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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 2013. 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 Mr. Norbert Steiner of K+ S to begin. Please go ahead, Sir.

Norbert Steiner - *K+S Group - CEO*

Good afternoon, good morning, wherever you are listening to us. Ladies and gentlemen, welcome to our today's conference call. The call is usually supposed to talk about the development of the last quarter. But of course, we will also provide you with our thoughts about recent developments in the products sector.

There were lots of statements, some published by members of our peer group, some popping up in the media, confusing customers, suppliers, and their employees. And, subsequently, also the capital markets.

In order to turn back to some sort of normality, we will start with a review of the financial highlights of the first half of the year. After that, I will provide you with our view of what is going on in the marketplace right now, and why K+ S is and will remain a reliable supplier for our customers, and a responsible supplier for our 14,000 employees giving their best every day in the 80 locations around the globe where we conduct our business.

Our CFO, Dr. Lohr, will provide you with a few more details about the Q2 results before we allow plenty of time for Q&A within the next hour.

Let's start on slide number one. All in all, we are satisfied with the results of the first half-year of 2013. We saw good sales volumes in our potash and magnesium products business in both quarters. Also, the salt business unit contributed to the H1 operating result EBIT 1 of EUR441 million. However, as we have announced already last Tuesday, we no longer want to stick to our former guidance for 2013. So slightly increased to EBIT 1 compared to 2012 in order to accommodate the uncertainty in the potash markets briefly mentioned before. And this brings me to the market update on slide number 3.

I do not want to repeat all statements relating to (inaudible) position to change its strategy, to maximize volumes that were either made for or found their way somehow into the public. However, we would choose a different way of communication if we would adopt a significant change our strategy. But I can tell you that the industry made its experience with those kinds of challenges in the past already.

The business is currently is in the low season, so there are no major contracts concluded that would give a clear signal in terms of pricing expectations by the customer. However, our salespeople are in touch with our customers frequently, and they confirmed that K+ S always has been a reliable supplier to them around the globe for decades, and that they want us to go ahead that way.

And it is easy to understand that customers are concerned about the statements (inaudible) made because it can severely affect the value of the inventories of on their balance sheets.

A lot was also discussed regarding K+ S' future in the potash business. So let's take a closer look at our setup on slide number 4. One can look at our unique portfolio from different angles. The K+ S follows the two-pillar strategy, with having a salt business that has been expanded and diversified over the last couple of years. But also our potash and magnesium products business has elements that make us more robust and differ materially from a pure potash producer.

Our portfolio includes 1.2 million tons of products that do not at all contain potash, and go into industrial applications like oil drilling for the basic chemicals industry, as well as for feeding or fertilizer specialities fortification.

The 5.28 million tons of potash (inaudible) potash-containing product, not only pure MOP. There are 2.5 million tons of products with no (inaudible) or grade, including nutrients like magnesium or sodium or sulfur that do not appear in deposits of other producers.

The other way of looking at our portfolios is by region. As the player with the longest history in potash mining, we have strong and lasting -- long-lasting relationships with our customers in all parts of the world, and have a good track record of being a reliable supplier to them for decades, as mentioned.

We generate 50% of our revenues in Europe, where the customer base is more fragmented and orders are of smaller size than in the overseas markets. We are able to manage even micro volumes, since we have a well-established distribution network in the European markets that are very close to our production sites.

Our strategy of specialized production plants is optimized for the right regional and product mix. In the overseas markets, K+ S follows the selective approach of markets fitting well into our cost structure and product portfolio.

Digging deeper into our product portfolio on slide number 5. K+ S holds the leading market positions in certain product segments. We generate about 50% of our revenues in markets, where we act as the market leader. From left to right, intensity of competition fades out. And you will not find many large producers of those kinds of products, as the nutrients cannot be found in all deposits. Of course, there is a correlation to the MOP price, but it, as well, declines to the lower the [K2o] content is.

Summing up what I explained, K+ S is and will be a potash producer, no doubt. But we are more. We have fertilizer specialities and salt, only a little or not at all affected by any disruptions in the field of MOP. If necessary, the K+ S group will stand together in order to maintain its integrity. Once again, yes, there is turbulence with respect to the potash market. But for now, most of it is only happening in our minds. Therefore, the next slide could also be read as a description of measures that take place in normal times.

We did in the past, and will continue to, closely monitor changes in the competitive environment and, if necessary, adjust our positions. Our focus to improve efficiency in all parts of our Company will remain. We have a very experienced management team that is familiar with disruptions in the potash market, and we will take all the time that is necessary to evaluate possible changes in the marketplace.

One thing is clear, our focus is long-term oriented in order to serve our customers also in the future with the product they need.

I will now hand over to Doctor Lohr to elaborate on what we have achieved so far in 2013. Burkhard, please.

Burkhard Lohr - *K+S Group - CFO*

Thank you, Mr. Steiner. A warm welcome from my side as well. I would now like to provide you with the details on the group's financials. And therefore, please turn to slide number 8.

In the second quarter, group revenues declined mainly due to a normalization of sales volumes in the potash and magnesium products business unit, compared to exceptionally high volumes in the second quarter of the previous year. In addition, negative price effects resulted in lower earnings, as prices for MOP were lower than in Q2 2013. In the salt business unit, revenues remained stable overall, with positive price effects almost offsetting currency-related decreases.

The operating earnings EBIT 1 of our potash business unit reached EUR182 million, down 24% compared to the same quarter a year ago. Remember that this year's quarter compares with an exceptionally strong previous year both in terms of sales volumes and pricing. Salt follows its usual seasonal pattern. And it's also, in terms of EBIT 1, almost on last year's level in absolute terms.

Looking at our P&L on slide 9, financial results improved by EUR6.6 million in the second quarter versus the reference period in 2012. Q2 2012 included an extraordinary interest expense of EUR7.6 million mainly for provisions for mining obligations. The adjusted group tax rate declined slightly by about 1% in the year-on-year comparison, but is on the same level quarter over quarter.

Adjusted group earnings from continued operations declined by EUR34.6 million, or roughly 25%, to EUR106 million in line with a decrease of the EBIT 1.

Let us now turn to the breakdown of cash flow for the first 6 months on slide number 10. Overall, cash flow from operating activities increased strongly by about EUR218 million, or 65%, to EUR554 million. This was mainly driven by a decline in working capital.

In the potash and magnesium products business, receivables fell as a result of price and volume factors. And in the salt business, inventories were significantly reduced, primarily due to the better weather conditions in the first quarter of 2013, compared to Q1 2012.

Cash flow for investing activities in the first half year amounted to EUR274 million and, therefore, significantly exceeded the level for the same period a year ago.

As expected, capital expenditure increased especially in connection with the package of measures for water protection, as well as the legacy [products]. The free cash flow reached EUR281 million, and was about 36% above the same period a year ago.

Our balance sheet remains in good shape, thanks to the conservative approach we always have taken. You will see the key figures we are looking at on slide 11. We have freedom to make all necessary decisions without any (inaudible). Let me give our recent renewal of our credit line as an example. We were successful in negotiating a new credit line with an international syndicate of banks. The new facility amounts to EUR1 billion for the term of five years until 2018, and two extension options of each year -- of one year each. And an important thing to mention is that the Company has no financial covenants in any of its debt facilities.

Let's now have a closer look at our business units, and start with our potash and magnesium products business unit on slide 12. Sales volumes normalized at about 1.8 million tons in the second quarter, compared to the very strong Q2 2012. The moderate increase of sales volume in our European markets could not offset CapEx in overseas markets. In addition, the average product portfolio price was down, as MOP prices fell below the high average price level of Q2 2012. In a quarter over quarter comparison, demand in the second quarter of 2013 remained on a good level after it had picked up quickly, after the conclusion of contracts in North American and Russian producers, with Chinese and Indian customers at the beginning of the year.

On the pricing side, no significant changes occurred. Slide 13 provides an overview of the quarterly cost position in the potash and magnesium products business unit. In the second quarter, unit costs decreased to EUR207 per ton, and were about 6% lower compared to the previous year's figure. In addition to lower NLG and freight costs, lower sales volumes resulted in an increase in inventory levels year over year. I can assure you that, in the context of our strategy, we are continuously focused on improving cost efficiency in all areas of the Company.

Let us now turn to our salt operations on slide 14. Overall, sales volumes remained stable in the second quarter, compared to the same period a year ago. Due to strong preseason sales in Europe, de-icing sales volumes increased significantly. With respect to pricing, the business unit benefited from a positive regional mix effect, since the relatively higher portion of de-icing salt products were sold in Europe, where the price level is generally above that of North American markets. Compared to the first quarter of 2013, sales volumes in the second quarter decreased significantly as a result of the usual seasonal pattern in the de-icing salt business. Average price for de-icing salt came down mainly due to preseason deliveries in Q2, which are usually lower than during the season. In addition, prices declined in North America as customers' inventory levels remained high.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ben Isaacson, Scotiabank.

Ben Isaacson - *Scotiabank - Analyst*

Thank you very much. I have two questions. When we look on slide 13 and we can see what your costs have been over the last several quarters, I was hoping you could provide a little bit more color in terms of the variability of costs by mine. What is the lowest cost, and what is the highest cost mine in terms of cash costs, however you want to define that?

And my second question is on distribution infrastructure in the US market. Do you have any distribution there with respect to potash? Thank you.

Norbert Steiner - *K+S Group - CEO*

I think -- Norbert Steiner, I should take your question and start with the second one. No, there is nothing. But a little bit of specialities, but we do not compete on the field of MOP on something like that. There is magnesium, a little bit that we -- magnesium sulfate that we sell also for speciality products, but nothing more. So generally, we try to abstain quite significantly from any comments on the US because this is not our area in which we are strong.

The first question needs to be elaborated on a little bit more in depth because, as we have mentioned also in our initial remarks, we do have not only potash in our crude salt in our mines, but also magnesium sulfate, etcetera. And this is more or less (inaudible) most of our mines here in Germany. That means that we always have a generally mixed hoisting of material that does contain potash as well as magnesium sulfate. Sodium, of course, and then the separation process starts. So you need to see that we are always in the position to -- always in the situation say that Mine 1 cannot easily be compared with Mine B, as we have specialized them due to the crude salt that they have in their deposits. And therefore, there are significant let's say, differentiations in the layout of the mine. And therefore, it is also something which is not easy to value because once you hoist a ton of minerals, then you've separated into potash, lower, higher volume magnesium, etcetera, etcetera.

And therefore, we have abstained internally as well to more or less compare the mines -- let the mines compete against each other since they are so different. Therefore also, we continue to believe that it is not only the question of the cash costs or the cost of production as such that makes maybe the difference, but you need to be cost-efficient at your customer's gate. And this was already, decades ago, the idea of our regional portfolio Europe special marks in overseas, etcetera, etcetera. So what we always try to do in our evaluations, in our assessments, when we discuss with the financial market is that we try (inaudible) to bring over that differentiations that we have product-wise. And also the question how we can be compared with our peers. And as they are more or less different from us, our reporting on significant different, let's say basis, it is not easy to be done.

Once again, to be comparable and to be competitive on the customer [gate] is the essential point. And it does not help if some company only offers you figures for cash costs of a mine and nothing else. Therefore, we also internally abstain from that more or less ranking of mines. And therefore, I ask for your understanding that we also will not disclose that publicly, since I do simply do not have it handy.

Ben Isaacson - *Scotiabank - Analyst*

That's fine. And maybe I'll just kind of bring those two questions together with a quick follow-up. The legacy project, is all potash intended to be exported outside of North America? And if not, maybe you could talk about the distribution that will need to be developed? And then, I guess as part of that question, is there an opportunity to export more potash to the US market, where, of course, you would need some more distribution infrastructure?

Norbert Steiner - *K+S Group - CEO*

First of all, we have always pointed out that we will have three products available once the production has started. This means MOP standard, MOP granular, and potash for industrial purposes. And we review to the North American landscape, certainly of the opinion that most of the material, at least that is being more or less produced for fertilizer purposes, will leave North America via the West Coast. Whilst I can imagine that also a good portion out of our industrial potash will remain in North America, and since we are already present in North America with a small sales organization based in New York, K+ S North America, I think we will certainly use the time in order to elaborate and define the way of distribution of both the industrial potash primarily, as well as the potash for fertilizer purposes in that, let's say, limited volume in North America. But I am not yet in a position to tell you more precisely what kind of distribution network we will use when it is the time to do that. You remember please, starting of, let's say, taking into production or let's say the start of the plant will be summer 2016, according to our detailed view. The first tons will then be available in 2016. Therefore, from today's perspective, 2013, 2014, 2015; that means three years to come.

Ben Isaacson - *Scotiabank - Analyst*

Thank you very much.

Norbert Steiner - *K+S Group - CEO*

You're welcome.

Operator

Joe Dewhurst, UBS.

Joe Dewhurst - *UBS - Analyst*

Just got a couple of questions. You mentioned that (inaudible) cost efficiency is something that you always focusing on. But I mean within the mines in Germany, how much potential do you see there? Is there -- if you were to introduce a project now with more focus on cost-cutting potential, how much more could you do? Or have you already been quite stringent already on cost reduction? And then, just secondly, on the mining obligations, just little bit more color on how that's -- how that number is calculated in the balance sheets. [Effectively], the kind of sort of inputs that go into determining that number? Thank you.

Norbert Steiner - *K+S Group - CEO*

First question -- Norbert Steiner once again. We always have looked into cost efficiency improvement. And therefore, I mentioned with you to my slide that we have presented to you, that it is all-day business. Of course, you have a certain bigger distance to the shaft. This increases -- business is simplified picture that increases generally your cost position. You need to work against it, and therefore you need to try to improve the efficiency.

There are various issues running. You always find ways in order to improve the efficiency -- let's say superior with more reports, etcetera (inaudible). And therefore, it is certainly something out of which we expect a significant number. This is something that we are calculating, of course, always. And I would like you -- to ask for patience that I will not disclose something like figure from that.

It is an all-day business. And, of course, we view to more or less prepare ourselves to any potential, let's say, more difficult situation that could arise, which has not arrived yet, arisen yet. Then, of course, we will see what else we can do.

Joe Dewhurst - *UBS - Analyst*

Thank you.

Norbert Steiner - *K+S Group - CEO*

Coming back to your question on the mine obligations. That is every quarter, and especially in terms of preparing the annual accounts, a very intensive work we do because we look at every single obligation on every single mine. And we try to value what we have to do in partially 30 or 40 years from now as to follow these obligations. Partially they are legal, partially they are -- have to be seen in line with the former approval. And then we sum up all the measures we have to do and discount them with actual discount wage rate, which is in line with investments of the comparable period of 30 or 40 years. Currently we have a discount rate slightly above 4%. And then you end up with a number which is 700 something in our books currently. And I think it's also interesting to mention that when we are talking about net debt, we always deduct this number. Although it's not a cash liability to date, it will be many years from now we deducted from our real net cash position.

Joe Dewhurst - *UBS - Analyst*

Thanks. If I could just follow up with the, I think it's the (inaudible) mine. So looking at the annual reports on sort of the mine reserves that are left there I mean is that somewhere where we could see some sort of cash outflows for the mine obligations in the next six or seven years?

Norbert Steiner - *K+S Group - CEO*

This is when you talk a little bit, seven-plus, then it might be right because I think we have published that the mine life of six months out is most likely. And after 2018, maybe be a little bit beyond [20]. And if that is the case, then we need to have all the reserves available at the end of the operative life. And then, of course, it is always advisable that one starts quite soon and quickly with all the demolishment that needs to be done, the (inaudible) processes, because the longer it takes, the more expensive it gets. This will then be more or less around 20.

Joe Dewhurst - *UBS - Analyst*

Thank you very much.

Norbert Steiner - *K+S Group - CEO*

You're welcome.

Operator

Joe Jackson, BMO Capital Markets.

Joe Jackson - *BMO Capital Markets - Analyst*

We've seen a lot of commentary from a lot of your competitors the last couple of weeks. We're seeing very little potash price discovery right now, which isn't that unusual for the time of year. Where in Brazil are you seeing prices right now? I mean, certainly posted prices for EUR440 to EUR450 a ton, but there was a lot of color that prices have gone to EUR400 or sub-EUR400, even before your (inaudible) announcement.

So what are you seeing in prices in Brazil right now? Or is it still too early to see? And if it's still too early, when would you expect to see decent price discovery in Brazil?

Norbert Steiner - *K+S Group - CEO*

Norbert Steiner answering. The question. I think they're both already, as you mentioned long before 30 July occurred, that our competitor Mosaic Jim Prokopanko discussed a little bit about pricing in Brazil. And if I remember correctly, he was talking about 400 something. Therefore, you are right that you say pricing in Brazil has been discussed publicly by our competitors already before that date and of course right now there is (inaudible) customers would like to have additional volumes on board. However as you might know and better to say certainly no there's a lot of ships waiting outside waiting to be unloaded. And therefore, I think it's a little bit more a situation where the speed of discussions about prices has come down significantly. And therefore, for my interpretation and what I hear from our market people, there is nothing else to be said compared to that what Jim Pokopenko mentioned. There is something around 400, and this is what we see. But there is uncertainty also on the customer side, and I think the dust needs to settle a little bit more before there will be a firm, let's say, direction for the pricing for the future in Brazil.

Joe Jackson - *BMO Capital Markets - Analyst*

Okay. Maybe you can shift to the salt business. One of your North American competitors recently came out and said that, you know, [bid] volumes for the 2013/2014 winter would be awarded bid volumes, but not be as high as two winters ago, with pricing down by about 2% year over year in those tenders. You've given some guidance that there is some price pressure. Could you maybe give some color about what you're seeing in North America for sulfur for that business, and maybe talk about the fact that [Kapelis] has more exposure to the East Coast? If you would have a little bit different situation than that competitor?

Norbert Steiner - *K+S Group - CEO*

You're talking about Compass, right? (laughter)

Joe Jackson - *BMO Capital Markets - Analyst*

I am. (laughter)

Norbert Steiner - *K+S Group - CEO*

As you know, we certainly something different in a situation like Compass. As we have historically, after the acquisition of [SPLE] East Coast, we have the Great Lakes and Canada with the acquisition of Morton Salt. And what we can see is that the process of awarding the bids is in, more or less -- in some areas and in the more advanced, in some areas in a less advanced status. We have, more or less, made progress in Canada to about 70% and 80%. In the Midwest, we are above [50%], and the East Coast below [30%]. That means below -- in the neighborhood of 30%. That means the process has not yet come to a full end. We need to wait for, let's say, until mid-September in order to have a picture. Nevertheless, it is the question, what kind of inventories have, let's say, survived the winter situation at the beginning of the year? And it was, more or less, also not comparable. In Canada, quite nice. Midwest, let's say (inaudible). But in the East Coast, also quite normal. So we think that this situation generally, and I do not want to go into detail too much, does not allow for general price increases. It might be that prices will drop, since also competition is quite hot. Therefore, I personally am not so optimistic to say that we are -- it will be able generally in the US to rise prices. There might be some 2%, 3% maybe a little bit more of price decline in the next months to come. But with view to the volume that we have most likely at the end of the season under contract, I think it is something where we are -- will be better off. Of course, we need then the winter at the end of the year. But it is nothing where we are negatively surprised. This is something which we had on the radar screen already six weeks.

Joe Jackson - *BMO Capital Markets - Analyst*

And finally, let me just follow up with --. If you could just comment if -- is there a chance that awarded volumes for your rock salt business in North America could be up versus two years ago? And then as part of that, what was the reason why you decided to take away earnings guidance for salt? I think we all could understand potash magnesium, but what was the need to have to stop giving guidance for salt? Thank you.

Norbert Steiner - *K+S Group - CEO*

What we did in the past and what we also are preparing up to the end of July was the guidance on the group level. And if we -- if I remember correctly, we always have only given the guidance for the group level and not specifically for the different operations.

Joe Jackson - *BMO Capital Markets - Analyst*

But you gave volume guidance for salt.

Norbert Steiner - *K+S Group - CEO*

What?

Joe Jackson - *BMO Capital Markets - Analyst*

But you gave volume guidance for salt.

Norbert Steiner - *K+S Group - CEO*

We gave volume guidance for salt, and this is something which I think is still alive. I have no different information that there is something negative or positively effective according to our planning scenario. And what I can say is that we have, generally, the ambition to have EUR170 million, EUR180 million of EBIT contribution out of the salt business. We might be a little bit at the lower side. But, once again, this is something that I do not want to elaborate in more detail, since it is unusual that we give guidance for several operations within our Company. And I would like to hope that we can come back to more precise guidance as soon as possible.

I will not make the forecasts that we will come back to it in November already, but as soon as possible, we'll come back. And then you will get more integrated outlook, most likely, in the same time, as we generally have done. But volume wise, no more or less negative or positive, let's say, deviations.

Thorsten Boeckers - *K+S Group - Head of IR*

Joe, I think -- it's Thorsten here. It's still fair to assume that we expect a good 22 million tons for salt in total volumes, whereas close to 13 million tons is de-icing.

Joe Jackson - *BMO Capital Markets - Analyst*

Thank you.

Operator

Jeremy Redenius, Sanford Bernstein.

Jeremy Redenius - *Sanford Bernstein - Analyst*

Hi, it Jeremy Redenius from Sanford Bernstein. I have three different questions. First, do you think Uralkali's decision in their strategy to increase volumes while decreasing price was economically rational? Second, since delaying big CapEx projects, can you usually really lower their NPV? Their net present value? Do you have any options to accelerate legacy's execution in the face of uncertainty? Accelerate, not decelerate.

And then thirdly, is there anything you're doing to try to reinstate the anti-dumping penalties for MOP imports into Europe, like there used to be a couple of years ago? Thanks very much.

Unidentified Company Representative

You're welcome. I do not like to comment publicly in detail on the, let's say, strategy development of our competitors. The only thing what I could repeat is something that we have said in the year, I think, 2011 -- when was it, 2011 when [PHP] tried to approach Potash Incorporated. And we always said that it is the first instance, a simple question of mathematics where you are landing. Lower volumes times higher price, or higher volumes times lower prices. And in most of the cases, we came to the conclusion that lower volumes and higher prices made you come better off.

As long as the market is open for more competitors, for more volumes, of course you can easily improve the situation, as you have high prices and higher volumes. But so far, the reaction of the financial markets towards the announcements from Russia were also negative, at least in the -- oversee the timeframe. Even the financial markets do not see any, this is at least my interpretation, do not see any merit in the new political or strategic approach.

So let's stay -- let me stay in this point. We have seen in the past that the volume behind price is priced before volume policy has paid out. And I think this is still the conviction that is being shared by most of the market participants around the globe.

I think I should stop here for the first question.

The second one, acceleration of legacy, most likely not, because you would like to see material acceleration. And I think that it's almost impossible if you to the time that is needed more or less to produce some of the equipment for the plant that requires 24, 27 month and something like that. And therefore, I think the timeframe that we have published is quite realistic. Might be a month or so, but I think this is not the point that you are asking for.

And the antidumping has not been launched once again. On the other hand, we are monitoring the situation in Europe quite intensively. Of course, there are contacts, or will be contacts, with the European commission in order to make them aware that something might change, which has not yet changed. And then they need to see whether anti-dumping measures against either (inaudible) based or the Russian Urakali will be taken into consideration once the legal requirements are fulfilled. And then we'll see. But once again, as mentioned in several locations, not much has changed.

But the, let's say, the mindset of many people, and therefore it is premature. However, once again underlying, if it is a case of anti-dumping, then we certainly well reserve all our rights.

Jeremy Redenius - *Sanford Bernstein - Analyst*

Okay. Thank you, Burkhard. Thank you very much.

Operator

Paul Walsh, Morgan Stanley.

Paul Walsh - *Morgan Stanley - Analyst*

Very much indeed. Three questions please. Just in terms of the volume/price discovery moving into the second half of the year. Mr. Steiner, how do you see that really playing out? Because we've seen periods in the past where you've seen a volume hiatus because a clearing price can't be found. Do you see that as a risk, or do you think it's more likely an appropriate price level is found and we see good volumes feeding through the system? My second question was on legacy financing. Is there a scenario under which you would call into question the economic value of doing that particular project? Or, B, if we did see prices falling to levels suggested by Uralkali, would you use alternative methods of financing in order to get the project completed? Thank you.

Norbert Steiner - *K+S Group - CEO*

So with view to volumes, your first question if I understood it correctly. Well, what is the situation which we are in right now? There is uncertainty in many marketplaces. And this will more or less not lead to the fact that, materially, we'll be running into different areas like we have expected and like maybe everybody that is looking at the potash market has expected over the time up to 30th of July.

I think that if we look back a little bit more or less, let's say, last 18 months, we have always and also some kind of situation in which there was quite a significant uncertainty in the market. When you go back to, let's say, December 2012, which is not far away in the past, then everybody was looking and asking itself will there be a Chinese [contract] quite soon or later? And if there would not be a contract at the beginning of the year 2013, what would it mean? It would mean that products would not run into China more or less in the same way. And the same, more or less, you know, is to be said in connection with the Indian contract. So now we have an Indian contract that is lasting until March 2014. We don't have yet any Chinese contract, if I'm not completely wrong. But maybe there are some which we don't know about. We have the spot business in Southeast Asia, in Brazil, in the US. And I think in the moment where there are price indications, maybe also floor price is coming officially from China. Then we are in a situation that there is a good chance that volumes are running into the different kind of markets. But so far, we should not be desperate right now. It is summertime, it is not high season. There are ships to be unloaded in Brazil, etcetera, etcetera. Let's wait for another couple of days and weeks and then we'll [see here]. For the time being, there is no reason to be absolutely pessimistic.

Burkhard Lohr - *K+S Group - CFO*

Yes, Burkhard Lohr here. I would like to answer your question concerning financing the legacy project. First of all, I think that it's very important to highlight that we have a very strong balance sheet. And what I mentioned in our speech earlier, we just renewed our loan. We're talking about EUR1 billion (inaudible), as we speak, [we'll] be undrawn, so we are not in a time pressure. And as we just finished this transaction with the loan -- and, by the way, without any financial covenants; we did not plan to take further steps in the very short period of time. So we have -- do not have the pressure to make any further decisions here. And we will, of course, have a very close look to what's happening on our product markets and make further decisions based on that, what we see there.

I know -- I can assume that you would love to hear more, but that is all I can tell you as we speak here.

Paul Walsh - *Morgan Stanley - Analyst*

That's great. Thank you very much.

Operator

Andrew Stott, BofA Merrill Lynch.

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

Good afternoon. Thanks for taking questions. One following on directly from Paul's question just now. If I can just take you to, I guess, a different direction. If you look at your previous commitment to investment grade, is there a scenario now again if you take -- you want to take a fairly bearish scenario around pricing. Is there a scenario where you're happy to run with sub-investment grade rating for a temporary period in order to get legacy done? In order to make the MPV look, shall we say, more doable? So that's question number one. Question number two, in your cash flow for Q2, you had a $216 million inflow from receivables. I'm just wondering what that is? It's a particularly big number relative to revenue delta year on year.

And number three, what was the benefit from the inventory gain in Q2 in your potash division? Thank you.

Burkhard Lohr - *K+S Group - CFO*

Thank you for the questions. First of all, elaborating on the investment grade. I'm sure you saw what S&P and Rudy's disclosed, and that's exactly what I said earlier. They also of course take a close look to what's going on on the -- on our product markets to then decide what their view on our credibility is. And they disclosed that they would take three months in the one case and six months in the other case for that. And that's exactly what we are going to do as well, and then make up our minds how to continue with our measures. And it would be premature and wouldn't really help to talk about scenarios with any changes on that base.

You talked about the receivables. Yes, we had very strong operating cash flow, stronger than the previous year. One portion of that is the cash inflow from South America. We had a significant number of receivable paid from our earlier shipments to Brazil especially. That is one portion that might not explain the [260], but that is a big important portion of what you have seen there.

Thorsten Boeckers - *K+S Group - Head of IR*

Is anybody ready for the third question, or do we need to deliver that at the end of the conference call? The gain from inventories?

Unidentified Company Representative

The gain from inventories. What you call the gain from inventories, the number in the second quarter was plus $6 million in total. It's pretty negligible.

Jeremy Redenius - *Sanford Bernstein - Analyst*

Okay. Thank you very much.

Operator

Martin Roediger, Kepler Cheuvreux.

Martin Roediger - *Kepler Cheuvreux - Analyst*

Yes, thank you for taking my three questions. First on potash, especially in the overseas market, can you explain the sequential price increase in US dollar terms in the second quarter versus the first quarter in overseas? The second question is, again, on potash. Under which circumstances would you walk away from the (inaudible) project or postpone it? And the third question, again, on potash. On slide 13 of your handout, we see that the cost per ton are much lower than year ago, and previous guidance was flat cost also cost per ton. Excuse my ignorance that I try dig in deeper on this, because you said you will continue to focus on cost efficiency. Does that mean that the cost level in the first half is sustainable, or are there any reasons why the cost should be higher in the second half versus the first half in the potash segment? Thank you.

Norbert Steiner - *K+S Group - CEO*

Martin, you are always trying to get things out of us that we won't disclose. And therefore, congratulations once again. (laughter). But I will not go into the trap. Because when we say that we don't make any forecasts for the year 2013 for the potash business, then of course it includes everything, both the market reaction as well as our situation. And with view, please forgive me; I cannot provide you today with an overview about the price situation and about the cost situation in our potash business. Of course, we try, as always, to be as good as possible; that means as low as possible. And certainly was due to that what we have heard; we are discussing how we should, in case something should happen, we should react on that. And this means that of course we are looking into a way of discussing certain scenarios, which then will be launched, as the case may be. But so far, and this more or less is our understanding from more or less the things that we need to do in the proper way. And as nothing has happened so far, there is always also nothing particular and nothing material that we need to do. Therefore, I would like to ask you for your patience that the question due to the cost development can only be answered in the way I did it.

And the first question, now I tend to have forgotten the second one, I think it's just a question of scenarios are due to legacy. The first question, there was some influence out of the fourth quarter of 2012 to the first quarter of 2013, and therefore it was a little bit flat. And things improved up.

At legacy, I mentioned in answer to your third question that we certainly need to discuss scenarios, which need to be executed once it is right. And hence, we have been able so far over decades to maintain our integrity and to stay a respected (inaudible) partner of our customers in the potash market. We are optimistic that we also would more or less overcome situations that could be more difficult than the situations as of today, which is not significantly difficult. And therefore, please trust in our ability to take the right decisions to the right point of time. Which certainly is nothing else but doing our duty.

Martin Roediger - *Kepler Cheuvreux - Analyst*

Thank you very much.

Operator

Neil Tyler, Redburn.

Neil Tyler - *Redburn - Analyst*

Just one follow-up, really, on the topic that Martin was just asking with regards to cost per ton. Could you help us a little bit in overall terms what the benefit was accrued in that number from producing into inventory? Relative to what the cost would of been, either in overall terms on a -- or on a per-ton basis, had you produced the same amount as you'd sold. And then if you could also give us an indication of where inventories stand in potash currently, relative to a typical level at this time of year and maybe even in absolute terms. That would be useful as well, please.

Norbert Steiner - *K+S Group - CEO*

Norbert Steiner answering again. I'm not really sure about the right answer to your first question. But what I see here is at the end of July, our inventories in the potash and magnesium product business segment were quite low. That means that we are more or less not far above those levels of the year 2010, 2009, and significantly lower compared to, if I can understand [printed lines] correctly, to the situation in 2011 and 2012. And therefore, I doubt very much, coming back to the first question, that there is much in. If I more or less follow our inventory development, there is something certainly going up from May to June, which is not unusual, which is more or less following the normal curve. But I doubt very much that it is material, really material.

Neil Tyler - *Redburn - Analyst*

Okay, so it's more a comparison to last year in terms of the movements between production and sales -- the relative movements between production and sales?

Thorsten Boeckers - *K+S Group - Head of IR*

Neil, it's Thorsten here. In a year-on-year comparison, looking at a per-ton basis, it's about EUR5 per ton, which was a benefit in this year.

Neil Tyler - *Redburn - Analyst*

Yes, but that's a year-on-year. So perhaps last year was slightly too high and this year is actually too low, is what you're saying?

Thorsten Boeckers - *K+S Group - Head of IR*

But it wouldn't change the picture by adjusting that.

Neil Tyler - *Redburn - Analyst*

Yes. Thank you. But just to come back to also one of your answers to (inaudible) question. You had previously said on an overall basis you expect operating costs this year to remain reasonably flat. Not on a per-ton basis, but on an overall basis. Presumably you got pretty good visibility over that. Can I just take that previous comment as still relevant today?

Norbert Steiner - *K+S Group - CEO*

I do not like to give you recommendations, but it is not out of range.

Neil Tyler - *Redburn - Analyst*

Okay. Thank you.

Norbert Steiner - *K+S Group - CEO*

Next question?

Operator

This was the last question, so I will hand it now back over to Norbert Steiner for the conclusion of the call.

Norbert Steiner - *K+S Group - CEO*

Okay, ladies and gentlemen, this was our conference call on our Q2 results and, of course, we have seen that more questions were raised into the direction of the turbulence we see on the markets right now. I hope that you got the impression that we are optimistic for the future of the K+ S and its integrity, including also our legacy project. Thank you for participating today. Thank you for raising the questions. And we look forward to continued cooperation with you, and to see you at one for the other location in the next couple of days on the near term. Thank you very much and all the best to you. Thank you, bye-bye.

Operator

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