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PRESENTATION

Operator

Welcome to the K+ S conference call for investors and analysts regarding the publication of the half yearly financial report H1/12. 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'm now handing the call over to Norbert Steiner of K+ S to begin. Please go ahead.

Norbert Steiner - K+S AG - Chairman of the Board of Executive Directors

Thank you very much, good afternoon, ladies and gentlemen, and welcome to today's investor and analyst conference call for the second-quarter results of our K+S Group.

During the next hour we plan to proceed as follows -- I will give a short overview of Q2 and comment the current market environment in our business segments. Afterwards our new Chief Financial Officer, Dr. Burkhard Lohr, will provide you with some financial details. I will conclude the presentation with the outlook for the year 2012, then Joachim Felker and myself, [Joac Felker] of course, will be happy to answer your questions.

However, before we begin, some introductory words on our new CFO Burkhard Lohr. As announced, he joins the K+ S Group on June 1 of this year. Until October of 2011 he has been working as CFO and human resources director of the German construction company Hochtief Group where he worked for more than 20 years holding different positions and gaining experience that should be supportive for K+ S. Welcome and all the best.

Now let's start with an overview of revenues and operating earnings in the second quarter on slide number 2. The second quarter of 2012 has passed with a strong performance in the Potash and Magnesium Products business segment and, as expected, a rather weak development in the Salt business segment.



Group revenues in our continued operations increased by 21% and reached EUR997 million. This increase was attributable to significantly higher volumes and positive price and currency effects in the Potash and Magnesium Products business segment.

Operating earnings EBIT 1 were also 21% higher compared to the second quarter of last year. The strong earnings improvement in the Potash and Magnesium business segment could more than make up for lower Salt earnings.

Let's now move on to the Potash and Magnesium Products business segment in more detail. Slide number 4 provides, as always, a general view on the environment of the markets we are active on.

After the fertilizer trade sector had still ordered cautiously at the start of the year, the demand for Potash and Magnesium Products saw a significant revival during the second quarter of 2012. The relatively high price level for agricultural raw materials offered attractive income prospects for farmers and therefore an incentive to increase yields through the optimal use of fertilizers.

Following the temporary in production cuts by North American and Russian producers at the start of the year, global capacities were almost completely utilized again during the second quarter. After the conclusion of sales contracts with Chinese importers in the middle of March, international prices for MOP tended to be firmer in the second quarter of 2012 and were tangibly higher than one year ago.

As always, the following table on slide number 5 should only be understood as providing a rough indication of how prices have developed, factors like [forecasts], exchange rates and product mix usually distort that picture. Year on year total volumes increased due to higher overseas sales fueled by a strong demand in Brazil. European sales volumes were fairly stable.

Distributors have been coming out of the spring season with low stocks. While average European prices remain stable, the overseas price level increased tangibly in US dollar terms. In addition, the overall increase of the average price in euro terms was supported by positive currency effects.

Quarter on quarter volumes increased due to higher overseas sales which more than made up for seasonally lower sales volumes in Europe. While the European price level remained fairly stable the overseas average price in US dollar terms increased moderately mainly due to positive product mix effects.

As already mentioned, and as can be seen from the graphs on slide number 6, we were very pleased with the second-quarter result in the Potash and Magnesium Products business segments. Revenues reached EUR670 million in the second quarter of 2012 and [were robust], significantly above the figure of the previous year. EBIT 1 increased by 31% to EUR241 million.

As expected, [unit] costs increased tangibly to EUR219 compared to EUR192 one year ago. This was mainly due to higher material and energy costs. The energy costs have still been impacted by last year's oil price increases which have influenced our cost accounting with a time lag of six to nine months.

Now let's move on to our Salt business, slide number 8. As a result of the very mild and partly dry weather conditions at the start of the year, stocks of producers and customers in Europe are very -- are well filled. Therefore prices declined in the early pre-season business on the second quarter -- of the second quarter.

While prices in the (inaudible) -- for the winter season 2012/13 in Europe also decreased, overall volumes in the contracts concluded to date stand at a relatively good level. The deicing salt regions in the US East Coast and in Canada were characterized by relatively high stocks as well. Most producers responded to this situation with cutting back production.

In the early pre-season business of Q2 and in attendance for the winter season 2012/13 there were declines in prices and volumes in the deicing salt regions in the United States, particularly in the Midwest. The other product groups showed an overall satisfying development during the second quarter, although competition temporarily increased in some markets.



This general business environment led to the sales volumes at average prices for the K+ S Salt business shown on slide number 9. Again this table should only be understood as providing a rough indication of how prices have developed, factors like freight costs, exchange rates, regional and product mix usually distort this picture.

Year on year deicing salt volumes were 140,000 tons lower due to the already mentioned weaker early pre-season business in all deicing salt regions of K+ S. As a consequence the average price level declined and in non-deicing salt product groups volumes slightly decreased. But an important product mix improved -- sorry, product mix a positive exchange rate effect and some price increases led to a higher average price.

Quarter on quarter, following the normal quarterly seasonal patterns, deicing salt volumes were significantly lower. Deicing salt sales prices declined as usual during early procurements. Volumes of the other product groups mainly increased over these markets, but prices decreased slightly due to the regional product mix effects.

As you observed the greater seasonality in the Salt business segment than in the Potash and Magnesium Products business segments, I would now like to take a closer look at the next slide, slide number 10. Compared to one year ago revenues increased slightly to EUR288 million. Positive currency effects could more than make up a lower sales volume. Operating earnings declined strongly from a positive EUR11 million in the second quarter of the previous year to a negative EUR11 million this year.

On the cost side savings could be achieved in maintenance and personnel costs and also freight costs were lower. But the decrease in sales volumes in total led to a lower fixed cost coverage. As outlined before, I would now like to hand over to Burkhard Lohr who will provide you with some financial details.

Burkhard Lohr - K+S AG - CFO

Thank you very much, Norbert. Ladies and gentlemen, first I would like to point out that I am very happy to be a member of the K+ S team now and that I am looking forward to cooperating with you, our investors and analysts. But now let's look at the figures of the second quarter in more detail.

On slide number 12 we provided you with a closer look at the changes in the K+ S Group revenues during the second quarter. Overall revenues increased by around EUR175 million, of this increase EUR87 million were contributed by positive volume and structure effects, particularly the Potash and Magnesium business segment, due to the strong overseas business.

In the Salt business segment the usually mild and dry winter led to a cautious early stocking up so that volumes decreased moderately. Prices mainly increased in the Potash and Magnesium business segment, in total EUR41 million of the revenue increase were related to positive pricing. Positive exchange rate effects in all business sectors amounted to a further EUR45 million.

On slide number 13 I would like to focus on the weaker financial result which was negatively affected by a one-off. This means that the increase in operating earnings, EBIT 1, was not fully reflected in the earnings before and after taxes.

The weaker financial result was principally due to a non-cash extraordinary interest expense of almost EUR8 million, mainly for provisions for mining obligations. The reason for this was a necessary reduction of the discount factor of provisions in line with the long-term interest rate level which significantly decreased in recent months.

I also would like to highlight the effect of earnings after taxes from discontinued operations, which are only included on an after-tax level. In the second quarter of 2012 almost EUR10 million came from the discontinued operation of K+ S Nitrogen. The second-quarter 2011 was affected by more than EUR90 million [of course] related to the divestment of the COMPO business.

Now let's take a look at cash flow development in the first half of the year on slide number 14. The cash flow from operating activities amounted to EUR392 million after EUR611 million in the first six months of 2011. While the biggest part of the decline was attributable to the first quarter, the



cash flow of operating activities in the second quarter nicely stabilized. After all, the decrease was due to a higher [tied up] of funds in working capital.

In the Potash and Magnesium business segment trade receivables increased due to price effects. In the Salt business segment stock levels remained high after the unusually mild winter. In addition, trade payables were reduced slightly. The cash flow for investing activities amounted to EUR129 million after EUR321 million in the first half of 2011. Last year's figure has been influenced by the acquisition of Potash One in the amount of almost EUR243 million. This year's CapEx was EUR43 million higher.

Cash flow from financing activities was positive with EUR247 million after having been negative with EUR257 million in the first half of 2011. Here the successful placement of the 3% coupon bond with a maturity in 2022 delivered cash of almost EUR500 million. A higher dividend payment in May 2012 had a slightly opposite effect.

All in all [bond] placement was the main reason for the change in cash and cash equivalents of place plus EUR515 million in the first half of 2012 after plus EUR24 million in the same period of last year. Our net indebtedness amounted to about EUR740 million at the end of June.

This comprises provisions for pensions and mining obligations. And without these we even have a positive net cash position amounting to just under EUR50 million. Therefore we have an extraordinary solid balance sheet. This fact and the undrawn credit lines offer also in time of uncertainty sufficient financial scope for future investment plans, in particular for our legacy project.

On slide number 15 I would like to give you some details about changes in our energy purchase agreement for our German Potash and Salt [science], which we conducted during the second quarter. As you probably know, the energy costs of K+ S Group are particularly impacted by the purchase of natural gas. Until now the energy supplier clauses were predominately tied to the oil price and a change in the oil price had normally been reflected with a delay of six to nine months in our cost accounting.

We have restructured these agreements during the second quarter in order to significantly reduce the dependency on the oil price going forward. Therefore the purchase of natural gas will be split in relatively equal relation between long-term agreements for which fixed natural gas prices were agreed, agreements tied to the oil price which are reflected in our cost accounting with a delay of now only three to four months, and purchases on the spot market for natural gas.

The purchase of energy will thus be more strongly diversified in the future and we can seize opportunities arising on the energy market. Furthermore, the portion of agreements with fixed natural gas prices is providing better predictability.

For 2012 these changes will not have a remarkable impact anymore, but in 2013, all else equal, the positive effects from the restructuring of the purchase agreements should be visible in our energy bill. But please keep in mind that this would partly be mitigated if the currently strong US dollar persists. Ladies and gentlemen, that is all from my side. Norbert will now describe the prospects for the year 2012 as a whole.

Norbert Steiner - K+S AG - Chairman of the Board of Executive Directors

Thank you very much. We are now on slide number 17 and therefore first on the Potash market. As outlined before, the regions relevant for K+ S continued to develop positively during the second quarter against a background of significantly increased prices for agricultural raw materials. This positive demand development should continue over the coming months.

For 2012 as a whole we expect global potash sales volumes of about 56 million tons. Please note that this forecast, in contrast to our peers, includes potassium sulfate and other Potash specialties of around 3 million tons.

Salt due to the unusually mild weather conditions at the beginning of the year the demand for deicing salt in Europe as well as in North America will be reduced accordingly in 2012 in comparison to the above average year 2011.

In the footprint salt area we expect demand to remain largely stable in the sales markets relevant for K+ S and in the industrial salt area we expect this to decline somewhat, especially in North America. The demand for Salt for chemical use in Europe should fall moderately due to the economic cooling. In North America it is likely to increase slightly, and in South America it should remain stable.

This brings me now to our revenues and earnings expectations on slide number 18. Ladies and gentlemen, as usual at this time of the year we provide you with a quantitative outlook for the full year based on continued operations. [These results] in 2012 should again be a good year for the K+ S Group. Revenue should be between EUR3.9 billion and EUR4.2 billion after EUR4.0 billion in 2011.

Based on an average US dollar exchange rate of \$1.26 per euro for 2012 we expect the group EBIT between EUR820 million and EUR900 million compared to a good EUR900 million last year. This is based on sales volumes close to last year's 6.9 million tons in the Potash and Magnesium Products business segment and a moderate rise in average prices.

As always, we apply our customary purely technical forecast policy which maintains the currently achieved Potash price level unchanged for the rest of 2012.

Taking this into account, revenues in the Potash and Magnesium Products business segment should increase moderately due to higher energy costs, a negative currency result as well as costs for the legacy project, we expect unit costs to rise tangibly. All in all we've meanwhile even assumed a slight growth in operating earnings in the Potash and Magnesium division.

In the Salt business, due to the significant decline in sales volumes from almost 23 million tons to between 18 million and 19 million tons, we expect a tangible decline in revenues and a strong decline in earnings compared to the above average year 2011. As always the sales volume forecast is based on an average deicing salt business in the fourth quarter.

A tangibly weaker financial result and an overall adjusted group tax rate of between 27% and 28% should lead to adjusted group earnings from continued operations of EUR540 million to EUR600 million or EUR2.85 to EUR3.15 per share. Taking into account the earnings from discontinued operations we expect adjusted earnings per share between EUR3.30 and EUR3.60 after EUR3.04 in 2011.

Since the expected book profit from the divestment of K+S Nitrogen in the third quarter of this year 2012, and the [succession] of the effect on the divestment of the COMPO business would have a positive impact.

Like last year, the adjusted earnings after taxes including discontinued operations was formed the basis for the dividend payment or the payout ratio of between 40% and 50% according to our dividend policy. Therefore we see opportunities for a higher dividend payment in 2012 after EUR1.30 in 2011.

This final slide, number 19, is something you are used to and brings me to the end of our presentation. Ladies and gentlemen, thank you for the interest. Joachim Felker, Burkhard Lohr and myself and maybe also Julia Bock are now happy to take your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Martin Roediger, Cheuvreux.

Martin Roediger - Cheuvreux - Analyst

First of all, congratulations on your good results. Three questions for Mr. Felker on the potash business. Firstly, the outlook for your volumes -- you say volumes will be close to 6.9 million tons this year, similar to last year. Is it fair to assume that the shipments to Brazil will be down in the second

half year over year as well as sequentially? And is this related with your specific Brazilian customers, [they have now booked] all the volumes they need and thus do not need much more?

The second question also on the more (inaudible) based is a global Potash fertilizer market. It looks that the Potash price is not really high compared to the elevated crop prices. Why is there not price discipline on the supply side? And what must happen that there is price discipline to come?

And the third question is on coming back to Brazil again, can you talk about the pricing situation in Brazil right now, because there are some rumors that prices are currently under pressure? Thank you.

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

Brazil, our situation is that we have had at the end of last year a good stock position, so we could very early start our Brazil business. With our standard line portfolio we have not made any changes in the client portfolio and we have good shipments in Q1 and Q2.

What is also true that usually in the fourth quarter the Brazilian market is growing a little bit less than in the first three quarters because strong applications should be in September/October. But seeing tensions from drought coming in the US and some other areas, then I could imagine that even this year in the [first] quarter Brazil would draw higher commodities.

Second question, discipline of Potash prices I have never heard of. I always thought that we are fighting for clients, products and market share, so I don't understand what you mean.

The third one is prices in Brazil. You know, there have been always different pricing models I would say. There has then one party in the market who has been announcing prices and pricing freezes and relatively [faster speed]. And then there have been other parties who have said, well, let's talk about the prices which we really have baked in our books.

And I think the first party I mentioned in the meantime is letting a little bit of the (inaudible) out of their pricing systems, so now be able to come more realistic again. That is all I can say to your three questions.

Martin Roediger - Cheuvreux - Analyst

My second question was related with the price discipline that we need a higher potash price to justify long-term investments in terms of CapEx spending for the Potash market, that was the background of that.

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

We say so.

Norbert Steiner - K+S AG - Chairman of the Board of Executive Directors

Martin Roediger, Norbert Steiner here. We always generally make clear that prices like we have seen in the past of significantly below the price levels in which we are right now were unable to support decisions for new Potash mines. We have never said that the specific price of EUR470, EUR520, EUR580 or something like that will be necessary.

And therefore we would not deviate from our view that the price level in which we are so far seems to be attractive. Of course, from our perspective it could be higher, but this is what you already mentioned -- we are fighting for price.



Martin Roediger - *Cheuvreux - Analyst*

Thank you.

Operator

Norbert Barth, Baader Bank.

Norbert Barth - *Baader Bank - Analyst*

Two questions from my side perhaps also relating to Martin's question before. Can you a little bit more in general elaborate how the drought in US has the impact on the South American market? And especially also going forward into next year's market in North America and in Europe in general what do we expect will be the implication?

And secondly, regarding what you mentioned, the restructuring of your natural gas supplier contract, can you give us a feeling on current costs what you expect in 2013 to save on that new agreement? And honestly perhaps I'm asking myself what you have to give that someone would make better contract for you and not for him. So is there a kind of other compensation you have to give there?

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

Okay so I'll take the dry one -- the drought one. So let's start by this -- when you look over happenings like drought in bigger areas then the basic reaction is that after drought application of fertilizer has increased. When you look specifically at the US situation, then you should remember a number of factors.

The first fact is that most farmers are coming out of 2011 with a relatively strong balance sheet and also quite a number of these farmers have insurances covered against weather happenings.

So I think that the other thing you have to look at is that not all crops are in (technical difficulty). When you are a cotton farmer you are doing fine, when you are in sugar you are doing fine. So there is only one specific segment of the market who is having trouble that is basically grain and (inaudible).

The other thing what you can also observe that already relatively early this year, in some areas compensations have been made. For example, in Western Canada already in spring they increased the acreage of growing crops by approximately 8 million square acres and although in Brazil I think there will be compensation.

So, on a worldwide basis I think that in some areas we have the drought, but the reaction will be that in other areas they try to compensate. With the high prices for these products I think there is a lot of, how should I say, I lot of incentive to go for yields everywhere you can do that.

Finally, I think that again it's true to some farmers that when stress there on plants is happening and certain crops is happening, then only a good fertilization scheme and good soil management can at least partly -- partly avoid losses we have had -- we are observing at present. So (technical difficulty).

Burkhard Lohr - *K+S AG - CFO*

Mr. Barth, you have asked for the new arrangements concerning our energy costs. First I would like to point out that we have two achievements with the new arrangements. First, we reduced the dependency on the oil price going forward; and second, we will see a reduction of the energy costs at least starting from next year.



Please understand that I can't give you a precise number. I think that we have been very transparent with chart number 15 already that gives you a flavor for the trend we are looking for with our energy costs. But we will definitely see a reduction, it depends on the US dollar of course, how big this reduction will be, but please understand that I cannot give you at this point a number.

Norbert Barth - *Baader Bank - Analyst*

And is there other kind of compensation you have to give for this new negotiation of contract?

Burkhard Lohr - *K+S AG - CFO*

No.

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

The old -- the [existing] contracts were terminated for the end of September, if I am not mistaken, and therefore a good bunch of gas deliveries to K+ S were on the table and there was a quite nice competition between a couple of providers that wanted to get into the business with us. And therefore as there is competition no compensation for nothing needs to be given.

Norbert Barth - *Baader Bank - Analyst*

Okay, thanks.

Operator

Sophie Jourdier, Liberum Capital.

Sophie Jourdier - *Liberum Capital - Analyst*

A couple of questions. The first one actually just following on these new gas agreements. I'm just concerned, so these come into effect from the fourth quarter this year, they are not going to be sort of phased in over a period of time?

And sort of again following on, I mean just overall in terms of your cost outlook for the Potash division, I wonder whether sort of directionally you can give us a bit of help looking into next year? Because obviously this is a reduction in cost, but then you talk about in the statement of costs rising due to the legacy project.

So I just wonder whether on a more general term with respect to your cost per ton, which was EUR219 a ton in the second quarter, where you think that will go. And then finally, just on the legacy project, could you please give us a bit of an update as to what is going on there? The CapEx seems to be running behind schedule at least for this year, so just wondered whether we should read anything into that. Thanks.

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

Sophie, Norbert Steiner here. I would like to answer the question. From the time being we are absolutely not able to give you any idea about the development of the price of the cost per ton since we have not yet seen any planning figures for the next year and this will be a new speculation from our side if you would now say it is EUR219 or EUR209 or EUR200 something.



So please understand, this could only be general expressions on what we potentially might be able to say from the new kind of the gas contracts. But this is not the only topic, we have also cost of personnel and so on and so forth. And therefore it will be not possible to give you any more precise outlook then we will have in 2012 a tangible increase. So what will be coming out at the end of the year I cannot tell you.

Of course there is something included from the legacy project, the cost that we spent there. But this is for the time being not marginal but very low compared to that what we will envisage for the future once we have a lot more people on board, once we are doing more business there in order to prepare our site for the erection of the plant and so on and so forth.

And the view to the legacy CapEx -- I do not know where you have gotten the information about the certain portion of investment in the fourth (multiple speakers).

Sophie Jourdier - *Liberum Capital - Analyst*

I'm just talking about the overall CapEx. I mean it is the [EUR130] for the (multiple speakers).

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

But, but, but, you should not take the impression that there is something going wrong with legacy. We have said that we have a certain portion for the rest of the year, I think it was about EUR160 million, EUR165 million and there has only been six months and we have started more or less only to give investment figures or to spend money for investment after the end of the Canadian winter.

So the second half of the year must be higher and we will see how we will end up at the end of the year. We generally look into the legacy project in the way that we say we have certain plans. We have also had certain ideas about the continuation of our operations and our investments. But when we see that offers come in later or we need to prepare something more in detail then we take the time in order to be on the safer side. So please don't be let's say upset due to legacy investments in the year 2012.

Sophie Jourdier - *Liberum Capital - Analyst*

Okay. And just, I mean just on the CapEx, I mean EUR600 million for the full year is still a reasonable assumption?

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

Yes I would say it is still reasonable. But this is always the case that the second half always sees the higher path of the investment. On the other hand we will see what will be coming out -- it is a lot of course.

Sophie Jourdier - *Liberum Capital - Analyst*

Okay, thank you very much.

Operator

Tony Jones, Redburn.



Tony Jones - Redburn Partners - Analyst

I have got three. Firstly on inventory, could you remind us of what your MOP inventory was going into the Q2 period? And then what is it now currently? And then finally, going back to the question on the forecast for the year, the 56 million tons, can we assume that you have already incorporated into that forecast some modest risk associated with the US acres or are you just dismissing any risk to demand in there at all? Thanks.

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

Well, Tony, when you look at our stocks and I would try to make a forecast at the end of this month because now we have all the sites being off for maintenance, holidays and so on, I would suggest that when you compare our stocks to the average of the year 2007, not 2008, 2009, 2010 and 2011, we will be 1% to 2% higher than in these years in average.

So our inventory is normal because we have had good sales so far and also July looks very -- has been very good. So from this point of view there is no disturbance, production is -- has been running quite well for the first seven months. So I think also when you look at our outlook, 6.9 million tons to sell seems very, very realistic.

It looks a little bit different with the gentlemen in the US, they have higher stocks but this is basically I think also because we have problems with concluding a new contract in India. Now when I look at the forecast drought and the consumption at a worldwide level I think that the drought in the US will be to the majority being compensated to other countries who think that it is good to go for high yields.

And I also think that the drought itself will not influence so much the sales in the US. We have taken out 1 million tons in our outlook. But that was very difficult for us. I have the tendency even not to do it.

Tony Jones - Redburn Partners - Analyst

Thanks very much for that. Can I just ask one quick follow-up. Just on that target for this year then, the 6.9 million tons, is it right to think that you won't go over that amount, so you won't be opportunistic and try and sell your inventory even if it is only a few percent higher than normal?

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

Tony, we are limited by our production. You know that we have this (inaudible) issue and we can produce roughly 6.9 million, 7 million tons if everything works very well and we will sell it. That is all I can say.

Norbert Steiner - K+S AG - Chairman of the Board of Executive Directors

But about means about.

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

About means about. We can -- the 1 million tons I just mentioned before was of course the world market; it had nothing to do with us -- it's not our performance, it is the world market. So I think we have enough countries where we are underrepresented, where our clients are growing we cannot even supply them. So we are doing fine when it comes to quantities.

Tony Jones - Redburn Partners - Analyst

Okay, thank you very much.

Operator

Lutz Grueten, Commerzbank.

Lutz Grueten - Commerzbank - Analyst

Two very basic questions. The first one is regarding the free cash flow. And here I am referring to page 31 of the German edition of the quarterly report and the EUR74.5 million and negative free cash flow from continuing operations. If I would follow your full-year guidance what is your best guess for that number on a full year base?

Is there any chance to keep that positive or this might be a negative one on a full year base? This is my first question. And my second question on housekeeping and you are guiding for tangibly weaker financial result. So the EUR27 million interest expenses in the second quarter, if I would adjust that for the one-off of EUR8 million, is that EUR20 million then a good run rate for Q3 and Q4? Thank you.

Julia Bock - K+S AG - Senior IR Manager

Okay, this is Julia. First of all, regarding the free cash flow, this is basically due to investments in securities we had in the first quarter already and also in the second quarter.

And if you look at the management report, we always adjust for these investments because they are basically cash. But under IFRS you have to show them as an investments in securities. And if you adjust it the free cash flow is positive in the second quarter with actually EUR75 million around that.

And the second question was regarding the financial results. Actually last year we had EUR64 million and we -- before we had this provision issue we said that this will be stable and consensus has EUR63 million. And this EUR7.6 million that we gave you is a one-off and is only in the second quarter.

So you basically just add this number to what you already estimated. Another thing, but this is only a small effect, is the bond that we gave in the second quarter -- this is also to be added, but if you add around EUR8 million you are fine for the consensus.

Lutz Grueten - Commerzbank - Analyst

Very helpful, thank you.

Operator

Thomas Swoboda, Main First.

Thomas Swoboda - MainFirst Bank - Analyst

I have two questions. First one on Potash One and regarding the comments Potash Corp. made on the New Brunswick mine where they had the cost overrun of \$500 million. It is a general question. Do you see any pressure from cost inflation in Canada to your previous calculations? And if I may risk this question, how do you see the CapEx evolving for 2013, would the EUR1 billion for 2013 a number you would feel right with?



The second one is on the drought situation in the US again and I am very much interested in the short term impact on the application rates in the US. And I think this is to Mr. Felker, do you think that the US farmers will have to wait until the first rains come to apply fertilizers or do you think they can apply following the usual seasonal pattern?

What I am trying to find out is whether we should be looking on a global basis for a weaker Q3 as the US will be waiting with the applications and some better volumes in Q4. Thank you.

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

Norbert Steiner again on [legacy]. I generally would make the following remarks -- we have a topic on our table and are working on that project in a way that we treat it as -- not as a staple process, but as a very flexible thing. That means that we try to make -- to find the best solutions for us on the way to materialize it and to build it.

I think I mentioned as a remark and as an answer to Sophie Jourdier's question that we also have a certain picture of that what we would like to have. Then we ask providers whether they can deliver in that way like we wanted to have and we get a response and then we make our mind up whether this works or not.

I will be keeping that very abstract but it is a process that is more or less flexible one and it changes from more or less month to month in a way that we try to optimize that what we have. And also the investment figure that we released last November was an investment figure that had several assumptions. That means a certain figure and a certain volume of investments, but also assumptions with you to let's say living solutions and so on and so forth.

We take the liberty to change between debt, for example, and go into investments and leave out others where we had previously thought we could invest or we should invest. That means that we will have only after a couple of months more or as the time passes by a better view about that what is going to happen. And we always keep in mind let's say the efficiency and the profitability and try to improve that.

So with that long part having said before, we have of course seen the announcement very, very let's say rough and abstract announcement of Potash Corporation is due to New Brunswick on the way of accomplishing that project after they have initiated that three years ago. So they have already a lot of this experiences and things that we still need to do and that we also need to decide.

So we look into that very carefully and see that, for example, as for the time being, Western Canada is a hot spot, but we also see let's say some hints that it could cool down, which then will be positive for us. So for the time being we have no reason to deviate from the [3.25] for the two first phases of that, but we look into that and will certainly comment on publicly in the moment when we see any let's say major changes on that. But this is for the time being certainly not the case.

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

I can come back on the chart, the situation in the US. So first of all, the drought happened rather late in the vegetation period, that means that nutrients have been extracted a very high degree of. Now when you're a farmer, you're standing in front of your dry field corn, whatever you have, you have to make a number of decisions.

First of all, you have to check whether you are insured. And second one, you have to make a decision do I want to participate in next season because the prices are very high and I am afraid that the influence has been so strong on a worldwide level that it is not only supporting the high (inaudible) and wheat prices for one season but even for a longer period of time. So it is a driver for high prices for ag commodities.

So what else the farmer has to do, he has to make a decision cannot participate in the business. Do I have to fertilize, do I want to go for high yields. That is an individual decision everybody has to take by himself. And he cannot do one thing as [wait] because the vegetation period for the next period he doesn't know what happens, he only can work on experience.

So postponing this decision would be possible to a certain period of time, but then you have to decide and then you have to go for fertilization on that. Does that help you a little bit?

Thomas Swoboda - *MainFirst Bank - Analyst*

Yes. So I would understand that postponing the application into Q4 is not -- should not be really seen as the broad trends, right?

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

It doesn't help you. If you want to go for the next -- for the next harvest you cannot make decisions at a later period of time, you have the vegetation period and you have to make your decision to start fertilizing at a certain period of time because the new crop you are planting then has to take off the nutrients.

The decision you can take is do I change the crop? Do I not fertilize at all? But those are basic decisions. The other thing I believe is that the impact of this US drought has been again showing that what we tell you since many, many years is that the (technical difficulty) ratios are extremely critical.

So it is contributing again to higher prices for ag products not only for one season, I'm afraid for two or three seasons. And to bring stock to use ratios in good order again that are on the good side we have to go for years worldwide on a very high level, not only this year but also the next one or two years.

Thomas Swoboda - *MainFirst Bank - Analyst*

This is very helpful. Thank you.

Operator

Andrew Stott, Bank of America-Merrill Lynch.

Andrew Stott - *BofA Merrill Lynch - Analyst*

A couple of questions both on costs. You mentioned in the press release escalating costs from legacy for this year. I just wondered are we talking just personnel here? And if so, does the 3% cost increase we saw in the first half go higher for the full year?

And then I'm going to come back, I'm afraid, to the energy costs. It's just more to understand why you have gone to this a third, a third, a third structure. Is there almost a physical barrier to you going further towards the spot markets in gas due to the configuration of the mines? Or is it just that you want to remain balanced? I am wondering if you can move further toward spot over time. Thank you.

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

Norbert Steiner talking about the last one. First of all, the utmost issue -- an utmost important issue that we have is that we keep our mines more or less busy, more or less 365 days a year. That means that we need predictability so that's what we have. And therefore we can never more or less switch to a situation that we entirely base our gas purchases on the spot market, because then you will never be sure that you get the base load for that what you want to have.

Predictability also for the planning situation [is small] is almost impossible. And the third issue for that for the let's say it's split into three pieces is that you might be on the right side or you might be on the wrong side. Should you try to purchase on the spot market with an idea that you envisage



or expect lower cost then you wait and it can turn around immediately to the other direction and then you are lost. And what is going to happen then?

So it is also a little bit of a balance or a build and hatch that we have when you base that business on let's say that triangle that we have now enacted and nothing to chances that we have with that flexible -- more flexible system are higher to save money compared to the very, let's say solid and stable and that also not very much (inaudible) situation in the time before.

So we are now happy with that. Of course we could have decided completely differently with 50% hedge and so on, but this is nothing what we and our long-term perspective and the securitization of the business of our mines wanted to risk.

The view to legacy, we have of course built up personnel for various operations that we have there to prepare the mine site for our let's say construction work and to build the first cavern as a testing cavern in order to analyze inside whether the expected Potash is there or not.

We instruct -- we improved the road to the site and so on and therefore I think these are normal preparatory works that we see so far. I think you see already from my remarks this is mainly personnel costs that we have there and it will certainly increase significantly above that what we have last year was only EUR10 million something. To triple or to quadruple that would not be out of range.

Andrew Stott - *BofA Merrill Lynch - Analyst*

Okay, thank you.

Operator

Jesko Mayer-Wegelin, HSBC.

Jesko Mayer-Wegelin - *HSBC - Analyst*

I have three questions actually. First of all, regarding the European Potash demands. I've read that the demand for the import of MOP into France has been very weak in the first half of the year. Maybe you could give us some feeling about the dynamics both in Europe and France were weakened. Is Germany then much stronger? Do we see the good pre orders in Germany then mainly?

The second question is actually on the Salt division, you said that competition in Europe somewhat increased (inaudible) in your outlook that in North America the industrial (inaudible) business should be down year on year and you could give us here some more details on the dynamics in the markets and also what your stock level is in the (multiple speakers) division.

And then finally on the pensions, you had another reduction in the discount rate for the mining applications. Do you also expect this to happen for the pension obligations, the pension provisions?

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

Yes, I have had talks with the US and your remark about the, how should I say, Potash for industrial applications. I think you can imagine that when you see the outlook (technical difficulty) bigger chemical companies that especially in this yields around chlorine and PVC and other plastics demand is a little bit depressed. So whatever we supply to the segment is a little bit slow.

The other question you said how about imports into Europe. What we said already in November last year, we said that we think that the scheme to store Potash might change a little bit. And we also said that this quarter would be suffering from the, how should I say, weather impact that was some very short, very [severe] winter, so there was a delay and some of the seeds have been killed actually by winter cold.



So we said that the first quarter would be a little bit slower in Europe. The April was a good month for distributors and May also was a good month for distributors. They came out with very low stocks at the end of the spring season and then we heard that in June/July the stock building for autumn application was good.

So I think the influence coming from the first quarter of this calendar year that at the end of the calendar year, when you are not comparing fertilizer year but calendar year, then the application in Europe could be a little bit less than in the calendar year before.

Jesko Mayer-Wegelin - HSBC - Analyst

And then France, is there anything particularly going on in France (inaudible)?

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

Nothing (inaudible) in some -- no, I think it's the same like Germany, there should be nothing special. The competition is quite stiff in France and I would say we are price leaders there and we lose some smaller parcels against other European producers but otherwise normal.

Norbert Steiner - K+S AG - Chairman of the Board of Executive Directors

On the Salt business, I think one that needs to see the year 2012 in a way that the deicing salt business also influences other peers of the business. That means that material that initially was intended to be sold in the deicing salt market that has not been able to be sold there fluctuates into other areas of (technical difficulty) within other areas -- sorry, for the moment we got a call which should not arrive here -- and therefore the markets are more or less also under stress in the areas which we -- outside, outside of the deicing salt business.

The volumes certainly is something that is going to be attributed to the Salt business. If I look into the situation right now, of course after this very mild winter we are having significantly higher inventories in the deicing salt area both in Europe and in North America and one must also see that our customers in part are doing quite the same.

However, the early stocking up so far has not worked quite that. The competition is there, but on the other hand there are also areas in which we were able to extend the duration of our contracts that we have won in the bidding season of 2011, also for the next Winter 2012/2013. And this is something that we always try to achieve in order to securitize of our volumes and also our prices there.

So the view to the situation in which we are, the year in the Salt business will not be a good one, no doubt about that. But under the very problematic circumstances the situation in which we are due to buildings in the deicing salt business in Europe and North America is not bad.

Burkhard Lohr - K+S AG - CFO

So you also asked for potential effects from the pension provisions on our P&L. We have of course also recalculated our discounted rates for the pensions and changed them from 4.8% to 4.3%. But there is no direct effect on the P&L.

If you have changes in the mining obligation provisions you put it into the P&L directly. But as long as you are moving in a certain range you wouldn't do the same for effects from -- coming from pension provisions. And to make a long story short, so we are not having and not expecting any effects in the course of this year.

Jesko Mayer-Wegelin - HSBC - Analyst

Okay, thank you very much.



Operator

[Oliver Schwarz], [Baborg] Research.

Oliver Schwarz - *Baborg Research - Analyst*

First one, again, is to the changes in energy purchase agreements. You highlighted that the changes you made may have -- may equalize an unchanged strong US dollar would have on your energy costs in 2013 providing the current energy price level.

If I reflect the FX in Q1 versus the dollar which is EUR1.31 and EUR1.28 for Q2 and assume that we will remain on EUR1.22, EUR1.23 for the rest of the year, that would have made an impact of let's say 3% to 4% year on year 2013/2012. Is that the full impact you see and the change in the sourcing contracts you see or am I something missing here?

Secondly, can you provide us -- as you have a rolling hedge, can you provide us with the FX rates US dollar versus euro you will lock in for the rest of the year as you have a six-month to nine-month rolling hedge I guess? The rest of the year should be fixed by now?

And lastly, the run rate of the operating forecast hedges, can you provide us with a figure we are to expect for the next two quarters, please. Thank you.

Julia Bock - *K+S AG - Senior IR Manager*

Okay, Oliver, this is Julia. First on the changes in the energy purchase agreement you are right that we took the current level of around EUR1.22 -- the level that we had at the time when we put out the outlook. And if you take this into 2013, this will be a big effect -- well, not a big effect, but EUR1.22 compared to EUR1.26 this year if it stays like this.

So out of this there will be an effect, but we said that the effect from this will mitigate the positive effect from the new contracts. That doesn't mean that they fully offset them. They should be from today's perspective all else equal a positive effect remaining.

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

And these -- let me make one remark. This is a very particular question to a very particular point. Of course I understand that you want to have the real figure, but if we give you the real figure on that what we expect to save on the oil and gas supply, then you could ask me please give me the other figures on that what you expect there and there and there.

A certain let's say decent field of let's say safeguarding our planning for the next time is also trying to avoid to put every single figure exactly on the table must be allowed, I hope. And this will at least be continued from our side.

Burkhard Lohr - *K+S AG - CFO*

Finally, you have asked for the FX effect in the course of this year. The worst case that could affect our P&L would be a EUR1.34 for the whole year 2012.

Oliver Schwarz - *Baborg Research - Analyst*

Okay.

Burkhard Lohr - *K+S AG - CFO*

That is due to our hedging.

Oliver Schwarz - *Baborg Research - Analyst*

So there is no lowering of the bar in the second half of the year going forward from Q2 now despite the fact that the FX rates have gone down significantly mainly within the quarter two?

Burkhard Lohr - *K+S AG - CFO*

We have seen already a reduction coming from EUR1.36 to EUR1.34.

Oliver Schwarz - *Baborg Research - Analyst*

Right. But that is a level that we will see again in Q3 and Q4?

Burkhard Lohr - *K+S AG - CFO*

That is the level that you have to take into account for the whole year, the worst-case scenario.

Oliver Schwarz - *Baborg Research - Analyst*

Okay, perfect. Got it.

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

And all these hedgings for the second half of the year are already locked in. So there will be no -- basically no hedging anymore to securitize our worst-case scenario for the rest of the year. So EUR1.34 for the entire year is absolute. It's a real precise basis for you.

Oliver Schwarz - *Baborg Research - Analyst*

Okay, thanks.

Operator

Thank you. We have no further questions coming through, so I will now hand back over to Norbert Steiner for the conclusion of the call.

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

I'm a little bit annoyed here because we are sitting in the room that was booked for a video conference for 4 o'clock, so we gave you another 10 minutes in order to answer your questions. And I don't -- I hope that you are not too much disturbed about the ringing of the telephone.

I think we need to thank you very much for the participation in our today's Q2 results telephone conference. But even more I would like to thank one of my colleagues, Joachim Felker, to participate -- to have participated in a very long period of time.



I tried to put the figures together of the questions as of today that were attributable to the Potash business and it is almost half of that what we have seen as of today. So you can see the importance of the participation of Joachim Felker also within our conference calls -- telephone conferences, road shows, participation in conferences and so on and so on.

I am a little bit of afraid of the future because this will be his last participation here and somebody must show up to replace him in the next couple of months at least. So we will do our best, but what we shall do here as we have not only the three members of the Board of Directors here and Julia Bock, but also a couple of other persons.

We will knock on our table and order to give a certain applause to the work and contribution of Joachim Felker and I'm absolutely sure that you share us. Therefore listen to us. So from my side thank you very much. Is there anything that Joachim wants to respond to?

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

Yes, I just wondered if you would -- so in a few days time after 38 years being in business for me the party is over. I would like to thank you for being so fair to me all the time. I would like you to be true to K+ S because it is a good company, it is hard-working people and that is all I would like to say. I have a good time, good afternoon and bye-bye.

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

So, this of course is from our side. We hope, this is the remaining thing, to get in touch with you also on the other occasion. Hopefully you have gotten a lot of useful information this afternoon. Thank you very much, good afternoon, good morning wherever you have listened to us. And see you next time. Bye-bye.

Operator

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

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