

# FINAL TRANSCRIPT

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**SDF.DE - Q2 2011 K+S AG Earnings Conference Call**

**Event Date/Time: Aug. 11. 2011 / 1:00PM GMT**



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## PRESENTATION

**Operator**

Welcome to the K+S conference call for analysts regarding the publication of the quarterly financial report Q2 '11.

(Operator Instructions).

I'm now handing the call over to Christian Herrmann of K+S to begin. Thank you.

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

Thank you, as well. Welcome and good afternoon, ladies and gentlemen, to the analyst conference call for the second quarter results of the K+S Group. To our mind, another successful quarter has passed, but markets are extremely nervous and their attention currently focuses on different topics. That's understandable, but the dust will settle and it's our job now to provide you with a fundamental view on how we see our business.

We, therefore, plan to proceed during the next hour as follows. Mr. Steiner, our CEO, will comment on the results achieved as well the current and future market environment. Then Executive Board Members Mr. Steiner, Mr. Felker and Mr. Nonnenkamp will be happy to answer your questions and I'm, therefore, now pleased to hand over to our CEO, Mr. Steiner.

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

Thank you very much. Good afternoon, good morning wherever you are from my side, as well. Welcome to the K+S Q2 2011 conference call.

As usual, slide number one, we have prepared some information and I would not like to spend too much time on that, therefore next slide immediately, slide number two.

Overall, revenues were up by 11% and reached EUR 1.05 billion in the second quarter 2011. The EBITDA increased by 25% to EUR 248 million and our EBIT I an even 38% to EUR 192 million.

As planned, capital expenditure increased compared to the previous year. The increase was primarily attributable to the Potash and Magnesium business segment and was mainly due to the realization of delayed investment projects of the previous year.

Compared to the first half of 2010, free cash flow before acquisitions and divestments during the first six months of 2011 decreased by EUR 280 million and reached EUR 325 million. This decrease would only have amounted to EUR 45 million or 8% without the out-financing of pension provisions, as well as the non-operating allocation of the fixed deposits with a maturity of more than 3 months, (inaudible) IFRS.

EPS developed favorably too and stood at EUR 0.66, plus 47% compared to the second quarter one year ago.

Next slide, number three, COMPO. As you know, on the 20th of June we have announced the sale of COMPO to the investment company Triton. Therefore, and in accordance with IFRS, COMPO is reported as a discontinued operation. The income statement and the cash flow statement of previous year were restated accordingly, while the balance was not restated and includes discontinued operations.

Discontinued operations are only included on the earnings after taxes level. In Q2, adjusted earnings after taxes of continued and discontinued operations amounted to EUR 29.2 million and were burdened by the impairment loss in the amount of EUR 104 million.

The net result of COMPO of EUR 6.4 million could only compensate a small part of that, so that earnings after taxes from discontinued operations amounted to minus EUR 98 million.

In the first half year, because of positive net earnings of COMPO in Q1, earnings from discontinued operations amounted to minus EUR 87 million.

This net position of the impairment loss and the net result of COMPO, should not change significantly until the closing, so that the full-year earnings after taxes from discontinued operations can be expected at about minus EUR 90 million.

On slide four, I would like to share with you a more detailed look at the changes in the K+S Group's revenues during Q2 2011. Revenues increased by around EUR 102 million. The positive market environment favored prices in the Fertilizer business sector and led to a revenue increase of EUR 120 million.

EUR 34 million was contributed by positive volume effects in the Salt and in the Nitrogen Fertilizer business segments, offsetting a slightly lower potash sales volume.

The negative exchange rate effects in all business sectors come up to EUR 53 million due to a significantly weaker US dollar compared to one year ago.

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Slide number five -- all business segments showed a strong performance in Q2 2011, with the Potash and Magnesium Products business segment clearly standing out. Potash and Magnesium Products revenue rose by 7% to EUR 502 million, due to significantly higher average prices for Potash and Magnesium Products. I mentioned that already. As costs were even somewhat lower, EBIT I could be increased by 55%.

Nitrogen Fertilizer revenues of continued operations rose by 33% to EUR 229 million due to appropriate price and volume factors. Operating earnings in the second reached EUR 10 million after having been EUR 9 million in the same quarter last year. It proved possible to more than make up for higher input costs.

Despite a significant negative currency effect, the Salt business increased revenues by 3% as a result of volume factors. Second quarter operating earnings amounted to EUR 11 million and almost doubled when adjusting non-recurrent events of EUR 16 million and in favor of earnings of Q2 2010.

Let's now move on to the Fertilizer business sector in more detail and we start with slide number seven. The Fertilizer business sector saw strong demand in the second quarter 2011, which has been supported by the attractive level of agricultural prices that provided a significant incentive for the farmers to raise yields per hectare through an increased use of fertilizers.

For both Potash and Magnesium Products and Nitrogen Fertilizers, utilization of production capacity throughout the world has been very high. This environment favors the development of prices for potassium chloride. During the quarter, new price announcements increased to \$520 per tonne in Asia and \$550 per tonne in Brazil.

In Europe, we, K+S, implemented the price increase announced in mid-March to EUR 353 per tonne for granulated potassium chloride and announced a further price adjustment up to EUR 360 per tonne in the June, equivalent to approximately \$520 per tonne at that time.

Due to the existing supply commitments, price increases in Europe currently become effective with a delay of six to eight weeks, hence, they have.

Secondly, prices in China were concluded at the end of June with a price increase of \$70 to \$470 per tonne for granulated potassium chloride.

Last, but not least, I should not forget to mention the contracts with India achieved at the beginning of August after former contracts at \$370 per tonne expired in March. In particular, a fixed price agreement of \$530 per tonne (inaudible) from January through 2012 gives an indication for the tone and the floor for the start into the next year.

The next slide, slide number eight, is one of our classics, but as usual in August, we have extended the outlook by another year so that 2015 is now included. For 2011, we confirm our forecast of a total potash sales volume between 58 million and 60 million tonnes.

Due to the fact that contracts have been concluded later than usual, we expect sales volumes in India to be somewhat lower than previously forecasted. However, we can assume higher sales volumes for 2011, primarily in South America and Southeast Asia.

Please note that our out figures, as usual, are usually approximately 2 million tonnes higher than those given by competitors, as we include SOP and potash facilities.

At current grain prices, long-term growth rates are expected to range between 3% and 5% per annum.

Based on IFA data and announced capacity expansions, utilization rates are estimated to slightly decrease over the next couple of years, but the track record with former forecasts shows that the longer forecasts (inaudible) it comes along with a reduced

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forecast quality, especially with the future world potash supply increasingly dependent -- depending on the realization of capital-intensive greenfield projects.

I think I might point out that IFA forecasted a capacity of 80.4 million tonnes for 2013. Meanwhile, the capacity expectations for this year have been reduced by 4 million tonnes. On the basis of today's demand expectations, this already translates into an increase in utilization rate from 80% to 84%.

As always, the following table, number nine, should only be understood as providing a rough indication of how prices have developed. Factors like freight costs, exchange rates and product mix usually distort the picture.

Year-on-year growth in Europe and overseas -- sales volumes declined due to production bottlenecks for some product groups, as well as slight delays in delivery. Average prices advanced in Europe and overseas generally to the same extent, but the overall increase of the average price in euro terms was lower due to negative currency effects.

Quarter on quarter, European sales volumes declined, as usual, due to seasonal effects. Overseas sales volumes were somewhat lower because of delays in deliveries. Average prices in Europe increased to a higher extent than prices in overseas, which were seasonally curbed by product mix effects.

As can be seen from the graphs on slide number 10, seasonality has a tangible effect on revenues, sales volumes, operating earnings and total unit costs. Compared to one year ago and despite lower volumes, total unit cost in the second quarter 2011 decreased to EUR 192 from EUR 201 in Q2 2010. Main reason for this was a shift of maintenance costs in H2.

Compared to the first quarter of 2011, seasonally lower sales volumes in the second quarter resulted in an increase in total unit cost of about 3%. But in the course of the entire year 2011, total unit costs are expected to rise to an average level of slightly above EUR 200 per tonne, which results in higher total unit costs during the second half of the year, mainly driven by higher energy prices and maintenance costs.

Slide number 11 -- the breakdown for selected cost types shows that we expect energy costs to rise significantly. Depreciation and ancillary costs should increase tangibly, but personnel and freight costs are estimated to grow moderately in 2011.

As sales volumes are forecasted on a stable level, we assume total unit costs being slightly EUR 200 for the year 2011, as mentioned, as a whole, compared to EUR 197 in the year before.

So now let's move forward to the Salt business, slide number 13. In the European de-icing salt business, the above-average wintry weather in the 2010/11 season led to strong demand in the stocking up business. In the contracts for the winter season 2011/2012 concluded so far, the price level could be tangibly increased.

The pre-stocking business of de-icing salt in North America came relatively early and customers' inventories were at a normal level in the second quarter. However, there were slight price declines in the tenders so far.

The market for industrial salt was characterized by a positive demand trend in all regions. Only the water-softening market was curbed by a difficult economic environment.

While demand for food-grade salt has been in good shape in Europe and North America, the South American market stabilized.

The business with salt for chemical use has been stable in North and South America. In Europe, continued high demand enabled price increases.



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This general business environment led to the sales volumes and average prices for K+S, as shown on slide number 14. Again, this table should only be understood as providing a rough indication of how prices have developed. Factors like freight cost, exchange rate and product mix usually distort this picture.

Year on year, we saw higher de-icing salt sales volumes, with pre-season sales being excellent in Europe and good in Canada and at US East Coast.

It should be noted that revenues and, therefore, average price of de-icing salt were favored by additional claims to customers in Europe that exceeded their contractually agreed volumes in Q1. Adjusted for this effect, overall average prices fell moderately.

On this basis, we saw higher European prices but overseas, in general, were primarily lower due to negative currency, but also product mix effect, as well as a rather competitive market situation.

While volumes increased for the other product groups, prices decreased due to higher proportion of overseas sales volumes, along with negative currency effects.

Quarter on quarter, de-icing salt volumes in the second quarter were significantly lower than in Q1, following the normal seasonal patterns. Adjusted for the aforementioned additional claims, prices declined as usual during early procurement.

As you observe, an even greater seasonality in the Salt business segment than in the Potash and Magnesium Products business segment.

I would now like to take a closer look at the next slide, number 15, where the graphs demonstrate this high, but normal, business seasonality. Compared to one year ago, revenues grew because of higher pre-season sales volumes in Europe and North America and were also favored by the already mentioned additional claims to customers in Europe.

Operating earnings improved, as well, when adjusting the second quarter 2010 for positive non-recurrent effects related to pension provisions in the amount of about EUR 16 million. This was mentioned before, as well.

In general, the profitability of global salt business is highly influenced by the effect of regional mix, utilization of capacity, the local margins and last, but not least, exchange rates.

Going to the last sector, medium-term project outlook, as well as our revenues and earnings forecasts for the year 2011. Slide number 17 -- the first row shows you, with the announced sale of CAMPO to the investment company Triton, the expected closing of this transaction at the end of the third quarter.

Second, as you know, BASF announced on the 1st of March 2011, the intention to sell major parts of its fertilizer production facilities and to close the deal by the end of the first quarter of 2012. Existing contracts between BASF and our Nitrogen business are running at least until the end of 2014, but, as mentioned several times before, (inaudible) are open for all possibilities.

Third, concerning the reactivation of the mine, Rossleben, which belongs to the German state, talks have resumed in summer 2011. The outcome is open.

Fourth, we currently run a feasibility study to examine the reactivation of our mine, Siegfried-Giesen. The technical results should be available in Q4 of this year and will be evaluated and communicated afterwards.

Last, but not least, our most important project, the legacy project in Saskatchewan. We have started infrastructure work in preparation for first drillings. We are currently reviewing the existing feasibility study. The results of that review will not likely be communicated in autumn or winter, but we would like to give a first impression about the progress of the project on the next slide, slide number 18.



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With Potash One, a so-called junior minor company, we primarily bought a very attractive potash deposit and a third-party ready-made feasibility study. The project size requires a review and a customization of the feasibility study of P-One in detail, something we are currently doing.

Although we are certainly aware of how eager capital markets are to obtain more details on that project, it is not our project our policy to communicate preliminary results. I, therefore, kindly ask you to hold your brief until late autumn or winter.

Aspects like product mix, energy concept, ramp-up curve, as well as the global procurement process, require a thorough analysis. This approach is not connected with postponement in the project timeline. We still envisage first production volumes from 2015 onwards.

In 2011, we assumed to spend approximately EUR 50 million. The final (inaudible) distribution between CapEx and OpEx in accordance with IFRS is still under evaluation. Currently and for the rest of the year, the installation of the water connection by third quarter and further preparation of the site, the construction of roads, as well as drilling preparations and first drillings make up the main measures.

So, how are the prospects now for the K+S Group in 2011? Before I comment our quantitative outlook, it would be inappropriate not to put this into perspective with the recent turbulences on capital markets.

The debt crisis in Europe, the last-minute agreement about the increase of the debt limit in the United States, rating downgrades, stock markets caught by nervousness and heavy losses for [three] days. From today's view, we don't expect that these turbulences will have a significant impact on our business.

With a bit of a distance, one can state that the crop prices haven't changed considerably over the past few weeks. They continue to trade on a very attractive level and the futures for the next two years also indicate a very comfortable level, not without fundamental reasons.

The challenges of a steady growing crop demand worldwide increase year after year. Arable land is limited. Marginal revenues diminish and weather patterns are becoming increasingly more extreme. The earnings prospects for the farmers worldwide in the coming years look positive, which should lead to a continuing rise in demand for our fertilizers.

Having (inaudible), our outlook for the full year 2011, based on the continued operations, is revenues should increase significantly so that the figure of between EUR 5.0 billion and EUR 5.3 billion after EUR 4.6 billion in 2010 seems realistic.

This based on stable sales volumes of 7.0 million tonnes in the Potash and Magnesium Products business segment, and a significant rise in average prices, based on the currently achieved product price levels, as well as the positive development we see in the Nitrogen business.

In the Salt business, a total of 23 million tonnes of salt products will be sold. Assuming the famous average de-icing salt business in Q4 2011, 14 million tonnes out of this can be allotted to de-icing salt, which is largely independent to economic cycles.

Based on an average US dollar of \$1.42 per euro for 2011, we expect a strong increase of Group EBIT I between EUR 950 million and EUR 1.050 billion compared to EUR 750 million last year. A significantly better financial result and an overall adjusted Group tax rate of between 26% and 27% should also lead to a strong increase of adjusted Group earnings from continued operations of EUR 650 million to EUR 720 million or EUR 3.40 to EUR 3.75 per share.

Taking into account the earnings from discontinued operations of about minus EUR 90 million, we expect adjusted earnings per share, including that, between EUR 2.95 and EUR 3.30. This will form the basis of a dividend and the payout ratio of between 40% and 50%, according to our dividend policy.



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This final slide is inevitable and brings me to the end of my introduction and my first remarks. Thank you very much for your attention so far and now we are happy to take your questions. Thank you, again.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions). And our first question comes from the line of Ben Isaacson from Scotia Capital. Please go ahead.

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### Ben Isaacson - Scotia Capital - Analyst

Thank you very much. I have two questions on potash. India has surprised the market in the past couple of weeks, not with the price that it settled at, but really with the number of contracts and the size of those contracts. For example, we just saw Arab Potash come in about an hour ago.

And unless I've missed it, I believe K+S is now the only large potash producer that has not signed an agreement with India. So my question is, are you in discussion with India, number one, and number two, how much did you sell to them last year?

My second question is, on the SOP market, hearing a lot about polyhalite emerging as a competitive product against SOP in Europe. For example, Israel Chemicals will start pushing this, I think, towards the end of this year and into 2012. Can you just give some color or thoughts about what the impact of polyhalite could be to your SOP business?

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### Joachim Felker - K+S AG - Executive Board Member

India -- surprise, you said it's surprising that they come. I think they are very late. And when you just said that APC concluded today or just mentioned that it was happening a few hours ago, our guy is there since last -- since yesterday afternoon, early afternoon, and in the rule we are always the last one to get on the tape. So this time they announced and then we come. We are followers.

We have, in average, 200,000 tonnes of potash in India. We have had some delays because the contract has been delayed in the first half, so I guess that this year we will have the same size as usually and we will just follow.

Second one, polyhalite in the UK, the new project of ICL. I don't know how they will position this product they will have. I haven't seen any of it. I have not seen any sales products, so it's much too early. It's a project and I'm afraid I know as much as you know about the project.

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### Ben Isaacson - Scotia Capital - Analyst

Okay, thank you.

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### Operator

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

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

Yes, thanks for taking my questions. Two questions, also on the P&M plan. The first one is, have you already concluded some contracts for deliveries in 2012? And, if so, has been the recent Indian settlement some sort of a base for the price finding, would be my first question.

Second, I know it's pretty early, but looking also in 2012 on the cost side, looking at the freight rates and collapse of freight rates there, is there a fair chance that we may see 2012 freight costs declining, given also the product outlook? Thanks.

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**Joachim Felker** - *K+S AG - Executive Board Member*

Well, China, as you know, obviously, does not (inaudible) type than the big suppliers of China, so we have no yearly contracts. That means that have, so far, not concluded any sales for the first half of 2012.

And for India, as I said, there will be something, for sure, which will be supplied in Q1 of 2012, like all the others, still. So there is -- there are no other contracts which are already fixed for the year 2012. All those contracts are all restructured.

And the second question was freight. In Fertilizer, we think that freight is depending very much on -- it's a very special segment in the shipping market. It has to do with regional business, with conferences you can book. I think for 2012 you should consider that the will have a freight price increase.

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

Okay, thanks.

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**Operator**

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

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**Andreas Heine** - *UniCredit - Analyst*

Yes, good afternoon. As always, I read your forecast on current prices and you really have at least an opinion how you see prices, even of the trend in the second half and even going forward. Could you highlight a little bit what you see in the market and what you intend to do? You had three price increases in the first half. Was that all for this year or are you going for more? Thanks.

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**Joachim Felker** - *K+S AG - Executive Board Member*

I think what we will do for Europe, as you know, we have had some very difficult weather conditions and the harvest -- a lot of the quantities we have harvested (inaudible). That means that they will be blocking the storage for a little bit longer than usual. We will also wait for the price indications we see in other markets and there have been some announcements made that price increases will come there.

But you know, also, that in many cases we are only followers. We are price leaders only in Europe because we have a special product portfolio there and there I think we will have to wait for a few weeks whether we will see a possibility to (inaudible) prices.

You know that we have just had a price increase in Europe about six weeks ago. We have realized that one and for the time being we will have to wait for a few weeks to analyze again what will be our outcome.

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**Andreas Heine** - *UniCredit - Analyst*

But these higher inventories in Europe mean that the demand from the main market is not that strong any more as it has been in the first half?

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

We have no high inventories. We have just normal inventories.

**Andreas Heine** - *UniCredit - Analyst*

Not yourself, I mean --

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

Andreas, Norbert Steiner here. There was, maybe a misunderstanding. He mentioned that the inventories of the grain that will be -- that they

**Andreas Heine** - *UniCredit - Analyst*

Okay, understood.

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

After the harvest, we'll be thinking there may be a couple of days longer, since it must be dried before they can be sold. There was no announcement on higher inventories of potash in our warehouses or in the warehouses of our customers.

**Joachim Felker** - *K+S AG - Executive Board Member*

Yes, perhaps, I was -- the distributors in Europe, they use the stockhousing facilities they have, in almost all cases, for both purposes. First, storing the harvest, then they process it. If it is wet, it takes a little bit longer. We have it now in many countries, in Europe. And then, only, can we enter into warehouses with our products, with potash and also with nitrogen.

So, we will delay price discussions and price considerations for a few weeks.

**Operator**

Thank you. Our next question comes from the line of Lutz Grueten from Commerzbank. Please go ahead.

**Lutz Grueten** - *Commerzbank - Analyst*

Oh, hi. Thanks for taking my question. The question is related to the postponed timeline of the Potash One release of the feasibility study. I just want to understand what has really caused that small delay from -- I think it was -- earlier it was late summer and now it's autumn to winter. Is this also reflecting short or tight engineering capacities in Canada, which have caused that small delay? And is this also, already, hinting towards the potential the potential cost on the CapEx for that project that this might be slightly above what that what you have previously forecasted? Thank you.

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

Norbert Steiner, answering. There are, I'd say, two types of answers possible. The first is the semantic problem between Christian Herrmann and myself. Autumn, in my opinion, reaches up to the 21st of December, whilst he is of the opinion that capital markets understand autumn as August and September or something like that.

(multiple speakers)

**Lutz Grueten** - Commerzbank - Analyst

I agree with Christian.

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

Thank you, Lutz.

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

The second and, of course, the exact question is that we have adopted the policy -- already have been adopting the policy already a couple of years ago that we only come out with a piece of news that reflects 100% and not patchwork. We have seen that the ready-made feasibility study that this junior mining company had needed to be worked over more intensively with a lot of different aspects in order to satisfy our demand for our internal decision-making process on the Board of Directors level and on the Supervisory Board level at the very first -- at the very last instance.

So we are working on that very intensively. We have typically a lot of people there, internal review and (inaudible) in our office in Saskatchewan, in Saskatoon, and, of course, we have hired outside consultants in order to review the project to every detail.

Only utilizing the figures which were publicly available from Potash One from last year, this is a bunch of high investment and that must be justified and we cannot justify moving along that leaves behind costly risks and no clarity. And this is where we stand.

Therefore, in my opinion, we are just on the timeline.

**Lutz Grueten** - Commerzbank - Analyst

But is there any shortage of finding the right people, the right engineers in Canada helping you on this project? Or is this just because the workload -- the overall workload is just larger than you'd expected?

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

The workload. Lutz, the workload is higher, also, maybe a little higher than expected when we came out for the first time with that graph indicating the most likely communication points on different aspects and projects. We have hired, already, a couple of people in Canada so far, but we -- and we are continuing that, but we still have the people, the companies, the outside consultants that we need for the time being.



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**Lutz Grueten** - Commerzbank - Analyst

Okay.

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

Engineering shortage, not at all, no doubt at all. And it will, most likely -- or it could create a problem when we will have the workforce available in 2015 or so. But so far, there is no (inaudible).

**Lutz Grueten** - Commerzbank - Analyst

Okay, thank you.

**Operator**

Thank you. Our next question comes from the line of Peter Clark from Societe Generale. Please go ahead.

**Peter Clark** - Societe Generale - Analyst

Yes, good afternoon. Thank you. I was just wondering if you could put a figure on the impact of the bottlenecks and the delivery delays?

And the other thing was in terms of the pricing. You mentioned the mix effect impact in the overseas quarter-on-quarter price, which was a little bit lower than I had, I had high single digit. I'm just wondering if there's going to be some momentum of that price, just on the price increases we've seen so far, when we move into the second half, given the mix and also given the geography?

You mentioned India being late and, obviously, more at overseas, Brazil, et cetera. So I'm just wondering if there's a pent-up sort of price momentum on pricing we already know that will come through in the overseas price when we look in the second half, as well? Thank you.

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

Peter, this is Christian speaking. I'm afraid we didn't get your first question. Could you repeat your first question again?

**Peter Clark** - Societe Generale - Analyst

Yes. The first question was just the impact of the bottlenecking and the delivery delays just on the volumes in the second quarter.

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

Oh, okay.

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

The delays that are mentioned, I think you refer to my remark that we have a timeline of six to eight weeks before we can, more or less, deliver the volumes. Yes?

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**Unidentified Company Representative**

We had some logistical delays.

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**Joachim Felker** - K+S AG - Executive Board Member

May I? Okay, what we had, we had some delays in logistics because of dry weather in Europe, making rivers lower than usual and this is affecting deliveries by barges. In addition to that, we have some production issues and this is -- it's not funny, we had a lightning strike in the second quarter and this was affecting production for a few days.

So this is -- these are the main reasons and last reason was also we reserved volumes for India. They were reallocated, but this reallocation is taking on and shifting to Q3. That's the reason why normally the Q3 volume is the lowest seasonally, but this year we will have a rather flat volumes over Q2, 3 and 4 in the year 2011.

And 7 million, as Mr. Steiner just hinted to me, 7 million is still and there you can see that there is no reduction in volume, 7 million is still our guidance, as it was in the first quarter, for the full year.

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

Now going to the price momentum, we have been waiting very long for the Indian contract. Now we have it and when you see it, it's not the same for all the suppliers. It has some split pricing. Some part is in the fourth quarter. Some are starting now already with some shipments. But in the end, when you have the bottom line, then you end up with a floor price of \$530 in the first quarter of 2012 and that's, of course, good news when you see all the pattern we have for many, many years in prices that countries like Brazil, like Southeast Asia, like the North Americas, the South Americas, that they are always building up on this fixed price of India and later, also, on China.

So I think there could be a pricing momentum if the basics stay as they are today. I think there is enough liquidity in most farming communities on a worldwide basis and you see shortages of grain and I just a small flash on the USDA numbers, what they have put on in their first estimate, the 4%, they take it off now again. So I think price momentum will be there and it depends on the individual suppliers how much he sees in each area and what he thinks he should do.

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**Peter Clark** - Societe Generale - Analyst

Okay. Yes, I was just thinking, actually, in terms of the prices in place today and the mix effect going into the second half, whether we can see some pent-up momentum, just on the underlying pricing for K+S, notwithstanding whether we get future price increase. Because it was held back by the mix in Q2. I'm just wondering if we're going to see a sort of catch-up, if you will, in the second half.

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

You're certainly right. Our product mix in Q2 is more driven by Europe than in a normal year, a normal quarter, and also by Southeast Asia. So when you see the average product mix we expect for quarter three, then prices should be, on average, up against 2.

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**Peter Clark** - Societe Generale - Analyst

Okay. Thank you.

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**Operator**

Thank you. Our next question from the line of Jesko Mayer-Wegelin from HSBC. Please go ahead.

**Jesko Mayer-Wegelin - HSBC - Analyst**

Thanks and good afternoon. I have two questions. First of all, regarding the maintenance costs you mentioned. You said that the cost per unit would be slightly above EUR 200, that would be for maintenance costs and high energy costs. Could you quantify these maintenance costs for Q2 and then for the full year?

And then second question, regarding the potash pricing again, if you were to have in Europe further price increases, would this already been seen, then, in the P&L in the second half this year or you are sold out, almost, for the full year already, would this only be seen, then, beginning of next year?

**Joachim Felker - K+S AG - Executive Board Member**

Okay. If there will be price increases, then they will be seen in the P&L, because as Mr. Steiner said in his opening remarks, our forecast is based on the prices we have at present. So if we have additional prices increases, we will see them in the P&L.

But keep in mind we have time lags. Announcing, realizing and then having it in our P&L takes weeks and weeks.

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

And with regard, Jesko, with regard to the maintenance cost, I'm afraid we do not disclose maintenance costs. When you look at the chart, what we have provided you today is a breakdown of our cost items. I think this is already very clear and maintenance costs are distributed, allocated over these cost items.

So, please, transparency you have to go to a certain degree and here we have to stop, but maintenance cost is a significant item and I can tell you that our sites are now maintained and also in July, two, three weeks every site per year in summertime and this is the high season for maintenance cost.

In the first half of 2011, just to give you a rough indication, only a third of total yearly maintenance cost has been used and that's a reason why we foresee a significant rise in unit cost in the second half. That's already in our guidance when we tell you that year over price -- unit cost will be a rough EUR 200, slightly above EUR 200. So that's already in the guidance.

But you see that we started with EUR 186 and EUR 192 in the first and, therefore, we will see unit costs above EUR 200, certainly, in the second half. Because of energy costs and maintenance costs.

**Jesko Mayer-Wegelin - HSBC - Analyst**

But the maintenance costs are not higher this year than in the last year?

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

They are also a bit higher than last year.

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**Jesko Mayer-Wegelin** - HSBC - Analyst

Okay, great. Thank you.

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**Operator**

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

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**Martin Roediger** - Cheuvreux - Analyst

Yes, I have, actually, three questions. First of all, on the Siegfried-Giesen project, it's a very similar question to Lutz Grueten's question on the legacy project. I had the impression from your Capital Markets Day that you wanted to see results from the feasibility study for Siegfried-Giesen already in summer. Now we see it will be in Q4. So it looks to me that there is a delay. Is that the same reason as for the legacy project?

The second question is on industrial salt. You mentioned that in the water-softening market you saw difficult economic environment. Could you elaborate on that. I think -- I know it's a very small business for you, but maybe it also acts for us as a read across for other industries.

And the final question is just a clarification question. On your guidance for EBIT of EUR 950 to EUR 1.05 billion, this is based on the recent price increase we saw a few days ago in Sri Lanka and also (technical difficulty)?

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

I'll take all three. With respect to Sri Lanka, you are right. But I do not know how many tonnes we will be shipping to Sri Lanka, so with a smile on my face, it will be marginal, if ever.

The second question was going to the water-softening salt, connected with industrial salt. This is two different issues. Industrial salt is generally going either into the (inaudible) of chemical treatment of -- and -- as well as the second role into manifold industrial applications and transformations.

The water-softening market is the market for, let's say, pools, swimming pools, where we have seen already in the last year that the situation in the United States caused some, let's say, lower sales volumes in that sphere of business. We were of the opinion that it would be improving this year, but due to the situation that you see day to day, the water-softening market in the United States is still on a lower level than expected.

But it has nothing -- it has -- more or less, it's a consumer business. It has nothing to do with the industrial application in manifold ways of the salt.

And the first question, yes, you are right. You could have taken the impression in our Capital Markets Day in early December 2010 that we would be ready a little bit earlier, but also there, the factors that I've mentioned are applicable. We are not ready yet. We have seen in the process of reviewing or building up a feasibility cost model, feasibility study there already that there were several topics and questions that we needed to address and they are being elaborated on right now.

Therefore, some postponement. I can only flip back to the legacy that I mentioned in my initial remarks, that we assume a good couple of days or weeks longer to be ready for a decision will not use -- or will not cause any delay in the project itself. Siegfried-Giesen, more or less, was never connected with a timeline where it should be, let's say, workable, only in case of the connection with the shutdown of (inaudible), so I think, still, we can meet that timeline, as well, should our internal position and decision be positive and, of course, the allowances be received by the authorities in lower Saxony.

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**Martin Roediger** - *Cheuvreux - Analyst*

May I ask a follow-up question on potash. The question on Sri Lanka was more related if, hopefully, an indication that this could be a benchmark price, so to say, for Southeast Asia, also the (inaudible) price could be a benchmark price for Southeast Asia. How do you see that?

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

I'm taking over. This is Christian. Martin, this is certainly understood. So what we want to clearly state here, our outlook, as usual, is incorporating the price level achieved -- not announced, achieved -- at the end of July, beginning of August, and then we keep it flat over the remainder of the year.

And then we come out at EUR 950 million to EUR 1.050 billion per year. That means, even a price, let's say, middle of July, which was announced, but not at that time materialized and achieved, could influence the outcome and the earnings going forward in the second half. But we have to see when and if this announcement will be materializing.

**Martin Roediger** - *Cheuvreux - Analyst*

Does that mean that the announcement for Europe you made a few weeks ago is also not part of your guidance?

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

No, because we did this in June and, therefore, this EUR 363 is already implemented and, therefore, it's in our guidance.

**Martin Roediger** - *Cheuvreux - Analyst*

Okay, thanks. That's very helpful.

**Operator**

Thank you. We currently have no further questions coming through. (Operator Instructions).

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

Nobody else?

**Operator**

No, we have no further questions coming through, so we'll hand back the call over to Norbert Steiner for the concluding comments.

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

Okay, then I, once again, would like to thank you for participation and will certainly add one thing that I have seen on the TV this morning on the German news channel NTV that reported on the K+S figures and, as far as the report is concerned with that,

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that our figures were received quite well, that they are positively meeting expectations, more or less, so they had neither a negative nor a positive surprise. Nevertheless, our share price came under pressure.

And the lady on the TV asked (inaudible) and she said, I think and I hope that normality will come. This is what we hope, as well and we look for. Thank you very much and see you at one or the other occasion. Thank you. 'Bye-bye.

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**Operator**

Thank you. That will conclude today's conference. Thank you for your participation and have a pleasant day.

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