

FINAL TRANSCRIPT

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PRESENTATION

Operator

Welcome to the K+S Conference Call Analysts regarding the publication of the half yearly financial report Q1 2009. My name is Christina and I will be your coordinator for today's conference. For the duration of the call you will be on listen only. However, at the end of the call you will have opportunity to ask questions. (Operator Instructions).

I am now handling the call over to Christian Herrmann, Head of Investor Relations.

Christian Herrmann - K+S AG - Head of IR

Good afternoon, Christian Herrmann speaking, or good morning wherever you're listening to this call on the globe. We welcome you to today's K+S second quarter earnings conference call. Norbert Steiner our CEO of K+S is going to present to you the second quarter 2009 result shortly, afterwards Mr. Steiner and Mr. Felker, Member of the Board of Executive Directors and for the first time Mr. Nonnenkamp, our new CFO are happy to answer to you question.



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Before I hand over to Mr. Steiner, please allow me to mention that this presentation contains facts and forecasts that relate to the future development of K+S Group and its companies. The forecasts are estimates that we have made on the basis of all the information available to us at this moment in time. So, the assumptions underlying these forecasts prove not to be correct, actual events may deviate from those expected at the present time.

I'm now happy to hand over to Norbert Steiner, CEO of K+S.

Norbert Steiner - K+S AG - CEO

Good afternoon or good morning from myself as well. Also hearty welcome to our discussion this afternoon or this morning, and looking to the number of participants, I am again glad to see the big interest in our Company and would now like you to guide through our presentation. And in case I do not forget it, I will indicate the number of the pages.

I would like to start with slide number one, and as mentioned in recent conference call our business is heavily impacted by continued reductions on the part of agriculture as a consequence of the ongoing effects of the global recession.

Although prices of agricultural products stabilized during the first half of the year, and stocks at the trade sector level declined, customers remained cautious forcing most producers to further cut production. In the course of the second quarter, it has been noted on major overseas markets that the prevailing price of potassium chloride was unsustainable for large quantities, leading us to make corresponding price adjustments in Europe.

In the middle of July, contracts in India were concluded at a price of \$460 per tonne. Even though we have wished for a higher price, it still sets an important point of orientation for the world markets and could thus contribute to dissolve the purchasing restraint that exists on the part of customers.

The demand for nitrogen fertilizers, in particular complex fertilizers in Europe, was still very weak in the second quarter. Only severe price cuts for nitrogen fertilizers towards the end of the quarter strengthened demand. These price cuts were helped by the drop in gas and ammonia prices.

The early procurement of de-icing salt in North America began very promisingly. Whereas in Western Europe, despite low inventories on the customer side, the early procurement business was only on normal level; this is mainly attributable to the strains in public finances.

As you know, our energy supply clauses, as for the majority of Germany industrial companies, comprised time lags of six to nine months, therefore the fall in energy prices will have an impact on the K+S Group's energy costs from now on.

Next on slide number two; a brief look at the change in K+S Group's revenues during this second quarter. Revenues decreased by 446 million or 38% year-on-year. As you can see on the slide, negative volumes and structural factors, which sum up changes in the product mix plus unrealized price increases on unsold volumes of that price and currency effects.

And as you know, the following table, this is table number three, should be only understood as a rough indication how prices have developed; factors like freight cost, exchange rates, product mix can be [sought] in that picture. Year-on-year, volumes in Europe decline sharply while price increased by 24%. This increase was somewhat mitigated by negative mix effects.

Overseas prices declined by 13% as already mentioned in our ad hoc announcement of June 17. Overseas volumes were almost flat compared to last year, but benefited from the diverse and loyal customer bases.



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Quarter-on-quarter and despite the spring season in Europe, volumes declined by 18%. Revised demand in Brazil accounted for an increase in overseas -- for overseas volumes of more than 50%. Average price in Europe, as well as overseas declined to the same extent.

Slide number four, selected figures for the second quarter. As explained, revenues fell by 38%, mainly because of negative volume effect. Operating earnings reach EUR18 million for the second quarter of 2009, this is a drastic decline of 95%. Earnings fell particularly sharply in the Potash and Magnesium Products and in the Nitrogen Fertilizers business segment. Negative non-recurring effects, which consisted of an additional payment in respect of 2008 input costs totaling EUR19 million, affected the Nitrogen Fertilizers business segment.

In order to hedge the Morton Salt purchase price, which will be payable in US dollars, hedging transactions were concluded in April 2009 on the basis of the US dollar exchange rate applicable at that time. As a consequence of the weaker US dollar as of June 30, the market value of this future transaction declined and reduced the financial result by EUR69.5 million. This market value reduction is non-cash in Q2 and neutralizes the positive currency effect of the purchase price to be paid in US dollars for Morton Salt.

Effective tax rate declined by 2.2 percentage points, due to higher foreign earnings taxed at a lower tax rate compared to the domestic tax rate. Furthermore and on the basis of lower earnings, tax free earnings have a big impact on the overall tax rate. Q2 free cash flow still dropped by 49%, to about [14] EUR94 million, but was clearly positive and declined less than earnings.

This brings me to the half year figures on slide number five. Other than the Q2 number the half year earnings benefited from the very positive growth of the salt business in the first quarter. Nevertheless revenues declined by 24% less pronounced than in Q2.

Operating earnings were down 65% at EUR192 million, with 40% of this coming from the salt business. Free cash flow reached almost EUR190 million. At June 30, net debt including pension and mining provisions up about EUR480 accounted to approximately EUR830 million down EUR75 million compared to last year.

The reduction in financial liabilities was to a large extent in parallel to the latest dividend payment of almost EUR400 million in Q2. How does this compare to the last two years, please follow me to slide number six.

The Q2 earnings the share being negative at \$0.27, a cumulative figure for the first half year amounts to \$0.47, excluding the purchase price hedging effect of Morton Salt. Q2 earnings per share would have reached \$0.05 and first half earnings per share \$0.79. This is clearly below the record earnings level of 2008 and closer to 2007 figures although 2009 results are achieved on half the volume sold compared to 2007.

Now slide number seven, let us take a look at the development of prices of agricultural products. After the substantial drop in the second half of 2008, fundamentally still restrained supply demand situation for most agricultural products [helped] the soft commodities to improve somewhat during the first half of 2009. Nevertheless, the uncertainty about the future crop price development is still the decisive factor for the current purchasing restraint of agriculture.

As you may remember adjusted sales assumptions for the year 2009 and 2010 have been done in the middle of June. Furthermore, and now we are on slide number eight, on the basis of the new IFA capacity data, we have conducted a new assessment of the technically available capacities.

Other than the lump sum discount we used so far, our new supplier by supplier assessment suggests a significantly wider gap between nameplate and technically available capacity. And better on for this assessment is that in 2007 when demand was exceeding supply and caused the inventories to fall to credit levels, production figures stayed for [somewhat] users clearly below stated capacities. And in addition, likely postponements were taken into account as well.



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It was -- and still is carefully possible to forecast potash price level over the medium term. However, the future reduction in the potash price would probably resolve in the postponement or suspension of new potash capacities that has been -- that has only been planned so far. This is because the economic viability of time consuming and very capital intensive new projects like greenfield mines depends on the reasonable potash price level.

A contrast on the demand side, the further potash price decline would cause a rapid normalization plus a catch up the effect, which would confront the supply side has already occurred in 2007, 2008 with enormous production challenges. The consequence would be renewed erratic price swings that would not serve the goal of a sustainable and balanced relationship between supply and demand.

Turning to salt for a moment on slide number nine, a brief update on the Morton Salt acquisition. We are in advance talks with the Federal Trade Commission and are optimistic about realizing our target closing date of around the end of the third quarter. The [implemented] and integration team which although it has to work under the restrictive conditions of US antitrust law, we can prepare a large work load prior to closing. Especially, in the fields of IT, human resources reporting a lot of prearrangements are being done together with the counter parts of Morton Salt ahead of day one.

The transition service agreement, which was part of the acquisition contract, is in the course of being developed further and detailed measures are being negotiated. Until the end of the first half of the year, no matured acquisition related expenses occurred. We truly expect the upcoming reorganization and integration costs to offset the earnings contribution of Morton Salt in Q4. As already stated in April, Morton Salt will certainly -- will be earning accretive from the 2010 onwards.

Back to the present slide number 10. We are facing a tough business environment at the moment, no doubt. Although the potash industry is relatively high fixed cost industry we analyzed our processes and costs and initiated the following cost savings. After performing exploratory pre-processing measures to ensure future production in the first six-month, short-time work will be intensified in the second half of this year.

As announced in our ad hoc statement on June 17, we will reduce our potash and magnesium production volumes significantly by four million tonnes in 2009, which corresponds to approximately 50% utilization rate. Furthermore we decided to carefully reduce our CapEx budget by 15% on average and in addition we are investigating our cost of repairs but paying close attention to not endangering current and future production potential.

Last but not least, we have already implemented structural measures to ensure the future of the K+S Group, like the cost optimization program in our European salt operations esco and the restructuring of the nitrogenous fertilizer business.

Coming to the last slide, given the current difficult industry situation in the fertilizer sector, we will be -- we will in the outlook depart from our customary approach of providing from the second quarter on the quantitative ranges for revenues and earnings for the year as a whole and provide qualitative description of these figures for the time being.

In the financial year 2009, the revenues of the K+S Group can be expected to decline significantly in relation to the previous year. In the fertilizer business sector, we expect both significantly lower volumes, as well as appreciably lower average prices. By contrast, the Salt business sector should report a significantly higher level of revenues because of the good start in to de-icing salt business, but this will not be enough to make up for the negative development of fertilizer revenues.

The revenue forecast assumes an average US dollar exchange rate for 2009 of about \$1.37 per euro. In the last year we had 1.47. EBIT I operating earnings for the financial year 2009 will fall sharply in relation to the record results achieved last year. This is primarily due to the decreasing revenue level in the Potash and Magnesium Products business segment as already described above. Even a stronger US dollar exchange rate and higher earnings from Salt compared with last year can only check this trend to a limited degree.



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The outlook for 2009 is nothing I'm proud to present today. On the other hand we are definitely not going to sugar coat it. This crisis will pass by, no doubt. And I personally hope that they will perceive K+S Communications as honest and credible.

This will be the end of my remarks and I thank you for listening. But now the team, Joachim Felker, Jan Peter Nonnenkamp, Christian Herrmann, and myself are happy to answer your questions. Please start. Thank you very much.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from the line of Karan Khemani with Cazenove. Please go ahead.

Karan Khemani - Cazenove - Analyst

Hi, Karan Khemani from Cazenove, London. Mr. Steiner, going to some press statements this morning, I understand that you believe that the \$460 benchmark MOP price seems to be finding some level of support. Now apart from India negotiating significant quantities of potash at that price no real big volumes seems to have been shifted at that level. So is it possible that the equilibrium price is well below this level? May be in this week demand environment but also next year?

Secondly, what is your current marginal costs of production for your group and why is there such a big disparity between this and the cost per ton of setting up a new mine. Finally I see that you say -- you may temporarily breach internal balance sheet metrics externally, however, do you expect the covenant breach on your debt in Q4 this year? Thanks.

Norbert Steiner - K+S AG - CEO

First question. \$460 are negotiated and agreed upon in India for quite a large quantity of about four million tonnes. And we have also like you seen that further price announcement and also price agreement has been done on the level of 500 and more dollars per ton for smaller quantities. And this is something, which could have a very prominent and positive factor also to sales into other regions of the world like South America.

Big market in China is still not showing up on the -- at the negotiation table. So the two biggest, let's say the emerging country areas, Southeast Asia and South America seem to go to that level of more than 460 for smaller quantities because you cannot compare immediately and only shipments of 20,000 tonnes was agreement of 500,000 tonnes and more.

The second question on, I did not write down.

Karan Khemani - Cazenove - Analyst

You want me to repeat it for you.

Norbert Steiner - K+S AG - CEO

Yes, please.

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Karan Khemani - Cazenove - Analyst

Okay. What is your current marginal cost of production as a company and why is there such a big disparity with differential between this and the cost per tonne setting up a new mine. Because your industry keeps saying that you know we need a price of 600 to 800 to make a IRR of 15% roughly give or take. But your marginal cost of production is probably below this level. I understand there are costs associated with setting up a new mine, but why is there such a big differential, in fact if you could just explain that that would be great?

Norbert Steiner - K+S AG - CEO

First of all you referred to some remarks and some figures that must have been discussed or put in to the public by our competitors, as you referred also our competitors. We have also and always said in the past that you need reasonable, sustainable level of price, which would only encourage you to go forward for a greenfield operation, including all the difficulties to predict price levels of let say 20 or 30 years to come.

On the other hand, we have never stated price level indications from \$600 and so. We always have said that you need to have a certain let's say safety cushion in between your own assessment of a new mine and the price levels, but so far from K+S there has never been a statement that 600 or even more dollars will be necessary to decide for a new mine.

Christian Herrmann - K+S AG - Head of IR

Karan in addition to that Christian Herrmann speaking here. We are producing on very old installed capacities. Our mines are sometimes even 100 years old. And certainly this has to compare with a new mine, where potentially also new infrastructure has to be built. And if you built and bring down a shaft today, these cost are enormous. And maybe you ask someone who is bringing down some shafts right now, what they have to pay for that, but it is enormous. And therefore the cost for new production of capacity and don't forget the time that you need on this in order to bring new product on line which is -- I mean just for building the mine, you know that at least five to seven years, plus exploratory work and financing for all this time. Then you need ramp up phase afterwards to get 100% of capacity utilization. All this has to be financed, and therefore these costs and the -- let's say the necessary price level to earn this costs must be and will be and is significantly higher than our cost right now.

Our margins and costs -- I mean right now if you take, let's say, revenues of Q2, look at our EBIT of 53 million that means 300 million cost in the second quarter for sold volumes of one million, so that brings you to EUR300 per ton. That's a very high figure, because we have only 50% of utilization. Therefore on a, let's say, normal utilization the average cost per ton would be lower and this is the fact because we have old installed mines and this is our benefit. But this, you cannot fulfill future demand only depending on these old installed mines around the globe, that's not possible.

Norbert Steiner - K+S AG - CEO

There was another question, if I -- and should correct the saying for the -- to your assumption that there could be a breach of covenants. In our contract with the banks, there I can only tell you, and this is something which I wanted to state here quite in front of our today's conference, that we have never been given any details of our contracts with the financing banks. And I do not intend to announce something with respect to that. So we have an eye on the development of our earnings, we have certainly also an eye on our agreements with the banks and we will do whatever is needed to be done.

Karan Khemani - Cazenove - Analyst

Okay. Thank you.

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Christian Herrmann - *K+S AG - Head of IR*

Thank you.

Operator

Thank you. Next question comes from the line of Sophie Jourdiere, Citigroup.

Sophie Jourdiere - *Citigroup - Analyst*

Thank you very much. Two questions, first of all, I was surprised to see your volumes, the overseas volumes in the potash segment and down only I think few percent year-on-year. I wondered if you could explain to me why volumes were so stable for you, and I guess also, what you're seeing in overseas markets as we progress through the third quarter? And the second question is just on Europe, unlike overseas volumes fell in the first quarter? And again just whether -- a similar question, in the third quarter what were you seeing -- is there any sort of signs of pickup in demand as we are looking forward? Thanks.

Norbert Steiner - *K+S AG - CEO*

It will be done by Joachim Felker

Joachim Felker - *K+S AG - Member of the Board of Executive Directors*

Our sales -- relatively stable sales to overseas. We have a quotation set, we have had very high sales in Brazil that is true, but if you compare them to last year first half, we also had a drop of 55%. We are relatively stable, because we have always had in the past more sales potential or buying potential from clients and availability of products and what we also had, we had some quantities hanging over from the fourth quarter, which then have only been realized in January and February. So, for us that is not a big surprise and I think we are having since many years selected those customers, who have the best performance also in the first half in the Brazilian market.

The second question then was what will happen in Europe? I think in Europe over the next year, it will be very, very calm, first of all in most areas there is still products lying in this warehouses from the grain harvest, from the wheat harvest and so on. In France most of the ships are lying around out at the Mediterranean or at the Atlantic coast. So nothing is happening there and there is still discussion going on and what would be the right price in Europe. Farmers are extremely happy with the very low nitrogen prices and I must tell I am not, because some of our competitors have already announced that they have made losses with these prices. And I think they are not sustainable. I think they will go up. And what we can expect I think is more or less just in time delivery system. No contract system anymore. The distributors will try to make back to back businesses. So, supply chain will be very much spread with little lots and stock keeping on all levels will be reduced as much as possible. So, we think what we have said already in June, very low business in Western Europe or in Europe in total for the next months to come.

Sophie Jourdiere - *Citigroup - Analyst*

Thank you. Let me quickly get back to the overseas market, because you saw quiet a nice pickup in demand from the first quarter, where you had about 450,000 tonnes, and in the second quarter, where he had about just up to 700. As you progressed through the second quarter was that continuing to increase and if that cannot be -- did that continue to sequentially increase into July as well? Thanks.

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Joachim Felker - K+S AG - Member of the Board of Executive Directors

What we will have -- what I am relatively sure else is that we will have a much better business in important countries in overseas, especially Brazil, but also in some Southeast Asian countries where we have strong hold since many, many years, and institution system and also have loyalty of clients. I think that, it will be the more favorable part of the business in the next six months. It will be stronger for us than Europe.

Sophie Jourdi - Citigroup - Analyst

Perfect. Thank you very much.

Operator

Thank you. The next question comes from the line of Andreas Heine, UniCredit.

Andreas Heine - UniCredit - Analyst

Perhaps you highlighted that you have cost and that you introduced some cost savings and also energy cost will come down. If you compare the cost base, you foresee for the second half compared to the first half of 565 in the potash division that would be helpful?

Secondly, the demand in fertilizers. Is there with this very low price, especially in calcium ammonium nitrate, is there price sensitivity in the demand, so is that picking up strongly, and is that also something you will see in the second half for other nitrogen fertilizers?

And the third question, just for clarification, you said that Morton Salt's earnings will be offset by the integration in restructuring cost. Is that a number on EBIT or is that after-tax. And so is it loss making and after the interest payment and is written -- are you referring to the EBIT level or round it with EBIT level?

And last, but not least, regarding the comments you've given on the question before. I got the assumption that you do not think that the destocking in the potash market in Europe is over. Is that correct?

Norbert Steiner - K+S AG - CEO

Andreas, four questions. We -- we try to split it between Joachim Felker and myself. I would like to start with the Morton question, that was question number three. We said that we wanted to be cautious and not misguide you that we put it on the table that we certainly expect accretiveness from 2010 onwards and this is meant under the bottom line and this is the same for the fourth quarter. So we cannot discuss with Morton Salt's right now their conduct of the business with respect to the restrictions of the antitrust law in United States. Therefore, we do not have more than an assumption and this should be -- may be is offset by the cost incurred in the fourth quarter by the integration costs. But as we do not have any precise basis for that we can also not say whether this will be negative, neutral or positive. But I would say, take it like we have said it to you, told you and say this is more less not accretive in 2009 anymore.

The first question goes back to the comparison of Q1 and the first half year and second half year. And I mentioned in my initial comments that we have done a lot in order to prepare future production, future productivity with a lot of measurements and we have stopped that since we are of the opinion that this is more that's enough for the next time to come. And therefore, the reduction of the payments to our employees that are working on short-term work will be increased that means we have less cost there. We have also more or less lower cost in energy, there also more or less lower costs in transportation. So, you can certainly be of the opinion that we will be better off, better off because we will have lower cost in the second half.

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Andreas Heine - *UniCredit - Analyst*

You said you are in the magnitude of 10 to 15 million or more of 50 to 60 million in total amount?

Norbert Steiner - *K+S AG - CEO*

We will see at the end of the year. Okay. For two other questions, we go to Joachim

Joachim Felker - *K+S AG - Member of the Board of Executive Directors*

Okay. Nitrogen business. So, when you look in the Europe, nitrogen businesses five month of this year very low and month number five almost coming to the end of the fertilizer application in Europe. What has happened during that time urea import into Europe were relatively aggressive. Quite a some quantities were coming up and they were had very, very low prices, because there was a very low gas price actually, and then all the availability of ammonia, because the chemical industry worldwide was not performing, so for some producers it was relatively easy to react dropping prices in [CAN], which is the major product in Europe. So, CAN price were set at a very low level at the end of May by one of the biggest suppliers and immediately distribution reacted and we saw heavy ordering for CAN. In our case that also initiated sales of ASN, which is an important special product for K+S Nitrogen and when you see now the capacity utilization for these product two lines in Europe, they are very, very high. As a result of this the market share of urea, which was gained for certain period by some importers has been lost by them again. But as I said before my personal opinion is that this price reaction CAN and were too strong and it depends on what will happen with the availability of ammonia and the gas price. Whether this was a clever mover or a very clever move, we will find out.

When it comes to the other products, when it comes to your question about the availability of stocks at the distribution level, I think in the meantime it's almost normal. There might be some leftovers, especially in the MPK area. Not so much in other straight nitrogens, also not so much in potash products. I think that is a problem still with MPK. MPKs because their price finding in the market is little bit different of course. Now, nitrogen is very low, [neutral] in price. Phosphate is very low and potash is high. So there farmers and all distributors are looking for an orientation. That was -- I think that was more or less your questions. Is that correct?

Andreas Heine - *UniCredit - Analyst*

Yes. Thank you.

Joachim Felker - *K+S AG - Member of the Board of Executive Directors*

Okay. Great.

Operator

Thank you. Next question comes from the line of (inaudible).

Unidentified Participant

Thanks. Hi there. Three questions if I may. The first one just on the other product prices. I know you don't normally comment on them specifically, but within the potash and magnesium products division, how should we think about the progression of the non sort of MLP product prices?



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And then two clarifications, you've got to done your full year volumes, despite the lower price levels in Europe. I know this has been asked already, but just does this mean that you don't have much confidence in the Europeans really buying significantly at this level?

And then on the cost base, I know you said you won't quantify how much it should be down this year, but in terms of the sustainability of those -- that costs based reduction going into next year, could we -- if we see sort of 50% increase in volumes, could we see a significant rise in the costs base again? Thank you.

Norbert Steiner - K+S AG - CEO

When it comes to non-MLP products do you mean nitrogen straight fertilizers, nitrogen products of MLP mixed products...

Unidentified Participant

No, I am thinking more along the lines of the [kisorites] and the SOPs and things like that?

Joachim Felker - K+S AG - Member of the Board of Executive Directors

(inaudible) more European product portfolio. Now what we see is that, of course, our distributors and our farmers they are stupid people, what they do they have of course learned what have been the price of salt last year, which was also exploding and now its coming close to zero. They know what's happening with the nutrients with the publish nutrients. So what they all are looking at is orientation and this is orientation 460 in China for the time being and 525 in the some other parts of the area.

The problem being is that the structure of our clients in Europe is totally different. We invest much, much more in this clients, our supply chain is giving them very small lots. We do stocking for them, we do some other thing, so we cannot give the price comparable to Brazil or to India to our distribution in Europe. And they know that and they are looking what is the right price.

Now, what are farmers doing? Farmer when they calculate, I think they can easily afford the Brazilian price or even a higher price in Europe. What they are missing is confidence. They are looking for soft commodity prices, they are discussing with they're local banks, little banks how do I get credit lines and what they need there is, how should I say, a more confidential outlook for the next month to come. It's a mixture. They don't expect the prices we have at present, but I think it's more kind of risk management for them what do I do.

They know that they are risking yields. They know that they are running in to some problems if they don't apply product in a proper way, so most probably they will -- I'd just say they have to choose between the lot of evil things now. And what we expect is that second half of this year compared to last year or to normal fertilizer year our sales in Europe will be lower. That's it.

Unidentified Participant

Okay

Norbert Steiner - K+S AG - CEO

With respect to the cost question that you raised and you made the assumption that we would have at least sales volumes 50% higher than the sales volume in 2009.



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Unidentified Participant

Yes. Just indicative.

Norbert Steiner - K+S AG - CEO

That means we would be then back to four to six million tonnes that would certainly lead to the fact that we would get into our inventories and ship them to the customers first. That would on the other hand mean that we would not be producing six million tonnes, just to follow-up with your assumption. And this would mean that we would have higher necessity to bring the people back to normal work. That means less reduction for short-time work, but still reductions, still reductions in the consumption of energy, still reductions in the consumption of transportation costs. And this means that we will have -- I cannot that we will have compared to June figure in 2009, lower figure for the entire year on higher production. But relatively the cost should fall let say on a per ton basis.

Then we need to draw our attention to a second point, which I have said at the very end of my initial remarks, that we are not content with the situation in which we are right now and we are certainly doing a lot of investigation how we can save additional cost in that situation. So this would then come on top of that what we will see for 2010.

And when we enter into such a year with complete different circumstances and expectations, it's not easy, but it's more planable when you want to see the development of investment, then you want to see the development of repair cost and so forth.

And therefore the ability of the management to act and to not to react on it on a short time basis is bigger. So this will be taken certainly not only into account that will be materialized, but it is premature since our planning procedure for 2010. We're still on the way and we will have the result out of that at the beginning of November -- middle of November. And therefore, I can only restrict myself to that more or less remarks that I did not very precise, but from the system that we have in mind.

Unidentified Participant

Okay. Thank you very much.

Joachim Felker - K+S AG - Member of the Board of Executive Directors

Thank you.

Operator

Thank you. The next question comes from the line of Martin Rodiger, Cheuvreux.

Martin Rodiger - Cheuvreux - Analyst

Yes. Thank you. Three questions. First of all on the lawsuit, which is currently pending filed by the socialistic party, (inaudible) on the 2 August, in front of the constitutional court of the federal during the year. What is the risk for K+S out of this lawsuit?

Second question is concerning the bulk case, in one example, wheat, you know that the wheat exit in US -- the United States and Western Europe is obviously decreasing, besides that China has reduced potash applications, so yields will be lower than, that means wheat production should be lower usually that means that wheat prices have to explode, which is certainly positive

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than for potash demand, but unfortunately, quite the opposite is correct, wheat prices are decreasing further now its EUR120 per ton in Europe. Can you explain that why wheat prices do not go up although they should go up?

And the third question is potash volumes. You have taken out 50% of your total capacity in 2009, this is certainly more than several other competitors. Last you should show also stronger recovery in 2010 when the market will rebound and according to your slides, you assume that the market will rebound by 25% in 2010 from 40 million to 50 million. So is it fair to assume that your volumes in 2010 at (inaudible) and potash would increase by twice as high or 50% or even more?

Norbert Steiner - K+S AG - CEO

I will calm down the situation a little bit answering your first question. We have here the case where the Parliament of Thuringia or at least some parties within the Parliament of Thuringia have brought an action against contracts that K+S, the State of Hesse and the State of Thuringia have negotiated and concluded at the beginning of February this year with respect to the improvement of this alliance situation in the river of (inaudible). We think that actions, we call it contracts, is something which is highly influenced politically and therefore it was a political situation and the political decision of the Government of Thuringia to acts in a way, which is more or less quite close to the guidelines that the Parliament have given to them in a situation I would think two years ago, taking up all the development and all the knowledge that has been put forward with respect to the situation at the river of (inaudible).

So, I'm not an expert in the judging on let's say the length of such procedure. However, I would assume that at the very end the court in Thuringia accepts and underlines the political let's say liberty of freedom of the government to act in the best interest of the place of Thuringia. However, not following the content of the declaration of the Thuringian Parliament word by word, but in 100% in its very sense. So, we need to wait for that, but you will see for my answer that I'm absolutely relaxed from that.

Joachim Felker - K+S AG - Member of the Board of Executive Directors

Okay. First of all, coming to one of your favorite topics wheat, that's why I put that a little bit in to specific, worldwide wheat accounts roughly 6% of potash consumption. In Europe you are right it's totally different. In Europe wheat is a very important crop and what we see there it's about we have still carryover stocks of last year and remember we have certain -- number of times we have discussed that a lot of farmers last year speculated with wheat, they missed to sell at the right time and this product is still lying in their warehouses. What we also see is that we will have a good harvest. We have had a good harvest in most of Europe. So, we have -- normally in Europe let's say we have had very good weather conditions. So, the harvest this year in Europe is strong again, which will put pressure on prices.

But again, when I calculate even these prices, and in my calculations for the first time, I would also absorb numbers like, nitrogen prices, falling prices for fuel, falling prices for some other stuff and even high potash prices, and then I also put in the subsidies these farmers get from Brussels, then I still think that they can easily absorb prices we have put and the announcement to the market over the last few weeks.

So, I think it comes more in the direction, farmers need orientation, what will happen in the future and we have to give them back the solid -- what should I say, a solid basis when it comes to credit, when it comes to what would be the future within the next few months when it comes to prices for their produce. That's I think is lot much -- most important.

And we will not be able to solve all the farming problems and all the agricultural problems in Europe by decreasing potash price. I mean that is something which is out of the question. We have to -- how should I say, we have to move a lot of parts of this complicated puzzle. But please don't make us responsible for all the problems, with milk, with all the production, and please also not make us responsible that the sugar prices are exploding, the coffee prices are exploding. Keep things separate and go piece, by piece, and relax.



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Unidentified Company Representative

50% potash increase next year.

Christian Herrmann - *K+S AG - Head of IR*

The other question was you wanted to have an indication, what could potash market do next year. Is that for Europe, for the world, for us, what -- can you explain that a little bit?

Martin Rodiger - *Cheuvreux - Analyst*

No, I referred to your presentation where you say that the potash market will rebound in 2010 to 50 million from 40 million in the current year. And do you have or you taken out the massive production capacities, so even more than others, therefore your rebound should be even more pronounced than when you passes them may be 50%?

Joachim Felker - *K+S AG - Member of the Board of Executive Directors*

Okay. What we have done, we have decided, Hey, Martin, what we have done very, very early this year and already in last year is we announced our production capacity very early and very much forward. So when you compare them to what other producers are doing, they only tell you I will do it and I have done. What we have done, we have covered the whole season, the whole year. So we think to cut more than the others do. That is one fact.

The other fact is this little picture we are always talking on is, what we have done, we have said we come from roughly 55 million tonnes in 2008 and it will drop and then it was the question how deep will it drop and we have been extremely early, and we have been from our point of view realistic, from some other parities point of view very pessimistic, we said that we'll drop down to 40 million tonnes roughly.

Some other party say now next year we'll rebound to 55 to and we will say we need a transitional year. We are not convinced that with open discussions in China, with the financial crisis still not being over, far away from being over, with a lot of other influences that from one year to the other there will be bounce of 50 million ton worldwide that is I think too much for all the supply chain system for production, for lot of systems, it's too much. We are more conservative then some of them. If it happens we will be able to participate don't worry.

Martin Rodiger - *Cheuvreux - Analyst*

Thank you.

Operator

Thank you. The next question comes from the line of (inaudible).

Unidentified Participant

I have got two questions. The first one, can you give us an indication as to what your potash inventories were at the end of June? And secondly, can you give also feeling as to what is currently happening in Brazil in terms of volume development in July, possibly some indications, maybe even just verbally for August and what is currently going on in Western Europe, I mean there must be some recovery I would say volume-wise ahead of the new autumn fertilizers even?

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Norbert Steiner; What we have our stock still high slightly about one million tonnes.

Unidentified Participant

You say slightly.

Norbert Steiner; And Brazil, when you have access to the shipping schedules and you will see that there a lot of ships now going to Brazil based on the price let's say of US\$525 and not only our ships, we will have other some of quite a big size, but also Russian suppliers, North American suppliers are going to Brazil. The reason being that in the first few months of this year also we were talking about pricing problems. The local trade in Brazil was 1.8 million tonnes of products and that established a local price of \$600 at that time. What they did there was what we are still expecting in some areas of the world. Distributors were selling prices in to retail organizations and into applications. So, Brazil is not a booming market, not a brilliant market, but it's a very stable market and when you look at soy prices and also dollar exchange rate to real. I think a lot of them will do a very good business. So, I'm not afraid of Brazil.

Unidentified Participant

And In Western Europe?

Unidentified Company Representative

In Western Europe, I come back to what I said before, Western Europe consumption will be on a very low level. We will be facing distributors not running any risk, they will keep their stocks very, very low, working capital management and farmers will try to minimize risks, because they know in average the soil they have is in relatively good condition. But they will say -- I will say, they will make compromises. They will not use no potash, but they will use less potash than in normalcy.

Unidentified Participant

Okay. Thanks.

Operator

Thank you. The next question comes from the line of [John Vergil], Nomura.

John Vergil - Nomura - Analyst

Yes. Hi, this is [John Vergil] speaking from Nomura. I will try four questions if I can. The first one is on your potash price for Europe. The one you have announced at the end of June at 435. I understand that we should still see a premium for the European price compared to the big overseas contract like the Indian settlement, but that premium is quite significant. And I was wondering what are the main milestone of you to potentially reconsider that price when we will get into the very important application season of winter in Europe. That's my first question.

The second question is on the hedging for the Morton acquisition. I am -- I'm not sure I got the right understanding here. The way I understand it is that we've -- hedging instruments, you have freezed the dollar euro parity of that transaction, but I understand that Morton is mainly generating revenues in dollars, so therefore would a dollar continue to weaken the multiple you pay on Morton is increasing. Can you just confirm if that's the case, and if it's not can you just clarify.

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The third question is on nitrogen fertilizers, it seems you have a very conservative guidance for H2, and the way I understand is that should expect further inventory right down. I just would like -- if you can confirm. And the last question is going back on potash inventory. I just would like to know the one million tonne you just referred to, is that your capacity of storage or you have further room for storage? Thank you.

Norbert Steiner - K+S AG - CEO

Okay. So I'll start with the end. We are not able -- I wouldn't say able, we are not prepared to stock more. The 1.1 million is our own warehouses that means that's the size and also the 400 roughly 425,000 we have in Hamburg where we have made investments in the past for the overseas business to have, how should I say, [it's in this] loading procedure for Panamax vessels and so on. And we have some third party warehouses but we will not increase the stocks.

The second question, nitrogen why are we relatively pessimistic for the second half of this year. As I said before, straight fertilizer price are on the very low level. They are possible to be a realized because nitrogen -- because ammonia prices are very low and gas prices are very low. But I am not convinced that there will be not move in ammonia prices. So we are -- how should I say -- very realistic when it comes to this. The heavy burden in the second half which is still the empty case, Europe we saw a lot of empty case in Europe and so far we haven't found a good pricing formula, which is acceptable for the trade and trade in this case is still covering -- is still having some stuffs.

Now potash and than I have all the fertilizer questions I think answered. Potash what we did -- we announced to the market that \$425 -- sorry EUR425, when we count that in Brazil and some other areas, products were traded at \$600. And your question is absolutely correct. What is the premium? China and India have always been rock bottom. They have always been the lowest price because of consolidated purchasing power of companies like state owned companies like IPL, Sinochem and so on. What then has followed was always Brazil and the reason in Brazil was that single account are very high and the individual shipments are very high. So, we have 35,000 tonnes, so when it comes to transaction cost of one shipment of one order extremely low, very good to plan, very good in production, not very complicated to do.

So, in return we service these markets also a very big demand for the total market with lower prices than Europe. Europe is small structured we are giving extremely high services to the agriculture. We invest a lot of money, which is also normal because it's around our [tower]. Our capital, we call it our home market and surprisingly we are a little bit disappointed with the distribution they are not paying for it. So, we are waiting and we will find a good price, but again I have to repeat, I'm not very optimistic for the European markets in volume that is why our outlook was so far four point something over million in sales in total. If the market in Europe comes back stronger when we expect we are the first to supply, stocks are ready and if necessary we can also check up the production. Actually Morton was the next one I suppose.

Christian Herrmann - K+S AG - Head of IR

Okay. Nonnenkamp do the answer for the Morton question.

Jan Peter Nonnenkamp - K+S AG - CFO

Okay. So, Morton cost was actually hedged at the rate of 1.30 and that's the reason why had [taken] our financial result in the first half of roughly seven million from the valuation of this hedging transaction. I think the question which was -- I want to divide it in three, between translation and transaction risk. Certainly we have a translation risk of this assets being in US dollars and our financing which will be in euros, but this is not cash relevant for the future. The other thing is that the future cash flow for Morton Salt, they will be then hedged again because this is part of our normal hedging strategy and these cash flows will be part of this strategy, so from that side we don't see a risk because this risk will be hedged in normal proceeds.

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John Vergil - Nomura - Analyst

Yeah. Can I just clarify on that point. So the entire \$1.6 billion have been hedged.

Jan Peter Nonnenkamp - K+S AG - CFO

No, only part of it.

John Vergil - Nomura - Analyst

Part of it, but most the -- most of the Morton Salt cash flows are in dollars right.

Norbert Steiner - K+S AG - CEO

No, no, no. What we had in mind and I take over the second part of the question since I was in charge of that when we did it in the beginning of April. We wanted to do a quite simple thing. We wanted not to overpay the purchase price of 1.6 -- \$1.675 billion in euro. At that time and still if you are comparing the outlooks for the development of the US dollars, that different European banks have published, you will see a big spread between assessments that go down to or go up let us say to 120, 125 and go down to 150 or something.

In that situation we have decided not to give the risk that the dollar strengthens and we need to pay more in euro for that piece of the acquisition. And this was the reason why we went to hedge the dollar payment to secure our self to ensure our self against the strengthening dollar, and with that we locked in the purchase price or exchange rate that I have to say of 130 in those days, which now is the price which we have locked in and which will more or less be mobilized when it comes to the payment of the purchase price like mentioned most likely at the end of third quarter.

This has nothing to do with future cash flows, which are than most likely governed under, that's what the unpaid I mentioned before. So please do not mix up the two different elements.

John Vergil - Nomura - Analyst

So, no mixing up the two elements. But effectively you're freezing 1.3 -- you're freezing at the exchange rate of 1.3 would a dollar go to \$2 -- would the euro go to \$2 effectively the multiply pay would be higher, because this is an American business that's what I'm trying to understand economically.

Norbert Steiner - K+S AG - CEO

Now I tried so -- this question.

John Vergil - Nomura - Analyst

Sorry to insist.

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Norbert Steiner - K+S AG - CEO

No, no don't worry. I mean 1.675 is the end of first value at the end of September the closing that's what we expect and we have to deduct the debt in the Company and less the few this is just an assumption, the price would be 1.4 after debt and then we convert this to by whatever the exchange rate will be.

On the other hand our financial instruments that we've locked in at the beginning of April will need us and cause us to pay the banks difference between the then actually currency rate between 130. So, in fact we have locked in a purchase price of roughly \$130 per euro. This is set, no matter what the US dollar currency will be let's say at the end of September.

John Vergil - Nomura - Analyst

Right. So that's the \$1.4 billion and effectively there will be inflation of multiple if the dollar continues to slide.

Norbert Steiner - K+S AG - CEO

If the dollar continues to slide, and let's say the 2010 revenues in US dollar will then be converted in euros certainly, then we have in euro terms less, that's correct. But this risk is then hedged as any other risks what we have right now. Already in our Company when we hedged for example [SBL] revenues; and they sell the icing salt to the US and when we for example sell potash to Brazil or other overseas market, that's just the same.

John Vergil - Nomura - Analyst

Sure, but these hedging instruments are shorter term. I understand.

Norbert Steiner - K+S AG - CEO

But the risk is always there though, you cannot exclude the risk, whenever you spend abroad, that's it.

Joachim Felker - K+S AG - Member of the Board of Executive Directors

Once again, one remark from myself of course there is purchase price and the evaluation of the Company, and this evaluation includes what we find out about the past and where we -- if that's the future potential of the Company.

We have mentioned in connection with the announcement that we had signed the contract, that we made that assessment as we came to the conclusion that if purchase price is the realistic one and there's a reasonable fund, but also not going to the extreme.

And therefore you will see a leading company that might perform better, that might perform worst where the dollar will be increasing to 120 or 1 [guaranteed] or decrease to 2.

The only thing that you have is then of course you have the element of the development and the change of the exchange rates that you need to integrate. But this is more or less always the case when you have company and acquisition which is not done in the old currency in which you have to report. So this is more or less normal, and you can only do the utmost in order to compensate for lower exchange rates to improve the business. But this cannot be avoided as long as there is no world global currency on stage.

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John Vergil - Nomura - Analyst

Sure. But you could have issued dollar debts for this acquisition, and just keep the translation rates and not the multiple rates. That's what I was trying to...

Norbert Steiner - K+S AG - CEO

Oh, this is wrong. We're quite clear on that. What will happen afterwards is that we will bring all the assets of the Company into our balance sheet and then we have the translation risk of that, what has been hedged on already by [Antiga] and this has generally no effect on the P&L.

The only thing that needs to be taken into consideration is the exchange of, let's say, the final amount that is being dumped under the bottom-line, the dividend and so on. And this is the only thing with respect to P&L is on stage. And this more or less is something where I tried to explain already, is a quite normal situation, a quite normal procedure, a quite normal development, which is always there whenever you are going from one currency into the other. If you would have done an acquisition in Great Britain, we would have done the same situation. So you never can avoid it.

John Vergil - Nomura - Analyst

All right. Thank you for your answer.

Operator

Thank you. The next question comes from the line of (inaudible).

Unidentified Participant

Yeah. Thank you. One and a half questions, please. First on very simply on supply and demand mechanics and the chart you show on page eight of the presentation. If I read the outlook statement in your [page one] report, you are saying that future potash demand cannot be satisfied with the existing mines and can we take that as a reason why sort of prices need to be high.

But if I look to page eight in your presentation where you show, sort of technically available capacity and your own assessment of future selling volume or sales volumes, I don't really get the point because what I see is a margin, which is actually a lot higher than every seen we've seen over that couple of years. That's mean available capacity and adding some of that achieved round figures, the capacity expansion that we've seen in Canada and partly in Russia.

So that a lot of potash available and sort of demand we'll take at least five, six, seven, eight years probably just to go back to these level. So I don't really get the point why the potash price must be at the current level and not where it was earlier under the case sort of which was just fraction of today's price.

So that's one question and then secondly, just to clarify, can I clarify that you intend to hedge the cash flows of Morton back into your functional reporting currency. My understanding was that you probably want to hedge a business that has euro costs against the dollar revenue line. But if you have a fully dollarized business why would you hedge that back in to your function reporting currency? Thank you.

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Norbert Steiner - K+S AG - CEO

Okay. Coming page eight or slide number eight. When we talk about future we mean, first of all, longer than 2013 beyond 2013, but I will also try to explain what is happening or what could happen until 2030.

Now when you see this -- I hope you have it in color -- the picture in color, when you see this light blue background, which we call technically -- technical available capacity, you see that this is going up and there is even something, which we hold now at risk another a little mountain on top of it. And what we do there is we take all the announcement of investments, which are in the market and we just add them up to what capacity is available and what we know whether it's available in the past.

So, when you see 2007, we have had the production of 58.7 million tonnes and this light blue background it's a little bit higher. That is one reason, which in mining industry and chemical industry it's quite normal. You will never be able to run your technical available capacity over a longer period of time. So, if you have any utilization rate of let's say 90% of two or three years it can be, extremely happy.

Our experience is that what expectation in (inaudible) is doing, although many, many years we take technical available capacity and cut downs 13% in total. Now, what is also happening now is of course in this background the announcement being made, many of them or made by PCS, the Potash Corp in Saskatchewan, and they are talking about not green field project, they are talking about brown field project.

And when they make announcements, they always make an announcement first we can increase capacity and then comes the but, but we will only do it if the market needs these capacities. We are of the European [invest] in the long term or longer term, the market needs capacity increases, because if prices are accepted, if we come back to a normal rate of doing business then because of population, limited acreage and so on all these argument [go], we think that that we will potash demand increase in over long, long period to 2% to 3%. And if you calculate it on the available capacity, that means in every one and a half year a new mine has to start.

So I think what we have to look at is what is happening in 2010, 2011. In 2011, we come back to 57 million as we estimate. Some other people say, it will happen already next year, and put them on top 2% or 3% of growth long-term, then I think we will run into capacity problems, we will have not enough capacity available.

When I also see that we come from the year 2010 and 2008, there are lot of people have been extremely optimistic of what has happened, and you have found junior potash mining companies popping up all over the world, and everybody who had ever dug a hole into the ground and comes from oil industry and have some million dollars in his drawer started a new company. I think a lot of them will disappear.

So we will come back to normal. We will have to watch what some newcomers in the markets, they'll even have the big project. At Saskatchewan I think they will go ahead with it. There is -- built into Colorado it's always -- and that this from my point of view will be postponed and also some other projects will be postponed.

So, this statements we are doing that mid-term, long-term, and as I said beyond 2013, there could be a very tight supply situations and then prices of course might go up hopefully not as erratic and as drastically and uncontrolled as they have done in 2008.

That could be a scenario, which by all means we would try to avoid, we would like to have something like sustainable growth, controlled growth and transparency in it. So, that would be my answer when you ask me what could be the outlook and why we are so optimistic in the mid-term to long-term.



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Unidentified Participant

But from your chart if I take your own demand outlook, and even if I take the plus 5% it appears to me that there is clearly sufficient potash available right now for the next 10 years. So we will never come into situation, similar to the situation we have by the end of 2007, probably where in fact the picture would look brighter and that is not really speaking for further price increase, it's just the other way around. And if I see what happen last week in Russia, where the Russian government forced the domestic players to sell something like \$130 domestically in Russia...

Norbert Steiner - K+S AG - CEO

Wait; don't call Russia a market, please.

Unidentified Participant

Well, yeah, but here you have a player that's the internationally active, so we should probably think about it. I just don't get the full picture that that supports further price increases, and I understand you are not as bullish as the potash guy -- the Potash Corp guys are, but it doesn't really fit together in my perspective?

Norbert Steiner - K+S AG - CEO

We are not talking about price increases, the first thing we are talking about is the transitional year 2010 with the good perspective of coming back to normal potash supplies in the vicinity of 57 million tonnes. And then our arguing is, that if then the potash market comes back to a normal growth of let's say 2% to 3%, you would need to open a new mine of let's say 1.5 million tonnes each year. If then you look in to what is the announcement of project we announced and known in the market at present, then this will be not enough, and then it comes to scarcity and then there are pricing potentials of course. That's our way of arguing about this publicly.

Unidentified Participant

All right, okay.

Norbert Steiner - K+S AG - CEO

Again you're right, we are not as optimistic for the near future as some of our competitors.

Unidentified Participant

Okay. Thank you.

Unidentified Company Representative

Yes. And your last question is concerned the election of Morton Salt. Once we know what the detail figures, of course yet we don't have details available, then these dollar inflows and outflows will be analyzed and then it'll be part of our hedging consideration of the group, because we have dollar surplus and dollar demand at various part of the world and this will then be calculated and be part of the hedging strategy.



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Unidentified Participant

All right Thank you.

Operator

Thank you. The next question comes from the line of (inaudible) with HSBC.

Unidentified Participant

Yes, good afternoon. I have question regarding - the potash demand began in Western Europe. Going forward what do you think, what has to happen that the demand is increasing significantly? Do the [current] prices have to increase or it's just a question of the potash price, which has to be lowered or do you think that people are waiting for the Chinese negotiations to end and then have more clarity on the international prices that would then start buying again. What would have to happen in Europe and also when do you think China will be finished?

Norbert Steiner - K+S AG - CEO

Okay. I will start with the China. It's more complicated, which makes it more easy. You will understand within seconds. There is a lot of arguing, what will happen in China, first of all when and what? When, I can tell you it will not be next week, and I'm afraid it will not be this year, I'm afraid. If it's earlier, then your next question would be at which price level.

Now I mentioned the following situation, you are one of the big suppliers, going to discuss the price of potash in India and you settle with \$460, and you are getting very good volume. And then a few months later you discuss with China, and let's say you give them a price which is 20% lower. I would not be in a position to go back to this Indian gentleman and discuss with him the next contract. That will be a very, very difficult situation.

Although, when I look historically, over many, many years, many, many years, the Chinese and the Indian price have been always very close together. It depends on, let's say on shipping cost a little bit; it depends on whether I send a ship to one harbor to three harbor; it depends on whether I have an FOB price and CIF price and things like it. But they are very close in the channel and they have always been the lowest prices.

I think it is very difficult for big suppliers to have drastically or different price, India and China, because this will endanger their position also in the future. I am not very optimistic that the Chinese will come very soon. There are still products available in the market, there are still confusion in the market. The local suppliers with the FOB are trying to do business. The pricing level is at present for the business done in China is lower than the new import into China. That's a fact. That is what we know. But it's not very clear what's happening there, also the position of NBK for (inaudible), it's still not clarified.

So, Europe; Europe is -- a lot of things has to be done. Of course it will help if -- if we could give to the market a signature that -- a sign that the prices for wheat would go up, that might help. But I think it's much more than this, its credit prices, it's different between nitrogen and potash, it's a lot of thing.

So my suggestion would be, be patience, try to get a clear picture together with distribution and then with the farmers later on. And as I said, farmers will apply less this year and we will have to build a confident not only as lot of other institutions and organizations who have to do that. And that is why we are so drastic in our focus, when it comes to our sales.

Unidentified Participant

One follow-up question if I may. Do you think farmers in Europe are waiting for the Chinese negotiation?

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Norbert Steiner - K+S AG - CEO

No, no, it has no influence to them. I think it has no interest. Of course they read it; I mean they read a lot of publications. But they very clearly understand, if they want to come in 45 million tonnes they cannot expect those price in the neighborhood, they know that's not possible. And then don't forget the product we're selling to China its not -- in many cases its not comparable to what we sell in Europe. We have a different product portfolio, certainly a bit more complex in Europe, everything is more granulated fair enough.

Unidentified Participant

Okay. Thanks.

Operator

Thank you. The next question comes from the line of (inaudible).

Unidentified Participant

Good afternoon, a few questions. The first question is, or the first two ones are really shorter. I don't really understand why you did not quantify the guidance because you stand out as a very short term market participants relative to the Canadian, so you've quite clear volume ideas, obviously, you don't know whether pricing is going, you hope that it's stabilizing, everybody hopes that you don't know it. But you already have done seven months of business. So what is really the variable you are wondering about to give us the range, on which you are very uncertain.

And then secondly, also relating to the potash business; I think your guidance in the quarterly report that the potash business can decline by about 50% this year. So, that would mean that you would make around about 1.2 billion sales in potash this year, and that would mean that in the second half you would generate roughly 200 million top-line less with lower pricing, obviously because you see rather stable volumes.

So, does that mean that you are looking at a breakeven performance in potash or is it less likely in the very short-term? Yes, those are the two questions on the guidance and the second half potash outlook. And maybe the third one on 2010 volumes and your explanation that it's a transitional year, maybe some kind of feeling about what the volume [bonds] could be because I did not really understand what you said previously.

Norbert Steiner - K+S AG - CEO

Norbert Steiner, speaking. We've decided to go ahead with the language that you have found in our Q2 of half year report. And we always try to bring the maximum information and also forecast, which we find is suitable and where we can save, we stand to that. If we would not have been of the opinion that the difficulties to forecast the year volume-wise, price-wise, not only with respect to nitrogen as fertilizers, of course the assumptions that the fourth quarter itself would be normal, it's not that point.

We would have done that and would have continued with our corridor that we have given to the market in the past. This is a business decision which we have done and where we have tried to fill in a little bit more in a pragmatic way, in a, let's say in an abstract way. Given you also some guidance with respect to that what needs to be done in order to come back to a certain kind of normality again.

So, I would like to ask you to respect this operational discussion and operational decision from K+S. We can only say that we want to service our market participants, the analysts, our shareholders, our stakeholder in the best way, and when we come to

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the situation to decide whether we should go along the corridor or not, we decided that it would be better for everybody participating in that game or in that situation to do it in an abstract way. And this is leading us to the situation in 2010.

We have given a guidance on that slide number eight, already done, the presentation on slide number 19 in the past, where we are deviating from that and I repeat only what's Joachim has said already in that meeting, where we are deviating from that view that up till now at least it's the view from our competitors and also from experts of the market.

I would like to add that we have made a forecast for the entire second half of the year, that we are prepared to reduce our production by up to two million tonnes, and if you compare that with our outlook of four million tonnes of sales, you will find a certain highlighting that it will be materialized in that way.

If we compare then, the ability to produce in 2009, our guidance you have a gap of, I do not know 18 or 19 million tonnes and 40 million tonnes out of that are already filled by announcements, but further more announcements will come. This is at least our assumption. And I am quite sure that what I predict as of today will be the fact over the next weeks or month.

And on that basis, we have ask that we get back into transitional year where we certainly want to have our share, but this will not be sales volume and of course not also a production volume of about 7.5 million or eight million tonnes, this is not included there. We will do what we can, we are very confident that the emerging market for the emerging regions that we have identified so far, India, Southeast Asia, South America will continue to draw volumes, might be better of than in 2009. Since, we should have a better start-off also in that region.

China should come in to the market in the 2010 and I share Joachim view on that, that there is a certain liking which says nothing happens anymore in 2010 and North America and Europe should also see as getting back into more normal situation, a normal performance than they show up right now in 2009.

And one piece of information should also be given on top of that. We have intentionally build up a broader range of specialties, and we have also intentionally never reduced our output to the industry. It's very helpful right now for that momentum. Of course we offer the chemical industry for the electrolysis purposes that draws material from us which is done on reduced bit rate now. So far also the recovery of the chemical industry could be the product 2010.

So, if you take all of these elements together, you can see that a certain let's say slowdown optimism does not run with respect to 2010, but it is important for the time being to give you any prediction about whether it will be five million tonnes of output of (inaudible) 5.5 or six million or even some figure on that, something, which we have never done in the past and which also from our competitors from the peer group is more or less price most impossible to predict. Therefore that's based at that point of time.

Unidentified Participant

Okay. That's fine. Thanks.

Norbert Steiner - K+S AG - CEO

Okay.

Operator

Thank you. The next question comes from the line of Martin Evan, (inaudible).



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Unidentified Participant

Yes, thanks very much, and just a very quick sort of big picture question I guess. In terms of potash demand and from -- and whether the current collapse in both volumes are now pricing, which leads you to -- I think the potash is just behaving like any other commodity. Whether you feel because of what we are seeing that there's been a structural trend down in terms of the fundamental need and demand for this product.

In other words that the farming community will fear just less of an essential going forward, and it's an obviously part of the -- the positive case has been that farmers could only miss one season before the soil [or sunset], the weather in fact, we may be able to do without potash for longer because the way that the appetite of the product's behaving at the moment, it would suggest that it's very much an unloved product. Thanks.

Norbert Steiner - K+S AG - CEO

If soybean and soya will be the last product for mankind than potash will be the last product for mankind too. That would be one answer. So what you have to -- what you -- I think we have to discuss a little bit more in-depth, why are we so differently thinking about, for example, Brazil and Europe. Europe first of all it's a structure of agriculture. It's much, much smaller. It's the ...

Unidentified Company Representative

[Itemize].

Joachim Felker - K+S AG - Member of the Board of Executive Directors

[Itemize] -- the people there are very experienced, good, educated. But the enterprisers see that the fish making is much more complex, and what they have, they have good climate and over -- and relatively they are good in climate and what they also have they have good soils. Yes.

They know that they can run certain risk by using less fertilizers for season, and when they have no positive outlook of what they produce and what prices they could fetch that work for their produce, they can face on fertilizers, and they will do that this year and they will do that in potash, relatively strong and they will do that also in phosphate and they will also do in nitrogen.

At the end of the year, the fertilizer deliveries into Europe will be less than the year before, for all kind of nutrients. Now when you go to Brazil and you are growing soybeans, and you have salts like you have them there and soybeans is a potash reader, you know that you have no deposits of potash in the salt, and you will have to react immediately.

That means if you have good climate for one season, if you have the good yield, the potash is extracted from the salt and that is why basically that is why Brazil is so much, how should I say, stable more stable in demand of potash at present and it's also of course much more towards agricultural business, and leaving Europe in the end. So, that we are less optimistic in Europe for the time being than we are in Brazil.

And when you look at our sales over many, many years than our home market, where most of our potash has been sold in Europe, as Norbert says part of it is because of chemical business, because some special products are going into chemical. Again this is much more stable market segment.

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But of course a lot of products are going into agriculture industry and we are suffering there more than we are suffering in overseas market. So my expectation is that we will have in 2010 also a much better business in Brazil, in Argentina, in China, in India than we have in Europe. The recovery in Europe might take much, much longer.

If we are in the position that suddenly weak prices are coming back to \$180, than of course the reaction is there immediately than everybody will go for it. But at present farmers are doing risk management in Europe.

Unidentified Participant

Thank you very much. It's very clear.

Operator

Thank you. The next question comes from the line of Virginie Boucher-Ferte, Deutsche Bank.

Virginie Boucher-Ferte - Deutsche Bank - Analyst

Hello, good afternoon. Thanks, I got two questions list. First of all, could you please update us on the status of your potential potash expansion projects in Germany [Ludwigshafen] or in Russia with EuroChem?

And my second question is everyone has been focusing on esco in Europe, but [de-model] also seem to remain very weak in US, where the record yield on corn and cereals are likely to encourage farmers to reduce potash application for longer. Isn't it a concern for you?

Norbert Steiner - K+S AG - CEO

I would like to start with the answer for the first question. Of leaving is continuing. If I'm not mistaken, we have had discussion with the agency with the Company that owns the mining rights and we had to answer a couple of questions. The same should have occurred with our competitor on that and I think they try to bring their the different offers to a stage, that they might be in the position to decide upon who would be the preferred partner to continue with the reopening of the mine.

It is their intention to have that decision done in 2009 fill, although it has been some delays. To be noted I think there is a chance to come to the conclusion and of course, we are still hoping that we will be choosing one that we could continue with that. If that is the case or if any decision is the case either in favor or -- to K+S or in favor of our competitor, then a lot of things have to be done in order to evaluate the ore body underground, to set up the technique, to get excess to the ore body underground and how to design the plant on ground, so that will be a couple of years still necessary before the first on all of that will be available for production and for sales.

And this is something which I would like to mention in general with respect to our ambition to get access to new capacities. We are still evaluating the size of the other projects and we have discussed a couple of minutes ago, the necessities that we see to bring further capacities on stream because we should not only take into consideration that there are always additional capacity issued on the table, but we should be aware of the fact that you should be confronted with the capacity reductions due to the fact that the ore body more or less is exhausted and no capacities anymore are being there for mining, for hoisting.

And therefore this will be something which could be happening not only to the K+S mine of (inaudible) which we have indicated will not be produced potash anymore from 2008 and onwards. That will certainly be the case also with our mines around the globe. So this is not only looking positively, there is two million tonnes or four million tonnes coming on stream. We should

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also take into considerations that the (inaudible) should happen or would happen on (inaudible), and this should be taken into consideration as well.

The second thing included in assumption that we have a project already with Europe and Russia. We have been invited to evaluate the potential of the cooperation and this is being done right now and we will evaluate debt project or that opportunity like we have always been evaluating other opportunities around the globe.

So the most, let's say, concrete one, is certainly [offline] but we have further on the table.

Virginie Boucher-Ferte - *Deutsche Bank - Analyst*

Okay, thank you. And the second question?

Norbert Steiner - *K+S AG - CEO*

Demand in US.

Joachim Felker - *K+S AG - Member of the Board of Executive Directors*

The demand in US is open, yeah, that -- when you see the pattern we have at present deliveries of the North American as well as to the US market than you are more that in the same situation like in Europe. They are trying to fight those at a right price. And some are very reluctant to go for big quantities. I think also the stock level of the distribution in United State on a normal level now is now on the low level, but they have no decisions been made of how to go ahead. Those will take some time there.

Time is running out in some areas because they have to make decisions very soon. And I think it will be a matter of weeks that quantities will start there because the prices which are in discussions could be really to give farmers a good potential to make profits in future.

Virginie Boucher-Ferte - *Deutsche Bank - Analyst*

Thank you. And don't you're seeing that the record yield levels that were highlighted yesterday by the USDA, not only in other than in the US but in Europe encourage farmers even more to reduce potash obligation?

Joachim Felker - *K+S AG - Member of the Board of Executive Directors*

The problem is all these numbers is USD, if you read the publication of our longer period of time and you read not only for the US and for -- towards some certain states in the US, but for the whole of US and then you read Canada and Ukraine and so on, then you will get more or less a little bit confused I think.

What has been announced one-day or two days ago is that, the yields have gone up a roughly 3% over the expectation about some other organization, immediately went and I said but what about the acreage, he said, acreage still fine and what about weather (inaudible).

So I think that will not -- that will not create any pressure on prices in this area that's too small, the reaction of this is too small and on the world-wise basis it's even negligible I think.

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Virginie Boucher-Ferte - *Deutsche Bank - Analyst*

Okay. Thank you.

Joachim Felker - *K+S AG - Member of the Board of Executive Directors*

And perhaps if I can add it, if only -- let's say, if only the concern me what I say that farmers look for some benchmark what is happening and I think it's the reason use of (inaudible) not supporting anything in any direction.

Operator

Thank you. The next question comes from the line of Christian Faitz, Oppenheimer.

Christian Faitz - *Oppenheimer - Analyst*

Yes, thanks. I have non-product related question if I may? Concerning your nitrogen fertilizer business segment, you and your Q2 report you talked about ships rising from the reorganization that came into force on first 1st of July, 2009.

Can you talk about these ships? Can you qualify these ships? And can you also quantify any financial impact? And then second staying in that segment, can you talk about the payment to that one company it look like soften that you made in the second quarter, but you also talked about payments, which could be made in the period second quarter, but you also talk about payments which could be made in the periods going forward.

Joachim Felker - *K+S AG - Member of the Board of Executive Directors*

Yeah. What you are calling shift -- what we have been doing is when you look over the last two years then we have in COMPO growing very, very much. And this growth will face very strongly on one product line that is complex fertilizers Nitrophoska, which then is inhibited and is called AMTEC.

And what has happened there, the growth was very strong and what contribute actually was leaving the segments there usually working and they went out of specialized segments into the broad agriculture. That was one thing.

And the COMPO business model of selling products, marketing products, is a very -- is very expensive one a standard product and this AMTEC in the meantime and with such a big quantity, there we cannot call it specialty. It's more or less introduced product with big, big quantities in the market and it has advantages compared to other big standard products.

So what we have decided, we have decided to put this product as of 1st of July under the sales regime of fertiva at the time -- fertiva, now we call K+S Nitrogen and it also makes our, what do say, contract arrangements with BASF a little bit easier to handle.

Christian Faitz - *Oppenheimer - Analyst*

Now that's -- that's what I understood -- I'm just referring to your sentence and I just produce in that last sentence -- start talking what the nitrogen fertilizer business shifts rising from the reorganization. I mean can we -- is there any -- is there any financial impact on integrating COMPO into fertiva things like that?

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Christian Herrmann - K+S AG - Head of IR

I am Christian. Of course, we have utilized the situation or we have analyzed the situation not only to abolish the [incurred] company discussions and competition between COMPO and fertiva, but we also took chance to reorganize the entire setup. That means that we have shifted sales more than offset and take volumes in former times done by COMPO into that entity which we call K+S Nitrogen. And this was connected with the fact that we also coordinated and consolidated the business model in which couple of people were not necessary anymore for the marketing and the sales.

And this is something which you might have -- which we have meant when we talked about the shifting and is also certainly connected with reorganization costs. Also in the second part for reorganization costs, which we occur in the body of COMPO which we have in the same effort tried to streamline for its future operations. And therefore, there have been payments due to the reorganization of COMPO, which have certainly had an impact already in the fourth quarter where we have done the reorganization COMPO wise in Germany and have some impact in Europe in the first half year for the remaining COMPO business.

The other aspect that you have mentioned is that we had to pay for raw materials utilized for the production of the fertilizers of the complex fertilizers by our main supplier, let's call it by the name BASF, where they had some different adjustment different from that what we had in mind and this cost the payment that we needed to do for the account of 2008, raw materials prices that has been charged to both fertiva and COMPO within the second quarter of 2009.

So, this should be the unique occurrence that should not be recovering as we try -- have tried very successfully to avoid such a situation in all the nine or 10 years of cooperation with BASF and therefore I cannot exclude, but we'll do the utmost in order to avoid such a situation again which does not very nice to be seen in our P&L in the second quarter of 2009 because it have turndown our result significantly in the nitrogenous business and of course, the discussions connected with that should be avoided as well. So, this is something which has two angles, which are not connected together.

Christian Faitz - Oppenheimer - Analyst

Okay. Thanks.

Joachim Felker - K+S AG - Member of the Board of Executive Directors

Let me come back again to the word shipping because in the meantime I read the English report, quarterly report not only the German, (inaudible). Now shifting in this case means, when you look at page 17th.

Christian Faitz - Oppenheimer - Analyst

Yes, exactly.

Joachim Felker - K+S AG - Member of the Board of Executive Directors

17 on the left side.

Christian Faitz - Oppenheimer - Analyst

Yes.

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Joachim Felker - K+S AG - Member of the Board of Executive Directors

...would quoting the shift (inaudible) and in this professional business, this will be renamed into export from Q3 onwards and out of this volume, products will move into [English's] complex fertilizers, in German (inaudible). And that's exactly what I said, so we would take some of the quantities which has been marketed by the broker organization of COMPO. We will put into the sales organization K+S Nitrogen. That's the shift and from -- in the -- when it comes to quantities, when it comes to -- how should I say, buying this product from BSF, there is no difference.

Christian Faitz - Oppenheimer - Analyst

Yes.

Joachim Felker - K+S AG - Member of the Board of Executive Directors

The difference is been the way to market it and (inaudible) per tonne, the cost of marketing will go down that's something.

Christian Faitz - Oppenheimer - Analyst

Okay. Thank you.

Operator

Thank you. The next question comes from the line of Sophie Jourdier, Citigroup.

Sophie Jourdier - Citigroup - Analyst

Sorry, yes. Just a few very quick follow-up. So I just wonder, you said you are cutting your CapEx guidance, which is why there is comment. And second sorry to come back on this, but I still don't quite understand the economic reason behind financing dollar acquisition in Italian euros. Were you able to get lower interest rate, well, just if you could just explain that to me? Thanks.

Christian Herrmann - K+S AG - Head of IR

Let's start with the second question. In those days when we decided to have a closer look into Morton Salt, we simultaneously started the discussion with banks whether they would make available to us credit facility of about 1.7, 1.8 even higher billion dollars or the equivalent in euro. And the outcome of the discussion will offset -- in that situation, we were only able to receive the euro credit facility and not the dollar credit facility.

And therefore in order to make it happen, we did it, and we exited. And once again, this has nothing to do with the future business of K+S. Morton Salt activities. This is a mere question that it was only this way to make it happen.

Sophie Jourdier - Citigroup - Analyst

Great. Thank you. And the CapEx question.



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Christian Herrmann - K+S AG - Head of IR

We -- the cutting of CapEx is an issue where of course we -- no, not of course -- we ask all our divisions to contribute to that, because we were of the opinion -- we are of the opinion that we have such a close relationship between our operational entities that there is also something, which should be contributed by those areas in which we are not hit by the situation like in the salt business.

It's an issue of bearing the load on the shoulder on broader shoulders on more shoulders in just in one division or in two divisions in the agricultural sector. And also in the past, we have always said that we are a group of companies and we need to be spending together, acting more or less as a group of companies. And therefore, we found itself understanding that we also approach the salt or the smaller entities to contribute to that. However, I mentioned that we are doing nothing which could raise any problem with that. And this is something which I like very much as an idea, move them together.

Sophie Jourdi - Citigroup - Analyst

Perfect, thank you very much.

Operator

Thank you. The next question comes from the line of Rim Bennani, Exane.

Rim Bennani - Exane - Analyst

Hi, good afternoon. I have actually three questions. The first one your one of the very few or it's not the only one have in realistic industry forecast, but on the other hand I'm afraid as you said that still I mean cuts into each, you haven't been confirmed for major players, when the industry has been quite into addressing the surplus end of '08. How are you seeing the situation moving end of '09? Basically what are you hearing that we are not seeing into much of it in press releases?

The second question we have heard one of your main buyers of potash and (inaudible) producer in Europe quoting that they will move to low potash NPK product into each two. Is it something that you have already seen in your orders or is it something that you are already filling in the market, where the risk on to the volumes in H2 in Europe?

And the third and last question is about India, reading headlines in [December] that there is going to be additional contracts coming from India. Can you elaborate on that and how sensitive is it to the current worries of weaker monsoon actually? Thanks very much. Can you remind us well, how much of the business generally comes from India?

Christian Herrmann - K+S AG - Head of IR

Let me start with the answer to question number one. And thank you very much for your remark with respect to our attitude much to follow the former policy to bring out the corridor. But with respect to the cuts and the cuts come -- this is our K+S assessments and there are no voices in the air that we hear, but we think it is something which by the nature of the development of the businesses in the domestic countries or domestic areas like North America or Russia, and also with the development of the, let's say export markets should see necessary reactions.

Please remember, we talked about China, but we have seen export into China of a magnitude of more than eight million tonnes already in the past, and there is nothing, nothing at all, which more or less is officially on the table. And this can and will show its traces also in the second half of the year for those companies that exist in India, and we have no confirmation from them. They have another policy just to be confirming CapEx only in the second before they decide it internally. That is a policy that you can do. But it's different from our policy so far.



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And this might be also explained by the fact that we are using short time work while we have the people to do on our payroll, and this is a different situation where we meet them more or less to prepare for. We need to prepare them for because they need to be staying home let's say in week numbers, 40 and week number 42. And therefore we need to give them a better indication than the others that lay the people off. So my view is that we are not -- have not seen the latest CapEx or CapEx announcements from K+S, others will follow. Although we have no confirmation from them and I like that we do not have any confirmation from them, because we are not a cartel.

Second question your turn.

Joachim Felker - K+S AG - Member of the Board of Executive Directors

Okay. I'll start with this India because before I come to our, no region base, and the case the Brazil, which worldwide, actually they are -- once again let's start with India. Now when you look at India, what I see here and what the others are doing, they are giving you a contract and an option, and the option is always to the buyer, the buyer will execute the option and the Brazil will have to be ready to supply.

Now, what's happening if the monsoon rains are really influencing the whole consumption of potash so much than I think some of this options can be wait, they will not be realized, but the base load of the contract which has been concluded starting 10th of July early afternoon in daily they all will be realized. So monsoon will have an influence, it always have, it has a presence and influence very much on sugar, sugarcane and so on. But I think the contract and that is one thing we have learnt over many, many years the Indian government when they are making contract they are very strictly adhering to what they have done.

And another thing is don't forget, they are on an extremely low level end of July of potash availability, that was also forcing them to come to terms -- in to terms. So I think there is a risk that some of the options might be influenced but not the total structure of (inaudible). Now when it comes to Yara, Yara is big producer of complex fertilizer and since many, many years we are supplying them with potash with (inaudible) some special types of granulation but also with stock set of ammonia and what they are doing and that is the same what we do with the capacities we got we have produced in BSF

The NPK market is in bad shape because distributors are sitting on high stocks and what then you can try to do, you try to offer them special formulas with low potash content or even with no potash inside. Now, when you do that -- when you do of NPs, then what you are doing by direct competition to very low urea prices, very low CAN prices and very low phosphate prices. So, it doesn't make too much sense, because what you are giving up, you are giving up the philosophy of having all nutrients, and in the meantime it's only NP and K, it's very often its sulfur, it's a mother trace elements in there, magnesium. So, I think you will find customers, who agree to do that, but it's not a solution. What you have to do is, you have to fix your NPK clientele, and then you will have to come back on this one.

Rim Bennani - Exane - Analyst

Is it far today of the less optimistic picture on the European recovery, or is it something that you're not seeing and not a major ...

Norbert Steiner - K+S AG - CEO

I think they are on the same situation than all the NPKs which is -- whether it's the smaller producers in Europe or in overseas. The NPK business worldwide is very, very slow -- very slow. There is nothing special for [your].



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Operator

Thank you. The next question comes from the line of Joe (inaudible), UBS.

Unidentified Participant

Hi, good afternoon. Just a quick question on the dividend policy, is there any risk that that could be changed, given obviously the low level of earnings this year?

Norbert Steiner - K+S AG - CEO

When you have had a view in our half year reports, you will find the same language that we have been utilizing all over the time in the past. This is slide -- this is page number 14, at the bottom. And I mentioned already in our Annual General Meeting in May that we foresee a year less successful than 2008, and I announced already that this have an impact on the dividends. So recoveries are between 40 and 50% of the net income -- adjusted net income is at least a good basis for the design of the future dividend, and we will see the outcome out of that and then we approach the Supervisory Board and then come hopefully and most likely to verify the decision.

Unidentified Participant

Thank you.

Norbert Steiner - K+S AG - CEO

Welcome.

Operator

Thank you. We have no further questions coming through. So I will now hand back to Mr. Herrmann for the concluding comments.

Christian Herrmann - K+S AG - Head of IR

No other questions anymore. Thank you for the very interesting discussion. I confess that I made some announcement prior to our conference that I -- that it will be a very short one, but it was one of the longest ones, but it was very interesting to get your question and answer your questions. And I am quite happy about the fact that I was -- one is with respect to my predictions because it symbolizes and shows quite nicely. We feel very live interest that you have in K+S.

To sum up, you have seen and asked several times about our assessment of future development of that what we do in contrast, that what our peer groups does and the only answer that I can give you on that is that, we do not have the glass bowl, that shows us the bright future or the entire future. This is something which we try to imagine everyday in order to make our decision making process on that. And the other point of view that I would like underline again is that we do not want to sugarcoat the development of K+S in second half. We'll try to be open, moderate, and reasonable and of course this is what we try to do as well in our conference call.

Thank you very much. Hope to see all of you quite soon and the same applies for my colleagues. Thank you very much on everyone's behalf.

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Unidentified Company Representative

Bye, bye.

Operator

Ladies and gentlemen thank you for taking part in this conference (inaudible).

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