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PRESENTATION

Operator

Welcome to the K+ S conference call for investors and analysts regarding the publication of the quarterly financial report, Q1 '13. For the duration of the call, you will be on listen-only mode. However, at the end of the call you will have the opportunity to ask questions. (Operator Instructions)

I am now handing the call over to Norbert Steiner of K+S to begin.

Norbert Steiner - *K+S AG - Chairman*

Thank you very much. Good afternoon, good morning, ladies and gentlemen, wherever you are. A warm welcome from the team here in Kassel to our, as announced already, first-quarter 2013 conference call. Today we have here our CFO, Dr. Burkhard Lohr; the Investor Relations team; and, as already heard, myself.

Please note, this conference call is offered the day after our AGM and therefore the share price is ex-dividend already. We would like to go through the presentation and aim to keep our comments as short as possible to allow sufficient time for questions and answers within the next hour.

Before we go into the details let me briefly summarize the first quarter, and I think this is slide number 1 or 2; I do not know. The EBIT I increased by 12% in the year-on-year comparison. Our Potash and Magnesium Products business unit delivered the best first quarter we ever had, while Salt saw a significant rebound in volumes.

The announced increase in the Legacy CapEx project, which will peak in the years 2014 to 2016, will partly lead to lower operating costs once the site is up and running, a fact we should have communicated more openly in the press release a few weeks ago. And not less important from today's point of view, we are happy to confirm our full-year 2013 revenue and EBIT guidance.

So much for my introduction. I would like now to ask our CFO to provide you with the details on the Group's financials. Please.

Burkhard Lohr *- K+S AG - CFO*

Thank you, Mr. Steiner. A warm welcome from my side as well. Now please turn to slide number 3.

Both business units contributed to the 90% increase in Group revenues. Main driver behind this increase were higher sales volumes. Negative price effects in the Potash and Magnesium Products business could be more than offset by double-digit year-on-year increases in European and overseas sales volume and more than 60% higher de-icing salt volume.

The operating result, EBIT I, of our Potash and Magnesium Products business unit is slightly above last year as a result of higher revenues, but also due to lower unit costs. Both effects could offset lower average sales prices.

The Salt business unit increased, mainly driven by significantly higher sales volumes in the de-icing business and a double-digit increase in sales volumes for non-de-icing products. Compared with the long-term average of the de-icing salt business, the result for the first three months of 2013 was indeed favorable overall as a result of the above-average winter in Europe.

This overcompensated higher costs resulting from volume factors, one-time effects connected with the transition to SAP at Morton Salt, and maintenance backlogs. However, due to these effects, operating earnings ultimately reached only about the average levels.

On slide 4 you can see the key figures of the P&L. Before I will focus on the items below the EBIT line, let me comment on the changes due to IAS 19. This is the standard for employee benefits which had to be applied as of this year.

The changes were implemented with retroactive effect, which means that the figures of 2012 were adjusted accordingly. Overall, this had only marginal effects on the P&L in the first quarter of 2012 and will only have a small impact on a full-year basis.

The financial results decreased by almost EUR3 million versus last year first quarter, mainly due to the interest expenses for the bond issued in June 2012, which were not included yet in the first-quarter 2012, and a valuation-related lower Other financial result.

The tax rate declined slightly and is in line with our full-year expectation. The adjusted Group earnings increased to EUR190 million, which is 13% above Group earnings from continued operations in Q1 2012.

Slide 5 shows a significant increase in the operating cash flow. This is mainly due to a lower tying up of working capital due to lower inventories than in the first quarter of 2012. Salt inventories were used to a greater extent than in the same quarter a year ago. In the Potash and Magnesium Products business unit, too, inventories declined as a result of the successful start into the spring season, while they had an increase in the same quarter a year ago.

The cash flow for investing activities in the period under review includes higher CapEx for the measures on the water protection in Germany and the ramp-up of capital expenditures for the legacy projects, as expected. In total, free cash flow was about 60% above the first quarter of 2012.

Let me hand over again to Mr. Steiner.

Norbert Steiner - *K+S AG - Chairman*

Thank you very much, Dr. Lohr. I will now elaborate in more detail on the market development and drivers for the results of our two business units. We are starting with our Potash and Magnesium Products business unit on slide number 7.

The contracts of our North American and Russian competitors with Chinese and Indian customers were concluded right in time with the start of the spring season in Europe. This reanimated the markets, so that demand in all regions recovered and pricing stabilized. Overall, income prospects for the farmers remain very attractive, despite a decrease of wheat prices by approximately 10% in the first quarter.

Looking at our portfolio I would like to turn to slide number 8. Volumes increased both in the year-on-year comparison and compared with the fourth quarter of 2012. This was driven by strong demand from our overseas customers; and also in Europe demand increased despite the long-lasting winter.

On the pricing side, it is not a surprise that a deferral of contract conclusions in Asia led to a decline of prices in the year-on-year view. But also quarter-over-quarter rates in the overseas markets still had to digest developments of the fourth quarter, as well as the higher proportion of sales to the contract markets in China and India, and came down by about 6%, while European prices even increased slightly.

Dr. Lohr already mentioned the improved cost per tonne in the Potash and Magnesium Products business unit. As you can see on slide number 9, unit costs were down compared to the first and fourth quarter of 2012. Higher sales volumes, reduced energy costs, and positive currency effects offset the effect of the change in inventories and higher depreciation and amortization. All in all, we are on track to keep our costs under control and to maintain stable costs overall for the full-year 2013 compared to the full-year 2012, as guided in March.

Let us now turn to our Salt operations. Looking at the market environment on slide number 11, I especially want to focus on the de-icing business.

The long-lasting wintry weather conditions in Europe led to demand which was above average and significantly above the level of the last year in that region. Also, North America experienced a normalization after the mild conditions of previous year's first quarter. Everywhere, prices remained under pressure due to the mild winter in 2012 and subsequently higher inventories.

Looking at our portfolio on slide number 12, we see that the volume development of our Salt business is dominated by stronger demand for the de-icing salt both year-over-year but also compared to Q4 2012. The average price per unit increased by 7% year-over-year and as a result of the long-term contracts with price adjustment clauses, along with a favorable mix of de-icing salt products. The average price quarter over quarter is, however, down sequentially mainly due to product and regional mix effects.

In the non-de-icing business, volumes showed a tangible increase compared to Q1 2012, while prices decreased due to product mix effects.

Now, ladies and gentlemen, let me please elaborate on our update on Legacy, which we provided a few weeks ago. Please turn to slide number 14.

You are all aware that we basically have announced two things -- an increase of the CapEx budget to CAD4.1 billion, and a later than previously expected commissioning of the site. However, we will still be able to reach a production capacity of 2 million tonnes by 2017 by a steeper output curve beginning in summer 2016.

Why have we communicated that now? The previous CapEx estimate was based on the feasibility study conducted in 2011. It is a common process that the basic engineering follows, which delivers significantly more detailed information about the setup of the whole project, including specifications of the various components and their costs. Having reached a sufficient certainty on the most likely CapEx and OpEx from the results of the basic engineering, it was our duty and ambition to inform the market about the knowledge we had as immediately as possible.

We can divide the reasons for the increase in the CapEx in two groups. One -- and we should have made that clearer before -- consists of investments into our old infrastructure instead of leasing it. A good example here is the port facility at the West Coast. These measures will reduce our operating cash costs.

We also found that due to modifications and optimizations of plant components, sustainable savings -- for example, in energy consumption -- are achievable. But we are also facing higher cost for material and labor during construction time, which are, for example, due to higher wages for the construction workforce and a lower productivity of those people than we had previously assumed.

Please turn to slide number 15. The adjusted plan will lead to a different saving of the capital expenditure. So far, we expected CapEx for the Legacy Project of about CAD830 million in 2013. This number will be reduced to CAD500 million.

We expect a ramp-up of CapEx in 2014, as we will see the peak in the years '14 to '16. You may miss Phase 3 on this slide, where we aim to bring up production capacity to 4 million tonnes. These plans are still valid; but as only the first two phases have been decided yet, and as they will keep us busy until 2023, we will focus on those measures first.

Please turn to page 16. I talked about the changes in our plans earlier and also indicated that some of these measures will lead to lower operating costs compared to what we expected before, once the site is up and running. We expect a decline of sustainable operating costs by CAD10 per tonne; and you can imagine that this has an impact on the NPV calculation, given the lifetime of that site.

Now please turn to slide number 17. Our aim is to earn the premium of at least 15% on our Group costs of capital after taxes, and you can be sure that we are considering all relevant variables before feeding our model. Anything else would be malpractice.

So when we talk about the fact that, based on our assumptions, the Legacy Project fulfills our internal hurdle rates, all necessary information is part of the NPV calculation. For example, when we talk about logistics costs, we have not only included the cost for the operation of the port facility but also for the necessary railroad infrastructure, including rail cars, and the cost for the transport from the plant to the harbor and then eventually to our customers.

Let me now hand over once again to Dr. Lohr to conclude our presentation with our outlook.

Burkhard Lohr - *K+S AG - CFO*

And therefore, please turn to slide number 19. We expect a tangible increase of global potash sales volumes to about 59 million tonnes for 2013, due to the positive start into the new year after the contract conclusion with Chinese and Indian customers in January, and due to the continued attractive income levels for farmers which give them an incentive to maximize their yields by using fertilizers. Also, the Salt market should see a significant improvement in volumes, due to a normalization of the de-icing salt business on both sides of the Atlantic, assuming normal product procurement and a normal fourth quarter.

This gives us enough confidence to confirm our outlook for the year 2013, as you can see on slide 20. We still expect a slight increase in revenues and EBIT.

As our sales volumes for Potash and Magnesium Products are expected to be at about 7 million tonnes but average portfolio prices will decline, we expect a decrease in average for this business unit.

However, a normalization sales volumes in our Salt business -- and here especially de-icing salt -- should be able to more than offset that. We now expect Salt volumes to be closer to 13 million tonnes for the full-year 2013.

The other number we changed is the CapEx estimate for the Group, as already indicated. As total CapEx for the Legacy Project will be postponed to the year 2014, we now expect Group CapEx to be around EUR820 million compared to EUR1.1 billion before.

Ladies and gentlemen, we are now happy to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Joe Dewhurst, UBS.

Joe Dewhurst - *UBS - Analyst*

Hi, good afternoon. I have just got a couple of questions on Potash One, and then just one on operating costs. But on Potash One, with the CapEx [system] that is now -- would you be able to give the margin of error now within that estimate? Given, obviously, that you have done loads of detail design.

Then also on that as well, with the operating expenses estimates -- I saw at your AGM yesterday that you said that you have now got a testing cavern, I think, underground. Does that mean that you've got pretty accurate data on the kind of recoveries or the current recovery rates that you will be able to get with the solution mining when it is up and running?

And then just with the existing business, on costs and [carry goods], there's certainly been an improvement on cost progression. Do you foresee going forward into 2014 we will be able to maintain that reduced cost increase on a cost-per-tonne basis? Thank you.

Norbert Steiner - *K+S AG - Chairman*

Norbert Steiner answering. To be quite clear, as of today on the 15th of May, I will not make any projections to the year 2014 already. We will have our planning situation in the autumn of this year; and if I were to give you any figure, which I have not seen yet, then I would only more or less continue or start to make speculations.

And I think this is not the right place to do that. And therefore, please forgive me that you don't get a proper, or let's say the expected, answer [even] you can get on that. But I think this is more or less a good business judgment, when I do not elaborate on that more in detail.

The first question that you raised was to Legacy. I think you might refer to one of the slides that maybe had been utilized in our conference call a couple of weeks ago, where we had said -- and we have repeated that in our presentation here -- where we have said that we are expecting lower OpEx. This is more or less not linked only to one effect that we have there.

We think that the operations generally, as far as we have now analyzed them, will be some kind of an amount cheaper than before. It is a mixture, and this cannot be attributed to just one fact.

Joe Dewhurst - *UBS - Analyst*

Okay. With the total CapEx for the project, I mean the estimate you have now, is that within 5% accuracy, do you think?

Norbert Steiner - *K+S AG - Chairman*

Sorry, the line is quite bad. I did not completely understand.

Joe Dewhurst - *UBS - Analyst*

Yes. The total CapEx estimate then for the Legacy Project, would you say that estimate now is within plus/minus 5% accuracy?

Norbert Steiner - *K+S AG - Chairman*

This what we have tabled is something which from our perspective is accurate, otherwise we would not have come out with a figure. We cannot and would never go out with a figure which, at the moment where we come out with it, is not accurate.

And therefore, this includes a certain portion for unforeseen; but this is the best knowledge that we have and therefore we trust in it. And this is more or less the point where we are adding to.

From my perspective as the CEO of the Company, this must be satisfying every activity in the CapEx that we see from that point of time. So people like to spend money, but this is more or less where we have put a stop on it, CAD4.1 billion, nothing else.

Joe Dewhurst - *UBS - Analyst*

Thank you very much.

Operator

Andrew Stott, Merrill Lynch.

Andrew Stott - *BofA Merrill Lynch - Analyst*

Hello. Good afternoon. Thanks for taking my questions. I have got a few, actually.

Can I start with Legacy again? You mentioned your OpEx goes down. But you also mentioned in your press release a few weeks ago that one of the factors behind the NPV and the return on capital staying similar to previous expectations was a higher potash price medium-term. So I am wondering what is behind that increased confidence for the potash price over the long term? So that is number one.

Number two, can you remind us again of the comfort range on your balance sheet? Thinking of what the parameters are in terms of covenants that you may have, or at least what you see as a suitable level of leverage.

Then finally, number three, inventories at the end of March in potash, could you provide a number there, please, and then also give me a long-range average for inventories in potash at the end of March? Thank you.

Norbert Steiner - *K+S AG - Chairman*

I think, to start with the first question, from my perspective I see no deviations from that what we initially published in December 2011. Of course, we said there is a range between $400 and $450; and now it is the range between $420 and $460.

So this is something which still comprises the area between $420 and $450, so almost half of the matter. And therefore I think we should not judge too intensively on whether $400 to $450 or $420 to $460 is the right range.

Of course, we should have some buffers at the beginning, at the lower and at the higher end. And therefore from my perspective, there is no real significant deviation from that what we initially said in 2011.

The third question referring to our inventories at the end of March, I now need to see where the line for 2013 is. I think you referred to K+ S and not to any inventory around the world.

I have seen that more or less we have had a very strong demand in the first quarter. We were well prepared at the beginning of the year to satisfy all demands that were coming in. And therefore we can see that the inventory line in 2013 is quite on the lower end when we compare it to the years before.

And to already add something which you have not asked yet, I think we will have a good business also in the upcoming months as we see that demand has not lowered. And therefore we think that we will need our inventories and also the actual production to satisfy all that.

So we are from that perspective onwards, and I hope we have said that also in our communication in our Q1 report, that we are quite optimistic for the conduct of business in the first half-year.

Burkhard Lohr - *K+S AG - CFO*

Yes, you also asked for the leverage. I guess the background of your question is how will we finance the additional CapEx for the Legacy Project. As you know, without our (technical difficulty) provisions we had as of March a slight net cash position, so there is significant headroom for additional debt.

We disclosed together with the news on Legacy that we will be able and capable, and our balance sheet is strong enough for that, to debt-finance additional CapEx needs.

Norbert Steiner - *K+S AG - Chairman*

Yes, and of course, you would maybe have asked about capital increase. But so far we do not see any necessity for that.

Andrew Stott - *BofA Merrill Lynch - Analyst*

Okay, thanks. Can I just come back on one thing? On the inventories, where I am coming from on the inventory situation is you've got a capacity of around, as I understand it, 7 million tonnes. You had relatively high inventories last year.

Is it feasible you can book sales of 7.5 million tonnes this year? I mean theoretically; I am not asking for a forecast, I am --

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Norbert Steiner - *K+S AG - Chairman*

So we could lengthily discuss about the size of the inventories at the end of last year. We have always said that a figure around -- between 750 and maybe 900 or even higher is something in which we feel comfortable. Therefore I would not judge on it whether 900 is high, or whether 920 is high, or 870 is low.

So from that perspective we always try, more or less to manage, to be prepared quite nicely for the upcoming spring season. And please don't forget; in the past our direct customers, particularly in Europe, have learned more or less to make us their inventory holder, which means that we see a certain tendency that they wait until the point has been reached where they really need the material.

And therefore if we would not take that into account anymore, we would have not enough material for the next spring season. So with the tendency, we will have higher inventories compared to situations maybe in 2007 or 2008. And therefore from that perspective we have had more or less reasonable inventories for the situation so far.

And with view to the perspective of the year, I think when we issued our first forecast for 2013, we said that we are heading to roughly 7 million tonnes of sales; but we were certainly willing and able if necessary to more or less produce and sell more, which will be limit thus to 7.5 million tonnes as theoretically can be the case. But I would say a sales figure up to 7.2 million, 7.25 million should be in reach.

But we will see how the market will develop. So far we have a good perspective over the first half-year. And certainly the negotiations with China, should they be more or less successful insofar that China will have a contract for the second half-year, which is not yet done, will certainly have a supportive effect.

But we need to get closer to the second half of the year in looking to that, especially. And then we can see whether 7 million or 7-plus-million will be the end.

Andrew Stott - *BofA Merrill Lynch - Analyst*

Okay, great. Thank you.

Operator

Martin Roediger, Kepler Cheuvreux.

Martin Roediger - *Kepler Cheuvreux - Analyst*

Yes, two questions from my side. On the potash pricing in Europe, I remember that you tried to lift potash price for granular grade in France, Italy, and Benelux in February to at least a level of EUR360 per tonne. But obviously this price did not stick. Can you explain why that was the case and product price in these countries came down recently?

The second question is on the Salt segment. I try to understand a little better the EBIT development in the first quarter. Because it looks that despite a strong volume growth and some price increases, EBIT in Q1 was short of market expectations.

What is the difference in Q1 EBIT this year compared to Q1 in 2010, where you had the same sales figure in the Salt division? Is that just the SAP costs at Morton Salt and the maintenance backlogs? If so, can you quantify these costs for these items?

Norbert Steiner - *K+S AG - Chairman*

The first question to the potash prices in Europe, I cannot confirm that prices have dropped. This is just an assumption or provocation, and therefore I can only say that there are some countries in Europe where we still are not completely at the end, where we have achieved our targets.

I also will not deny that the French business is a little bit more difficult than other areas in the European framework. But we are still working on that, and I do not have any doubt that at the end of the day we will make further progress there.

The second question, going to the Salt business is more or less the reasons for the lower than expected EBIT were significantly connected with, let's say, the difficulties to fully -- not implement and build up SAP, but more or less to fully utilize SAP in all areas of the business of Morton Salt. There are some hiccups still which we have not yet fully, let's say, absorbed. Certainly we do not in detail also disclose all of the ups and downs that we see over a quarter.

There is also some small and increasing maintenance cost in Europe and something like that, which is in line with the increased volume that we have sold. There is a certain, let's say, percentage of cost which is linked to higher sales and higher production; and this has taken place in Europe certainly. And furthermore there is some small deviations from what we expected initially when we looked at the regional mix.

So forgive me, I am not able right now to explain what we cannot explain because we do not compose the contents, and therefore we only can say up to our expectations the SAP introduction consequences have not been fully absorbed already at the end of the year 2012. We have some higher maintenance; we have some regional mix effects.

And more or less I can only say that even we would have been very happy if we would have a higher figure than the 73 that we finally produced in the Salt business. However, the direction in which it goes is the right one, and therefore we are optimistic for the rest of the year.

Therefore, we also maintained our forecast both in sales and in revenues -- of course, under these assumptions that we have published -- and also our earnings.

Martin Roediger - *Kepler Cheuvreux - Analyst*

Thank you.

Operator

Oliver Schwarz, Warburg Research.

Oliver Schwarz - *Warburg Research - Analyst*

Thank you for taking my questions. Mr. Steiner, coming back to what you just said, I am struggling with the same point as Mr. Roediger does, but I am trying to do that without being provocative. Prices in Europe declined year on year.

Norbert Steiner - *K+S AG - Chairman*

Where are we? Where are we? In potash or in salt?

Oliver Schwarz - *Warburg Research - Analyst*

In potash, sorry. Prices declined in potash year-on-year in the European Region. The prices for the specialties, as far as I know, at least in Europe were stable or are stable year-on-year. So it seems to me that it is potash related.

And judging from the increase of the volume and what you just said regarding unwillingness of customers to take on inventories, other than in the past years, did you go for, let's say, increasing rebates to get wholesalers to take on more volumes in Q1? Was that the case perhaps? Is that a function what we see there?

Secondly, on the Salt business, if I am looking on the progression of the costs per tonne in Salt, I know this is only a very rough calculation; but anyway, just to labor the point, the increase in volumes was 44% but the decrease in costs was only like 10%.

I confess, I was looking for a steeper decrease in costs per tonne in the Salt business. So when you say there are, let's say, volume-related maintenance costs, they should be absorbed at least in the cost-per-tonne view by the higher volume you saw.

So is there another point? Because I would have expected, regarding the more favorable contracts and gas, the favorable development of the gas price in the US as well, that we shouldn't see a cost level like that in Q1 after having such a favorable volume development in the start of the year 2013.

Perhaps lastly, just a very quick one. Depreciation and amortization in Q1 in the Salt business declined. It's on a lower level than it was in all quarters in 2012. Is that a run rate to use for the oncoming quarters as well? Thank you.

Burkhard Lohr - *K+S AG - CFO*

Very quick one. The last question, I would say this was a question which comprised two questions. The first of the two questions was, this is more or less the purchase price allocation, which takes some room there. And as we generally do not linearize our depreciation rates quarter by quarter, let's say, 100%, I cannot make any projection whether the amount of money that you find there will be exactly the depreciation that you will find. But it gives you a good indication at least.

Norbert Steiner - *K+S AG - Chairman*

Getting back to the beginning, it is certainly the case that we -- sorry, and then to the Salt business; I will continue with that. Once again, I think you made it -- I hope that you wrote it quite clearly that we had an extraordinary or better-than-expected or better-than-planned de-icing salt winter in Europe and quite almost a normal one in the US.

And when you look into the development of cost, you see that more or less not only the energy system in Europe or in Germany needs to be taken into account. This is what you learn about costs, is generally that what we have to pay for gas in Europe for our European domestic product production.

The other plants more or less have a mixture of gas, coal, electricity when it goes to more or less the network of production, like in Morton Salt. And there you cannot easily and simply say the natural gas cost in the US is lower, has lowered. The contrary is the case, when you compare the beginning of the year 2013 and the end of the third quarter.

So this more or less is one of the explanations, that you cannot, you should not come from our remarks on our, let's say, German gas supply contracts for the potash production to all production in the world. This is different.

And therefore the cost of energy in the US and in Canada in the first quarter has increased slightly. But don't ask me for a figure which I don't have in my mind.

Then, we go to the Potash business. And I think you are first of all correct to say that the prices in the Potash business in Europe in the first quarter this year are lower than they have been in the first-quarter 2012.

Once again I can only repeat what I said. We are striving and have made quite good and substantial progress in the achievement of the targeted price of EUR375. And from my knowledge we don't have any rebates which we more or less grant after a certain period of time to the customers.

Therefore, it is what I said, a different mix. We have, more or less, less sales of [pewter] white for example, and so on and so forth. Therefore, we have more or less in comparison to the year 2012, once again first quarter, yes, a lower price but more or less as the price of potash. As we have sold a lot of MOP granular product, this is something which has certainty had a positive, let's say, development on top of its support of the average on prices.

Oliver Schwarz - *Warburg Research - Analyst*

Thank you.

Operator

Tony Jones, Redburn.

Tony Jones - *Redburn Partners - Analyst*

Thanks for taking my questions. I have got two. Just wanted to come back to the inventory again for Q1 for Potash. Perhaps as a clue in what you said, that maybe you can do 7.2 million tonnes, but for modeling purposes is it fair to assume that the extra 200,000 tonnes you sold in Q1 was from unsold inventory from Q4 2012, when you're volume was about 1.5 million tonnes, which is around 200,000 tonnes less than normal? So is this just purely a phasing effect?

Then secondly, I wanted to go back also to Legacy Project assumptions. Can you remind us of the proportion of your production costs represented by energy, especially natural gas? And whether in your updates, whether your price assumption or your long-term natural gas price assumption in the US has increased or decreased since the last-half update on costs? Thank you.

Norbert Steiner - *K+S AG - Chairman*

Once again, I think when you look into the Potash world globally a little bit more, and you see that obviously our, let's say, historical patterns, that the first and the fourth quarter are strong, seem to be on a way to be changed. When you look into the international business and primarily, for example, to Brazil, South America, you see that the people are ordering a magnitude of products already in the second quarter in order to be supplied by that in the third quarter. Which has, to my memory, not been the case maybe five years ago.

Secondly, once again, the remark which I made towards one of the earlier participants, I cannot guarantee. But I always say, if I would be in the shoes of our customers in Europe I would act in the same way. As long as they are not afraid of higher prices, then why should I take volume in my own inventories instead of waiting?

Therefore also as long as the people are not afraid of significant price increases, which was not the case in the third quarter, as we saw extremely, they did it from their own operational standpoint very bravely. And therefore we should not continue to say this what we have seen in the past, let's say, quarter price is written in concrete for all eternity.

This having said, I would like to say, yes, the amount of product which we have not sold for the early procurement in the fourth quarter have been running right now. So from Q4 to Q1 you can say, yes, there is a certain, let's say, shift from Q4 to Q1. But -- and this is more or less also the basis from the fact that we maintain so far cautiously our forecast for the year.

But I mention once again we have the ability more or less to put 200,000, 250,000 tonnes on top of that. And we will see in the course of the year whether this is feasible or not.

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

Legacy?

Norbert Steiner - *K+S AG - Chairman*

Legacy, sorry. Legacy, we have had included in December -- or was it November 2011, a certain energy price -- I think, if I remember correctly, of CAD4.30. And now we have adjusted it to the prevailing price of CAD4.00.

So far we have put in the actual price. Of course, there are certain, let's say, tolerances still. But this has been the case.

Tony Jones - *Redburn Partners - Analyst*

Thank you. Just as a very quick follow-up, then, are you assuming in your NPV any inflationary effects for energy, for wages, or any of the other variable costs then? Or is it all flat?

Norbert Steiner - *K+S AG - Chairman*

We generally do it in the way when we put an NPV together that we start at a certain starting point and hold more or less flat all the sales prices, all the tonnages, and also all the costs that we have. And therefore, more or less, if there are price increases or inflations, more or less, inflation does not work on it, since you say it is quite the same magnitude in the cost situation than in the prices.

Therefore, this is more or less fixed, as everything is fixed in our NPV structure.

Tony Jones - *Redburn Partners - Analyst*

Okay.

Norbert Steiner - *K+S AG - Chairman*

And I think the final question -- Julia mentions to me that I have not answered everything. About 50% of our cash cost of production is related to energy.

Tony Jones - *Redburn Partners - Analyst*

Thank you very much.

Operator

Heidi Vesterinen, Exane.

Heidi Vesterinen - *Exane BNP Paribas - Analyst*

Thank you. I have one additional question on the new CapEx budget. Earlier you said that you feel the MOP price assumption that you are taking is not that different, the $400 to $450 becoming $420 to $460. And then you said that you are taking prevailing gas prices, which is now lower.

Do you think that if we use the previous assumption, so the CAD4.30 and the $400 to $450 for MOP, the CapEx budget would be significantly different from what you have reported?

Norbert Steiner - *K+S AG - Chairman*

No. No.

Heidi Vesterinen - *Exane BNP Paribas - Analyst*

So you would expect it to be very similar? Okay, thank you.

Norbert Steiner - *K+S AG - Chairman*

We talked about the CapEx, yes?

Heidi Vesterinen - *Exane BNP Paribas - Analyst*

Yes.

Norbert Steiner - *K+S AG - Chairman*

No, no. There is a clear no.

Heidi Vesterinen - *Exane BNP Paribas - Analyst*

Thank you.

Operator

Jesko Mayer Wegelin, HSBC.

Jesko Mayer Wegelin - *HSBC Global Research - Analyst*

Yes, thanks. I have two questions. First of all, regarding the SAP integration in the Salt business at Morton Salt, is this now fully finished? Or is there still some impact also in Q2 to be expected from this?

Then second question, on the trends in Brasilia. You just said that Brazilian farmers or customers are ordering already in Q2. Does this mean that you don't expect any decline q-on-q basically in the demand from Brazil, so that we still also see an ongoing heavy demand from Brazil?

Because you were saying that demand is still strong. Therefore, my question would be -- is this only regarding to Europe or to Brazil currently?

Norbert Steiner - *K+S AG - Chairman*

No, I think particularly mentioned Brazil. As I mentioned, I think, if I remember correctly, that the customers have learned that there is a lot of demurrage to be absorbed before the ports of Brazil. I have heard that ships are waiting for more than two months or so before they can be unloaded.

And therefore based on that experience of the poor port, let's say quality, the people order even earlier, earlier, earlier. They are not to be forced to wait if they order just in June, to have the material only in September or October or whenever.

And this more or less representing the basis for our assumption that we will have a strong Q2. But we cannot say from today's perspective onward that this will be an increase in the overall tonnage that is going into Brazil for the entire year.

This was the Potash, and the second -- the first question was related to Salt, Morton Salt and the SAP. I would not exclude that there are some smaller hiccups still in the second quarter, but the majority of that what has been more or less consequences, directly and indirectly linked with the change to the SAP system, should be absorbed.

At least so far I have not heard anything different from that, from our operational people in the US. And I cross fingers that they more or less have done it more or less almost completely at the end of the first quarter.

Jesko Mayer Wegelin - *HSBC Global Research - Analyst*

Great. Thanks a lot.

Operator

Andreas Heine, Barclays.

Andreas Heine - *Barclays Capital - Analyst*

Yes, good afternoon. I would like also to come back to the Legacy Project. Is it fair to assume that the change you have done in these energy cost and lower logistic cost, and somewhat changes in the potash price, level off roughly in your NPV calculation the higher CapEx? Is that broadly what the outcome of your last model calculation was? That is the first question.

Then the second, I would like to understand the Q4 to Q1 price change in the de-icing salt business. Is it purely due to the regional mix? Or does it mean a higher portion of European sales leads to lower average prices and then also to a lower margin in the de-icing business specifically?

And then going forward to the Potash business, as you were elaborating that there is quite a delay between the orders, when you get it and when you deliver it, so that you had in the overseas business in Q1 basically the Q4 prices, is it then fair to assume that the Q2 prices in Potash will go up? As in the first quarter you have higher prices than you had in the last quarter; and that should then be transferred into the P&L as a delay of one quarter. These are my questions.

Norbert Steiner - *K+S AG - Chairman*

Okay. Prices. I think we should not forget that the stabilization of prices, from our perspective at least, internationally were more or less starting after the contract of India was done. In the month of January, there was still not this security that the prices would be more or less now fixed. Let's say the baseline was 400 [for salt] in China, but there was a lot of turbulence in the markets.

Therefore, prices more or less have strengthened from February onwards. And I think it is quite a good guess that the prices at least in Brazil should be -- if there is nothing happening anymore and we should have more or less flat prices from today's perspective onward -- should be slightly higher than the prices in the first quarter. So this was Brazil.

The first question was the Salt, Q4 to Q1. We had in the first quarter a smaller fraction of packaged de-icing salt for customers or for consumers than in the fourth quarter. And this more or less makes the price difference between the fourth and the first quarter. (technical difficulty) was higher. And then -- the capacity?

Burkhard Lohr - *K+S AG - CFO*

NPV calculation.

Norbert Steiner - *K+S AG - Chairman*

Oh, the PV calculation. I need to write that down. Is there somebody to help me?

If I got your question correctly, you asked for the effects of the changes of the energy prices and freight prices on the NPV. You shouldn't overestimate them.

You can see the sensitivities that we gave you; and you see that even the change of 15% to 30% does not have a significant impact on the NPV.

By the way, we have not changed our assumption on the potash price. We just gave you another range of varying potash prices to give you the sensitivity around our new model. I hope that answers your question.

Andreas Heine - *Barclays Capital - Analyst*

So basically the change in these energy and whatever had basically no influence on the NPV calculation?

Norbert Steiner - *K+S AG - Chairman*

There is, of course, an influence, but it is very marginal. And the old assumptions were more than one year old, so we took more current assumption after we have a more current budget. But again, don't overestimate these effects.

But certainly, we have this policy that we are not disclosing more or less precisely our, let's say, outcome in our model. We said we are meeting our requirements and this is what we need, more or less, to reach requirement cost of capital plus 15%. And if there is maybe 20% or 25%, we don't disclose that.

Therefore what we do is that we meet at lease the necessary minimum, but we do not exclude that it is better. This is something which is our policy and which we have not been disclosing in the past and will not disclose in the future as well.

So, I think we have missed one question. Please repeat.

Andreas Heine - *Barclays Capital - Analyst*

No, I think I am fine. Thanks.

Operator

Andrew Benson, Citigroup.

Andrew Benson - *Citigroup - Analyst*

Yes, thank you. Perhaps just a couple of follow-ons from questions that have already been asked. The 7.25 million of production, is that what you could possibly do this year, based on running down working capital? Or is that a sustainable level of output and production as well as sales?

Can you talk a little bit about how Salt has developed into the second quarter as well? Because it was very cold in April, and so should we be optimistic about the second quarter or more optimistic about the second quarter, about demand?

Can you also talk about the price evolution of salt and if that is going to go up?

And lastly, just the magnitude of the one-off effects, SAP and others, that impacted the first quarter would be good, please.

Norbert Steiner - *K+S AG - Chairman*

So, once again we have said that we would be able to also go up to 7.25 million tonnes of product in the Potash division. This does not -- this more or less goes in line with our maybe possible capacity utilization, that at the end of the year we will then theoretically the same magnitude of inventories than we have had at the beginning of the year.

But this is not a decision that we take right now. Also, if you more or less reduce the volume of inventories maybe by 100,000 tonnes, and are still of the opinion that we can satisfy the spring demand in 2014, then we would also be happy too with 7.15 million. So we should not rule out everything.

That means that if the demand will be there in the second half-year we can increase the capacity utilization. Maybe not for the 250,000 tonnes alone, so that it might be a mix of reduced inventories at the end of the year and a modest more production from the more or less day-to-day production.

But there has been taken no decision yet since we need to get more closely to the beginning of the third quarter to see the summer break and to see what is happening in China and in the international markets. And then we decide which way we go.

We wanted to make the point clear that at the end of the year we are not stuck, more or less, like written in concrete once again to the 7.0 million that we have discussed in the prognosis for, let's say, the outlook or the potential for the year 2013. And it is still the potential.

In the Salt business, I think the second quarter is always a critical one because winter is almost over. We have seen some slight developments or some slight still wintry sales in Europe in the beginning of April, but not significant anymore.

And now we are more or less producing material both in the Old World and in the New World, for more or less anticipated volume of early procurement. And this early procurement, the bidding season more or less generally starts let's say in July and is ending at the end of September, maybe also early October.

So from that standpoint we cannot say anything, let's say sustainable -- or let's say reasonable for the development of the second quarter. This is always the lowest quarter ever; but we hope, of course, that we are making a good production and fill up our inventories so that more or less the cost of production is nicely covered by product that goes into the inventories.

Yes, and the third part of your question, the one-time effects, I would say it is a mixture. This is a very, very low two-digit figure.

Andrew Benson - *Citigroup - Analyst*

A very low two-digit figure?

Norbert Steiner - *K+S AG - Chairman*

Closer to 10 than to 20.

Andrew Benson - *Citigroup - Analyst*

That's helpful. Thank you very much.

Operator

(Operator Instructions) Peter Mackey, Morgan Stanley.

Peter Mackey - *Morgan Stanley - Analyst*

Good afternoon, gentlemen. I have just got a couple of questions left if I can, please. One, a rather naive one; I am going to ask it anyway. But I wonder if you can help me square the circle between the trade press that says absolutely nothing has happened in the potash market in Europe because of the dreadful weather -- and I assume they are talking about sales between distributors and farmers; your production and sales volume in Europe, which was actually pretty decent; and your comments that distributors tend to use you as the inventory holder and don't hold inventory.

It seems to me as if -- or I would have thought the distribution channels in Europe at the moment must be sitting on pretty substantial inventory. So I am wondering if you can comment on that, please.

And secondly, it is just the only thing in your guidance that changed was a tiny, a very subtle change to your energy cost guidance. I wonder if you could just give us a little bit of color on that, please? Thank you.

Norbert Steiner - *K+S AG - Chairman*

The first question, potash in Europe. First of all, the farmers in Europe in these areas in which we are more or less particularly strong and have quite substantial volumes, have seen a very long winter that lasted more or less up to the end of March, which from their perspective had a positive and a slightly negative side.

The positive side that we have completely more or less -- that they were completely not puzzled by winter kill. That means that the snow on the fields covered the seed which was brought into the ground at the end of the autumn in 2012. And therefore, it was positive start.

Then we saw, also including April, that the demand was rising quickly. And we have no indications from, let's say, our wholesalers as well as from the farmers that the application in Europe was bad.

We have said -- our people have told me just recently that so far, not only including the first quarter but also taking into account the long winter and the April and maybe also the starting into May, this was quite a nice business, not only from us to our private customers, and also more or less from the customers into the agriculture area. So I do not know anything precisely about the inventories in our direct customers' area. But I would add or would assume that they are not as high as you might be afraid of.

So from our perspective it was a quite good start also in Europe into the fertilizer, into our Potash business, with all more or less products, speciality products as well as MOP, granular and standard, more or less all over the product range.

Peter Mackey - *Morgan Stanley - Analyst*

That's interesting. Just to follow up on that, did you see a more exaggerated pickup between January and February on the one hand to the March/April type levels than you would normally have expected in that case?

Norbert Steiner - *K+S AG - Chairman*

Once again, the people, our direct customers, as mentioned, try more or less to maintain their inventories as low as possible and in the shortest period of time as possible. So that they can take at a later point, which they think is appropriate; and then, of course, they want to ship it to the final customers, to the farmers, as quick as possible.

Therefore, since they have seen that the winter was continuing to the end of January, to the end of February, of course they have also more or less postponed their orders at us. But taking all into account, let's say January including April, yes, it was later, but volume-wise it was more or less very, very okay.

Peter Mackey - *Morgan Stanley - Analyst*

Okay, that --

Norbert Steiner - *K+S AG - Chairman*

From us, it is also a question of the crop that you would like to produce. There are some of the crops which generally are more or less fertilized only in April or even in early May.

And therefore I would not more or less speculate too much about a continuous or structural change to January and February in the future will be weak months and it won't go into March. If winter is there, the winter more or less and the snow has protected the plants, and it is already over maybe mid of February, then they come. And we need to be prepared and we will be prepared.

So I think we should not speculate too much about this small shift from month 1 to month 2, or from 3 to 1. I think this is something which should not make us nervous -- which does not make us nervous at all.

Peter Mackey - *Morgan Stanley - Analyst*

So given the strength in April and May, and tying into a lot of the questioning earlier, is there a possibility that you might see more inventory drawdown in the second quarter on top of your production rate?

Norbert Steiner - *K+S AG - Chairman*

I have a figure here which was more or less produced mid of April; and I would assume that our inventories are declining even more -- which is not negative, yes? But once again, our ambition always has been to be always able to set aside the demand of our customers for MOP, SOP, granular, standard, specialities, and so forth. It might be a situation that quite close to our summer break the inventories will be very low; but then we will fill it up again.

So once again for me, if I may say that, I'm not counting so much between the month. For me it is essential that we will be able and should be able to meet our minimum goal of 7 million tonnes; of course, to the highest price possible, which you can understand. But no matter in what month.

Therefore we have a very normal or a very strong demand situation which, of course, requires a lot of inventories. And it goes down more or less quite substantially in a normal way.

Peter Mackey - *Morgan Stanley - Analyst*

Understood. Thank you.

Burkhard Lohr - *K+S AG - CFO*

So you also asked for our guidance on energy costs. You're absolutely right; the change that you have seen is very marginal. The original, the old guidance was driven by our new gas supply contract for Germany, so especially for our potash production here in Germany.

And meanwhile we have seen some increases, marginally higher as expected, of energy costs in our foreign subsidiaries. And that was the reason for this marginal adjustment.

Peter Mackey - *Morgan Stanley - Analyst*

Thank you.

Operator

Elizabeth Collins, Morningstar.

Elizabeth Collins - *Morningstar - Analyst*

Thank you. Given the fact that you had above-normal demand for de-icing salt in Europe in the first quarter, if you have more above-normal demand in the fourth quarter will you bump up against any type of capacity constraints? And I guess globally, do you have the ability to produce much more than 13 million tonnes per year of de-icing salt?

Norbert Steiner - *K+S AG - Chairman*

Yes, we have the ability. We have more or less also to cover the additional demand in Europe and also to fill up our own inventories for more or less onward, the other procurement. We, for example, have taken some ships in from our operations in Chile to -- I do not know, either Netherlands or Belgian -- which filled it up.

And we have seen, I think in the year 2010, at the end of 2010, where we have shipped 1.5 million tonnes from our overseas destinations into Europe, which was required by the very severe wintry season. So this will be always our potential. And when you hear and know that we have a theoretical capacity of 30 million tonnes and our ambition is 22 million, there is headroom.

Elizabeth Collins - *Morningstar - Analyst*

Okay. Then when you ship tonnes from Chile to Europe are those -- is that a lower margin proposition? Or are you able to command higher prices because demand is so strong?

Norbert Steiner - *K+S AG - Chairman*

It depends. Generally, of course, when you have the ship transportation in between, this [leads] up a lot of the low production costs in Chile. So generally you should try more or less to mobilize salt resource more or less around the chimney.

On the other hand, if there is demand which is urgent and you are out, more or less, after finding volumes that you have under contract, of course there is the potential -- and we did -- price increases. Nevertheless, the closer you are to the customer, the better it is.

Elizabeth Collins - *Morningstar - Analyst*

Okay, thank you.

Operator

Patrick Lambert, Nomura.

Patrick Lambert - *Nomura - Analyst*

Good afternoon. A few questions. The first one, can you comment a little bit more in detail on the dynamics of Brazil? Because last year, if I remember correctly, you had a very strong Q2 in volumes in Brazil. I wonder if we should assume the same dynamics, or lower, or bigger. That is the first question.

The second question is, I think you are still guiding on normalization of salt; and I guess it is on EBIT also in terms of financials. If I am correct I think you always said that a normal year is about EUR160 million EBIT contribution. With what you see on the one-offs, are you still guiding to that, or we should assume ex-one-off type of guidance?

And the last part of the question is I think also you mentioned crops differences. From what we hear this year in Europe, there is a sort of recovery in the vegetable in particular, which are of course very exposed to potash. Is that what you are seeing? Is your direct customer more exposed to vegetables, and you can comment on that a little bit? Thanks.

Norbert Steiner - *K+S AG - Chairman*

So, the first question related to Brazil. I think as I mentioned we see a trend of our Brazilian customers to order earlier than in the past. Therefore we expect that generally it will be a very strong second quarter in Brazil, not only for K+ S but also for our international competitors.

We need then to see how much inventories are being built up or have been built up in Brazil for the utilization in the third quarter. Therefore, this is an outlook which includes the second quarter; however, it fits into our overall forecast of the 7 million tonnes.

And we were more or less and our forecast more or less for a stronger first half-year, once again, than it has historically been the case when not these big volumes were rolling into some areas, and the ship situation, to our knowledge, was not so more or less, let's say, unstructured and demanding like it is ever today.

Back we continue not to forecast exact volumes for a quarter, since we internally were acting a little bit more in the first quarter; but when you have a ship in Hamburg that is a loading of 50,000 or 60,000 tonnes that is scheduled for the 31st of March and then it is going into the April, this really does not matter. (laughter) And therefore it will be a very strong demand and also very strong volumes rolling out into Brazil in the second quarter.

The second point was on the Salt guidance. We continue more or less to head to the 160, 170, to 180, 190 as a normalization in the year. And we continue more or less to, let's say, assume or to forecast that we will have a strong recovery in the EBIT I.

And of course, it is at least our desire that it narrows, this corridor. I think we have said in the past that it will be an exceptional year when it should more or less exceed the upper level of that corridor. So we would happy --

Patrick Lambert - *Nomura - Analyst*

The 190? 190?

Norbert Steiner - *K+S AG - Chairman*

Yes, we would be happy if it would be at the lower end.

And the first [quarter] was -- yes, the crops and vegetables. So we have such a variety of products that fit into so many different areas of the agricultural system, from wheat, to rapeseed, more or less to corn, also to vineyards. So we think whoever has a demand for potash, we are able to supply.

Therefore, of course we will have potash [feeders] like all the sugar canes. But we are also able to more or less deviate into other areas.

I have not heard from our experts in the market is if there is strong deviation or change from let's say cash crops to vegetables. I would not be afraid of that. It is at least not a development in Europe, where we have been informed that it is substantial and sustainable.

Patrick Lambert - *Nomura - Analyst*

Okay. Because most of the forecasts are saying basically flat on cereals, but a slight recovery on cash crops. I was wondering if you are seeing that.

Norbert Steiner - *K+S AG - Chairman*

No, not specifically. And please accept my apologies that I do not have more or less these figures waiting here.

Patrick Lambert - *Nomura - Analyst*

Thank you.

Operator

That brings us to the end of the Q&A session, so I will now hand you back to your host to conclude today's conference.

Norbert Steiner - *K+S AG - Chairman*

Yes, thank you very much for participating our Q1 results conference call. I think the next one is scheduled for the 13th of August or something like that, and we hope at least to hear you again in those days. But as some of us will be on the road in the time between, we will see the one or the other from you also in the interim.

So thank you very much and all the best for you. Goodbye.
