

# FINAL TRANSCRIPT

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## **SDF.F - Q2 2010 K+S AG Earnings Conference Call**

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## PRESENTATION

**Operator**

Welcome to the K+S Conference Call for analysts regarding the publication of half yearly financial reports for H1 2010. My name is Louisa, I'll be the 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 the opportunity to ask questions. (Operator Instructions). I am now handing you over to Christian Hermann, Head of Investor Relations at K+S to begin.

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**Christian Hermann - K+S AG - Head - IR**

Thank you very much. Good afternoon. We welcome you to today's analyst conference call for the second quarter of the results of K+S Group. The recent surge in wheat and other agricultural commodity prices puts agro stocks back into the focus of capital markets and therefore pleased to see so much interest again in our Q2 conference call. During the next one hour, we plan to proceed as follows.



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Mr. Steiner, our CEO of K+S Group will comment on the results achieved as well as on the current and future market environment and then the executive board members, Mr. Steiner, Mr. Felker, and Mr. Nocker will be happy to answer your questions. Before I hand over to Mr. Steiner, you are used to that, I have to do that. Please to inform you to mention that this presentation contains facts and forecasts that relate to the future development of the K+S Group and its Company.

Those forecasts are estimates that we have made on the basis of all the information available to us at this moment in time. Should the assumptions underlying these forecasts prove not to be correct or should certain risks, such as those referred to in the recent risk report materialize, actual development and events may deviate from current expectations. The Company assumes no obligation to update the statements contained in this presentation, save for the making of such disclosures as are required by the provisions of law. I am now happy to hand over to Norbert Steiner.

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**Norbert Steiner - K+S AG - CEO**

Thank you, Mr. machine gun Hermann. Good afternoon also from my side. Welcome to the K+S Q2 Conference Call also from me. I am pleased to see that after the successful result in the first quarter of this year, the K+S Group is on track and achieved another significant increase in revenues and earnings in the second quarter. The further normalization in fertilizer demand and the inclusion of Morton Salt, acquired last year, were the main drivers of this positive performance.

Let's start with a closer look at the Q2 markets trends and figures now and this is slide number three where I am referring to, our fertilizer business sector. The second quarter of 2010 was characterized by a normalization of demand for fertilizers. Farmers in the northern hemisphere use potash fertilizers at almost a normal level during the spring application.

The positive demand spent for straight nitrogen fertilizers continued during the second quarter and the business of complex fertilizers also showed a positive development. Global potash prices stabilized between US\$350 and US\$400 per ton. For most potash producers, the degree of capacity utilization did not achieve the very high level of the first quarter, but nevertheless had a reasonable high level. Prices for nitrogen fertilizers rose significantly against the backdrop of increasing input costs and the European production facilities for nitrogen fertilizers operated at high utilization rates.

Some remarks of our salt business sector. In the Western European de-icing salt market, there were delays in the early stocking up, despite the lower inventories of many customers. After the persistent wintery weather conditions and temporary supply bottlenecks, many customers initially looked to revise their stocking up policies. The Western European prices for de-icing salt tended to firm up somewhat in the biddings and contracts for the winter season 2010-2011.

In North America, high inventories due to a rather mild winter in many regions made the position of suppliers more difficult in the local tenders. Until now, this resulted in slight price declines in some cases. The market for industrial salt in North America developed positively while sales volumes in South America declined slightly, mainly due to weather-related supply problems in Brazil. The demand for salt for chemical use improved significantly and in line with the economic recovery, most of all in Europe.

Slide number four. The market environment, as described led to the following group results. Overall, revenues in Q2 were up by 43% to a good build in euro, whereas our EBIT 1 increased stronger, due to the fixed -- to the positive fixed cost equation effects. On the earnings before income tax level, we saw the influence of a better financial result in Q2 as the same quarter in the previous year was affected by non-recurrent, non-cash hedging transactions for the US dollar purchase price of Morton Salt. The financial result normalized to a negative EUR22 million in Q2.

Earnings per share developed favorably, too, and stood at EUR0.51 versus a negative EUR0.27 in the second quarter of 2009. Please note that the average number of shares rose to 191.33 million shares from 164.90 million shares in the first quarter 2009, following the capital increase at the end of last year.



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Together with the good Q1 results, these Q2 figures also caused the strong increase of revenues and earnings in H1. I would only like to highlight the increase in revenues by 43%, more than doubling our operating earnings and the very positive development of free cash flow.

Free cash flow reached almost EUR558 million in comparison with EUR129 million in the first half year of 2009. This pleasing development was attributable to the higher earnings and the lower tie-up of working capital, due to lower inventories and receivables which, in total, were higher than the decrease in liabilities arising from operating activities.

Turning to slide number five, I would like to continue by talking in more detail -- by taking a more detailed look at the changes in K+S Group's revenues during Q2. The revenues increased by EUR320 million, which corresponds to a rise of 43% year-on-year, as mentioned before. This was mainly attributable to positive volume and consolidation effects, however dampened to some extent by negative price and structure effects. Furthermore, the stronger US dollar had a positive effect on revenues, too.

Let's now turn to the business segments development in the second quarter, slide number six. Potash and magnesium products, revenues rose by 31% to EUR464 million, due to increased volume demand and positive currency effects. Due to fixed cost equation, EBIT 1 more than doubled and amounted to EUR119 million. More details will follow later.

Nitrogen fertilizer revenue rose by 12% as the utilization of production capacity was significantly higher year-on-year. Operating earnings in this segment reached EUR26 million, after amounting to a negative EUR27 million in the same quarter last year. In addition to higher sales volumes and lower raw material costs, the EBIT of this segment benefited from the reviews of provisions after the final settlement of input costs for 2009.

The salt business once again saw strong consolidation effects. Revenues were up by EUR176 million, of which Morton Salt contributed around EUR143 million. Second quarter operating earnings amounted to EUR22 million and there was a positive one-off provisioning effect in the amount EUR16 million.

We also will have a closer look at the different factors on the salt business later in this presentation. Although not decided on the Group level, but to -- complementary business revenues increased by 17% to EUR32 million and EBIT almost doubled and reached EUR6 million with a positive performance in all associated areas.

So let's start to look in more detail into the Q2 development and future trends in the potash and magnesium business segment. Slide number eight. As always, our general -- as always, our general remark in at once. This table only should be understood as providing a rough indication of how prices have developed -- [for instance] like freight costs, exchange rates, and product mix distort the picture.

Year-on-year, we saw a strong increase in sales volumes. The recovery was even stronger in Europe because sales volumes had dropped less drastically in overseas market in the same quarter last year. On the other hand, average European prices reduced more than overseas prices as the level of prices in Q2 2009 in Europe was still higher than in overseas markets.

Quarter on quarter, after Q1 had benefited to a large degree from restocking, European volumes in Q2 were lower due to seasonal effects, but overseas volumes increased significantly. European average price was favored by the price increase that was effective as of March 2010 and by positive product mix effect, due to a bigger portion of higher value SOP and industrial products.

In overseas, average price notes in US dollar was moderately lower than in Q1. This was mainly due to product mix effects. However, this effect was overcompensated in a -- by a temporary significantly stronger US dollar-euro exchange rate so that the average selling price in euro of the total product portfolio increased to EUR268.7 per ton.



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Slide number nine. With today's publication of our Q2 results, we have upgraded our 2010 global potash sales volume forecast to 50 million tons from the previous range of 45 million to 50 million. This improvement is mainly based on a strong and higher-than-expected volume recovery in Western Europe and North America.

While these markets had to suffer most last year, they now show the strongest recovery. For 2011, we expect worldwide potash sales volumes to range between 53 million tons and 57 million tons. This goes along with demand increases in all regions and is put in relation to capacity data on the next slide.

Those of you who have followed K+S consistently in the past might recognize that our capacity forecast is now based on IFA supply capability data and does not contain an at-risk section anymore. The reason behind is -- that the change is that IFA has meanwhile taken over a more cautious approach and is therefore now more or less in line with our previous own assumptions.

Starting from the described sales volume level in 2011, long-term growth rates are expected at 3% to 5% per annum again. This would result in utilization levels of about 80% annually until 2014. This is an acceptable level, especially if you take into account the risk that announced new capacities could be postponed or even cancelled due to technological or geological challenges or an inadequate price level. To begin, the term outlook of sales volumes certainly depends to a significant degree of future crop prices and farmers' income situation.

While the recently observed improvement in farm economics is very promising, we have so far refrained from altering our medium-term outlook for this new scenario because, as of today, we cannot assess the sustainability of this trend. To provide you with more detail on the recent development in farm economics, please follow me into the next slide, which then is slide number 11.

This chart, taken from our regular road show presentation, has been updated with the recent price, cost, and yield perimeters. We have chosen wheat as an example to demonstrate the typical German farmer's income situation, since it is one of the major cultivated crops in Europe. A similar price trend can be observed in other crops such as corn, soybeans, palm oil, barley, or at wheat. You may well remember that the year 2008 offered farmers a record profit potential.

Although costs came down considerably, farmers' income in 2009 dropped on the back of significantly lower prices for agricultural products. As a consequence, farmers began to focus on cost savings instead of optimization of crop yields. This summer's persistent dry weather conditions put the extrapolation of the last two year's record harvest into question and caused a strong increase in prices for agricultural products.

Based on the wheat price of EUR175 per ton and a reduced crop yield expectation on the average of seven tons per hectare, the realizable profit potential is on a very similar level to that of the record year 2008.

An attractive income situation improved the farmers' investment attitudes toward all necessary input sectors including fertilizers that help him to maximize crop yields. But it has to be seen how the very recent development in prices for agricultural products impacts the autumn season currently starting in the northern hemisphere.

Should the prospect of a better income situation prove to be sustainable, farmers have a clear incentive to move away from the so-called savings mode into a yield maximizing mode. This will then go along with an increased fertilizer consumption in the next spring season.

Now we would like to give you an overview on the performance of our second [pillar] the salt business segment and I continue with slide number 13. The left graph of this chart -- on this chart highlights that, due to external growth, mainly the acquisition of Chilean SPL in 2006 and Morton Salt in 2009. Salt sales volumes have increased over the past years, while keeping the de-icing salt share rather stable at 50% to 60%. In addition, it shows that the price level for de-icing salt has been trending upwards over the past years, the trend, that might come to a pause at least in 2010.



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The right graph shows that also on a quarterly basis, the acquisition of Morton Salt is reflected in the strong volume entries. But also the strong winter in Europe, that de-icing salt volumes increased in Q1 compared to the previous year. Furthermore, quarterly volumes in prices are certainly affected by the seasonality of the de-icing salt business. Prices generally tend to be somewhat lower in the off-season quarters two and three. Combined Q2 and Q3 de-icing salt volumes, as you can see, sometimes even account for only 10% of total volumes sold for the whole year.

Slide number 14, in Q2 salt volumes increased strongly, due to the consolidation of Morton Salt year-on-year. Without Morton Salt, volumes in de-icing salt would have decreased by 14%, whereas other [risk] of salt volumes would have increased by 17%. Prices for de-icing salt were higher than in Q2 last year, mainly due to positive product mix effects within North America.

Furthermore, the US dollar-euro exchange rate had a positive effect on revenues. Average prices of industrial, chemical and food grade sale improved significantly after the inclusion of Morton Salt. Quarter-on-quarter, de-icing salt volumes followed the normal seasonal pattern and so significantly lower than in Q1.

De-icing salt price level in Q2 did not increase -- decrease as can normally be seen in an off-season quarter for the same reasons mentioned. A positive product mix was in North America and the stronger US dollar-euro exchange rate. Since the underlying volumes are very small, the informative value of this price level, of course, is limited.

This chart number 15 now shows that Morton Salt with a very mild winter in a good part of the de-icing salt regions could achieve the same attractive EBITDA margin of 22% in H1 of 2010 and the former salt business of the K+S Group in H1 of last year, which benefited from an above average de-icing salt business.

In addition, the exceptionally strong de-icing salt business in Europe during the first half of 2010, even let esco and SPL achieve an EBITDA margin of 25% so that the EBITDA margin in the combined salt business in H1 and without non-recurring effects amounted to a very attractive 24%. With Morton Salt, K+S salt business is now well positioned to mitigate the former risk of volatile de-icing results.

After a very difficult year 2009, which made us deviate from our usual and rather explicit forecast policy, we'd now like to provide you again with a quantitative outlook in (inaudible) and its underlying assumptions on slide 17, our final chart. As already forecasted in our financial report, for the year 2009 and in our Q1 report, we expect a significant increase in revenues so that the figure of between EUR4.6 billion and EUR5.0 billion after EUR3.6 billion in 2009 seems realistic from today's perspective.

This is based on the moderately increased sales volume guidance of 6.5 million tons to 7.0 million tons in the potash and magnesium product business segment. With regards to prices and compared to the first half of the year, we should see moderately declining average prices of our potash and magnesium product portfolio in the second half of the year.

This should be caused by the usual seasonal product mix and staggered price effects. In addition, the Q2 average price benefited from the temporarily very strong US dollar that will not be repeated according to our internal planning. In the salt business, there should be a consolidation effect of about EUR600 million of revenues due to the first-time inclusion of Morton Salt for the whole year.

The total of 21 million to 22 million tons of salt product should be sold. 20 -- 12 million tons to 13 million tons out of this should be de-icing salt, assuming the famous average de-icing salt business in Q4 2010. Incorporating an average US dollar exchange rate of US\$1.31 per euro for 2010, this altogether should result in significantly higher group earnings, operating earnings, between EUR550 million and EUR600 million compared to EUR238 million last year.

The somewhat better financial results and an overall adjusted group tax rate of a good 26% should also lead to significantly increased group earnings adjusted of EUR330 million to EUR370 million for EUR1.75 to EUR1.95 per share. Ladies and gentlemen, thank you so far for listening. We are now happy to take your questions.



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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions). Our first question comes from the line of Amy Walker from Morgan Stanley. Please go ahead.

### Christian Hermann - K+S AG - Head - IR

Hello? Hello. Some problems in the line?

### Amy Walker - Morgan Stanley - Analyst

(Technical difficulty) the likely impasse of the proposed consolidation of the East European potash supply base that we read about in the press in recent days. The second question is -- you mentioned that you are seeing a strong start to the season in South America.

I wondered if you could give a little bit more color on that in terms of where volumes are looking and specifically which regions are looking very strong down there. And the third question, please. If you could comment a little bit on where inventory levels are now, both at the producer and the distribution chain levels. That would be very helpful. Thank you.

### Christian Hermann - K+S AG - Head - IR

Amy, this is Christian again. I'm sorry, we missed your first question and the second one was a bit hard for us to understand. I'm sorry I have to ask you to repeat your first two questions. I guess it was regarding Russia and something in North America, but please clarify again.

### Amy Walker - Morgan Stanley - Analyst

Okay. Yes, sorry. Can you hear me better now?

### Christian Hermann - K+S AG - Head - IR

Yes, it's perfect now.

### Amy Walker - Morgan Stanley - Analyst

Excellent. Okay. Thank you. The first question is just having seen news releases on the East European consolidation plans in the potash industry, could you just give us your thoughts on how that's likely to impact you and the wider industry? And the second question was you mentioned in your report this morning that were optimistic on the outlook for South America. I wondered if you could just give us a little bit more color on exactly what you're seeing at this stage, please. Thanks.

### Unidentified Company Representative

Okay. So I start with the situation in Russia concerning potash and [pass] even out of phosphate industry. I think we all know that [Mr. Lebbylot] has sold the major share of his participation in [Oval Kali] and there are three new gentlemen now being responsible for the business.



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And immediately, speculation started that they have bigger plans than just taking over Oval Kali. From what I read and from what I hear, they are in talks with [Suzinet]. This is partly [concerned], partly rejected. And they also say that they are in talks with [Tadavus Kali], which a [fixed] speaker of the Russian government has refused, but is taking part.

Since this morning, suddenly there are some other players announced being interested in the whole game. [Viochinto] is cited and although potash [coal] was cited together with Russian local partners. Now what does that mean for us? Consolidation can be a good thing sometimes. But when it has the character of the cartel, then that could be a different story. But it's very, very early to judge and I really don't know how to put more light into the situation, so I'm sorry, Amy. I just read what you read. I'm not in direct talks. So it's just interpretation.

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**Amy Walker** - Morgan Stanley - Analyst

That's fine. Thanks.

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**Unidentified Company Representative**

The other -- what was your question with Brazil?

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**Amy Walker** - Morgan Stanley - Analyst

The second question was about the basis of your optimism in South America, what you're seeing so far in the [LatAm] season. Why you're saying you think that's going to be much stronger this year than last year.

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**Norbert Steiner** - K+S AG - CEO

What we have -- like we have had last year, first of all, the Brazilian market, I think, is even stronger than last year. Last year it was not hit by the crisis as much as other markets. It certainly has to do with the crops they are growing there and with the position of the Brazilian farmers or Brazilian exporters in the world market with soya and stuff like that. This year the demand is even stronger. We are having a good share in this and our plans through end of the year are also, I think, very reasonable. And again, it will be a very good and very stable part of our world business in total.

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**Unidentified Company Representative**

(inaudible) inventories.

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**Norbert Steiner** - K+S AG - CEO

In inventories, on various levels. So first of all, on farmers' level, after the end of second quarter, I think the farmers have applied all the products they have. It's really, that is what Christian said, although in many road shows and many commented that product really was applied, especially in the northern hemisphere.

On the contrary, I think that these people that have very, very low stocks because they are still in a situation where they are managing inventories very much because of working capital. I think in other situations, I would say we have, at the end of the quarter, we have had slightly higher stocks because then we were closing for -- what it that -- over holding maintenance of our plants. So at present, I think, at the end of the year it will be even on the lower level with our stocks. So all in all, the picture shows more stability than in 2009 and it comes more to normal patterns.

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**Amy Walker** - Morgan Stanley - Analyst

Thank you (inaudible).

**Operator**

Thank you. Your next question comes from the line of Martin Roediger from Cheuvreux. Please go ahead.

**Martin Roediger** - Cheuvreux - Analyst

Yes. Also three questions, if I may. First, on potash volumes, we heard from the magazine Fertilizer Week that K+S has sold its Q3 2010 production and made steady progress on Q4 2010 output. This actually was more related to Europe. That indicates that you have very good visibility on your order intake. Can you confirm that? The reason I'm asking is that one of your major customers in Germany, [Baiva], said recently it will not buy right now potash to reserve its inventories. So I'm struggling -- who is currently buying potash in Europe in this third quarter? Is it the end [NKK] producers or wholesalers outside Germany?

Second question is on the pricing strategy in potash. My impression that you want first to get demand -- the market in potash back to normality and therefore you have intermitted moderate price increases in Europe in Q3. Do you have a feeling that your competitors are thinking the same way? And the third reason is on nitrogen fertilizers. You say in your quarterly report on page six that you, after the disposal of COMPO, you want to focus on areas potash and salt. Does that mean that the next fertilizer business is not anymore core business? And if it's still core business, can you explain why?

**Unidentified Company Representative**

So I start with the potash one and I'm very happy that some other people commented on our numbers and you read it. The only thing I can tell you is that we have a good order income which is reflecting again a step back to normality in Europe, which goes also together with our pricing policy. We have announced a price increase which is valid until the autumn application.

When it comes to our competitors in Europe, you know that yourselves since many, many years, our competitors are not following our prices, actually they always undercutting it. Because otherwise they cannot sell. When it comes to statements of Baiva, I don't who has stated that, but the order books we have show something totally different. But you know that Baiva is not selling standard -- it's not buying standard products from us, but special products which are dedicated to their German [group]. So, I don't see any a normality or abnormality there. And the third one, I think, Norbert Steiner wants to answer on COMPO.

**Norbert Steiner** - K+S AG - CEO

No, that was the question as you have correctly realized that we say we want to grow in potash and magnesium products and coal. And this is not new. Those who have had the chance to follow my presentations or my speeches have heard from me since a couple of years after and also continued after the acquisition of Morton Salt that we want to grow in both areas. And I mentioned in those days already that in respect to our fertilizer activities, we focus certainly in our potash and magnesium activities. And therefore we have more or less got it a little bit more straightforward in our Q2 report, but this is a confirmation of all the established strategy, nothing else.

**Martin Roediger** - Cheuvreux - Analyst

Thank you.



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**Operator**

Thank you. Our next question today comes from Peter Clark from Societe Generale. Please go ahead.

**Peter Clark - Societe Generale - Analyst**

Yes. Good afternoon. Just a quick follow-up question, really, on the inventory issue and specifically at K+S, you mentioned with the Q1 numbers that you would have a working off effect which would drag on the profitability from your inventory. So I was just wondering what the inventory level is at K+S now and how big that drag effect might be in the second quarter.

And then a second question just on the go-ahead for the nitrogen business. You made it quite clear that you're looking at a sort of margin around the 3% for the full-year. Certainly judging by my numbers that would infer that maybe you're still in an EBIT loss in the second half. I'm just wondering if that's the right sort of inference given the sales numbers and the sort of margin you're indicating or should I not read too much into that? Thank you.

**Unidentified Company Representative**

Okay, Peter. The first question I take over with regard to inventories. In the second quarter, at the end of the second quarter, our inventory level was more or less in line with -- at the end of the first quarter. So that means that in the second quarter we have no major effect out of the inventory.

You're right that -- and actually, we had roughly 840,000 tons. At the end of the year, as Mr. Felker pointed out earlier, at the end of the year, we forecast as lower number of that. And it can be -- we have to see. It's open, but it can be in the range of another 200,000 tons lower. And this would be an additional effect of roughly EUR30 million to EUR35 million. Okay?

**Peter Clark - Societe Generale - Analyst**

Yes, thank you.

**Unidentified Company Representative**

Now commenting on the margins in the margins in the [year], you know, Peter that we have the special arrangement -- a special business contract, business model with [BSF] and 3% is the normal percentage. We've tried, we think we have to get out of the business, but you also know that the nitrogen business in total now -- our total profitability for the company is relatively limited. So what was more important for us was the turnaround coming from 2009 where we have made a loss because of high -- paid inventories and stuff like this -- to have the turnaround into back numbers was, I think, the more important thing for us.

**Peter Clark - Societe Generale - Analyst**

Thank you.

**Operator**

Thank you. Your next question today comes from the line of Tony Jones from Redburn. Please go ahead.



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**Tony Jones** - Redburn Partners - Analyst

Good afternoon. Thanks for taking my question. I've just got on. On slide 11, you have highlighted the rising earnings farmers might get from farming wheat after the recent move in futures prices and we've seen it for a couple of other crops, too. But could you give us some idea, if you know, of the percentage or rough proportion of farmers who have already contracted forward their crop at lower prices that we've seen in early Q2?

I've heard that a lot of farmers have already done that. And therefore, will also farmers start to think about contracted towards the next year's crop at the current price? So could you give us an idea about how that might play out because I think it's more -- there's a bit more -- another level of sophistication than you've shown on that slide there. Thanks.

**Norbert Steiner** - K+S AG - CEO

Yes, Tony, very difficult to say. We have both sides. We have some guys pulling long, some guys pulling in short on the farmers' level, but we also have that from the distribution level, which is even, I would dare to say, which is even more important for us. I think it's too early to comment on that. We have to wait a little bit because also we don't have any hard figures. What really is the harvest? We know that we have shortcomings -- 7%, 8% in some areas. Some other areas are doing fine. So I think it's too early to comment on that.

**Unidentified Company Representative**

And Tony, that's exactly the reason why we put in this chart on page seven, profit potential. So this is the profit potential the farmer could take if he has not locked in a price, let's say, two months ago.

**Tony Jones** - Redburn Partners - Analyst

Okay. Thanks for your help.

**Operator**

Thank you. Our next question today comes from the line of Stephan Kippe from Commerzbank. Please go ahead.

**Stephan Kippe** - Commerzbank - Analyst

Yes. Good afternoon. Two questions from my side. First question is with regards to potash pricing in South America. There have been talks about maybe some of your Canadian competitors being a bit more aggressive than you are. Are trying to be a bit aggressive in terms of -- aggressive prices to get their volumes up in South America. Could you comment on that? Do you see maybe any intermittent pricing pressure there?

And the second question is with regards to the chart that we see on page ten, your supply and demand situation. Obviously, the supply side is -- depends on how many of these projects come to market at the end of the day. But if I look at this chart and even if I take the more aggressive 5% on average demand growth assumptions from 2011 onward, it kind of seems to indicate that there will be, if anything -- everything goes normal as planned that there will really be no tightness that would, going forward until 2014, that would generate any meaningful pricing momentum. Would you agree to that?

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**Unidentified Company Representative**

Yes, potash in South America, from our point of view, I think that what we have done and what we have performed in the last couple years, we have been a very -- shall I say, very stubborn in our pricing policy. And we could do that because normally we have more selling potential than we have product available.

And what we also do since many, many years, we keep our client and client portfolio very, very constant. So I think what we will have -- we will have single share in Brazil. We see that some other parties are actively trying to promote their products, find a good more clients, and we also see that sometimes the conditions of pricing between big clients and small clients are not as pronounced as it has been before. But we are not really concerned about this, I would say.

And the second one was the outlook until 2014. As we said, we have changed our picture a little bit because we are following -- or IFA is following more the -- what we call an available capacity. Sometimes, what we did -- we were just adding up the announced project and following, more or less, the announcement of those parties interested in this project. And then we were rectifying a little bit later, are they really coming or not coming.

So all of the data [brigs] we have now is still with some question mark. And from today's point of view, I think they are still in this background, in this overcapacity as some people call it. They are still projecting. They are having problems, not having been decided yet to really go ahead. And on the other hand, there are also some brownfield issues where the project owners of these brownfields will make a decision in due time whether they will bring product in the market or not. So it's not stable yet.

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**Unidentified Company Representative**

But I would like to add one or two sentences to that. If you look to the situation of install capacity, available capacity, and used capacity in 2010, you should have expected that nowhere in the world any price increase would have been possible, if I take your question a little bit more sequentially. And this has been the case. We have increased our prices in Europe two times a year, at the beginning of the year and at the end of June and this, so far, have been working.

So we should not take, as a result of this analysis, the impossibility of rising prices. Of course, we are away from the scarcity that we have seen in 2008. No doubt about that. But I think when -- as long as the market participants act in the same disciplined mood like we have seen, it is something -- and we share all the interests to be able to increase prices from time to time, we should not be too negative on that.

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**Unidentified Company Representative**

Thank you. But there is perhaps another issue. I think a year has 12 months and you know that our capability to do active pricing depends very much on the season. If we are far away from the season, if distributors are still having empty stocks and just starting to restock and build up stocks, our pricing capability usually is a little bit less than when it comes close to application of the product. And that is what [Novachtana] (inaudible).

And the time is right when the market is mature enough. When our distributors also can -- how can I say -- swallow prices, of course we will do that. The situation coming from 2008, 2009, of course we have done that in a very careful way and I think that shows that we will definitely have a close look. And when there are potentials, we will definitely also take them.

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**Stephan Kippe - Commerzbank - Analyst**

But one additional, maybe. But would you agree that there have not yet been any, let's say, dollar base global market price increases in the world market since the beginning of the year?

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**Unidentified Company Representative**

If you convert the euro into dollars and take the same currency exchange rate, then we have done it.

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**Stephan Kippe** - Commerzbank - Analyst

Okay. All right. Thank you.

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**Operator**

Thank you. Our next question today comes from the line of Andreas Heine from UniCredit. Please go ahead.

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**Andreas Heine** - UniCredit Markets & Investment Banking - Analyst

Yes, good afternoon. I have one question on the season. You said that it's still -- you have wait whether you see an autumn season impact from the higher crop prices. When do you think you will have clarity whether this has already an impact as farmers are now harvesting and getting the money and probably can then make the decision how much they want to invest in the autumn season?

And also coming back to the season you have seen last year. As far as I remember, the start of the season was last year rather late and that has also caused a rather strong first quarter in 2010. Do you expect the season to start earlier with the pre-buying this year? And please, some more insight about these price declines you expect for Q3 and Q4.

You mentioned some reasons, the second price increase and the product mix. Could you give some more flavor on this? What -- how big this impact is in the -- in general flat prices -- flat price environment for the second half? Thanks.

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**Unidentified Company Representative**

First thing, coming back to Europe, especially, but northern hemisphere autumn application, autumn seasons. The distributors are preparing this and we have made the price increase until this autumn season. We are seeing the orders coming in and we will wait how autumn application will be.

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**Andreas Heine** - UniCredit Markets & Investment Banking - Analyst

Yes.

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**Unidentified Company Representative**

Then there is the aspect of commodity prices which will potentially put us and put farmers, if it is substantial, into a much better situation and would do for [attrition] so that they would come from a saving mode back to going into maximum yield thinking, which then would mean that distributors would prepare season -- spring season, which usually should give them in March, April next year very, very strong quantities. So the quantity side then would be even more than we see it right now.

But I cannot tell you when the spring season will take place because 2010 it was late because we had a lot of snow in Europe. So I have no idea when it will start. Usually, we start providing September onwards to distributors. Application will be, depending on country in Europe, the same March, April, May. So this I cannot promise you when it will take place.

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**Norbert Steiner** - K+S AG - CEO

I would like to add before Joachim Felker answer for second question one remark. Once bitten, twice shy. We have seen so many discussions in the year before, whether there will be an autumn application or not. And also when we started the year 2010, in the springtime, we also saw our direct customers were taking the material in. But it was not a guarantee that farmers finally supplied it.

So we would like to get a little bit more security that the normal patterns have come back to the scenery. And then, of course, some of our, let's say it's [condonism] also might be changed into a little bit more, let's say, open view into the future. But this is just one-time application. After three rounds of no application or reduced application and please give us a chance to be a little bit more cautious on that as long as this only once has been taken place.

**Andreas Heine** - UniCredit Markets & Investment Banking - Analyst

Yes.

**Joachim Felker** - K+S AG - Industrial Business Manager

The second question was how will the prices develop in the second half of this year. So you know that usually in Europe we will -- we are preparing the season. That means we have low prices in the third quarter. We stand increase into the fourth quarter. And what we have done at present, we have just taken what we know and put it flat into our forecast.

**Andreas Heine** - UniCredit Markets & Investment Banking - Analyst

Yes.

**Joachim Felker** - K+S AG - Industrial Business Manager

As we said before, if there are potentials, then they will be added on top. When I see our overseas business, we estimate that the dollar is a little bit weaker. That has an influence. But we don't see that in the overseas business there is any decline in prices. So there it's a matter of product mix.

And also coming back to the fourth quarter and the final stock, the end stock. Whether we have 800,000 tons or 600,000 tons in stock depends on the last two weeks a year. So if we have three or four big shipments to Brazil, that makes already 120,000 tons, 130,000 tons. Well, there are some numbers moving, but the tendency and that's the most important thing there are -- to come back to normal patterns, stability. We have good order income. And now we will have to see what potentials we can explore into the market or in the market.

**Unidentified Company Representative**

And the weaker Q3 prices are certainly also in line. What most of you certainly have heard in the commentaries of our competitors in Canada, lately in their Q2, they also highlighted a lower Q3 price. They call it summer program in the North America. You find the same pattern also here in Europe.

**Unidentified Company Representative**

Anybody else?

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**Operator**

Okay. Our next question comes from the line of Andrew Stock from Bank of America. Please go ahead.

**Andrew Stock** - *Bank of America-Merrill Lynch - Analyst*

Yes, hi. Sorry to come back to the guidance for the Group. So on the middle of the range for EPS, you're going to do about 23% of your annual earnings, having already booked US\$1.43. I can understand prices are not going to be as helpful. [Coming] is going to be at [2% to 3%] and lower the top end of your range. What else is in your mind when you're putting out that guidance, particularly in regard to salt and tax and interest costs? Thank you.

**Norbert Steiner** - *K+S AG - CEO*

Andrew, I found it a little bit difficult to understand you. Therefore, I was just asking my colleagues. Or could you please repeat --

**Andrew Stock** - *Bank of America-Merrill Lynch - Analyst*

Yes.

**Norbert Steiner** - *K+S AG - CEO*

And take the phone. Hello?

**Andrew Stock** - *Bank of America-Merrill Lynch - Analyst*

Yes. Can you hear me well or not?

**Norbert Steiner** - *K+S AG - CEO*

Better, better, better.

**Andrew Stock** - *Bank of America-Merrill Lynch - Analyst*

Right. Sorry. The -- I'm just trying to get to the bottom of the guidance. You're going to make 23% of your earnings in the second half according to the middle of your guidance. I can understand your conservatism on pricing -- just you just explained on the prior question. Also your tonnage is obviously going to be lower as per your guidance -- your potash relative to the first half. What are the other factors across the group that would lead you to believe that you're going to see such an imbalance between first half and the second half earnings?

**Unidentified Company Representative**

Okay. Andrew, we just take over this. The reason for the guidance is we have, certainly in Q4, a normal Q4 would certainly be, EBIT-wise and contribution-wise, lower than even a normal Q1. And you know that our Q1 in the first quarter was even higher than normal. In addition to that, in potash, yes, volume-wise you are right. But also price-wise.

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Mr. Felker wanted to highlight about the second half twice -- assumptions what we have. And they are what we see right now, lower than the average of the first half. And therefore this is, I think, the main reason why the profitability of the second half will be, yes, significantly lower than in the first half. That's what we see right now.

In the 3%, at trading margin we are forecasting for nitrogen, that also shows you that we do not expect so much additional contribution in the second half and I think all adding these effects together, you arrive exactly at the margin -- in the margin and the corridor we have given to you today.

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**Norbert Steiner** - K+S AG - CEO

And maybe one small -- also to mention here is that we have one-off effects in the first half, accounting for EUR26 million, which will not repeat in the second half.

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**Andrew Stock** - Bank of America-Merrill Lynch - Analyst

Okay. Can I just follow (technical difficulty) we can see prices already lower. You're referring to MOP? Are you referring to the realized price for your division or what is it you are referring to?

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**Unidentified Company Representative**

I'm very thankful for the question, Andrew. We are certainly referring to the average realized price of the whole portfolio. We clearly say that we estimate and assume the MOP price, the global MOP price over the second half stable. And based on that assumption, our average realized price will be lower in the second half compared to the first half.

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**Andrew Stock** - Bank of America-Merrill Lynch - Analyst

So you're selling less SOP and less granular? Is that the message?

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**Unidentified Company Representative**

We are selling more lower price products like, for example, non-potash based products. We are selling less SOP, exactly. Because in Q2 we had a good SOP fraction. We have the startling price system, which is lowering the realized price. And we have a lower US dollar rate than in Q2, for example.

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**Andrew Stock** - Bank of America-Merrill Lynch - Analyst

Great. Thanks for your help. Very helpful.

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**Unidentified Company Representative**

You're welcome.

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**Operator**

Thank you. Your next question today comes from the line of Michael Schaefer from Equinet. Please go ahead.

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**Michael Schaefer** - *Equinet - Analyst*

Yes. Thanks for taking my question. There are just two left. On the P&M segment, is there anything on the cost base which is changing in the second half compared to the first half, leaving aside the effects from lower volumes and maybe inventory effects in the fourth quarter? This would be my first question.

And the second one is in regard to your major shareholder EuroChem, which we have seen lowering its stake below the 15% threshold. Have you been in talks with him in the meantime? So what can you share, maybe your interpretation of his moves. And we have also seen some rumors that EuroChem may be interested in participating one way or the other in the Russian consolidation move. So just any thought on this would be helpful. Thank you.

**Norbert Steiner** - *K+S AG - CEO*

The last question, starting with that. EuroChem indeed has reduced its stake. And they needed to publish that quite a couple of days after the annual general meeting. I think this must be internal reasons why they did it. So far we have not been given any hint that their attitudes towards K+S has changed. And therefore, we also are not speculating furthermore. With respect to your second part of the second question -- speculations in Russia -- this is something which definitely does not touch us immediately and directly and therefore I do not want to speculate on that.

**Unidentified Company Representative**

And Mr. Schaefer, I'm just -- try to answer your question with regard to cost in potash. We don't see a material change in the second half in the absolute amount of the cost compared to the second quarter. We see a negative tendency -- slight negative tendency in expectation costs. Negative means more transportation costs going forward. But more or less, as I said, the absolute cost levels should be more or less the same in the second half compared to Q2.

**Michael Schaefer** - *Equinet - Analyst*

Okay. Thank you.

**Unidentified Company Representative**

Okay.

**Operator**

Thank you. We have a question coming through from Rim Bennani from Exane Capital. Please go ahead.

**Rim Bennani** - *Exane BNP Paribas - Analyst*

Good afternoon. Rim Bennani from Exane BNP. I just wanted to get a little bit more details on the [stasling] system. Is, for instance, the EUR305 MOP price that you currently -- you currently have EUR305 per ton MOP price in Europe. As the stasling system is put in place to Q3, how -- I just wanted to know how that would work if you were given a discount to the MOP with the lower discount through the season and what would be the usual discount if that's why you're working with the stasling. Thank you.



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**Unidentified Company Representative**

Working with the stasling is that we are now to price which is very [efficient]. In September, beginning of September, and then we get a small incentive to the distributors, which is called the [struffle], which is actually covering more or less their storage costs at their warehouses and part of the financing. So what we talk of this year, they -- for two months, three months it will be the synergy of EUR5 or EUR6, not more.

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**Rim Bennani** - *Exane BNP Paribas - Analyst*

Okay. So the stasling really starts at the end of Q3, not the beginning of Q3?

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**Unidentified Company Representative**

No, before Q3. Before Q3.

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**Rim Bennani** - *Exane BNP Paribas - Analyst*

Before. Because you were talking of September.

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**Unidentified Company Representative**

It is building -- the reason for this building up to stock for autumn application and you have to do it because, in many warehouses, you are competing with the drain storage.

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**Rim Bennani** - *Exane BNP Paribas - Analyst*

Yes.

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**Unidentified Company Representative**

So you have to give warehouse holders a compensation to do it.

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**Rim Bennani** - *Exane BNP Paribas - Analyst*

Okay. But --.

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**Unidentified Company Representative**

And on the other hand, in this period of time, we cannot store all this capacities at our own warehouses at the mines. So basically, the majority of this product is moved in June already -- or partly June, July. So stasling is something which is normal thing. It's not so much money in the end, but it helps you to move product to the distributor, which usually you cannot go at your own premises.

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**Rim Bennani** - *Exane BNP Paribas - Analyst*

Okay. And is the stuffle prices, the EUR305 you announced or there's another price with a discount to the EUR305?

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**Unidentified Company Representative**

No. That is it. There will be no other discounts.

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**Rim Bennani** - *Exane BNP Paribas - Analyst*

Sorry?

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**Unidentified Company Representative**

There is no other discounts than this.

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**Rim Bennani** - *Exane BNP Paribas - Analyst*

Okay.

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**Operator**

(Operator Instructions). We have a question coming through from Thomas Swoboda from MainFirst Bank. Please go ahead.

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**Thomas Swoboda** - *MainFirst Bank - Analyst*

Good afternoon, gentlemen. I have one question left and this is regarding the competitive behavior you are expecting in the second half of this year. There is a lot of talks about Russia right now and that many people believe that the planting season in Russia this fall will be less intense than normally.

That would also indicate that the Russian farmers will fertilize less than they were expected so far. What do you believe will happen with these volumes which potentially will not be used in Russia? Can these volumes be absorbed by other markets or would you expect that may Russian producers would try to reach higher volumes here in Western Europe? Thank you.

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**Norbert Steiner** - *K+S AG - CEO*

Mr. Swoboda, so I think when we look to the Russian situation, it's -- I think there are a lot of stories made up. Part of the harvest of spring and of barley and what have you has been collected already before the big fire started. But the yields have been relatively low because there was a long period of heat before in many -- in every regions of Russia.

The pricing thing is that also the Russian government, in two or three years, that agriculture is one of the major areas they want to invest. And they want to play a major role also in exporting food and exporting grain. Is that now they put a ban on exports, which is, of course, making the whole situation a little bit more interesting for a lot of parties.

When you look at the application of fertilizers in this area in Russia, it's one of the lowest in the world. They have low yields. And they have a low usage of potash and NPKs anyway. So the quantity concerns are on a world basis, I wouldn't say neglectable, but it's influenced but it's not something which it's really endangering the business. So this quantity will find another place, especially because the Russian potash producers of those are already working on a very high utilization of capacity. And so I see no major problems there.



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**Thomas Swoboda** - *MainFirst Bank - Analyst*

That's very clear. Thank you.

**Operator**

Thank you. We have no further questions coming through, so I'll hand you back to Norbert Steiner to conclude today's call.

**Christian Hermann** - *K+S AG - Head - IR*

Thank you very much, ladies and gentlemen, for participating once again. We look forward to discuss and seeing you again. I would like to remind you that our next telephone conversation will be on the eleventh -- on eleventh -- 15 hours. Not earlier. Thank you very much for those who are in Germany. Thank you and see you again. Bye-bye.

**Operator**

Ladies and gentlemen, thank you for joining. You may now replace your handsets.

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