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# EDITED TRANSCRIPT

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## PRESENTATION

### Editor

Presentation

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### **Burkhard Lohr** - *K+S AG - CFO*

Ladies and gentlemen, welcome to our Q2 conference call. On this end, we have our usual setup. Our Head of Finance and Accounting, Jorg Bettenhausen, and our Head of IR, Thorsten Boeckers, will support me later in answering your questions.

Let's start with the highlights on the second quarter on slide two. We saw another solid quarter with an EBIT I of EUR157 million. The main driver was the ongoing success of our specialty products. In addition, we have recognized insurance payments of around EUR30 million. This is to cover service interruptions at our Unterbreizbach site. Both effect are also reflected in the result of our potash and magnesium business unit, which came in at EUR159 million.

Regarding legacy, we can only make positive statements as we are on target in terms of timing and budget. With regard to our salt business, we are making good progress on tenders for the upcoming winter. Also, our Fit for the Future program is on track. We will elaborate a bit more on the effects later on. Up to now, we have achieved about half of our goal for 2014, which is to come in EUR150 million below our original plan.

Now, please turn to slide three. I think the main number here is the financial result. It is well below last year for two reasons. First, the interest cost for the bond issued in December 2013, and second, an adjustment due to lower interest rates on mining provisions.



Please move on to slide four. Our cash generation on the operating level has remained strong year-to-date. The free cash flow also remains positive. Of course, it is lower year-on-year mainly due to the planned increase in CapEx for the legacy project. Our net debt number increased due to the interest rate effects on provisions.

Please let me make some remarks to the potash business on slide five. The bottoming of market prices mentioned in our last conference call has now materialized with the usual time lag in average selling prices. We saw a continued robust demand both in Europe and Brazil, especially for granulated MOP. The Southeast Asian region is still the most competitive. Prices are currently not recovering further and are clearly lagging behind other markets.

K+S has been holding up well again thanks to our specialty products, mainly SOP. Our average selling price of EUR268 per tonne remained strong, and Europe has maintained its above-average position.

Now, please turn to slide six. The underlying performance of our potash and magnesium business unit was again solid. Our sales volumes were slightly below Q2 2013. This was not caused by lower demand but due to limit availability of product, which is an effect of the Unterbreizbach incident. Our average selling price is lower year-on-year but has improved quarter-on-quarter mainly due to specialties.

Cost per tonne showed a very satisfying development. As in the first quarter, it remained at very low level. In addition to lower energy cost, we also sold more product in Europe than overseas, which gave us a freight cost advantage. In addition to that, our colleagues in potash and magnesium have also successfully worked on Fit for the Future. Most of the effects can be seen in material and third-party costs, which declined significantly.

Now, please turn to slide seven. Our salt business showed a positive trend despite the burden of the mild European winter. We should not forget that Q2 is the low season for the de-icing business. We are, however, making good progress on tenders for the upcoming winter in North America.

While the bidding process is well underway in Canada and the Midwest, the East Coast is still ongoing. North American de-icing markets are regionally very different, and so are price developments. While we see stable prices in Canada, early discussions on the East Coast indicate moderate increases. The Middle West will most likely experience tangible price increases starting at low basis.

For our guidance, please turn to slide eight. As usual at this time, we are providing a broader range for the full year key figures. Let's focus on the EBIT I development here. Our range of EUR490 million to EUR570 million includes the EUR30 million which was exceptional in Q2. What forms our base case? We expect salt volumes to be slightly above 2013 levels, with de-icing coming in above 14 million tonnes.

With regard to potash and magnesium products, we are sticking to our volume assumptions. The average selling price will, of course, be tangibly lower than last year. However, the EUR265 in the first half mark the bottom. We anticipate further year-on-year progress in reducing costs.

On the other hand, we are facing increases in depreciation and higher OpEx for legacy. EUR193 per tonne is not sustainable for the total year. Of course, the main portions of the maintenance costs occur in the second half of the year.

What would make the EBIT I move to one end or the other? The upside, for example, could be a better than currently expected salt result if the winter is above average. With regard to potash, our specialties have already made good progress, and potassium chloride is facing many variables, for example the price development of soft commodities or adverse weather effects. This could move the trend. We are cautiously optimistic but also want to be realistic.

And now, thank you for your attention. Operator, please open the line for the questions.



## QUESTIONS AND ANSWERS

### Operator

(Operator instructions.) Lutz Grueten, Commerzbank.

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### Lutz Grueten - Commerzbank - Analyst

Yes, thanks for taking my two questions. The first one is regarding the unit cost per tonne. Can you please remind me what numbers you're looking for to achieve on the full-year base, with 192, 193 in H1, so what's the full-year number here you're looking for?

And the second question is regarding the Fit program. You have achieved EUR75 million in H1 through maintenance and material cost reduction. What percentage is sustainable and is not just postponed into the second half-year? Thank you.

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### Burkhard Lohr - K+S AG - CFO

Yes, Mr. Grueten, thank you for your questions. I would like to start with the unit cost per tonne. In our last call, I indicated that the number was, for the first quarter, quite low, but we expect to see a number for the entire year 2014 which should be on the level of the average cost per tonne of 2013.

As we have now seen in the first half of this year, we are a bit more positive on that, though we still expect a cost increase in the second half. I indicated one or two reasons, for example maintenance costs, which usually come in with [the] higher volume in the second half. We have a maintenance holiday, for example, in the third quarter, and other items, but we believe that we will be well below the average number of last year. I cannot be more precise on that, but that gives you a tendency.

Fit for the Future, I would not confirm the precise number that you have raised, EUR75 million. We said half of the EUR150 million, but of course that should not be seen that sharp. But anyway, you asked what portion of that is sustainable. We have always indicated that, of course, in the year one of the total program, so 2014, we expect a good portion to be one-offs. But, important to remember that, in 2016, the entire volume comes from sustainable measures so that we have positive effect even after 2016.

We were very happy to see that, already in 2014, roughly 50% of the achieved savings are sustainable measures, are the outcome of sustainable measures. I hope that answers your question.

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### Lutz Grueten - Commerzbank - Analyst

Yes, thank you.

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### Burkhard Lohr - K+S AG - CFO

Thank you, Mr. Grueten.

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### Operator

Ben Scarlett, JPMorgan.

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**Ben Scarlett** - *JPMorgan - Analyst*

Yes, great, thanks. Thanks for taking my questions. Just a couple, if I can. The first--.

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**Burkhard Lohr** - *K+S AG - CFO*

--Sorry, may I propose that we answer question-by-question if you have more than one?

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**Ben Scarlett** - *JPMorgan - Analyst*

Okay, yes. No, perfect. Perfect. That's fine.

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**Burkhard Lohr** - *K+S AG - CFO*

Okay, thank you.

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**Ben Scarlett** - *JPMorgan - Analyst*

So, the first, you sort of just mentioned it at the end of the presentation, but I just wanted to get to grips really with the moving parts in your guidance. I mean, you've just come in -- if we take EBIT I as a base, you've just come in at sort of 377 and, say, 380 for the first half. So, even to kind of get to the mid-point of your guidance, so 530, you're only looking at sort of EUR150 million-odd for H2.

So, I'm just wondering, in the context of sort of we know potash prices are up, you've just talked about salt prices being up, I guess volumes will come back a little bit, I'm just wondering if there's anything unusual in H2 that should mean that we get such a sort of seasonal decline. I know you've talked about maintenance, et cetera, but that's kind of normal seasonal effect. So, is there anything abnormal in H2 we should be aware of?

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**Burkhard Lohr** - *K+S AG - CFO*

To start with a clear answer and then I'll try to give you a bit more flavor, no, there's no special item, nothing that we have taken into account already without talking about that. But, we also indicated that we are seeing this guidance as realistic, but cautiously realistic. There are many variables who can affect our business, yes? We are facing better prices in the de-icing business in North America, but the biggest part of that effect will be seen in 2015. We are not -- we don't know yet what the volumes will look like in the de-icing business.

We have also taken a quite cautious assumption when it comes to the potash prices. Yes, we believe that we have seen the bottom, but it would not be cautious financial management if we would assume [rocketing] prices. So, I think you have to see that in that perspective, but again, there has not been any special burden or special effect that we have taken into account when we put together the guidance.

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**Ben Scarlett** - *JPMorgan - Analyst*

Okay. Okay, great, understood. Very clear. And the second question, sort of slightly geeky, I mean, in terms of SOP, I mean, see a lot of tailwinds this year. I'm just wondering if you've got any thoughts yet in terms of supply-demand dynamics next year. I mean, maybe don't mention competitors, but obviously there's been a lot of sort of supply outages, shall we say, this year, so maybe some early thoughts on the SOP-MOP premium next year.

And then, maybe sort of tagging on any thoughts on Russia, because obviously that's affecting in theory sort of fruit and veg sort of specialty crop export markets for Europe. So, any thoughts on how that could maybe affect the dynamics next year?

**Burkhard Lohr** - *K+S AG - CFO*

Yes. SOP, we indicated that we believe that the sales and demand development that we've seen in the first half should be good for the rest of this year, as well. We believe that the strong demand is sustainable, so that there's no reason to see weaker demand in next year. But, some potential suppliers will come back with higher volumes so that we are not assuming to see a premium on MOP, or between SOP and MOP on the same level that we've seen in 2014.

Of course, this will be an effect which does not come in on the first of January, but it will happen in the course of next year. So, it's difficult to be more precise what the final outcome of that will be in 2015.

Russia, yes, that is quite difficult to predict what that means for our business. First of all, no direct impact. The volumes that we ship into Russia are anyway very, very small and more linked to the salt business, but they are not affected by any measure that have been taken. So, theoretically, we can continue our business as we have done in the past.

On the other hand, it has already had effect on prices of (inaudible) agriculture products in Europe and, on the other hand, they are going to look for other sources -- sourcing opportunities. China is under discussion, Brazil is under discussion, so that could mean an extraordinary high demand in this area. But, to bring that down to the potash demand is almost impossible and would not be very serious if I would give you a more precise answer on that.

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**Ben Scarlett** - *JPMorgan - Analyst*

Okay, great. No, understood, understood.

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**Burkhard Lohr** - *K+S AG - CFO*

Okay, thank you very much.

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**Ben Scarlett** - *JPMorgan - Analyst*

Thank you.

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**Operator**

Joe Dewhurst, UBS.

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**Joe Dewhurst** - *UBS - Analyst*

Hello. Actually, just following on from Ben's question there, just the first question, on SOP, is it fair to assume that nearly 50% of your EBIT now is coming from SOP, given the very wide spreads that we've seen in this product?

And also, again, given (inaudible) collapsing in fruit and vegetable prices. I mean, isn't it more of an issue that margin above MOP is at risk? That's just the first question.

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

So, just so we get it right, Joe, ask what the SOP portion in the EBIT is?

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**Joe Dewhurst** - UBS - Analyst

That's right, yes. Yes.

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

It's not -- I mean, let me answer it that way, because we're not going to break down the EBIT further, but we always said that we have about 800,000, or a good 800,000 tonnes capacity in SOP. So, this implies, I guess, the revenue numbers, and also gives you an indication for the EBIT.

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**Joe Dewhurst** - UBS - Analyst

Yes. And, I mean, just from the pricing risk, given what we're seeing in particular the fruit and vegetables, where we see very dramatic drops in pricing even just in the last week immediately after the sanctions, exactly maybe how that's impacting the SOP market, or any (inaudible) on that? Because, I mean, we are at sort of records premiums on SOP to MOP right now.

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**Burkhard Lohr** - K+S AG - CFO

Yes. Yes, okay. That is almost as tricky as the question for the effect on Russia. Yes, we have seen an effect on the commodity prices. And yes, if this is sustainable, farmers will most likely look for compensations, but that does not necessarily mean cost cutting. That could also mean increased yields per hectare, and one good measure for doing that is using more fertilizers. So, you can form different scenarios with completely different outcome for our business, yes, so that I'm not able to predict precisely what the current development -- again, this might not even be sustainable what that could mean for our business.

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**Joe Dewhurst** - UBS - Analyst

Thanks. And just then on the costs, how much of sort of the cost saving, or just the cost easing that you've seen in the last quarter was down to gas prices and to energy prices?

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**Burkhard Lohr** - K+S AG - CFO

The cost advantage that we have achieved in the first half of this year is roughly 50% linked to energy and freight, and the rest is our achievement in the program Fit for the Future.

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**Joe Dewhurst** - UBS - Analyst

Okay, thanks very much.

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**Burkhard Lohr** - K+S AG - CFO

You're welcome.

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**Operator**

Martin Roediger, Kepler Cheuvreux.

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

Yes, I have also three question, and I ask them step-by-step so [that you] get the chance to [answer] them. First, on the financial results, can you provide us with an update whether you will or you will not capsulize the financing costs for legacy? And if you do so, can you quantify the impact?

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**Burkhard Lohr** - *K+S AG - CFO*

Yes. We have precisely calculated on this [IRS]-23 effect. There will be almost no effect in the year 2014 because we are still serving our CapEx needs for legacy out of our remaining cash, and the effects that we see in '15 and '16 should be between EUR20 million and EUR30 million. So, EUR20 million and EUR30 million per annum positive effect on the financial result.

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

Okay. The second question is on your volumes in potash in Q2. It looks that your overseas volumes shrink further, not only in Q1, also in Q2, and I conclude this is to a large extent due to lower volume shipments to Brazil. And we know that the market in Brazil is up in the first half by 27% year-on-year. So, it looks that you lost market share in Brazil, but I remember that last year it was quite the opposite, when you gained market share. So, my question is, is this just a temporary item, because your customers are different compared to your peers, or is it due to the accident in Unterbreizbach and you preferred volumes to ship more to Europe instead of to ship it to Brazil?

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**Burkhard Lohr** - *K+S AG - CFO*

It's clearly the second alternative of the two you mentioned. We are, unfortunately, short in product. We have lost last year already, and this year again, significant volumes, and that's, by the way, the reason why we have this agreement with the insurance companies, and we had to decide where to ship the volumes. And of course, in such a situation, you first serve your clients in your home market.

Luckily, we are here in the area with the highest prices currently. But, we also believe that, when we will be able to ship higher volumes in Brazil again next year, starting next year, that our relationships to our clients are so reliable that they are not gone forever. But of course, technically, you are correct. We are losing market share currently in Brazil due to that situation.

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

And my third question is on your legacy project. Can you provide us with your best guess -- I know it's very early at this point in time -- but your best guess what will be the ramp-up costs for legacy in the year 2016?

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**Burkhard Lohr** - *K+S AG - CFO*

I could, but I will not. I'm sorry for that. It is a bit too far away, and we will be more precise on the effects when we are closing to the real ramp-up phase.

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

Okay. Thank you very much.

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**Burkhard Lohr** - K+S AG - CFO

Understanding

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**Operator**

Sophie Jourdier, Liberum.

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**Sophie Jourdier** - Liberum Capital Limited - Analyst

Oh, yes, thanks for taking the questions. The first one, I wondered whether you could give us an idea about how volumes in potash have continued into the third quarter in your key regions, I guess, of Europe and Brazil. And alongside that question, in terms of your capacity, what capacity will you have for potash volumes in next year, in FY '15? That's the first question.

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

Hey, Sophie, sorry. We just were looking up the number, but when we look at the start into the third quarter, without giving a precise number, but we have seen continued good demand across the regions. Of course, we have a little slowdown, which is usual seasonal slowdown, so nothing extraordinary there.

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**Burkhard Lohr** - K+S AG - CFO

And next year we should see a full capacity of above seven million tonnes.

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**Sophie Jourdier** - Liberum Capital Limited - Analyst

Great, thank you. The second question I had related to the salt business. You very helpfully -- and thank you -- gave us an explanation of the different regions in North America and the different price movements you're seeing there at the moment. I just have no idea, or maybe I should, as to which region is the most important for you, and so I wonder whether you could help me on that.

And second, your competitors, Compass, were recently talking about price increase of around about 20%, I think they said, on average. Is that what you're sort of referring to in the Midwest with sort of [tangibles]? Is that where they are mainly based, and -- just whether you could help me understand the difference. Thanks.

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**Burkhard Lohr** - K+S AG - CFO

Yes. Yes, it's difficult to say which region is the most important. I would say altogether, because we have a network of production opportunities all over the places and, volume-wise, they are quite similar. Canada, East Coast and Midwest, there's none which is -- in terms of volume is really dominating. The price developments differ. Canada is a stable business, and in terms of prices, there might be a slight increase, but not comparable to what we see in the other region. East Coast is more competitive than Midwest, for example, because all competitors are able to source volumes into the East Coast region. And again, here we will see better prices, but not comparable to what we already see in the Midwest.

And the competition is significantly lower in the Midwest area, especially this year because, as I said earlier, we have more sourcing capacities. And I would not like to confirm the Compass number, but it's not too far away from what we are seeing here.

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**Sophie Jourdi**er - *Liberum Capital Limited - Analyst*

In the Midwest?

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**Burkhard Loh**r - *K+S AG - CFO*

In the Midwest.

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**Sophie Jourdi**er - *Liberum Capital Limited - Analyst*

Yes, okay. Thanks. And just, sorry, one final question, legacy costs, I think the guidance you gave at the first quarter was, if I remember correctly, EUR35 million costs for the full year. Is that -- you seem to be a bit beneath that so far. Is that still a good number to be putting in?

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**Burkhard Loh**r - *K+S AG - CFO*

Absolutely.

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**Sophie Jourdi**er - *Liberum Capital Limited - Analyst*

Yes, okay. Thank you very much, very, very helpful.

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**Burkhard Loh**r - *K+S AG - CFO*

You're welcome.

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**Operator**

Ben Isaacson, Scotiabank.

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**Ben Isaacson** - *Scotiabank - Analyst*

Hi, thank you very much. Three questions. First question is on the legacy project. You stated that the project was both on time and on budget. I'm hoping you can explain to me how often is your budget looked at, and when was the last time you looked at it, and when will the next review of the budget be?

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**Burkhard Loh**r - *K+S AG - CFO*

We look at the budget very intensively once a month, and we have a very strong controlling team on-site which does not only collect numbers, they really look [at] the forecasted progress really realistic. They check it with the contracts signed. They check it with the process on -- or progress on-site. And then, this is of course sent to [cover], and our central controlling team is doing a second check. And I personally travel once a quarter to Saskatoon, and with my project background, I'm capable to have an additional check. But, the rhythm is once a month.

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**Ben Isaacson** - Scotiabank - Analyst

That's excellent. Thank you. My second question is on the Fit for the Future program. If we take factors like energy costs, legacy and regional mix and we put those aside, how much per tonne do you expect potash costs to go down if we look out two or three years? I mean, ultimately, what is your goal in terms of potash cost development from this Fit for the Future program?

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**Burkhard Lohr** - K+S AG - CFO

Yes, roughly we have indicated that we want to keep the costs flat for the period of Fit for the Future. That means we are trying to compensate for all the inflation items, including what you mentioned, increasing OpEx legacy, et cetera, normal inflation, lower efficiency on the sites which every miner is facing, and we are working against all these effects and want to keep the cost per tonne flat for three years.

And as I indicated earlier, in the first quarter, we said compared to 2013 we should see a flat development, but this year the outcome will even be a bit better, but somewhere in that region should be -- the cost per tonne number be for the next three years.

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**Ben Isaacson** - Scotiabank - Analyst

That's great, thank you. And my final question, on page five of your slides, you say that Southeast Asia is the most competitive, with the price recovery lagging. And to me, that means that it's only a matter of time before it catches up to the momentum we've seen in the US and Brazil. Why is that so? I mean, the standard market seems to have really become a two-tiered market, away from the granular market. What gives you the confidence that we're going to see an improvement in the standard market in Southeast Asia?

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**Burkhard Lohr** - K+S AG - CFO

Yes, you indicated already the reason, because we see a positive development not only in terms of [price], but in terms of behavior of the competitors in all other areas of the world, and it doesn't make sense that this is not the case for longer period of time in Southeast Asia, because we are talking about the same players.

This is not a very important market for us, but of course we are closely watching the development. And we believe, as you said, it's only a question of time before we see a positive development there, as well.

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**Ben Isaacson** - Scotiabank - Analyst

That's very helpful. Thank you.

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**Burkhard Lohr** - K+S AG - CFO

Thank you.

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**Operator**

Andrew Benson, Citi.

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**Andrew Benson** - Citigroup - Analyst

Yes, thanks very much. It's been reported in the (inaudible) news reports that Urakali and Canpotex are shooting for \$3.80 a tonne into Brazil. I just wondered if you'd managed to achieve that sort of level for October and beyond.



And can you just -- I didn't hear on the gas prices how significant the benefit was from lower gas, and how long that benefit might last in Europe for.

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**Burkhard Lohr** - *K+S AG - CFO*

So, we haven't seen \$3.80 so far in Brazil. And we will -- the [development] is positive and even a bit quicker, to be honest, as we have assumed the price development, but we have not seen any \$3.80 transactions so far.

And to the gas price, I said earlier 50% of the cost per tonne decrease comes from energy and freight, but the clearly bigger portion out of these two items is the energy item.

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**Andrew Benson** - *Citigroup - Analyst*

Okay, and how long do you think that might last for?

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**Burkhard Lohr** - *K+S AG - CFO*

Yes, as we have quite often mentioned, energy sourcing contract is the main reason for us to participate on that development. There's no reason that this is only a very short impact, or an impact that will disappear in the near future. So, we believe that is something which will help us for the next couple of years.

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**Andrew Benson** - *Citigroup - Analyst*

That's great. Thank you very much.

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**Burkhard Lohr** - *K+S AG - CFO*

Thank you.

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**Operator**

Patrick Lambert, Nomura.

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**Patrick Lambert** - *Nomura International - Analyst*

Good afternoon. Thanks for taking my questions. First question's on, again, the legacy project. Could you split up a little bit more the OpEx per quarter just for us to get the run rate that you're going to incur by the end of this year? Also for the CapEx, if you could split the legacy CapEx also so that we can track that? Thanks.

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

Yes, Patrick. We had now EUR7 million in the first two quarters each, and we said that we will see EUR35 million for the full year, so implying that it's ramping up to the [latter] quarter.



**Operator**

Peter Mackey, Morgan Stanley.

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**Peter Mackey** - *Morgan Stanley - Analyst*

Thanks very much, but I didn't know if you wanted to carry on the CapEx question.

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

We were just looking at one another and saying that we didn't get the second question answered. So, Patrick, can you repeat the second question?

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**Patrick Lambert** - *Nomura International - Analyst*

Yes. Am I still online? Can you hear me?

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

Yes, we can hear you.

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**Patrick Lambert** - *Nomura International - Analyst*

Yes, super. So, the CapEx, are you splitting it a little bit more on legacy project?

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

I mean, we said for the full year, to give you an indication there, we are now at around EUR1.1 billion for the Group, and we said that this will be around EUR800 million for legacy. And when you're just referring to the second quarter, it should be about two-thirds. But, I would try to avoid one mistake. We are talking about real huge project, and even -- there are some contractors having huge contracts.

And if we differ, let's say, even EUR100 million between two quarters, that does not necessarily mean that anything is running out of business or out of plan on that project. It's only terms of -- a matter of the terms of the financial conditions in the contract, et cetera. So, I would not really split down such a number quarter-by-quarter. You could come to wrong conclusion.

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**Patrick Lambert** - *Nomura International - Analyst*

Yes, full-year [grid]. The second question was more, again, on the energy prices. How far does your visibility goes in terms of nat gas prices? Are you fully backed up for H2 in terms of contracts and price agreements?

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**Burkhard Lohr** - *K+S AG - CFO*

Yes, for H2 we are, definitely, yes.

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**Patrick Lambert** - *Nomura International - Analyst*

Okay. Thank you.



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**Burkhard Lohr** - *K+S AG - CFO*

Welcome. Sorry, Peter.

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**Peter Mackey** - *Morgan Stanley - Analyst*

Am I still on?

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**Burkhard Lohr** - *K+S AG - CFO*

Yes, you are.

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**Peter Mackey** - *Morgan Stanley - Analyst*

Fantastic. Fantastic. Well, I'll ask three quick financial ones, if you don't mind, and I may as well ask them all three at once, just in case.

Firstly, I just wanted to check, are you expecting any further special one-off insurance income, or is the EUR30 million it? Secondly, your guidance indicates -- suggests EUR280 million of D&A for the year. We've seen a bit of a step-up from Q1 to Q2, but that implies a fairly sizable step-up in the second half of the year. Is that primarily in PMP, and does it relate to the environmental CapEx you've been putting on the ground? I just want to be 100% sure there's nothing relating to legacy at all in there.

And my third question is on the hedging numbers. You talked about the PMP division benefiting from hedging such that you were operating at an exchange rate of 133 in the second quarter, and it was versus 137 in Q1. Can you give us an idea of what you're hedging in place at the moment has for Q3 and Q4, please?

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

Yes, thanks for the questions. We have no settlement so far with the insurance, but the settlement is so probable and so close that we have taken this EUR30 million into account. So, it's a valuation of a receivable, if you wish.

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**Peter Mackey** - *Morgan Stanley - Analyst*

So, that's the one-off and the total effect?

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

Exactly. No, it's the one-off in this quarter. There might be a small amount in addition on that if we have the final settlement.

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**Peter Mackey** - *Morgan Stanley - Analyst*

And you'll receive that at some point in the second -- well, obviously in the second half, yes?

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

We will see the cash flow in the third quarter, most probably.



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**Peter Mackey** - Morgan Stanley - Analyst

Okay, thank you.

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**Burkhard Lohr** - K+S AG - CFO

Yes, second question, you gave the answer by yourself already. The higher D&A number comes from our environmental investments at the Werra (inaudible). And the hedging question will be answered by Jorg Bettenhausen.

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**Jorg Bettenhausen** - K+S AG - Head of Finance and Accounting

Yes. Most probably you know that we use mostly options to hedge our US dollar exposure, and (inaudible) more or less locked in a worst-case of slightly below EUR140 million for the rest of the year. That means it could be better, the spot prices better, but the worst case will be EUR140 million.

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**Peter Mackey** - Morgan Stanley - Analyst

So, effectively, we should see you operating at spot at the moment. Is that the right way to understand it? And the cost of those options has already been taken? Is that how we should think about it?

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**Jorg Bettenhausen** - K+S AG - Head of Finance and Accounting

Yes.

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**Peter Mackey** - Morgan Stanley - Analyst

Okay, thank you.

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**Operator**

Joel Jackson, BMO Capital Markets.

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**Joel Jackson** - BMO Capital Markets - Analyst

Hi, good afternoon. I have a few questions, as well. My first question was looking at your guidance. So, historically, I believe K+S, when they've given guidance -- when you've given guidance, you talk about assuming a potash price would be flat from current pricing. I'm not sure what you're doing now, but could you talk about the midpoint of your guidance ranges assumes flat potash prices from today? Thanks.

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**Burkhard Lohr** - K+S AG - CFO

Yes. As we indicated, that we believe that the current achieved average prices are at the bottom of what we expect, it would not be very sensible to keep that number flat. So, our expectation for the second half is a higher number, but only a very slight increase we have taken into account just to be on the safe side. As I said earlier, if you could see our behavior as a prudent financial management. And I think after what we've seen last year, that is required.



**Joel Jackson** - BMO Capital Markets - Analyst

Okay. Thank you for that. My second question on salt, so you talk about how you expect Canadian de-icing salt prices to be stable. Now, is that because Canadian de-icing contracts with government customers tend to be multi-year contracts with inflators already built in? Is that why?

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**Burkhard Lohr** - K+S AG - CFO

That is the main reason for that, exactly.

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**Joel Jackson** - BMO Capital Markets - Analyst

Okay. And my third question is this, is we've seen ridiculously high salt price increases this year, 30%, 40%, even 50%, 60% increases in some of the state tenders in the US. I know it's tough to look out into the crystal ball until next year, but if we assume a normal winter coming up and we go to bid season for next year, is it reasonable we could see salt price decreases because there'd be normal inventories of salt among you and your competitors, and more situations where there's multiple bidders in the different bids as opposed to single bidders like this year? Thank you.

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**Burkhard Lohr** - K+S AG - CFO

Yes. First of all, we all have to remember that we came from a very low basis. The de-icing prices in North America, for example, are way below the prices here in Europe. And these increases sound significant, but it's making up a good portion of too low prices in the last couple of years.

So, if we assume a normal winter, we should also assume stable prices next year. I don't see a reason why we would, all [in] a sudden, see overcapacities again and lower prices. That is not the scenario what I believe in.

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**Joel Jackson** - BMO Capital Markets - Analyst

Thank you.

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**Burkhard Lohr** - K+S AG - CFO

You're welcome.

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**Operator**

Rajesh Singh, Societe Generale.

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**Rajesh Singh** - Societe Generale - Analyst

Yes, hi, Rajesh here. Thanks a lot. I think all of my questions have been answered.

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**Burkhard Lohr** - K+S AG - CFO

Perfect. This is easiest way to answer questions. All the best to you.

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

Operator, do we have any further questions?

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**Operator**

We currently have no questions coming through. (Operator instructions.)

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**Burkhard Lohr** - K+S AG - CFO

But we don't have to force it.

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**Operator**

Patrick Lambert, Nomura.

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**Patrick Lambert** - Nomura International - Analyst

Yes, I felt obliged, I guess. A quick one on salt, actually. We have a chemical company talking about new technologies in salt, mostly formic acid-based, no halogen-based and heavy compounds. Do you see them at all? What do you think of that?

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**Burkhard Lohr** - K+S AG - CFO

Well, now you've got me. I have no idea.

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**Patrick Lambert** - Nomura International - Analyst

You have no idea? Good. Well, at least you haven't heard of it.

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**Burkhard Lohr** - K+S AG - CFO

It cannot be a very big development. Otherwise, we would have discussed it. But, I will find out, and we come back to you with a proper answer.

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**Patrick Lambert** - Nomura International - Analyst

Thanks, guys.

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**Burkhard Lohr** - K+S AG - CFO

Welcome.

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**Operator**

Joel Jackson, BMO Capital Markets.

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**Joel Jackson** - BMO Capital Markets - Analyst

Okay, I thought I'd ask one more. Just going back to legacy, when do you expect the evaporator-crystallizer equipment to be delivered to site? Because I understand that's when you really start building a plant around that. Thank you.

**Burkhard Lohr** - K+S AG - CFO

Part have already be delivered, and we have started the welling process. but, I cannot give you the precise date of being finished with that by hard. But, it is in the process of being put together.

**Joel Jackson** - BMO Capital Markets - Analyst

So, the evaporator-crystallizer equipment has been delivered to site already? Is that what you're saying?

**Burkhard Lohr** - K+S AG - CFO

Part of that have already been delivered, yes.

**Joel Jackson** - BMO Capital Markets - Analyst

Part of it, okay. Thank you.

**Operator**

Thank you. We have no further questions coming through, so I will now hand back over to Dr. Burkhard Lohr for conclusion of the call. Please go ahead.

**Burkhard Lohr** - K+S AG - CFO

Yes, thank you. Ladies and gentlemen, as you heard, we had a good start into the new year, and that continued in the second quarter. We are making steady progress with regards to the legacy project, and we are keeping costs under control. And flexibility was and will remain the competitive advantage of K+S, and we are aware that the markets remain fragile, but we are moving optimistically into the second half.

And now, I would like to thank you for your attention.

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