility will recycle brine from the production. This will help reduce saline wastewater and even deliver additional marketable product. Nevertheless obtaining a new deep well injection permit remains crucial for dealing with salt water, especially in very dry periods.



Now please move to slide 7. In the past weeks major contracts in India and China were announced that should stimulate potash demand for the remainder of the year. Of course the absolute price level is not satisfying for suppliers, but given the prevailing sentiment we consider this as a good indication that we've found the bottom. As previously discussed we have maintained our belief that prices in Europe will be more robust, but they are also - they also cannot be completely decoupled from global developments. We have therefore adjusted prices in Europe for selected specialties downward, but once again not as much as in overseas markets.

And still our broad specialty portfolio supports a certain robustness. SOP for example, we believe the peak in pricing seems to be behind us. It is still trading at historical high prices and significant premiums to MOP. Looking at magnesium sulphate products they are unaffected from the potash price decline at all.

And this brings us to slide 8. In Q2 we were also active in M&A. By acquiring the fertiliser assets of a Chinese producer of synthetic magnesium sulphate, Magpower, we made an important step in expanding into Asia and strengthening our position in specialties.

Synthetic magnesium sulphate is used as a fertiliser for oil palms, soybeans and sugar cane as well as for industrial applications. Magpower will complement the existing K+S Kieserite production by adding highly effective water soluble magnesium sulphate through scalable low cost production, and further expand our global coverage.

Now please move to slide 9. Let's switch to our salt operations. After a mild winter leading to high inventory in North America and Europe, de-icing volumes and prices are down year on year. A significant portion of North American bidding is now behind us, and what we have seen in Q2 can also be applied to the remainder of 2016.

On the other hand our broad product portfolio and strong consumer brands helped by acting as mitigating factors. The non-de-icing business also showed improvement in Q2 thanks to higher prices, and we are continuing to make good progress on improving our cost base and by executing our Salt 2020 strategy.

Slide 10, please. In line with our company strategy of growth in the salt business we have added another component to our Salt 2020 strategy. With the purchase of mining licenses in Western Australia we are looking to expand our salt business into Asia. The project is still at a very early stage and we are currently preparing the required documents to apply for the necessary permits. Expected production capacity will be 3.5 million tonnes, with a possible production start in 2022. Capex is estimated at around €225m. The salt produced in Australia will be mainly supplied to the chemical industry in Asia, particularly to China.

Now let's come to our outlook for 2016 on slide 11. The business unit Salt may face a tangible decline in earnings due to the mild winter. The decline in potash prices remains the biggest factor. We believe in higher prices in the long term, but tend to remain cautious for this year.

The second big factor is the situation at the Werra. Amongst other things we assume a normal year in terms of rainfall for the rest of the year and that our counter-measures will help us to reduce the impact from the missing deep well injection permit. If and when we receive a new permit will impact our costs and the expected sales volumes. Currently we calculate about 6.2 million to 6.4 million tonnes. All in all we expect an EBIT1 of between €200m and €300m for the full year.

To state the obvious, given that we achieved an operating profit of €233m in the first half, especially Q3 is expected to show a negative EBIT1 and Q4 will be significantly below the previous year.

If we do not receive a new permit soon we will rather see the lower end of the range. Nevertheless I would like to stress a positive aspect. We are facing two significant burdens this year. As planned,



Legacy is included with a negative €120m in the EBIT. The missing permit is expected to cost us between €150m and €200m after counter-measures.

Stripping that out, we would see operating earnings of between €500m and €600m. I know reality is different but I think it's worth to note the underlying earning power of the Group even in such a difficult market environment.

Now please move to slide 12. To end with a positive note, the challenge we are currently facing will not distract us from believing in a great future for the K+S Group. We are continuing to work on opening Legacy as well as expanding into an enhanced portfolio. Our continuous cost discipline will become even more focused.

We are also sticking to our target of achieving an EBITDA of €1.6bn in 2020. The Legacy projects will contribute significantly to this goal and the salt business is also in a good position to solidly achieve the goals of its own 2020 strategy.

Of course when we created the €1.6bn goal we were in a better potash environment. For example the MOP price we used for the granulated product in Brazil was slightly above \$300 per tonne. But we always maintained the belief that the current potash market situation is not sustainable. We expect to see the bottom this year and believe that we will experience positive impact from the announced production cuts in the industry.

Ladies and gentlemen, thank you for your patience. We are now ready to answer your questions.

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 minds and wish to withdraw your question please press *1 again. Please ask one question at a time. You will be advised when to ask your question.

Our first question comes from the line of Joel Jackson of BMO Capital Markets. Joel, when you're ready please ask your question.

Joel Jackson, BMO

Okay, thank you very much. Good morning. So I have a few questions, first on Legacy. So can you give an update, is the crystalliser that fell, does it need to be repaired or replaced? Can you run the mine with only four crystallisers? Would you have to redo the piping network? That would be the first question I want to ask. Thanks.

Dr. Burkhard Lohr, Chief Financial Officer

Thank you Mr Jackson. First of all, as I indicated in my speech we will start commissioning as planned at the end of August, and that means that we can run the mine with the existing four crystallisers. The crystalliser that fell, by the way to give you a flavour of the magnitude, 28 metres high, 10 metres diameter. So it's obvious that everything which was below that vessel is destroyed, and the crystalliser itself has to be replaced and we have to build and implement a new crystalliser.

Joel Jackson, BMO



Okay, and then what would be the lead time to replace the crystalliser, and is there an engineering flaw in the support structures that are holding the other four crystallisers?

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Dr. Burkhard Lohr, Chief Financial Officer

As I indicated we are expecting on today's knowledge we are expecting to still keep the most important milestone of achieving a capacity of 2 million tonnes at the end of 2017, full capacity of phase one. And that of course means that until then we will have the crystalliser replaced.

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Joel Jackson, BMO

Okay. My final question would be on your guidance. So if I understand what you're saying, if you don't get the permit you should still be able to produce 6.2 million to 6.4 million tonnes in potash and magnesium, but it will be at a higher cost because of counter-measure. So my question would be is that - on your guidance is it about a €25 per tonne cost disadvantage if you don't get the permit, and can you produce 6.9 million tonnes next year without a permit just at the higher cost?

.....

Dr. Burkhard Lohr, Chief Financial Officer

You put a lot of questions in this one question. First of all of course without a permit for the entire year 2016 we will be closer at the 6.2 million tonnes sales volume, but that does not necessarily mean for example that the whole range €200m to €300m EBIT is only dependent on this event. That is a good portion of the range but not the full range. But again even with no further deep well injection permit we will keep the 6.2 million tonnes.

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Joel Jackson, BMO

Was I right from extracting from your commentary that it's about a €25 per tonne cost increase without the permit if you keep doing countermeasures?

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Dr. Burkhard Lohr, Chief Financial Officer

That is too easy and too general because we have three sites at the Werra, and even without the permits we are able to run one or two of the sites. Then it's a question of what is the production volume. We are producing different products in the Werra area. It's a question of which product, which volume of which product. And so I'm not able to give you an average effect on the cost per tonne.

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Joel Jackson, BMO

And just the last part of the question I asked. If countermeasures are successful and you have no permit and water, I guess rainfall is normal, is 6.9 million tonnes next year quite reasonable?

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Dr. Burkhard Lohr, Chief Financial Officer

As you know we give the guidance for 2017 in March of 2017, but I don't want to leave you completely without information on that. We believe that there will be more measures in place in the course of 2017 so we will have a higher production capacity and output as in 2016, but I am unable to, I'm not willing to give you a precise number now. But for a full production the permit of the deep well injection still is crucial.



I think at this point I once again want to focus that the situation will ease significantly in 2018, because with the KCF plant the production - the salt waters will be significantly lower, so we have to overcome the situation of the rest of this year, and in 2017 we will face for sure a by far more relaxed and normal situation in 2018. Hopefully we receive a further deep well injections permit so that we will come back to a normal situation in 2017 as well, but as we speak we do not have this in hand.

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Joel Jackson, BMO

Okay, Burkhard, thank you very much.

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Dr. Burkhard Lohr, Chief Financial Officer

Thank you.

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Telephone Operator

Our next question comes from the line of Andrew Benson. Andrew, when you're ready please ask your question.

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Andrew Benson

Thanks very much. You talked about €500m to €600m of EBITDA. I just wanted you to explain precisely what circumstances would not have happened to have got to that level? Can you also talk a little bit about the price of specialties and SOP price in the third quarter now relative to the second quarter, just so we can get an idea of the magnitude of that? And have you given any thought to the impact that polyhalite may have, or polysulphate may have on SOP prices now that ICL will be ramping to half a million tonnes or so of production relatively soon?

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Dr. Burkhard Lohr, Chief Financial Officer

Okay, three questions. I would like to ask further questioners to give us one by one, but we took the three questions and we will answer them. No problem.

First of all our view on this year is to deliver an EBIT of between €200m and €300m for the full year. And I highlighted that there are two significant extraordinary in this expectation incorporated. First of all that is well known that we have the ramp-up of the Legacy project and opex of €120m without any sales so far to compensate that. That's an extraordinary €120m.

And the other is the net effect of the missing deep well injection after countermeasures. That will hurt our EBIT by €150m to €200m. So if you add these extraordinary on our forecast you end up with a range of €500m to €600m. And we believe that this is taking into account the current difficult potash environment, this would be a very good outcome for the year. And of course that is due if you look on page 7 that we have still a very good average selling price in potash, much higher than the prices of our peers.

Second price development, but what I'm saying now is not only true for specialties but true for all our products. We have taken into account for our forecast a flat price development. That does not mean that we are not expecting that after China and India - and there are positive signs in the market - that there will be a recovery of prices but for cautious reasons we have just assumed a flat development of prices of all our products.



And the last question will be taken by Thorsten.

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Thorsten Boeckers, Head of Investor Relations

Andrew, we are sceptical about the success of polysulphate based products, as you may have heard before. They have a lower nutrient concentration. They contain a broad range of nutrients that make it inappropriate for the direct usage on the soil. It may be something that could be used in the industry, we'll see.

Polyhalite based products contain plaster which means it's not water soluble. And I mean in our core markets the farmers are used to use our products like Korn-Kali where they know for decades the advantages about it, and you need to convince them that there is a better product available where we are sceptical of. But this is what we always said and what we can say about what we think about polyhalite.

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Andrew Benson

Okay. Well thank you very much. Thanks.

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Telephone Operator

Our next question comes from the line of Markus Mayer from Baader Helvea. Markus, when you're ready please ask your question.

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Markus Mayer, Baader Helvea

Good morning. Several questions on the free cash flow and the financing and then also come back to Legacy. Firstly am I right that the free cash flow has most likely caused negatives in Q2 and the second half of this year and then also next year after Legacy production was delayed? And in this respect can you also remind us your covenant for your credit facilities and when your leverage is then close to it, including the pension; do you expect to get a rating downgrade? And also how easy should it be for you to get fresh money from bonds, short term value, etc, when you have then this downgraded rating. That's basically a lot of questions in the first question.

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Thorsten Boeckers, Head of Investor Relations

Can we answer those questions first before there will be another 15 questions for Legacy?

[Laughter]

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Dr. Burkhard Lohr, Chief Financial Officer

But I got it, I've got it. Yes, you're correct, we are expecting, but it was expected independently from all the other negative developments, a negative cash flow, a free cash flow for the rest of this year. And there will be a negative free cash flow for 2017 as well, but we expect after Legacy will run as planned in 2018 that we will significantly decrease our net debt to EBITDA number from 2018 onwards.

And yes, in-between we will have quite a high number of net debt to EBITDA and you might have seen that there was an announcement by Standard & Poors that they put us on the watch list for negative outlooks, meaning that there might be a downgrade. But that is obviously as we understood



not only a K+S issue. They are facing the total industry due to the surprise, from their perspective surprisingly negative price development. It remains to be seen what that would mean.

But from today's point of view we are fully financed even with this cash flow development that I just focused on. So we have our funds in place. They will not be affected by that. The first refinancing requirement will be in 2018. We have to pay back a bond of €500m. But I am not seeing any difficulties for a DD+ rated company if we should be on that level in 2018 to enter into the markets. But I am quite sure that we will come back in the investment grade area pretty soon.

So, your next question?

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Markus Mayer, Baader Helvea

Yes, sorry. The next question is on the dividend payment, if this is still something we should think on for 2016. And then the last question is just what is the theoretical price for a new calcination vessel? Is it then €10m to €15m? What is the kind of the house number for this kind of additional capex?

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Dr. Burkhard Lohr, Chief Financial Officer

Dividend. You know our dividend policy is to pay out between 40 and 50% of the net profit, and I'm not seeing a reason to deviate from that. But of course the base for that is under threat this year. This is unfortunate but we are not seeing a reason to again to deviate from our strategy.

You asked for the price of the vessel. That is a tricky issue because it's not only the material cost of the vessel. There was a lot of piping destroyed below. Then we have definitely we have to redesign our production programme and there are a lot of parties involved here including insurances. The outcome of this is very tricky to expect and it's by far too early and it will maybe even take months or even years before we have the final outcome. A technical solution will be delivered pretty quick I guess, but before we precisely know which party has to pay what there will be - it will take some time.

But at this point we have to be that frank to say that we cannot completely rule out that this means that we cannot keep our €4.1bn budget. But on the other hand I'm not expecting a disaster.

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Markus Mayer, Baader Helvea

Okay. And really the last question, I forgot – sorry about this. Maybe I have my Bavarian glasses on and we have a lousy summer here, but on the weather map also it looked like there was a lot of rainfall in the further area. So it looks like that at least the water level so far in the third quarter is higher than it was in the second quarter. Is that true?

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Dr. Burkhard Lohr, Chief Financial Officer

Unfortunately it isn't, but we are not below our expectations, we are on our expectations. Even in June - I have to say I'm sitting in Kassel, I thought there was so much rainfall but obviously not in for us the relevant area, so the water flow was too low. But July - and that is the most current data we have - we were, the weather headlines were as expected by us.

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Markus Mayer, Baader Helvea

Okay, perfect.

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Telephone Operator

The next question comes from the line of Sophie Jourdier from Liberum. Sophie, when you're ready please ask your question.

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Sophie Jourdier, Liberum

Yes, morning. Thank you. I've got two questions I think, but one by one. First of all you mentioned the product mix negative impact from the curtailments of the Werra facility. Could you just explain those in a bit more detail, which products were affected that drove that negative product mix? That's the first question.

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Dr. Burkhard Lohr, Chief Financial Officer

Yes, the Werra area is the main area where we produce our specialties, and almost the full - almost, not entirely but almost the full range of products are affected from the situation. So mainly specialties that were where we have if you look at the average price a negative impact on the product mix, because for example Philippsthal which is a pure MOP site is of course not affected, and we have sold the entire MOP production whilst we had it in - it had a negative impact in lower specialties like SOP and others from the Werra sites.

.....

Sophie Jourdier, Liberum

Okay, thank you. Second question. You talk about doing a feasibility study on additional waste water disposal means, trucking water to various mines and caverns around the place. If you don't get - well, I just want to understand that a little bit more. If you do get a renewed permit presumably you don't need to do that. Can I just check that? And if you don't get a renewed permit how soon do you think you can implement these additional means?

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Dr. Burkhard Lohr, Chief Financial Officer

To make it visible maybe it's worth to have another look on our slide or chart, page 6. The main portions or the main measures are to store our saline waste waters in our own mines. We have old mines which are able to take a significant amount of saline waters. There are caverns available, third party caverns who could take saline waters as well. But for all this we need permits by mining authorities. It should be by far easier to achieve these permits than the permit for our deep well injections, so that we believe that part of these measures can start already in this year and will have a significant positive EBIT effect.

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Sophie Jourdier, Liberum

Okay. And if you get the permits eventually for the deep well injection will you still need to implement these additional measures?

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Dr. Burkhard Lohr, Chief Financial Officer

It depends on whether we can get the injection volumes that we have applied for. Still another limited volume but nevertheless we start. We start with the measures, and capex that we need for that is limited, it's not a big amount. Therefore we will be able to better deal with the situation even without a missing deep well injection at least in 2017.



Sophie Jourdier, Liberum

Finally on that bit, can you give us any idea of the additional cost that that would bring? Presumably it would be additional cost, would it?

Dr. Burkhard Lohr, Chief Financial Officer

It would in terms of capex and opex require only a low double-digit million amount.

Sophie Jourdier, Liberum

Thank you. Then, sorry, one final question just on your potash volumes in the quarter. I was a little bit surprised I guess to see that the overseas volume seemed quite flat year on year, so the hit was taken on volumes in Europe. I guess I would have expected it the other way round just in terms of European customers being perhaps more important to K+S both in terms of relationships and in terms of the profitability. I wonder whether you could explain that.

Thorsten Boeckers, Head of Investor Relations

It's Thorsten here. We said that the production standstills mainly affect our specialties, and we sell a lot of specialties in Europe. So this is why you see the effect in overseas but here on the continent.

Sophie Jourdier, Liberum

Okay, great. Thank you very much.

Telephone Operator

Our next question comes from the line of Stephanie Bothwell of Bank of America Merrill Lynch. Stephanie, when you're ready please ask your question.

Stephanie Bothwell, Bank of America Merrill Lynch

Yes, good morning and thanks for taking my questions. Firstly I'd like to go back on the Werra. So your previous expectations that I believe you communicated before was for an update on the deep well injection permit to be completed in the summer. I wondered if perhaps you could give us some additional colour in terms of what actually has changed versus your expectations and how the negotiations with the Kassel Regional Council are actually proceeding? That's my first question.

Dr. Burkhard Lohr, Chief Financial Officer

Well, you are correct; our expectation was to have this in summer of this year. Now we are not working with a full expectation if you wish. We have two scenarios because it's really after what we have faced difficult to give it a probability. One scenario is saying that we could have an additional deep well injection permit soon, and the other just to be on the safe side what would happen if we would have to run the full year without any permission. We don't believe that this is a very probable scenario not to have anything in hand this year, but still to be cautious we have built both into our forecast.



And yes, how are the discussions going, it's difficult to describe. It's all around the question of what happens to the underground if we continue to deep well inject, and there are different experts saying different potential outcomes. We feel that the view is narrowing and that we are closer to a solution than we were earlier, but we're still not able to predict a precise date.

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Stephanie Bothwell, Bank of America Merrill Lynch

Okay, thanks. And perhaps just to follow up, you said that no permission you saw as quite an improbable scenario. Is that based on discussions that you've had with the local authorities or can you give us any sense in terms of why it's not a probable scenario? Has there been any kind of developments in recent weeks and months? Thanks.

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Dr. Burkhard Lohr, Chief Financial Officer

As I just said, we believe that different experts working on it are closer together with a firm view on what happens to the additional volumes that we inject, and that gives us hope that there will be something in the course of this year. But again we have two scenarios and have not given them probability a) or b), but my personal view is that we are completely without anything at the end of the year, I don't believe in that scenario.

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Stephanie Bothwell, Bank of America Merrill Lynch

Okay thanks, that's very clear. My second question is on Legacy. Obviously you have toned down the guidance for sales in 2017. You've said that you no longer expect to do the one million tonnes. Can you perhaps give us more colour in terms of what level we should anticipate for 2017? And the second question is on the ramp-up costs on the opex side. You're expecting to incur €120m in 2016 and I think expectations for that to roll off in its entirety next year. Given the delay in the ramp-up, should we be expecting any additional costs for 2017? Thanks.

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Dr. Burkhard Lohr, Chief Financial Officer

Yes, volume. As we start with the first tonne, or with the production in the second quarter of 2017, this has of course a negative impact of our entire production of the Legacy site in 2017. But as we indicated to achieve the 2 million tonne capacity still at the end of 2017 there is a quite steep ramp-up curve in the second half of the year. So it's impossible as we speak to give you a precise number but we should not lose, or we should lose less than half of the production that we have originally assumed.

The cost effect that is very tricky because next year is a mix of still being a project and being the vacuum site which of course has production costs beside, it's not only opex like this year. A ramp-up of opex. So maybe the best two answers to the question is we have assumed before we had this incident that in 2017 we would be EBITDA break-even. That is most probably due to the lower production not going to happen in 2017, but 2018 it will not be affected. That's all I can tell you to this.

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Stephanie Bothwell, Bank of America Merrill Lynch

Just one final question to follow up on that. You said before the incident that you expected the EBITDA to break even in 2017. Under today's current price assumptions assuming that you still were doing the one million tonnes in 2017 which was the original guidance, could you have been EBITDA break-even if the incident hadn't occurred?

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Dr. Burkhard Lohr, Chief Financial Officer

On the current assumption for 2017 for the prices - which I am not disclosing now - but we were pretty sure that we could achieve EBITDA break-even in 2017, before the incident.

Stephanie Bothwell, Bank of America Merrill Lynch

Okay, thank you, that's very helpful. Thanks a lot.

Telephone Operator

The next question comes from the line of Neil Taylor of Redburn. Neil, when you are ready please ask your question.

Neil Taylor, Redburn

Thank you. Good morning. Following on from the same point actually while we're on the topic of Legacy, I understand the opex and production costs are difficult to quantify, but could you help us understand perhaps the free cash flow implication of building up working capital at Legacy? Presumably that won't be vastly different to your previous assumptions and how we should think about that in the short term in 2017, the working capital build-up? Then I'll wait for the second question. Thank you.

Dr. Burkhard Lohr, Chief Financial Officer

I think we have never guided on that, and that is even - you know, as we do not precisely know what will the production capacity or the output of 2017, this is almost impossible to answer without going at risk to give you an incorrect answer. I'm sorry for that. But I'll try to properly answer your next question.

[Laughter]

Neil Taylor, Redburn

Well, you can try. As I understand it you don't actually have any specific covenants in place around your financial instruments, but there is a flexible rate applied to a number of those instruments. And as you specify in one of your slides, I think slide 12, the leverage ratios are far higher than they had been. Can you give us an indication of how that will impact your finance costs next year?

Dr. Burkhard Lohr, Chief Financial Officer

Very, very little because there's only one instrument affected or can be affected by a downgrade and not even by a higher leverage, and this is our syndicated loan. So if we should move into a non-investment grade area that would have a slight impact on the cost on the loan. All the other instruments are not affected at all.

Neil Taylor, Redburn

Okay, thank you very much.



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Dr. Burkhard Lohr, Chief Financial Officer

You're welcome.

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Telephone Operator

Our next question comes from the line of Oliver Schwarz of Warburg Research. Oliver, when you're ready please ask your question.

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Oliver Schwarz, Warburg Research

Thank you for taking my question. I try to cram enough single questions into one to get the most out of it as well. Firstly can we switch topics for a second and turn to salt. Did I get you correctly Mr Lohr speaking that we will see a similar development in salt which we saw in Q2 also for the remainder of the year. Did you refer to the pricing level, did you refer to the decline in volumes or did you refer to the absolute volume level? That would be first question.

Then secondly just quickly on Legacy, I'm still trying to get my head around your guidance here. First you said that all the major events will be triggered despite the incident you had in a timely manner. And you said you may run the plant on four crystallising units which would give you let's say 80% of nameplate capacity. But then you also say you won't reach 50% of nameplate capacity next year and might even start up the plant by Q2, thus having less than one million production - a production of one million tonnes per year in 2017. How does that fit with each other?

Could you please elaborate where basically the bottleneck is that holds volumes back and has you producing from a later point in time, and does that affect depreciation levels of legacy?

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Dr. Burkhard Lohr, Chief Financial Officer

Let's start with the legacy issue because that's very important to understand. So we have to differentiate between nameplate capacity and total production of 2017. So why are we expecting a significantly lower production? I did not say 50%. I said it's too early and I said I'm not expecting - or I'm expecting less than a 50% loss of the production. It could be higher but it's still too early. The accident is only three weeks ago and if you would have a look at the mess that we are having there you would understand that this is - we cannot precisely calculate what will be the effect.

But to understand the logic, so we can start commissioning with the four remaining crystallisers, but we are going to install a new crystalliser before the end of 2017 so that we are able to ramp up the nameplate capacity up to two million tonnes at the end of 2017. That means the effect of the incident is only the year 2017. From 2018 on we run as planned.

But the fact that we start later with the production and we start with one crystalliser less until we have the fifth crystalliser installed again means of course that we lose product, and that is the explanation to your question.

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Oliver Schwarz, Warburg Research

May I ask a silly question perhaps? The set-out of your plant is two million tonnes nameplate capacity. You have four of five units in place which are I guess fully operable, which can fully operate. That would give you let's say 80% of nameplate capacity leading up to 1.6 million tonnes a year. And the ramp-up until the end of the year will be basically up to two million tonnes so you'll basically ramp up faster than originally planned, but the target remains basically the same. But still you are saying



you'll get less than one million tonnes which is basically less than 50% of nameplate capacity. I still don't get it why you can't produce one million tonnes in 2017 based on four or five units operating?

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Dr. Burkhard Lohr, Chief Financial Officer

Even without the incident and we had all the five crystallisers in place, we would have ramped up – that's the meaning of ramp-up - so we've achieved the nameplate capacity at the end of the year and it's not a linear function. So somewhere in between, that's why we assumed one million tonnes without the incident, and now we started later and we assume a lower volume.

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Oliver Schwarz, Warburg Research

Okay, I get it.

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Dr. Burkhard Lohr, Chief Financial Officer

Is that clear? Okay.

Salt, I think we should not stick to one or two sentences. I would like to give you a flavour of where we are standing with the salt business. After the mild winter in North America and in Europe again of course we have seen some price pressure of different magnitudes in the different areas. Bidding season we have achieved at the East Coast 65% complete. Prices are slightly down on what we've seen before. Mid West 85% completion of the biddings. Prices are tangibly down. And Canada is pretty stable, no changes in prices and volume with a completion of roughly 70% of the bids. That will affect our second half and of course the winter weather. So less the 3rd quarter but the 4th quarter will be as usual dominated by how much snow we are going to see.

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Oliver Schwarz, Warburg Research

Okay, thank you. And my question regarding depreciation at Legacy, will that be held back by the later start-up of the plant or will that be according to the original schedule?

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Dr. Burkhard Lohr, Chief Financial Officer

No, it will start with the first tonne, so no depreciation this year, and no in the first quarter of next year.

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Oliver Schwarz, Warburg Research

So a lower level of depreciation for 2017?

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Dr. Burkhard Lohr, Chief Financial Officer

When I said lower than, lower of the Legacy site, and in total at a lower level, yes.

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Oliver Schwarz, Warburg Research

Okay, thank you.

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Dr. Burkhard Lohr, Chief Financial Officer

You're welcome.

Telephone Operator

Okay, our next question comes from the line of Jeremy Redenius, Bernstein. Jeremy, when you're ready please ask your question.

Jeremy Redenius, Bernstein

Thanks for taking the questions. I've got three. Firstly just back on the permit issue, are there any particular milestones or dates that you're looking for, for the review that will give you the knowledge of when in fact you have it or don't have it?

Dr. Burkhard Lohr, Chief Financial Officer

No, no, there are no milestones I could elaborate on. It's more or less a discussion between the experts I mentioned earlier, and they are ongoing. That's why it could be quick and it could take some more time and that's why we have projected this the way I explained in our forecast.

Jeremy Redenius, Bernstein

Secondly if I understood your scenarios correctly did you rule out that this could be an issue in 2017 as well, or asked differently could this continue to be an issue in 2017 as well?

Dr. Burkhard Lohr, Chief Financial Officer

As we have not given a guidance for 2017 we have not ruled out anything. Sorry for that kind of joke. But it could be that we still have that issue in 2017. We will be in a higher magnitude able to compensate via measure. But for full production we need some deep well injection volume, but again 2018 will ease the situation significantly due to the KCF plant.

Jeremy Redenius, Bernstein

Okay, understood. And then a couple of questions on potash price. It sounds like you're talking a little bit more positively about the second half of the year for potash prices, certainly market prices. I can see the production cuts, I can see the benefits of the Chinese contract being settled. Is there anything else that you're seeing - and recent increases in Brazil. But is there anything else that you're seeing that gives you some confidence that the market price has improved in the second half of the year?

Dr. Burkhard Lohr, Chief Financial Officer

First of all to make it clear we have not assumed a higher average price in our books, so we took the prices from the second quarter for Q3 and Q4 as well just for cautious reasons. Another thing is the development of the prices in the market. And I think you have elaborated on the most important issue that is positive already. We always said with a contract in China and in India and the contracts were on a level which some participants in the market thought it could be even worse, so we have seen a crystallising situation and the demand is strong anyway.



So we have never had a problem with the demand in this industry, very strong demand. Brazil is very strong again. And we have seen all these production costs cut and we are not by purpose but for other reasons we were short in capacity as well, and that was clear that that would have a positive impact earlier or later. And that's why I am positive for the potash price development.

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Jeremy Redenius, Bernstein

In Brazil are you seeing any credit issues affecting farmers' ability to purchase?

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Dr. Burkhard Lohr, Chief Financial Officer

No, not really.

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Jeremy Redenius, Bernstein

Okay. And then the last question I had on potash price, coming back to your 2020 guidance I heard you say that when you originally set that guidance, prices in Brazil were above \$300 a tonne. So that would be a pretty meaningful upward price move from where we are today. Looking out over the next several years are there factors that you see that could make potash price increase to that level? Because I'm struggling to see that a little bit with potash supply/demand probably being roughly stable at best over the next several years. Some other factors that you might be seeing that would give you some support to increase the prices?

.....

Dr. Burkhard Lohr, Chief Financial Officer

First of all I said it's slightly higher than \$300, and we have seen a more meaningful increase in one year so why shouldn't we see a normalisation in the course of the next four years. And there are good reasons to believe in that. And by the way this industry has managed to cope with high capacities for many decades. This alone is not an issue that should hinder a normalisation in pricing.

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Jeremy Redenius, Bernstein

Okay, understood. Thank you very much.

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Dr. Burkhard Lohr, Chief Financial Officer

You're welcome.

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Telephone Operator

Our next question comes from the line of Michael Schäfer, Commerzbank. Michael, when you're ready please ask your question.

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Michael Schäfer, Commerzbank

Thanks for taking my question. The first one is coming back to Joel's initial question in the beginning of the call on your guidance, Dr Lohr you mentioned that the permitting issue at Werra is one contributing factor to the low end of €200m EBIT. So I wonder whether you can shed some light what



else have you baked in into your expectations to the low end of the guidance range, given that you are almost through to the bidding season in salt, etc, and you normally assume normal weather conditions in winter. That would be my first question.

And the second one - no, I'll ask the second one later on.

.....

Dr. Burkhard Lohr, Chief Financial Officer

The rest is normal life. So all the assumptions like currency, like production capacity outside the Werra, and whether potash prices, etc, could be upside and downside. So you'd better take a range, especially if there are still five more months to go, which doesn't deliver a bad surprise if something besides the Werra issue is going to happen. But there is nothing special.

Look, in history you always had a range with our June result, although we didn't have such a difficult issue. So again all the assumptions could move and that's why we have defined this range between €200m and €300m.

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Michael Schäfer, Commerzbank

Okay, thanks. My second question is coming back to the Werra issue; you mentioned that you have initiated some counter-measures in order to cope with the lack of permits. So starting from where you are, you've shone this light on the 7 million cubic metres of annual waste water disposals. Could you quantify what the countermeasures, what this will bring on an annual basis in terms of waste water disposal you can dispose of with alternative routes? This would be helpful. Thank you.

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Dr. Burkhard Lohr, Chief Financial Officer

I cannot give you a precise number but it will be a couple of hundred thousand cubic metres this year possible, and it will be more in 2017 because we have more time to develop further measures.

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Michael Schäfer, Commerzbank

So a couple of hundred thousand for the remainder of the year means shall we take 1.5 million cubic on an annual basis as a potential number? Just to get a rough figure on this one.

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Dr. Burkhard Lohr, Chief Financial Officer

I'm not confirming that number, I'm sorry. I will be more precise as soon as possible but not today.

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Michael Schäfer, Commerzbank

Okay, thank you.

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Telephone Operator

Our next question comes from the line of Stephanie Vincent of JP Morgan. Stephanie when you're ready please ask your question.

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Stephanie Vincent, JP Morgan

Hi, thank you. Just very quick ones from me. Just on your plan to get to the 1 to 1.5 times leverage target by 2020 and your expectations on that. Just wanting to know management's maximum feeling about leverage as we get to that goal. Is there a point that maybe if you feel like you're not leveraging, deleveraging quickly enough that you would consider things like rights issues, dividend cuts or asset sales? And what's the maximum leverage that you feel comfortable with as you're going through this phase?

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Dr. Burkhard Lohr, Chief Financial Officer

We have a very strict target of 1.5 times, but we always said we allow to have even a longer period with higher leverage for such a historical and strategically important investment like Legacy. Of course we could not foresee that we would run also into difficulties with market prices and the Werra issue, but still we are not thinking about any measures besides fewer debt financing. And we are fully financed with all our instruments, the three bonds, the s....., the syndicated loans. So we are not going to surprise you with something like you mentioned.

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Stephanie Vincent, JP Morgan

Okay. And just going again towards the 2018 maturity, is it your hope that you reduce total debt or is this something that you're just planning to refinance and roll over?

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Dr. Burkhard Lohr, Chief Financial Officer

It depends on the environment by let's say the mid of next year. So we have all options. I just wanted to indicate if it would be necessary to partially refinance the bonds even with a DD+ rating, that would not be a problem.

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Stephanie Vincent, JP Morgan

Okay. All right, thank you very much.

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Dr. Burkhard Lohr, Chief Financial Officer

You're welcome.

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Telephone Operator

Ladies and gentlemen our final question comes from the line of Andrew Scott. This is the last question.

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Andrew Scott, UBS

Thanks. I might have missed it - I'm just coming back to Legacy again, and the effects of the crystalliser. The impact on volumes you've broadly outlined, but what about opex and capex? So in that €120m number for this year, how much of that is a one-off, if any, related to the remedial work on the site? The same question for 2017. Is there an impact on capex and is there any insurance coverage?

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Dr. Burkhard Lohr, Chief Financial Officer

The €120m is all due to the ramp-up. So it's operating cost for ramping up the site, and that is the number that we have assumed earlier, and that is not affected by the incident. The capex question I answered earlier or I tried to give a flavour earlier, that will be more difficult to assume, it will be most probably at the end of the day a tricky and complex legal procedure with a handful of parties involved, and the outcome could take quite a while. I just wanted to indicate we cannot completely rule out that there are some cost burdens for us as well, so that we would run over the 4.1.

Without this incident we would have been on schedule and on budget. We gave you a quite precise view on the schedule, but it's impossible today to give you more flavour for the budget. Yes, there's an insurance involved and there are other parties involved, but it's so difficult that I cannot - and I think as this is a legal procedure maybe should not put that into public, but again that should not mean any financial trouble for us.

Andrew Scott, UBS

Have you stated at this stage whether it's your liability or a contractor's liability?

Dr. Burkhard Lohr, Chief Financial Officer

Of course we have looked into that, but again this is a topic between only a few parties, and you better not discuss that publicly. I hope for your understanding.

Andrew Scott, UBS

No, I get that. Thank you.

Dr. Burkhard Lohr, Chief Financial Officer

Thank you very much.

Telephone Operator

Ladies and gentlemen I will now hand you back over to Dr. Burkhard Lohr for the conclusion of the call. Please go ahead.

Dr. Burkhard Lohr, Chief Financial Officer

Thank you very much. Thank you for your patience.

And of course 2016 is a challenging year and we are sorry for the turbulence, but we are working intensively to solve the problems one by one, and we are sure that we will face a significantly better future. There are good reasons to believe that. I indicated that in 2018 the pressure from the saline waters will be significantly lower with our KCF plant. Then in 2018 we will see a normal running legacy site and we are very happy to see improving profitability in our salt business.

So good reasons to look hopeful in the future. Thank you for attending. Goodbye and I hope to see you soon again.



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