

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **SDF.F - Full Year 2009 K+S AG Earnings Conference Call**

**Event Date/Time: Mar. 11. 2010 / 12:00PM GMT**



Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

## CORPORATE PARTICIPANTS

**Christian Herrmann**

*K+S AG - Head of IR*

**Norbert Steiner**

*K+S AG - Chairman of the Board of Directors and CEO*

**Jan Peter Nonnenkamp**

*K+S AG - CFO*

**Joachim Felker**

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

## CONFERENCE CALL PARTICIPANTS

**Martin Rodiger**

*Cheuvreux - Analyst*

**John Vergil**

*Nomura - Analyst*

**Christian Faitz**

*Oppenheimer - Analyst*

**Annett Weber**

*BHF Bank - Analyst*

**Andrew Stott**

*Merrill Lynch - Analyst*

**Thomas Orla**

*MainFirst Bank - Analyst*

**Lutz Grueten**

*Kepler Capital Markets - Analyst*

**Lutz Burse**

*- Analyst*

**Yasco Meivegen**

*HSBC - Analyst*

**Stephan Kippe**

*Commerzbank - Analyst*

## PRESENTATION

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

Ladies and gentlemen, we are very happy to see so many of our analysts today here in Frankfurt. Thank you. And we are also welcoming our analysts and anyone who's listening to us from abroad and from our site over the dial in number. Hello.

Today, K+S has presented the full year figures of 2009 and the quarterly figures of the fourth quarter. And Norbert Steiner, our CEO, and his colleagues, Mr. Jan Peter Nonnenkamp and Mr. Joachim Felker are now happy to present and explain the numbers presented today. Mr. Steiner, please.

Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

**Norbert Steiner** - *K+S AG - Chairman of the Board of Directors and CEO*

Normally I hear the floor is yours from the one or the other from your side when I have presented analysts conference also.

Welcome also from the side of the Board of Directors of K+S.

I would like first to mention that the new Financial Report, as well as the Corporate and Sustainability Report, are available on our home page from this morning onwards but you have received also copies outside. The motto of both reports is Genuine Substance. Genuine Substance. This is because substance is what truly matters, especially in a difficult year for the economy such as 2009.

It is also a question of substance in the literal meaning of the word. That is because the Latin word *substantia* means what something consists of. Everything, that is every natural and every synthetic product, is based on raw materials. The extraction and processing of raw materials form the basis for industrial production. This is the reason why the raw materials industry does not run out of breath that quickly, neither in times of crisis.

That applies to us too. That is because, as a raw materials company, we have been extracting, processing and distributing raw materials for 150 years, our strategy is not based on the pursuit of short term results, but is geared towards sustainable economic activity and the creation of values.

Our mineral fertilizers provide for rich harvests and thus make the contribution to feeding the growing world population. Our minerals serve as the basis for many products and applications that enrich life and our minerals and products we derive from that are poor nature -- pure nature.

The special depth of our value chain, from the crude salts mined underground to the finished product, makes us strong, as does our global presence in the Fertilizers and Salt business sectors.

Nevertheless, the year 2009 presented us with particular changes -- challenges as well. We to were unable to escape the impact of the global financial and economic crisis.

An analysis of the underlying reasons takes us back to 2008. While the first nine months of that year saw demand and prices on the agricultural markets know only one direction, and that was up, the sharp reversal followed in the autumn. In the wake of the financial crisis, the speculative bubble that had emerged on the agriculture commodity exchanges burst, and grain prices, which had previously risen strongly, suddenly tumbled. This triggered a feeling of great uncertainty among our customers in agriculture and substantial purchasing restraint, which was also continued into 2009 as agricultural prices failed to recover.

The consequence, in the past year, the fertilizer market shrank at an unprecedented speed and to a previously unimaginable extent. Within one year, the sales volumes of globally operating potash producers plunged by about 50%. This is the sharpest decrease ever recorded within a 12 month period.

The picture was similar for producers of nitrogenous fertilizers. In the case of straight nitrogen fertilizers, the strong price reductions due to falling gas prices and the higher availability of ammonia in the second half of the year did, however, result in a revival of demand. With regard to complex fertilizers, the demand was, by contrast, weak throughout the entire year 2009 and steep price reductions, however, delayed because of high raw material costs, could not change anything about that.

In the case of potash fertilizers, too, price levels, which had reached record highs in 2008 in the wake of the agricultural and fertilizer boom, eased continually from about the middle of the last year. Nevertheless, this had no real impact on the volume of customer orders.

Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

Significant output cutbacks were therefore necessary on the part of all fertilizer producers. Potash producers worldwide scaled back their output very substantially. Utilization of European production capacity amounted to less than 60%.

We also had to respond to weak fertilizer demand with production cutbacks.

After having produced about 400,000 tonnes less of potassium chloride in the fourth quarter of 2008, we had to cut back the output of potash and magnesium products last year by about 4m tonnes, in line with our sales volume forecast, which was revised downward several times during the course of the year. This corresponds to about half of our capacity.

What did this mean to our workforce? Initially, we consistently worked off the credit collected on working hour accounts as well as claims for remaining days of vacation in order to cushion the under-utilization of capacity in the plants.

But, on top of that, we had to use short time working, too. About 6,000 employees, just under 90% of the workforce at our German sites in the Potash and Magnesium Products business segment, were affected. And the conveyor belts of our potash sites were still for about 100 weeks in total. However, this does not mean that we were idle during this time. We used that time intensively for underground development.

And, also, in our COMPO Krefeld site, about 50% of our complex fertilizer production capacity was utilized last year. This is why short time working was also necessary there for about 15 weeks.

We know what short time working means for our employees and their families. Nevertheless, we are happy that we could keep our employees in the Company in this way because we need them. We will be reliant on a skilled workforce in the future too.

As the Potash and Magnesium Products business segment is very important for the business success of the K+S Group as a whole, I would like to look at price and volume developments in the past financial year in greater detail.

In the fourth quarter of 2009 we sold 1.3m tonnes of product which was, in fact, 11% more than in the same quarter a year ago. The quarter which was, as I mentioned already, already affected by the impact of the financial and economic crisis.

However, when compared with the third quarter of 2009, the trend towards recovery continued, especially in Europe. Here, 0.6m tonnes of products were sold in the fourth quarter as against 0.46m tonnes in the third quarter. However, fourth quarter earnings sales were significantly on the same period of the previous year, it's primarily related to the significant fall in potash prices over the course of the year.

From the perspective of the year as a whole, this provides a different picture. As price level rose significantly during the course of 2008 to then fall significantly over the course of 2009, the average price for 2009 only declined moderately compared with 2008. The sales volume, however, amounted only to 4.3m tonnes and was thus down just under 40% on the figure of the previous year.

What is striking here is that the decline in volume occurred almost exclusively in Europe, our main sales market. As the most important potash supplier in Europe, this placed us in the very difficult situation last year. This year, however, our deep roots in Europe could be an advantage.

Anything but weak demand characterized our Salt business segment last year but only because of the winter of above average duration which would not -- which should now be more or less behind us.

To look at things in sequence, the year 2009 was marked by a robust ice control business. At both the beginning and the end of the year, ice control in Western Europe and on the US East Coast were almost in constant operation. Our de-icing salt was much sought after.



Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

In some regions of North America, strong demand in the first quarter even resulted in supply bottlenecks. We could help out with materials we could deliver from South America and, of course, profit from above average prices.

In the fourth quarter, we included our new US Salt subsidiary, Morton Salt, for the first time. However, the winter in some of these new de-icing salt regions for us was characterized by mild weather at the end of the year, especially in Canada.

That does not make us fearful. On the contrary. That is because continuity in our de-icing salt revenues, which will, in future, come from several different climatic regions, was one of the reasons that we had in mind was the acquisition of Morton Salt.

Ladies and gentlemen, prompted by the public debate about de-icing salt bottlenecks in Germany and in Europe, you may perhaps ask whether the winter 2009/2010 was too good from our perspective. There were indeed supply bottlenecks in certain regions despite the full utilization of capacity at all European producers.

As far as we are concerned, we used all available possibilities to ensure the supply of de-icing salt to our customers. Thus, our three rock salt mines have already been in constant operation on the three shift system since the middle of December and having been producing the maximum daily volume of 23,000 tonnes of de-icing salt per day.

In addition, up to one -- to 10,000 tonnes of de-icing salt have been produced at certain potash plants daily since the middle of January.

Given that the winter has continued throughout Northern and Central Europe since the middle of December, we have doubled the sales volumes for an average winter in just eight weeks. Within a very short period of time, the extremely high volumes required used up the extensive stocks of several hundred thousand tonnes that we had built up for the winter months. This certainly prompts the question, to formulate it a little bit cautiously, whether our customers had built up sufficient stocks of de-icing salt before the winter.

One thing, however, is certain, early procurement during the summer months, probably because of the strains in public finances, was below its normal level. In any event, Germany's ADAC automobile association criticized municipalities for their inadequate supplies of de-icing salt.

Thus, meeting these challenges was a considerable achievement for our salt subsidiary Esco, and the same applies for SPL Esco, and ultimately means that business was exceptionally good. T

This positive development of food grade and industrial salts also made a contribution.

In the case of salt for chemical use, we noted decreases related to the economic situation, especially in Europe.

Ladies and gentlemen, even though we are pleased that our Salt business was at least partially able to step in the breach for the Fertilizer sector and at the very end there was a marked decline in revenues and earnings in 2009.

The revenues of the K+S Group decreased by approximately 26% compared with the previous year. This is due to significantly lower sales volumes and the price declines in the Potash and Magnesium Products as well as the Nitrogen Fertilizers business segments.

The decline in operating earnings, EBIT 1, and adjusted Group earnings after tax was even more significant. These figures are 82% and even 90% below the previous year's values. However, we must take into account the fact that 2008, as we know, was an exceptional year.



Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

Business development was fuelled by a significant growth in volumes for fertilizer, which produced outstanding record earnings based on high prices in the light of the scarce availability. Because of the adverse external circumstances alone, this could not be repeated last year. Nevertheless, I must clearly state that we cannot be satisfied with the results achieved.

The sharp decline in earnings in 2009 leads to an equally significant reduction in the proposed dividend. On the basis of our essentially earnings related dividend policy, the Board of Executive Directors and the Supervisory Board will propose a dividend of EUR0.20 per share for the past financial year to the AGM.

Assuming that we will not hold any own shares on the date of the AGM, this will result in a dividend payment of EUR80 -- EUR38.3m. A dividend payout ratio of 41% is within the payout corridor of 40% to 50% of the adjusted Group earnings that we essentially seek to achieve. That way we ensure that we -- that our shareholders are given a fair share of the profits, that the Company is able to build up reserves for future growth, but also for a temporary crisis and that the financial basis of the K+S Group is not under pressure.

Let us now turn to the operating earnings development in the individual areas of our core business sectors.

Looking at our Potash and Magnesium Products segment, at 40% our strongest one in terms of revenue, you may notice that its result of about EUR232m was still the second best ever, despite the sharp decreases. The high level price -- the price levels in the first half of the year contributed very significantly to this.

Of course, we had been requested very early to lower our prices, particularly by the agricultural sector. However, many of our direct customers from the trade sector and the complex fertilizer industry thought little -- very little of this idea as they still had very high fertilizer inventories from 2008. Until these stocks were sold, even our sharpest price decrease would not have resulted in a single tonne of increased sales and would have even led to write-downs potentially jeopardizing our customers' existence.

There were also valid reasons from the producers' perspective. Reasonable price levels are necessary to achieve the inevitable time consuming and very expensive future expansion of global potash capacities.

The Nitrogen Fertilizer business segment also tangibly felt the consequences of the decline in demand in 2009. Apart from the negative volume and price effects, high raw material costs in the production of complex fertilizers, as well as the adverse impact of extraordinary effects in particular, resulted in a loss of about EUR108m for this business segment.

On the other hand, the Salt business segment paints a totally different picture. Because of the robust de-icing salt business, the segment's operating earnings of more than EUR140m roughly tripled in comparison with the previous year.

The effect from the first time inclusion of Morton Salt was EUR9.8m in the fourth quarter. Integration costs, extraordinary effects from revaluation and consolidation according to EFS -- IFRS reduced this contribution to earnings. Moreover, write-downs on the value adjustments to be made within the framework of the purchase price allocation reduced the EBIT contribution even more. The real operating earnings of Morton Salt amounted to EUR52m.

Ladies and gentlemen, what did we do in 2009 to steer the K+S Group through this very, very difficult year? I will mention the most important points.

In view of the slump in demand and in order to be able to use our capacities as efficiently as possible, we cut back very heavily our production with already high stocks. This saves cost, even though the high share of fixed costs customary in the mining industry naturally only allows itself to be decreased to a limited extent.

We also curbed planned maintenance measures and postponed capital expenditure programs for subsequent years, standard measures which can undoubtedly be expected from a business management point of view. However, we did not want to stop there and also did some things which will, in the medium and long term, clearly take us forward.



Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

After all, every crisis passes at some point. Sometimes sooner than expected. We therefore used the first half of 2009 to restore underground infrastructure reserves which had been diminished as the result of the high production requirements of previous years to levels customary at K+S.

We also strengthened our financial structure by issuing a corporate bond and by a capital increase, Jan Peter Nonnenkamp will comment on that later.

In everything we did last year, we paid high attention to ensure honest communication. After all, trust is built up particularly in times of crisis. At all times, we want to inform our stakeholders immediately, realistically and plainly about current developments in the business of K+S, whether positive or negative.

And we have obviously worked intensively to bring forward our EUR360m package of measures designed to reduce saline waste water from the Werra plant, which we presented in the autumn of 2008.

To that effect, we concluded the public law agreement with the states of Thuringia and Hesse and we did our homework agreed in it, the preparation of short, medium and long term strategies, in good time. If the necessary approvals are granted quickly, the concept will result in a 50% reduction in saline water as from 2015, as well as a 30% reduction in the salt concentration.

However, at the beginning of this February, the majority of the Round Table voted that K+S should completely stop the discharge of saline waste water into the Werra and its injection underground from 2020, at the latest. And connected with this, is the demand to build up a pipeline to the North Sea.

Together with the States of Hesse and Thuringia and at the Round Table, criteria were developed which have to be fulfilled in order to implement any project, including a pipeline. The project must be ecologically feasible, reasonable and economically justifiable. A joint political will on the part of all parties concerned must be present. And the construction and operation of a pipeline and the discharge of salt solutions must be secured by long term approvals.

From our perspective, important questions are at the moment still being left open, in part, or even by Lower Saxony's no, being answered negatively. Against this background, it is totally unclear how the demand to stop the discharge into the Werra and injection by 2020, at the latest, can be achieved without threatening the survival of jobs. We are therefore unable to agree to the Round Table's recommendations.

Nevertheless, we affirm our commitment to balance ecological, economic and social concerns to an equal extent, and will therefore continue to work in order to achieve further significant improvement for the Werra/Weser river system in the medium and long term.

Ladies and gentlemen, without a certain dose of courage, even if it was partially due to fortunate circumstances, one step in 2009 would probably not have occurred. The acquisition of Morton Salt with an enterprise value of \$1.675b, the biggest acquisition in one of the K+S Group's most difficult years, as a result of which we have advanced to become the world's largest salt producer.

With Morton Salt we have opened up new markets. In the de-icing salt sectors in particular, we now have access to new and generally less fluctuating market regions in North America and Canada, and we want to expand our position there.

In the industrial salt and the food grade salt segments, too, North America and Canada are now among our most important sales regions.

The acquisition has put our geographical presence on a wider footing, and it is improving the regional balance of our business.

Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

Above all, however, Morton Salt has strengthened our salt business as part of our two pillar strategy. As you know, our business basically rests on the two pillars, Fertilizers and Salt. And in both core business sectors, it has been our strategy for years to also grow externally in order to be able to retain our present market position in the future, too, and, if possible, to expand them.

The increase in value added, which we will generate with the acquisition, strengthens the entire K+S Group. Our European sites, as well as overseas, are profiting from it. At the same time, the acquisition diversifies our business risk, whilst the relationship between the two core business sectors of Fertilizers and Salt becomes better balanced. This, too, will benefit the K+S Group as a whole.

Morton Salt has already transformed us considerably. And I am convinced that the acquisition will prove that it's not short term but long term and, if need be, also anti-cyclical activity which promises success.

Ladies and gentlemen, this is all from me for the moment. Jan Peter Nonnenkamp will now comment on the key financial data in the annual financial statements.

---

**Jan Peter Nonnenkamp** - K+S AG - CFO

Thank you, Mr. Steiner.

Ladies and gentlemen, before coming back to the full year 2009 figures, I would like to begin by taking a brief look at the fourth quarter of 2009.

We saw fourth quarter revenues rise by about 11% compared with the same period a year ago. The increase is primarily attributable to the first time inclusion of Morton Salt which contributed EUR238m revenues.

In addition, we were also able to record volume and structure related improvements. This is true for the full business segment. But there are also visible signs of a beginning volume recovery in the Potash business. However, as opposed to that, there were still significant price related revenue decreases in the Fertilizer business segment.

The significant decline in Potash prices compared with the high level of the same period a year ago weighted heavily on earnings in the fourth quarter of 2009. This is also true for the Nitrogen Fertilizer business which was, in addition, depressed by high input costs.

By contrast, Morton Salt achieved strong operative earnings in the fourth quarter which, however, had only a moderate impact on operating earnings of the K+S Group due to the extraordinary effects arising from IFRS accounting.

While operating earnings were thus significantly lower than a year ago, free cash flow before acquisitions rose substantially to EUR154m. The reason for that is that, compared with the fourth quarter of 2008, both inventories and receivables have been scaled back significantly and the capital tied up in working capital thus had declined accordingly.

Now, we leave fourth quarter of 2009 and I would like to turn to the figures for 2009 as a whole.

As already mentioned, the decline in revenue of about EUR1.2b, or about 26%, was largely due to lower sales volumes in the Fertilizer business, which is reflected in negative volume and structural effects amounting to a good EUR1b.

We also saw significant revenue decreases for Potash and Nitrogen Fertilizers of about EUR477m attributable to price factors.

Currency related improvements and the first time inclusion of Morton Salt from the fourth quarter onwards fell far short of offsetting these two factors.



Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

That brings me to costs which I would now like to comment on from the angle of the development of costs by type. It should always be noted in this regard that the first time inclusion of Morton Salt in the fourth quarter of 2009 makes it difficult to draw year on year comparisons.

To the extent possible, we responded to the decrease in revenue by reducing costs. However, the possibilities of scaling back costs in the short term are limited as we, being a mining company, have a high fixed cost component.

Personnel cost expenses in 2009 rose by EUR17.9m. However, EUR46.3m of the personnel expenses are attributable to the first time inclusion of Morton Salt from the fourth quarter 2009 onwards. Without this consolidation related increase, personnel expenses would have declined by about EUR28m.

In this regard, the effects of collective agreement pay increases, higher additions to provisions for semi-retirement obligations and increased expenditures on pensions could more be offset by savings totaling about EUR70m. These savings resulting from short time working, reduced residual leave entitlements, suspended shifts and overtime, as well as lower performance related remuneration not to forget.

We saw the steepest decrease in both absolute and percentage terms of about EUR570m, (sic see presentation) or 30%, in material costs, including goods for trading and external services. This can mainly be explained by lower trading volumes for nitrogen fertilizers. However, the substantial scaling back of output at our potash plants in response to the exceptional decline in sales volumes last year also resulted in significant savings on material costs and external services.

The adjustment of output to lower sales volumes is also the main reason behind the decline in our energy costs. Although they also include the costs for Morton Salt for the first time, energy costs decreased by EUR42m, or 17%.

The freight cost picture is similar. The consolidation related increase attributable to Morton Salt was more than offset by decreases arising from lower sales volumes in the Fertilizer business, with the result that freight costs were down about EUR52m, or 12%, in total on the previous year.

So to summarize, significant cost savings were achieved mainly due to lower output of sales volumes. However, this improvement of costs fell far short of balancing out the revenue decrease because of the high fixed cost component, as outlined.

I would now like to consider the financial results which amounted to minus EUR115m in 2009 compared with a positive value of about EUR7m for the previous year.

The main sector weighting down the financial results in 2009 were expenses arising from exchange rate hedging in connection with the payment of the US dollar purchase price for Morton Salt, which are included under Other Financial Result.

In business terms, these costs are treated as part of the Morton Salt acquisition costs and are thus disclosed in the statement of cash flow as part of acquisition expenses.

Additionally, the decrease in the financial result is attributable to higher interest expenses as a result of the financing of the purchase price for the acquisition of Morton Salt.

In addition, current interest, interest expenses also include costs connected for the arrangement of credit lines and the issuance of the bond in the amount of EUR750m September last year.

Ladies and gentlemen, despite the significant decrease in earnings and the completion of the acquisition of Morton Salt, the K+S Group's liquidity improved in 2009.



Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

That cash flow from operating activities amounted to about EUR535m was in no small measure due to our scaling back of working capital tied up in inventory and receivables. This is, all bar it less than in the record year 2008, but the decline is much less substantial when compared with the decrease in earnings.

Operating cash flow was markedly higher than capital expenditure, so that we attained substantial free cash flow of about EUR366m before acquisition spending.

Taking into account the Morton Salt acquisition of almost EUR1.2b, the result of cost -- this result of cost in a negative free cash flow. We more than made up for this by means of financing measures, which I will go into a moment. So that we closed the year with a net cash and cash equivalents of about EUR520m.

In January 2010, we used EUR300m of this liquidity to repay liabilities to banks. Our good liquidity position is also underscored by the fact that we currently have at our disposal unused credit lines totaling about EUR1b

The measures implemented as a result of the difficult market situation also had an impact on our capital expenditure. At about EUR178m, the volume of capital expenditure was down about EUR20m, or 10%, on the previous year, although the figure already includes Morton Salt capital expenditure of about EUR22m for the first time.

Despite all the savings efforts, we do not, of course, lose sight of the fact that production needs to be economically efficient and has to take account of work safety and environmental protection requirements. Given the prudent policy implemented, about two-thirds of capital expenditures are used for replacement and continuity of production.

Ladies and Gentlemen, despite a difficult year in the Fertilizers sector and the largest acquisition in our Company's history, we can present to you a balance sheet at the end of 2009 that displays a healthy capital structure.

Of course, the balance sheet total has risen significantly as a result of the acquisition of Morton Salt.

On the asset side, this particularly applies to non-current assets, the share of which was 57% at the end of 2009, compared with 44% a year ago.

On the liabilities side, we have decidedly strengthened our balance sheet. We have improved equity by means of a successful capital increase in December that produced a capital inflow of EUR672m. This resulted in a solid equity ratio of about 40%, which is in line with our target range.

The structure of our borrowing has also been strengthened with respect to maturity through the equally very successful issuance, for the first time, of our five year bond in the amount of EUR750m. The non-current debts share in the balance sheet total has therefore now almost doubled to about 43%.

The very healthy structure of our balance sheet resulting from the capital measures implemented was a key factor behind the confirmation of our investment grade rating by both Moody's and S&P.

In this context, I would like to take a look at net indebtedness as of December 31. In 2009, our financial liabilities rose by about EUR1b, which is primarily attributable to the issuance of the bond and bank borrowings to finance the Morton Salt purchase price.

The capital inflow from the December 2009 capital increase then brought about an appreciable reduction in the rise in net financial debt. The proceeds from the capital increase which we received only in the middle of December temporarily resulted in cash and cash equivalents amounting to almost EUR530m, (sic -- see presentation) which, as I already mentioned were used partially in January 2010 to repay bank loans of about EUR300m, after a term loan was converted into a flexible credit line.



Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

Thus, net financial debt, as the balance of financial liabilities and cash and cash equivalents, rose to about EUR738m. This is a moderate level when viewed against the backdrop of our current and anticipated future earnings and financial capacity.

If one also takes into account the provisions for the mostly very long term mining and pension obligations, net indebtedness at the end of 2009 amounts to about EUR1.3b.

On this basis, the ratio of net debt to EBITDA for 2009 was at 2.4. Although this value is clearly not in line with our target range, it is acceptable given that 2009 was a special year.

As you can conclude from what we have told you so far, the acquisition of Morton Salt had a significant impact on the K+S Group's figures for 2009. This is why I would now like to take a short look at the effects of what is the largest acquisition in the Company's history of K+S thus far.

The revaluation of assets, in accordance with IFRS, mainly produced an increase in our intangible assets and our property, plant and equipment.

In addition to operating current assets, our balance sheet however, also increased as a result of reimbursement claims in relation to the seller totaling at EUR249m, which stems from indemnity guarantees in respect of certain obligations and risk that we assume in connection with the acquisition of Morton Salt.

The corresponding items on the liability side can be found under financial liabilities and provisions. As a result of the re-evaluation required under IFRS, assets totaling EUR1.849b as well as liabilities and provisions totaling EUR684m appear on our consolidated balance sheet. The compensation on the liabilities side of our consolidated balance sheet is displayed on this slide by borrowings for Morton.

In 2009, Morton Salt made a contribution of EUR9.8m to operating earnings EBIT I. As Mr. Steiner already said, these earnings were weighted down by integration costs of EUR3.6m as well as, to a considerable extent, by the effects deriving from the revaluation of the assets acquired in accordance with IFRS rules.

Thus, in connection with the purchase price allocation, it was necessary to increase the value of the inventories available at the time of acquisition. This valuation adjustment is not allowed to appear in IFRS earnings, and amounted for roughly EUR22m in the fourth quarter of 2009 alone.

The stating of a value for order backlog and the revaluation of fixed assets also gave rise to additional write-downs of EUR16.6m. Thus and therefore, the underlying operating earnings reflecting the commercial success of Morton Salt in the fourth quarter amounted to EUR52m, which is, we find, a very promising result.

The aforementioned effects from the revaluation of inventories and order backlog will also weigh on first quarter of 2010 but to a lesser extent and will then subsequently cease to occur.

The depreciation charges from the revaluation of fixed assets, by contrast, will occur over a longer period of time and will amount to about EUR45m per year. And will only decline successively with the expiry of the applicable depreciation periods.

Ladies and Gentlemen, I would like to end by taking a look at the returns achieved by the K+S Group in 2009. In view of the sharp decline in earnings it comes as no surprise that all these figures are significantly lower than the record year 2008.

Even though we failed to achieve margin and returns for 2009, we are of the opinion that the values attained are respectable against the background of the economic conditions prevailing in the crisis year 2009.



Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

This is illustrated by, for example, the ROCE, which, at 9.3% is standalone not a critical number. It should be underscored in this regard that the operating returns achieved in 2009 in the Potash and Magnesium Products as well as in the Salt business segments exceed the cost of capital. And only failed to do so on this level in respect to the Nitrogen Fertilizer business segment.

It should also be noted that these figures are weighed down by non-recurrent effects such as the already mentioned revaluation of the assets of Morton Salt in accordance with IFRS as well as ancillary and subsequent costs related to the acquisition.

If one were to factor out the non-recurrent effects from inventory revaluation and integration costs, the K+S Group's ROCE for 2009 would already somehow exceed the cost of capital.

Anyway the management will strive to improve the performance significantly in the future. I would now like to hand over to Mr. Steiner again, who will discuss the outlook for 2010. Thank you very much.

---

**Norbert Steiner** - K+S AG - Chairman of the Board of Directors and CEO

Thank you from my side as well. As announced, a look at 2010, our last slide. The fertilizer business is tangibly picking up again in terms of volume, even though on a significant lower price level than just a year ago. And our Salt business is once again profiting from a good overall de-icing salt demand in the current year.

For the development of business in 2010, we are therefore expecting a significant increase in revenues from today's perspective, primarily caused as a result of the first time consolidation of Morton Salt for the entire year.

This, together with the emerging turnaround in operations in the Nitrogen Fertilizer business, should result in significant gains in earnings too as compared with 2009.

We also see ourselves as being properly positioned in the medium and long term. Important global megatrends continue to remain intact. Global population growth, changes in dietary patterns in the emerging markets and the great importance of renewable raw materials should ensure an increasing demand for fertilizers in the future as well.

And last but not least, through the high degree of commitment and the flexibility of all our employees, the K+S Group remains on course. On this basis we think we can look confidently into the future.

So far, thank you very much. And now the floor is yours.

---

## QUESTIONS AND ANSWERS

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

Martin.

---

**Martin Rodiger** - Cheuvreux - Analyst

Martin Rodiger from Cheuvreux. Two questions only on waste water. The District President of [Kassel] started a hearing to reduce the maximum discharge of waste water into the River of Werra down from 18m cubic meters down to 8m tonnes -- 8m cubic meters for the period of two years. That means on a yearly basis, down from 9m tonnes to 4m tonnes.

Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

As far as I recall, you have waste water of 14m cubic meters and half of that, 7m, is going to the River Werra. So there is a gap of 3m tonnes. How can you solve that problem especially when you take into consideration that the other part of getting rid of waste water, the emergence of -- into the plate dolomite that means underground is also so to say close to be exhausted.

Second question is on -- also on waste water. You mentioned in the past that there are some possibilities to get rid of waste water, but some of them are not economic viable. That means are too expensive. What is the worse case impact on earnings if politicians force K+S to use these very expensive economic not viable solutions?

**Norbert Steiner** - K+S AG - Chairman of the Board of Directors and CEO

First of all, this was just announcement of the District President in Kassel and this will be answered within the timeframe of four weeks that we have to prepare our answer.

So as this has not been a final decision yet, I need to comment on a process that is ongoing, which we generally do not do and I do not speculate on the outcome out of this.

What we need to take into consideration is that we have an outflow of saline water out of the Werra operations, which have more or less two outlets put into the water, into the river and into that what we call the plate dolomite. And this is something which we have reduced significantly over the last years. We try to reduce that even more with our EUR360m package. And this is something which we have compiled out of the measures that physically, ecologically and economically will help to improve the situation.

We have a clear commitment of all parties involved. That means the two States of Hessen and Thuringia, ourselves and also the so called Round Table that we need to have the fulfillment of certain prerequisites. That means all measures that need to be done need to be politically welcomed. Need to be ecologically efficient. Do not need to over-burden the Company and the fourth was I do not know. These need to be fulfilled completely.

And with that background we should be in a situation that we should balance all that what we have on that Board so far. And therefore we have also an obligation not only towards our shareholders but also our stakeholders that we intensively look to that more or less balance between ecological, social and economic question for all solutions that we take into account for the future.

So normally, one should not be forced to get into an economically not feasible and over-burdening situation. And we are confident that at the very end of all days and all discussions about that, we should find a solution that balances these three elements.

We have so far no obligation or no, that's not the right, from the perspective of the Board of Directors and the Supervisory Board to get into a situation which in the mid and long term does not allow for an economic continuation of our production in the Werra.

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

Next question from John.

**John Vergil** - Nomura - Analyst

Yes hi. John Vergil from Nomura. Three questions. First of all on financials in the fourth quarter. Can you just quantify the non-recurring effect on the cost line on the potash division? I understand there's a COG effect because of the reduction of

Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

inventories at a high price as the increased mining obligations and also provisions for rebates. If you can help us to quantify this effect please?

The second question you never quantified the inventories on the Potash division but we can assume they're still relatively high. So I expect 2010 will be a year of inventory reduction, if you could help us to quantify that for our working capital assumptions, and also the impact on the cost line of the Potash division.

The third question is on the European situation. Mr. Steiner you mentioned in your comments that last year being a dominant player in Europe was a weakness and this year you could it turn as an advantage. Can you put a bit of color on this comment? What are you seeing right now in Europe? Are you seeing a restocking? Are you seeing above average volume recovery, or just what do you mean by these comments? Thank you.

---

**Norbert Steiner** - K+S AG - Chairman of the Board of Directors and CEO

I'm very comfortable in that situation because the first question will be answered by him and the second answered by Mr. Felker.

---

**Jan Peter Nonnenkamp** - K+S AG - CFO

Okay. First question to the financial effect of the fourth quarter for Potash, if you compare the fourth quarter '09 with fourth quarter '08, that's a very diverging picture because the fourth quarter '08 was already influenced by inventory build up. And the fourth quarter '09 was inventory built down.

Mr. Felker will soon tell you that our inventories at the end of '09 were roughly 800,000 tonnes. So they were -- we do publish them. So we came down from roughly 1m at the end of the quarter, third quarter I'm sorry.

And if you compare now Q4 '08 and you can capitalize the fixed cost and the production costs in Q4 '08, and you compare now the additional burden out of fixed cost in '09, this difference is roughly EUR74m.

In addition to that, we had a single provisioning effect in the fourth quarter just affecting the Potash division, which was just for mining obligations around about EUR20m. And we also had some other provisioning of another EUR8m. Okay?

---

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

And it's very difficult to comment on the development of stocks at present, but they are going heavily down. After we have announced our new price for Europe on January 8 this year, we saw heavy order inflow.

We were a little bit hampered by weather conditions and non-availability of coaches from the German autobahn. We are sitting on high order books, full order books. And you can imagine that end of this quarter, first quarter this year stocks will be reduced quite heavily again.

---

**Christian Faitz** - Oppenheimer - Analyst

Yes, Christian Faitz from Oppenheimer still. In relation to John's question do you have any visibility on the inventory for the value chain up to the final farming customer how that looks? There is still tonnes of potash sitting around in a big stable of the farmer or something from 2008.

And also in that relation, Mr. Herrmann mentioned the 800,000 tonnes. Is that above ground and below ground inventory, so your full inventory, or is it just above ground inventory just to clarify that?



Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

And then second question regarding the phasing. Lots of agrochemical companies are talking about a potential phasing effect into Q2. And I know you don't care too much about quarters, but do you see, because of weather conditions, that there could be certain slow sales at least sequentially from Q2 into -- from Q1 going into Q2? Thank you.

---

**Norbert Steiner** - K+S AG - Chairman of the Board of Directors and CEO

Farmers very seldom carry stocks of fertilizers, so there's always a distribution. Distribution levels at present are just restocking. So they are shelving to have more physical products. So it's just the opposite of what you mentioned so far. All the stocks we mention is always above. So it's nothing in the mines. It's all in the warehouses.

And what we had at the end of the third quarter and end of fourth quarter last year, we still have some inventory with third party stocks. That means we are hiring stocks at harbor places which in the meantime are all empty. Those were the stocks we used first when the demand was coming back. And we had to use basically stocks which were lying at harbors because the trains and the channels, Midland Canal is one of the main channels in Germany they were frozen, so we had to use them first and they are empty.

And the other one slowing down and carryover from second -- from first quarter to fourth quarter. There is one very simple rule. The vegetation is also postponed. We have a hard winter, so that vegetation period is also moving, and we are moving with vegetation. So at present it's not difficult for nitrogen products and for potash products.

It might be a little bit critical for some consumer items in the COMPO Division because there, because of very, very cold weather we had some difficulties in producing turfs because the ground was frozen. And there the time window seems to be narrowing a little bit, so our supply chain is very busy in supplying the supermarkets and the home depots and stuff like this.

---

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

Okay next question from Annett.

---

**Annett Weber** - BHF Bank - Analyst

I've got two questions. The first one relates to Morton. Can you possibly give us an indication as to your estimates for the future synergies? And any possible integration costs that you might incur in Q1 as you indicated in your speech?

And the second question relates to the issue of your potash reserves which are roughly in the range of 30/35 years. What are your current projects with this respect?

---

**Norbert Steiner** - K+S AG - Chairman of the Board of Directors and CEO

The integration of Morton Salt is moving ahead. We have done the major part of the issue that we call formal integration to be able to report and so on and so forth.

What we are doing right now is to prepare the first steps of the business integration. Like we call it, it is more or less to make one organization out of two, former Morton Salt and our Esco, our sales organization of SPL.

Of course, including more or less the attribution of clients, which in the past have been more or less spread a little bit, let's say, organically through the two different organizations and of course what -- with respect to the sources where the salt is coming from.

Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

We have a lot of different sites. Salt production mines, sea salt production and of course the big seller in Chile and this more or less needs to be brought into the picture that we optimize the logistical chain from that.

This of course will then result in a clear cut organization which does not allow for inter-company competition anymore. And this of course should also more or less streamline the ways of goods to an extent that we are deriving synergies from that.

We have also said when we informed the public about the desire, the plan to acquire Morton Salt, that it is not primarily based on synergies as we had not so big overlaps where you generally, when you have overlaps, generate a lot of synergies.

So the synergies deriving from the optimization of the supply chain will be there. We will also see that we can use production from Brazil, from Chile under the Morton Salt Umbrella Girl, or [Winter] Salt in Canada label, which then will hopefully and most likely increase the level of price and therefore the value and make us gain some synergies.

We also will see that a lot of synergies will, or synergies will be found in areas where we had not thought about when we acquired or made our evaluation at the due diligence at the Company.

And we are planning to introduce a program which we call best practices. That we want to transfer that what is good in Europe to North America and the other way around. So we are not yet able to quantify the synergies out of that. But once again keep in mind this was not the real, let's say, reason why we went ahead.

We, of course, have also done a lot of, as mentioned, of integration work which was not only causing this EUR3.6m that we see from the P&L but also money that we needed to more or less put on top of the balance sheet.

We -- the biggest effect, or the biggest project we have aside of the business integration which costs working hours but not money, will be the integration of IT which will then be rolled out in the second half of this year and will need the years 2011 and 2012 altogether about EUR8m. But you can very long discuss about whether this is renewal of an old system or integration costs. So the -- most of it will be over.

---

#### **Unidentified Company Representative**

35 years.

---

#### **Norbert Steiner - K+S AG - Chairman of the Board of Directors and CEO**

35 years potash lifetime, this is still a lot, and projects more or less are not under time pressure with that -- with view to that. We have been very careful and we'll continue to be very careful in the evaluation and the more or less decision to move ahead with one or the other projects.

And I have sworn to myself that I will not comment on bigger details on that before we are ready to inform the public, because I have done that quite early after taking over the CEO's seat, and so far I have not been able to deliver. And that shall not be repeated again.

But we are still evaluating. And I mentioned this morning and therefore I can repeat it, as I mentioned in public several times before, the process of the reopening of [Roslim] is still ongoing.

I do not make any speculation on the end of that discussion period with the company that belongs to the Federal Republic of Germany. Therefore, I have no idea when that decision will be done.



Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

And the second is that we are discussing with our shareholder, but on the total normal and arms-length principal whether we can find a project cooperation in view of our region. But it's still a very early stage.

---

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

Next question from Andrew Stott.

---

**Andrew Stott** - *Merrill Lynch - Analyst*

Yes thanks. Andrew Stott, Merrill Lynch. A few questions on Salt first if I could. What was the sales contribution? You've given the EBIT contribution for Q4. Could you tell us what the sales contribution was?

In a typical year, if there is such a thing as a typical year, is Q1 stronger or weaker than Q4? Just trying to get an idea of the seasonality normally.

And final thing is have you hedged your currency exposure to Morton for net receivables for 2010, and if so at what rate?

And then a Potash question if I can. On the current announcements that you've put through in January and March on pricing, how are the realized prices coming through relative to those list prices? Thank you.

---

**Norbert Steiner** - *K+S AG - Chairman of the Board of Directors and CEO*

The de-icing Salt business in the first quarter generally is the strongest quarter because of the fact that normally, whatever that means, normally the winter months are months -- are January and February.

But as the case may be, it can also start earlier. And this needs to be taken into consideration with the preparation of that what we have on board in order to be ready for that.

And the second part of the question pertaining to Salt was the sales volume in the fourth quarter on de-icing salt?

---

**Andrew Stott** - *Merrill Lynch - Analyst*

No the revenue.

---

**Norbert Steiner** - *K+S AG - Chairman of the Board of Directors and CEO*

The revenue.

---

**Jan Peter Nonnenkamp** - *K+S AG - CFO*

The revenue was EUR237m just for water.

---

**Norbert Steiner** - *K+S AG - Chairman of the Board of Directors and CEO*

Yes. The third part of the question was concerning to hedging. We do not hedge the receivables of Morton Salt. What we do is called a translational hedge for the result of Morton Salt.

Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

So we have done here what we always do in that respect, an optional hedge. Therefore, the result of the anticipated result of Morton Salt is hedged via options. This gives us room for improvement. If the dollar continues to strengthen we will have a benefit and therefore, we have no downside risk concerning the euro result of Morton Salt.

---

**Jan Peter Nonnenkamp** - *K+S AG - CFO*

And then your last question was the EUR285m announcement on January 8. Yes, we do realize these prices and what we have done just a few days ago is that we have even announced price increase of EUR12.

But because we have had this supply problems because of snow and frozen waterways, I think we will only realize a very small quantity with this price increase of EUR12.

When you have -- when you are working on the extra sheet don't forget that in Europe we do not have only MOP60. So the standard products but also lower loaded products. But the prices are in parity calculated to the lead product. So it's a realized price.

---

**Unidentified Audience Member**

(Inaudible). Three questions if I may, to the P&L segment. First one is you talk about delayed vegetation periods and probably delayed application season in Europe. Given the sliding forward curve we currently see in weed, and yesterdays USDA figure put it another pinch of salt to your promise here, what's the feedback you are getting from the farmer's side on their ability to address those price rounds? That's my first question.

Second one on the P&L segment on the cost side you are referring to a moderate cost increase in 2010, or to looking into cost cutting initiatives you launched in 2009. Could you just quantify the cost cutting effect you expect in 2010 versus 2009 in the P&L segment?

And the third question is on the Salt business. Bloomberg was quoting you saying that 10m tonnes you are expecting in de-icing salt in 2010. Given that you have sold 9m tonnes already last year, would you regard this as a rather conservative figure or were you misquoted? Thanks.

---

**Norbert Steiner** - *K+S AG - Chairman of the Board of Directors and CEO*

Well acceptance of prices from the farmer's side, what we have seen beginning of last year is that in some parts of Germany they started fertilizing. That means that they took product from distribution and they accepted it.

The other return of opinion in the year is that when we look at the three major nutrients, since the beginning of this year the price for DAP and also for nitrogen is heavily increasing, whereas we decreased the price for potash, which makes all these three nutrients very comparable in valuation for farmers, which was one of the reasons they were trying to avoid to hide those issues of potash last year.

So I think in their perception of our pricing policy, and that's at least what we also hear from the distributors, we are doing fine for the time being.

Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

**Jan Peter Nonnenkamp** - K+S AG - CFO

With respect to the cost issue, one needs to see quite clearly that if you increase the production volume from one year of 4m tonnes to the volume that allows us to sell almost 6m tonnes, then you will find that the costs would increase also in a certain way in the same manner. So it's just an automatism that you will see here and therefore, it's normal.

What we do not do generally is to quantify cost increases already at that very early stage in the year because this cost situation depends on so many issues of capacity utilization rate, sales volumes etc, etc.

And therefore, when we are very prudent at the time being to tell you what we have told you in our financial report on the view on 2010, then it includes also the cost item. And no different and separate speculation or news flow on cost issues that would more or less move ahead the costs and not move ahead the earnings and revenues position.

With a view to de-icing salt, for the entire year 2009 we have sold almost 9m tonnes, including the fourth quarter of Morton Salt only. And given the fact that we have started more or less quite similar in our old salt world of Europe and American East Coast, this 10m should be overcome easily. It's more or less moving more to, let's say, 13m, 14m or something like that.

---

**Thomas Orla** - MainFirst Bank - Analyst

[Thomas Orla] from MainFirst Bank. I have three questions please. Firstly, I would like to pick up an earlier question. You said in your presentation that it could be an advantage this year to be strongly exposed to Europe in potash. Could you give us a color on that why this is so?

The second question goes to a similar direction and this is about the visibility on the end market demand. So far you have said that in Potash the pick up in demand is mainly from distributors.

Could you give us a little bit more color of how do you see the end market demand? And maybe how do you derive your expectations for the market volumes this year? What are the drivers here?

And a third question very short question on the integration costs and possible value step-ups in inventories from the Morton acquisition, what we can expect in terms of costs, further costs from Morton integration? Thank you.

---

**Norbert Steiner** - K+S AG - Chairman of the Board of Directors and CEO

First of all Europe. Why do we feel Europe is so important and why we could benefit from the situation is very simple? We lost most in Europe last year. The decline of our sales worldwide in Potash were mostly, or hardest -- on the hardest influence in Europe.

We had relatively stable sales in big markets like Brazil. We had normal sales in India. We had normal sales in China and we had quite reasonable sales in South East Asia. So we lost last year basically in Europe.

A little bit more color you said in Europe. I think that there are a lot of influences why farmers behaved in Europe the way they did. First of all, they were very surprised why we did not immediately follow price decreases like the nitrogen people, and partly also the phosphate people did very early last year.

I think you have to divide two systems. The Nitrogen business is basically driven by ammonia prices. So when the economical crisis started ammonia prices fell, so you just pass on the advantage that you have in ammonia and gas price you pass onto the market, margins and prices are falling very fast. And demand was relatively normal starting already fourth quarter preparing for this year.

Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

In our case it was just the opposite. We took much more time because we knew that some big importers worldwide, but also in the European distributors were sitting on quite big stocks for potash. And reducing prices did not make more products.

So we waited for a long, long time. We let some other markets and some other producers worldwide make pricing decisions and we also made some adjustments. The first adjustment was if I recollect correctly was June 17 last year where we reduced the price from EUR600 down to EUR435.

Then we were waiting for a long time and now with EUR285, which we only published in June -- in January, we feel very good. I think we have got a good level there.

What also has happened is that farmers don't feel that potash prices are much, much higher than other nutrients. That was playing into our cards. Our prices, we decreased them in January. All the other prices went up. So this feeling from the farmer's potash is too expensive in comparison to other nutrients, that has virtually disappeared.

Last factor perhaps in this little excursion is that farmers in Europe have skipped one, some of them have skipped two applications. And in some areas we could see that their yields is not so much influenced, but the crop itself is influenced, the quality is influenced.

There were, in the agricultural press, the specialists were discussing the phenomenal black spot in potatoes for example, or some other quality specific issues. So farmers knew that they could not skip another season.

We also said 2010 will be a transitional year, That's why, for the time being, we only say we will come from slightly over 4m tonnes to 6m. Not the full capacity because we want to wait until exactly your question, what will the farmers do? Will they really take over the product until this is finally done? And then only will we review our production activities for the second half of this year. For the time, we run 100% all the mines and we are even reducing stocks. So we have to wait what really happens.

When I look at the other markets, Brazil we have normal sales.

Our sales to India have been normal last year. Now we have to wait for the season. We are a small supplier in India. As long as the soya prices, the palm oil prices, remain what they are, I see no problems for us, for our Company also to sell to our customer portfolio we have in South East Asia. So Europe is the key for us and we have to wait for a few weeks.

Questions pertaining -- sorry, still the answer -- a question pertaining to Morton Salt again. I mentioned that we have done very significant steps forward to acquire the company, to integrate the company. And now we are more or less running on a good level of integration already from the forward standpoint.

So we expect between, I would say, EUR3.5m and EUR5m in the entire year of integration costs.

But you please should take into consideration what Jan Peter Nonnenkamp mentioned with respect to the more or less continuous amount that we will see in the P&L, which will eat up the real result of the Morton Salt operations. And he mentioned a figure of about EUR45m per year in the next longer period of time that we can face. It can be less. It can be more. It also is the effect of the dollar exchange rate and so on and so forth. But as a rule of thumb, I would say EUR45m is a valid figure.

---

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

(Inaudible) next one.

---



Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

**Unidentified Audience Member**

(Inaudible). I have a question on the Salt division also. It's regarding average pricing. I just wonder what has happened in Q4 for the grades industrial salt, salt for chemical use etc. So this was exceptional compared with the previous quarters. Do you think that we should look for similar pricing going forward, i.e. EUR90.5 per tonne for this segment?

And also do you think that in the first quarter 2010 you will achieve a similar pricing as in the last year Q1 '09 in the De-icing Salt segment? Or do you think that due to growing demand and limited supply now prevailing, that prices will be even higher than in the first quarter 2009? Thank you.

---

**Norbert Steiner** - K+S AG - Chairman of the Board of Directors and CEO

If you look to the prices, the average prices in that segment you will see of course the increase from the more or less first three quarters to the fourth quarter, and this is the inclusion of Morton Salt. High levels of earnings, a part of their success stories from the recent years, that's made us more or less look to that company so intensively and finally acquired the company.

The most important thing in the Salt business is to look to the margin after oil cost. And therefore we have, for example, seen that in the last year we had, as an example, in the United States East Coast lower prices. But the result, the margin of the Esco and the SPL operations increased due to lower cost. And therefore, we will see at the end of the quarter what the outcome of this might be.

The first quarter was also a little bit, or to some extent affected by the fact that in many regions where we are strong and we have sold a lot of material, we were more or less in a situation that we had already fulfilled our contracts. And therefore there was the ability to slightly rise the prices and therefore, also be successful when it comes to a view to the margin. But what I also can say is that we were not asking for EUR300 per tonne like others have done.

---

**Unidentified Audience Member**

Yes thank you again. Me, sorry. Just following up on that question, on your experience when you have a very cold winter like we had in Q1, what's the effect on the next year? Do you see municipalities being very conservative in the next year, and therefore the auction pushing price for the next season? What I'm trying to get obviously is to see what could be the margin effect next year if we go back into a normal volume environment on de-icing salt.

And the second question completely another subject. It's Eurochem. I'm just curious to know whether any talk exists, or any potential collaboration currently exists, given the fact that the -- given the production capacity they have in nitrogen fertilizers, and given the access you have on Western Europe. Whether there is room for you to extend your volume penetration in European markets with that collaboration? Thank you.

---

**Norbert Steiner** - K+S AG - Chairman of the Board of Directors and CEO

To start with the second question I have commented on that already, if I am not mistaken, that I mentioned the potential cooperation in the field of potash. Beyond that, there are certain limits in the value for either company for further cooperation in nitrogen in Western Europe. That would be the case because there is still overcapacity in Western Germany. And one needs to see that more or less the pushing of material out of non-Western European salts into the market would jeopardize prices. And everybody in the market is clever and prudent enough not to do such a silly thing.

The question that you raised first with respect to outlook, what will be the reaction on that winter is just speculation. What I only can repeat is that obviously many people have thought, after the intensive winter 2008/2009, that the next winter will not

Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

be that harsh. And reduced, more or less, the building up on own inventories during the summer time, which caused the part of the drop that we see in Western Europe.

The political discussions on the behavior of the municipality and road authorities have not been there since many years. And now they have seen that they are under pressure and maybe they act differently and source more material during the summer in order to prepare for a longer winter. But then they might think, sit back and think, now we have had two harsh winters and long winters, from the standpoint of statistics the next one will be a green one. Then they will be saying most likely, or they could say now we do not need to do more than the year before. So I have no clue what they might do. But we will prepare ourselves again to be there when the demand arises since winter time.

---

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

Okay. We have three more questions. Lutz Grueten, [Mr. Burse] and Stephan Kippe.

---

**Lutz Grueten** - Kepler Capital Markets - Analyst

Lutz Grueten, Kepler Capital Markets. Just a question from my side. First of all on the Nitrogen could you give us a trading update on that division with special regard to the selling prices, and also on the input cost and also a bit more precise on the outlook for 2010?

And on the Salt division, what's your best guess for the combined businesses in regard to CapEx 2010 and the D&A?

---

**Norbert Steiner** - K+S AG - Chairman of the Board of Directors and CEO

In the -- with respect to the question of Salt and CapEx, the combined entities we should be in the neighborhood of -- in the Salt business of about, if I'm not mistaken, EUR80m CapEx. And the second part of the question with respect to Salt was again?

---

**Lutz Grueten** - Kepler Capital Markets - Analyst

D&A, depreciation and amortization, similar level or (inaudible - microphone inaccessible).

---

**Jan Peter Nonnenkamp** - K+S AG - CFO

Okay CapEx is EUR70m for the year 2010, seven, zero.

---

**Norbert Steiner** - K+S AG - Chairman of the Board of Directors and CEO

Seven, seven.

---

**Jan Peter Nonnenkamp** - K+S AG - CFO

To be honest I can't tell you right now.

(Inaudible -- microphone inaccessible).

---

Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

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

Okay. Then we talk about Nitrogen a little bit and then they clarify. Where do we come from? Why did we make so many losses last year? First of all capacity utilization. All products around the NPK group totally collapsed second half of the year. We were running, also partly as was mentioned in the presentation of Mr. Steiner, we were running our own plant Krefeld with only 50% of capacity utilization. We were, at that time, having extremely expensive raw materials, phosphates about \$1,600. Now the price is \$400 roughly. And we also had some traded material from BSF where we bought too high and sold too low. That's the fact.

The other part is that there was a small margin from the straight Fertilizer business because the ammonia prices have been very high. When the bubble collapsed it took some time to adjust it.

So the outlook is that demand will be more stable. At present I would estimate that the NPK plants in Europe are running 90%. And we have quite a good transparency in this area because we are also raw material supplier to other producers in the NPK field and we have suffered a bit more ammonia. So I think it will recover.

And also the nitrogen, when you see the nitrogen prices in the first quarter for CAN, which is one typical European product, it was so low that in the newspapers people were writing, buy nitrogen now, you will never get it cheaper again. And they have been right. So quantity wise, it's recovering and price wise, I think it will be alright.

Perhaps I can have one more until they've got their numbers ready, one more addition to the question, Eurochem coming to Europe. I think their product portfolio only partly is suitable for Europe.

Their NPK program is very narrow. Only three or four formulas and then they are quite strong also in ammonium nitrate, which is used in Europe but not as much, because we have all these discussions about terrorism and so on. So you need special storing facilities and stuff like this. So they can export to Europe, but they have other markets where I think they feel more comfortable.

---

**Lutz Grueten** - Kepler Capital Markets - Analyst

So the trading material from BSF, that issue has worked out now end of last year.

---

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

Yes the influence on our operating result last year was that they have made wrong calculations for the year 2008. And then we had a debit note from them. But that has been worked out.

And perhaps one addition, we also had a restructuring program. In the whole Nitrogen business you know that we restructured part of COMPO. And that was also extra costs of around EUR10m which influenced our operating result and our EBIT in 2009. Should not come again.

---

**Norbert Steiner** - K+S AG - Chairman of the Board of Directors and CEO

So we have now clarified our confusion. Once again the EUR70m roughly is a good estimation for the CapEx in the Salt business entirely for the year 2010. And more or less the normal depreciation should be in the neighborhood. Slightly higher maybe, but in the neighborhood. But don't forget this more or less EUR40m, EUR45m of purchase price allocation depreciation that we have to put on top of that.

Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

**Lutz Burse** - Analyst

Herr Steiner, [Lutz Burse] is my name. Herr Steiner, as you have become a player in the North American market, I'm sure that you are following this North American takeover battle that is taking place quite intensively with Agrium making a takeover bid for CF Industries. CF Industries having made a takeover bid for Terra. And now Yarra entered this game. So what is going on there? What is driving this? What is your attitude? Are you going to throw your hat also into the ring? So what is behind it? How do you look at the valuations on this bids that are made? Is it just a consolidation game, or are they looking for synergies, or what is the driving force behind this?

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

That is a lot of -- I do the first thing. I do the what is behind and Mr. Steiner then is commenting on throwing the hat or not throwing the hat, okay.

So I think what you have to look at over the last I think 18 months, we have heard a lot of discussion about energy findings, gas findings in the States. And with the time lag of, I would say, one year, there was a lot of speculation what will the American nitrogen producers do, because it's a clearly US based story. It's about getting assets in the US.

And one speculation was that some of these players would be very interested because their point of view is that, over a long period of time they will be very competitive in gas prices. They will close the borders. They would not allow the Russians to export, or Ukrainians to export into the United States of America because they feel that they are very competitive in energy prices again. That was definitely one story.

The other story I think is why is Yarra so much interested. I think they have strategically very good positions in Russia with participation of [Rochos]. They are good in Qatar, which means they are very close to some energy fields. But they are missing some position in the States. So Terra would be a good target I think. And when you look at it, what they have, how should I say, the bid they took seems quite interesting for some people outside.

Second part, or third part already, of the whole issue is Agrium is very dedicated to nitrogen business. Agrium is very dedicated also to distribution. They have spent a lot of money to distribution to re-sale. And for them, targeting CF Industries, would be a perfect fit. I think there will be synergies from transport, in production and some others. So for them to go for CF Industries makes a lot of sense.

CF Industries then going for Terra, that's already a little bit different story. Terra is bigger than CF in quantities of production. Some nasty people say it's a way out to not be acquired from Agrium. But I cannot comment on this. You have to ask Mr. Wilson.

So it's a purely US story. It goes for assets. It has definitely to do with the long term view of nitrogen. And then Mr. Steiner can comment on the hat.

**Norbert Steiner** - K+S AG - Chairman of the Board of Directors and CEO

I like my colleagues to do the work and allow me for a short answer? No. EUR4b plus, the offer from Yarra to acquire Terra would certainly be a too big bite. [Yasco] please now.

**Yasco Meivegen** - HSBC - Analyst

[Yasco Meivegen] from HSBC. I would like to ask two questions please. First of all what's your view on the impact of new capacity which should be coming on-stream during the next years? What's the impact of this on the mid term perspective on the price.



Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

Do you think that price could significantly increase in the mid term again, or could be like a gap to this from the capacity expansion?

Secondly, you said in your presentation that you did increase some underground development, but on the other hand that you delayed some maintenance expenditures. What would you say is the net effect? Did you delay some costs in 2010, or did you bring maybe forward some costs due to the increased underground development which now has been to have lower costs in 2010?

---

**Norbert Steiner** - K+S AG - Chairman of the Board of Directors and CEO

The first question, to make it short, the people that are in the business, that are presently already producing potash, strive more or less to increase their potential capacity by that's what they call brownfield expansion with the only exception of Mahler. That has a small production in Brazil and tries to get a bigger player in the potash business.

All these announcements and projects are still in a very early stage. And will need the time, a lot of time, in order to more or less make things happen and to be ready for the sale of the first tonne. BHP Billiton as a complete new player showing up, at least in the area of preparation, of moving ahead, has said that the final stage of the mine that they are planning to build in Saskatchewan will be either in 2026 or 2028. So you see there is a lot of timeframe that is occupied by that.

And therefore, it is also absolutely premature to be open on that, to speculate about the impact on prices. What we generally should be able to mention is that most of that newcomers have only one mine under production then, which is a completely new mine, that needs to shoulder everything. And which is significantly different to that what those companies that are looking for brownfield expansions, or on the basis of existing production for greenfield expansion, have as a benefit or as a advantage that they can mix more or less their calculation.

The effect of our preparation underground and our cost cuts and postponements is that we did the preparation in the first half year when we already reduced our capacity utilization. But we're still full of hope that in the second half of the year 2009 we would have a bigger recovery than finally seen. That means that the cost cutting started more or less as the effect from June 1/July 1 onwards. And what was cut is cut and will not come back in the future.

Our technicians, and this will be hopefully staying in the room, tend to say that what is postponed must be coming as soon as possible. But my point of view is that what was postponed is postponed and postpones everything. And at some point of time the rest that has been postponed will not be done. So the postponement is a cut.

---

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

We have two more questions I think, then we also have to come to an end after one and a half hours. And we can certainly also have some coffee together outside. So Stefan and Annett Weber please.

---

**Stephan Kippe** - Commerzbank - Analyst

Okay. Thank you. Stephan Kippe from Commerzbank. I have two questions with regards to potash prices, which were a big issue last year hasn't been talked about so much this year. My question is as European farmers have proven to be pretty stubborn when it comes to accepting high potash prices during 2009, and now the relative pricing situation has improved as you have said, do you see -- how do you -- maybe Mr. Felker, how do you personally assess the willingness of farmers to maybe accept more substantial price increases during 2010 and maybe early 2011?



Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

And the second question is, if I look at the guidance of your potash segment for this year, even when using let's say flat pricing for 2010, is my impression the right one that, even in that scenario, your guidance for the potash segment is more on the conservative side?

---

**Norbert Steiner** - *K+S AG - Chairman of the Board of Directors and CEO*

I would like to start with the guidance. What we need to do is to inform the public of that what we see as of February 23. This is more or less the point of time when we finished the production of our financial report. And this is still ahead of, more or less, the utilization, also under normal circumstances, of fertilizers on the field. And therefore you do not have much insight in that what the farmers intend to do.

What we say is based on that perspective. And we have also given some clear hints to the fact that this view that we have shared with you in our finance report can be improved, should all that come through what we hope will materialize, that the farmers source at least normal, or even better more than normal, since they have reduced their application of potash in the recent years.

So there is a careful outlook, no doubt about that. But it is an outlook which follows our general behavior on that making of outlooks to be careful at the beginning, and then to more or less consolidate and also improve the situation with corridors in the history. This is something which you should look for and wait for. The next chance to get a more, let's say, precise outlook for the year 2010 will be in connection with our AGM in May.

---

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

Pricing potentials. I think what we have to do, especially in the Northern Hemisphere, which means in our case in Europe, the Americans do it the other way. We do it -- what we have to achieve is that coming back to normal patterns. The year 2008 was something we have never experienced before. Everyone was shouting for products. Price was not the issue. Physical availability of product was the issue for a long, long period of time. And then there came the collapse and just turned the other way around. Prices were not of interest at all. Moving products physically to farmers, adjusting prices on the level distributors to farmers was the issue.

Now what we have done with our price announcement for EUR285, we have had some indications what is happening worldwide, what prices are moving product. That was one hand.

The other indication we had was that our distributors had virtually no stocks whatsoever. We were having the stocks in our production facilities, or even at third party, stocks, which we had rented. And then we were quoting a price which, on the worldwide basis, I think is normal. It's a little bit higher than the state organized huge import markets like China or India. But it's also somehow reflecting the transaction costs we have in Europe. I think that works quite well.

Now what we have also done at the same time, we announced the price increase in January already, which sounds a little bit arrogant perhaps even. But it's a try to come back to the normal pattern. That means high prices giving to distributors near the season, let the farmers take it, come back to what we call dead season in Europe where there's no application of product, then reducing the price a little bit and make distributors -- put distributors in the position that they store very early the product. And we give them a lower price in order to cover nothing else but financing cost of the physical stock they keep, and then moving prices up. And I think that is one of the chances we have in Europe for the time being. And we will be very prudent doing it.

But as Mr. Steiner said, let's take it step by step. We have good orders. The price seems to be accepted. Now let the farmers buy and then we do the next step. And hopefully we come back to the normal pattern which will give then security to all of us, producers, distributors and farmers.

Mar. 11. 2010 / 12:00PM, SDF.F - Full Year 2009 K+S AG Earnings Conference Call

**Annett Weber** - BHF Bank - Analyst

Annett Weber from BHF again. Related to that issue, when you speak to your customers, be it distributors maybe even farmers, are you feeling them looking more closely at the upcoming Indian contract? Is that something they watch out for and the potential pricing that comes out of this?

**Norbert Steiner** - K+S AG - Chairman of the Board of Directors and CEO

I think they -- well of course they look, of course they read. But I think the Indian contract everybody thinks that will be in the vicinity of the China contract which is done, the \$350. Canpotex has made some sales to two parties in India, which are called Tata and Coromandel at \$370. But that's not the big bunch of the product. The big importer is IPL. And these discussions are going on. So if they also conclude with \$350, it's the same price as China, so it has no influence on our European pricing. It's just a confirmation of what we have done.

**Norbert Steiner** - K+S AG - Chairman of the Board of Directors and CEO

Okay. This was the last question that our Head of Investor Relations has allowed you to put on the table and I need to follow him of course. So from our perspective, thank you very much for your participation and the questions that you raised.

I hope that you carry home with you the fact that the next -- no the running year 2010, should be better than the year 2009. We will be significantly better off in the Salt business, which is not a miracle after the one year inclusion and consolidation of Morton Salt.

We expect a turnaround in the Nitrogen business. That would be an upside of more than EUR100m.

And we have been, hopefully, clear enough that we can say that there is potential in the Potash business, based on the comparison to that what we have said in our finance report, based on the knowledge that we have. So we need to see whether the farmers do what they should do. And then we will be in a position in May to share with you our latest insight in that.

Thank you very much and all the best. And we will see each other from time to time quite soon. Thank you.

#### DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2010, Thomson Reuters. All Rights Reserved.

