

WORLD TELEVISION

K+S

Quarter 2 Conference Call
13th August 2015

K+S Group

Dr Burkhard Lohr, Chief Financial Officer

Jörg Bettenhausen, Head of Finance and Accounting

Thorsten Boeckers, Head of IR

QUESTIONS FROM

Lutz Grüten, Commerzbank

Christian Faitz, Kepler Cheuvreux

Sophie Jourdier, Liberum

Oliver Schwarz, Warburg

Jeremy Redenius, Bernstein

Neil Tyler, Redburn

John Klein, Berenberg

Andrew Benson, Citi

Yonah Weisz, HSBC

Li Dunlop, JP Morgan

Markus Mayer, Baader Helvea

Michael Schaefer, Equinet Bank

Rajesh Singla, Société Générale

Peter McKay, BNP Paribas

Presentation

Dr Burkhard Lohr, Chief Financial Officer

Ladies and gentlemen, good morning and welcome to our Q2 conference call. I'm here with our Head of Finance and Accounting, Jörg Bettenhausen, and our Head of IR, Thorsten Boeckers.

This is an important time for K+S, as you all know. I would like to start with our performance, which we are very pleased with, and then we can move on to a Q&A. Now let's start with the highlights on slide 2.

Clearly, the biggest event in Q2 was the unsolicited proposal by PotashCorp. Last Friday we received another letter in which PotashCorp proposed a takeover at an unchanged price of Euro 41 per share. We are still convinced that this price does not at all reflect the fundamental value of K+S. This is true for our existing business, but in particular for the future value contribution of our Legacy Project.

There was also a draft business combination agreement attached to the letter. However, the commitments proposed in there do not provide for liability. They are formed by far-reaching restrictions in essential parts and are not effectively enforceable.

Don't get us wrong. We are not at all blocking a potential transaction, but we also know that the vast majority of our shareholders have the clear view that Euro 41 per share is not sufficient.

According to a survey amongst our retail shareholders, conducted by us, 84% support the management in rejecting the current proposal by PotashCorp. If there would be a public offer at Euro 41 per share, only 4% would accept it. 28% are looking for a significantly higher price, while 43% would wait for a management recommendation and 80% would not be willing to tender their shares at all.

By judging these numbers, one needs to keep in mind that our retail investors represent around 30% of all outstanding shares. The response to the survey was overwhelming; we got almost 39,000 questionnaires back, which represents a response rate of 28% on the 140,000 letters we sent out.

And now let's turn to our results. We delivered a very strong performance in the second quarter. That further reinforces our strong belief that K+S will deliver great value for our shareholders as a standalone entity. This result was underpinned by the outstanding performance of our Salt business, together with a strong contribution from our Potash business.

Our Legacy Project is on track to become the Group's main value driver. It is on time and on budget, and making very good progress towards commissioning in summer next year.

Some words on our guidance. We continue to expect a significant increase in operating profit for 2015, compared to last year. Our EBIT I guidance range is between Euro 780m and 850m for the full year.

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Let's now turn to slide 3 to look at our financial performance in more detail. We are very pleased to report that Q2 saw a 41% increase in our operating profit year on year. This excludes the impact on last year's performance of a non-recurring Euro 30m insurance payment. This exceptionally strong EBIT I performance was driven by improved pricing in both business units and improved volume in the Salt business.

In addition, a foreign exchange benefit arose from the strong US dollar. The financial result in the quarter was Euro -14m. This is subsequently lower than 2014 due to repayment of a bond in September and to capitalisation of interest costs for the Legacy Project. In addition, last year we had to make an adjustment of interest rate for mining provisions. We anticipate the current run rate to continue for the remainder of 2015 and believe this low number is not yet fully reflected in analyst consensus.

Slide 4, please. Let's have a closer look to our EBIT development. The EBIT I in Q2 2014 was impacted by the non-recurring insurance payment. We have also seen a ramp-up in OPEX for the Legacy Project during the current quarter.

Positive contributors were a higher volume from Salt and improved pricing in both business units as well as positive currency movements, mainly in Potash.

Let's move to slide number 5. Our operating cash flow generation has remained strong. A decline in the half-year results compared to 2014 is due to an increase in working capital. CAPEX went up as forecast, reflecting our investment in the Legacy Project. This investment increased our net debt number. Apart from the effect, the interest rate adjustment for provisions in the first quarter of 2015 also impacted the net debt.

Now please turn to our Potash business on slide 6. The average selling price has continued to increase since Q2 2014. Our European business is still in good shape and SOP price remains stable. We have seen a slight decline of the overall average selling price on the previous quarter, despite there is a little softness in the overseas market. The main reason for the decline in price lies in the product mix.

Now please turn to slide 7. In Q2 sales were roughly 100,000 points below last year in terms of volumes. This is mainly due to the phasing of shipments of higher value products like SOP. In other words the portion of SOP shipment was lower than usual. We expect it to catch up in Q3.

The underlying performance of our Potash Magnesium business unit was very strong. Lower sales volumes also impacted the cost per tonne. However, costs have now stabilised, which is a great success of our Fit for the Future programme.

Please turn to the Legacy Project update on slide 8. The development of this flagship project is on time and on budget. We have spent about 65% of the CAPEX allocated in the project and more than 90% of the contracts with suppliers have been signed. This means we have not only made significant progress, but have also materially de-risked this investment.

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2015 will be the main year of construction, reflecting a peak in capital expenditure; the CAPEX used for further expansion will be significantly lower in 2016 and will return to a sustainable level of maintenance CAPEX from 2017.

Now please turn to slide 9. The main achievement this quarter was the set-up of major utilities like water, gas and power, which is now available on site. We have also started the earthworks for our rail connection from the site to the intersection of Belle Plaine. There's still plenty of work ahead, but we are very confident that we will commission the site next summer. This is all in line with the allocated budget of C\$4.1bn.

Please turn to slide 10. We were asked to provide more details on our assumptions relating to the Legacy Project and our previously disclosed valuation of between Euro 11 to 21 per share.

If we could start with the pricing. We have taken a conservative approach with regards to pricing assumptions, both in the medium and the long term. In fact, our long-term price assumption is below US\$400 per tonne. This does not mean we are bearish on the long-term prospects of the Potash business. No; we just want to be prudent for this valuation purpose.

Production volumes are expected to be approximately one million metric tonnes in 2017, increasing to two million tonnes in '18, and then peaking at 2.86 million tonnes from 2023 onwards. In line with this ramp up in volumes, production costs are expected to drop significantly, stabilising at C\$90 per tonne from 2023 onwards.

Additional assumptions impacting the Legacy valuation include estimates of the terminal growth rate and WACC. I've no doubt that you will have your own view on these, but the impact of a range of estimates leads to the valuation range of between Euros 11 and 21 per share.

Now let's move to our Salt business on slide 11. Our Salt business has again delivered an extremely strong performance for yet another quarter. Thanks to better volumes, strong pricing and improved demand in both de-icing and non-de-icing, our operating result for the business unit increased to Euro 43m for the quarter. We've already seen early buying activities in the de-icing business, as expected, which is a good indicator for a strong second half of the year.

We have made good progress on tenders for the coming winter season, with some regions nearing completion, while others remain at a very early stage. As always, we will provide more details once we are further along the process.

And now please move to slide 12. In 2014 the implementation of our Salt 2020 strategy was started. Subsequently the business unit began work on over 40 large strategic initiatives that will enable the achievement of our 2020 earnings target. Our Salt business unit expects to realise top line growth by selectively expanding its presence in unobserved segments and regions, while also leveraging the tremendous equity we have in our market-leading consumer plans.

At the same time, as part of Fit for the Future, our Salt business unit will focus on improving its cost position through better operational and business processes. Improvement has been already realised, such as the integration of de-icing and supply chain activities in the Americas and the streamlining of our distribution network in the US.

Our aspiration for 2020 is to achieve significantly higher earnings of more than Euro 250m annually, taking a normalised winter. In EBITDA terms, this means more than Euro 400m.

Now coming to our guidance on slide 13. Our underlying assumptions for 2015 full year guidance are unchanged. In line with our policies, we are providing ranges for revenue, EBIT and net profit for the first time this year. We continue to expect a significant increase in operating profit for 2015, compared to last year, and another overall strong improvement in the financial results. We are expecting a strong second half of the year and our EBIT I guidance range is between Euro 780 and 860m for the full year.

Please turn to slide 14 to have a look at the various elements of the EBIT range. Our EBIT development for 2015 is hampered by the absence of the non-recurring contribution from insurance payments, higher incremental OPEX for the legacy project and an increase in D&A. This will be more than offset through positive pricing effects and a currency tail wind, in particular, which will drive the Group's performance for the full year.

Slide 15, please. This is the first time we have provided mid-term guidance. Overall, we expect EBITDA to increase to Euro 1.6bn by 2020. The Legacy Project will be an important driver of this increase. However, this strong outlook is also driven by ongoing strategic initiatives to improve performance across both business units. The Salt 2020 strategy alone is expected to produce a sustainable increase in operating profit to more than Euro 250m, and that translates into an even higher cash flow number.

Let me conclude my today's presentation with slide 16. Our EBITDA expectation of Euro 1.6bn by 2020 to inflate into an average annual growth rate of the operating cash flow of more than 10%. The Group will return to being free cash flow positive in 2017. The management is committed to the policy to pay out between 40 and 50% of the net profit as dividends, but our strong mid-term also will lead to higher dividend payments going forward, which is of course subject to AGM approval.

This concludes my presentation, and we are now happy to answer your questions. We also would be prepared to answer questions on the PotashCorp proposal, but please - one question after the other, not a bundle of questions.

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Questions and Answers

Moderator

Thank you. Ladies and gentlemen, if you would like to ask a question, please press *1 on your keypad. If you change your mind and wish to withdraw your question, please press *1 again. You will be advised when to ask your question.

The first question comes from the line of Lutz Grüten from Commerzbank. Please go ahead.

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Lutz Grüten, Commerzbank

Good morning. Thank you for taking my first question; it's on potash. I tried to understand the year on year, but also sequential profit impact. And there was a number - I think it was 30m - you've given us in the first quarter, as a one-off or one time labour cost in the first quarter. Can you confirm that this number in the second quarter 2014 and second quarter 2015 was zero, so that that's a sequential positive impact from a lack of these one-time labour costs of 30m, quarter by quarter? Thank you.

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Dr Burkhard Lohr, Chief Financial Officer

Thank you, Mr Grüten. It was 20m in the first quarter, and that was a real one-time effect, meaning that there is no comparable burden in Q2, Q3 and Q4.

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Lutz Grüten, Commerzbank

And there was also nothing in the first quarter 2014?

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Dr Burkhard Lohr, Chief Financial Officer

That's correct.

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Lutz Grüten, Commerzbank

Thank you.

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Moderator

The next question comes from the line of Christian Faitz from Kepler Cheuvreux. Please go ahead.

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Christian Faitz, Kepler Cheuvreux

Yes, good morning, gentlemen. Just one question, please. Brazil is not an unimportant market for you. Can you share with us some insights into current order patterns and how much willingness to spend on potash, given that the dismal economy is finally catching up also with the farming community? Thank you.

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Dr Burkhard Lohr, Chief Financial Officer

Yes. Thank you for the question. That's of course important for the whole industry. Brazil had some weaknesses for all the reasons you have touched upon already. We believe that this is more or less a temporary situation, and most importantly it does not affect our shippings. If you have a look at the entire year, we have guided 7 million tonnes and this is slightly more than last year, meaning we will again sell our entire production.

There will be some movement in there. The product mix and some movement in the region, but this Brazilian situation will not cross any dimension to our profit this year, and most probably not for the year to come.

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Christian Faitz, Kepler Cheuvreux

Okay, thank you. Very helpful.

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Moderator

The next question comes from the line of Sophie Jourdier from Liberum. Please go ahead.

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Sophie Jourdier, Liberum

Good morning. I've got two questions, but taking them one at a time. The first question just on your specialty fertiliser performance. ICL yesterday was saying that their specialty fertilisers, which I know are somewhat different to what, were struggling a bit in a lower crop price environment. You've also reported flat performance in the second quarter, albeit you're mentioning a phasing of orders from the second quarter into the first quarter. I wondered whether you could give your view on the underlying level of demand for your speciality fertiliser products? Thank you.

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Dr Burkhard Lohr, Chief Financial Officer

We are very happy with the development of the business in terms of volume and in terms of pricing. Maybe you'll remember that we have talked many times about when will the high SOP premium, for example, decrease. We have not seen that development. It's still stable. And again, volume-wise, you always have to look on the full year. There are sometimes movements between single quarters and that volume on SOP that we have lost in Q2, we now already have visibility for the start of Q3. We will compensate for that in the third quarter.

So in total a very healthy and strong development in the specialty business.

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Sophie Jourdier, Liberum

Thank you. And then the second question I had was on the PotashCorp acquisition. You mention again in your report that, apart from valuation, the other reason for the

rejection is concern over your employees and the comment that PotashCorp has not given a commitment to its sustained interest in maintaining the activities.

Obviously, on the face of it, PotashCorp seem to say the opposite in their second quarter results, that they were prepared to give commitments over the ongoing operations of K+S activities. I wonder whether you could explain why, on the face of it, where the disagreement lies, I guess? Thank you.

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Dr Burkhard Lohr, Chief Financial Officer

Yes, thanks for that second question. A commitment has to be reliable, and what we have received is not reliable. There are so many disclaimers that you cannot enforce anything, if necessary. So that is not what we would call reliable commitment, and we are still waiting for additional reliability.

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Sophie Jourdier, Liberum

And, just to confirm, you've made it clear to PotashCorp what they would need to do to make those commitments reliable?

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Dr Burkhard Lohr, Chief Financial Officer

We haven't seen anything.

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Sophie Jourdier, Liberum

Right, but do you feel that they understand what would need to be done?

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Dr Burkhard Lohr, Chief Financial Officer

That would be guessing if I would answer that question.

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Sophie Jourdier, Liberum

Thank you.

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Moderator

The next question comes from the line of Oliver Schwarz from Warburg. Please go ahead.

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Oliver Schwarz, Warburg

Thank you. Congrats on the good results. I've got two questions - I'll take them one by one as well.

Firstly, on your positive hedging results, I was a bit puzzled to see that, in the light of an appreciating US dollar, to see that your hedging gains are also positive. To me at least that seems to be a bit contra-intuitive. Could you shed some light on that, please?

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Dr Burkhard Lohr, Chief Financial Officer

Could you please ask the second question first? We're going to have a look at this, because the value of the bridge between Average 1 and Average 2 should not be positive. But start with your second question, please.

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Oliver Schwarz, Warburg

Okay, second question - I fear that's even worse. That's related to your mining obligations schedule. Looking in to 2014 full year results, you stated that, at that point in time, you had a top-up in mining obligations of close to 40m, and ongoing interests of 20.6m, so altogether a bit more than 60m last year.

In the first quarter of that year, you had mining obligations of 31m and it seems that the run rate will be close to what we have seen and Q2, so close to 7 or 7.5m. Even if I take the 7.5m as a quarterly run rate, I come up with ongoing interest for mining obligations in the magnitude of 28m, which is substantially higher than what we've seen last year. Could you elaborate on that? What's the trigger for that, given that the interest rates have been coming down?

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Dr Burkhard Lohr, Chief Financial Officer

Okay, Mr Bettenhausen will answer.

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Jörg Bettenhausen, Head of Finance and Accounting

With regard to the hedging, in fact in Q2, you have to see that we have both US dollar interest and Canadian dollar interest, and therefore heavily hedging on our expected capital expenditures in Canadian dollar, we profited from the exchange relation Canadian dollar to euro. This was the most - we even deposited on the EBIT II level. This was not included in the EBIT I - the impact of the Canadian dollar hedging.

And the mining obligation, we have normally - we have an adjustment on the interest of about 20 to 25m, year by year. It depends also on the volume of the mining commissions itself, because if we had no change in the interest rate, but a different volume in provision, it also has an impact on the Euro number we have to show in the financial results. But you are right that the normal level is between 20 to 25m.

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Oliver Schwarz, Warburg

Yes, but given that we are now heading, let's say in the light of lower interest rates, we are proceeding with a yearly run rate of close to 30m, that would be a significant top up, I would assume, from the 20 to 25m euro range you just referred to, Mr Bettenhausen.

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Jörg Bettenhausen, Head of Finance and Accounting

I'm not quite sure what you are calculating.

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Oliver Schwarz, Warburg

I'm using the 3.2, I think, is it - 3.2% interest rate on mining obligations, using the close to 1.05bn number. And as I said, 7.5m as a quarterly run rate, that gives me close to 30m a year. Is that, given unchanged conditions from Euro, is that - 30m is that the new run rate we are going to pencil in into our models from here on? That's basically my question.

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Dr Burkhard Lohr, Chief Financial Officer

No, no. The number Mr Bettenhausen just gave you is the run rate. It's a tricky thing. We are not talking about only a German volume. That is of course the biggest volume. But in North America we also have these provisions and a different interest rate.

I propose that you let me clarify that in a separate call. It's too precise.

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Oliver Schwarz, Warburg

Thank you.

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Dr Burkhard Lohr, Chief Financial Officer

Thanks very much.

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Moderator

The next question comes from the line of Jeremy Redenius from Bernstein. Please go ahead.

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Jeremy Redenius, Bernstein

Thanks for taking a question. I have two. First, on the Legacy valuation - the terminal growth rate of 2%. Can you talk to us about the thinking behind, assuming 2% terminal growth?

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Dr Burkhard Lohr, Chief Financial Officer

You've seen that we have not only taken the 2%. We have variation of growth rate assumptions, and that's one indicator where we are between the Euro 11 and 21 per share.

Terminal growth rate and the WACC, you cannot only fix a number and say - that's it for 70 years. That's why we have used the sensitivity, and we have given you the sensitivity to have a closer insight into our valuation.

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Jeremy Redenius, Bernstein

Okay, I understand. But to ask the question differently: if we were to get 2% terminal growth, what would that assume? Is that your expanding capacity to keep up with demand growth for 70 years? Or is this pricing or costs? How do we have 2% growth for the long run?

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Dr Burkhard Lohr, Chief Financial Officer

It's not in order to simulate an increase in volume, because we have not factored in any third phase. It's more to simulate an increase in pricing, but also going hand in hand with an increase in costs on the other hand. So it's really to give you the sensitivity, show you what the potential of Legacy could be in an upside scenario.

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Jeremy Redenius, Bernstein

I see. Okay, so it's essentially margin expansion in the long run?

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Dr Burkhard Lohr, Chief Financial Officer

Yes.

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Jeremy Redenius, Bernstein

Okay. And then the second question I had was just on PotashCorp's proposals. Can you talk about the differences between the two proposals? We recognise the offer price was the same, but just any of the terms and conditions that they changed between the two.

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Dr Burkhard Lohr, Chief Financial Officer

If I were to elaborate on that, I would disclose the letters, and that's not up to us to do so. But what has not changes is that there are a lot of disclaimers and it's not reliable. And that's why we behaved the way that we behaved, and of course we have more than one time elaborated now on the conditions concerning our employees and communities. But the price is unchanged and it's not only our view that Euro 41 is not a fair value for the company. We have asked, as you know, the retail shareholders; we have talked intensively to many institutional shareholders and they are sharing that view.

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Jeremy Redenius, Bernstein

If you can't help with the change between the proposals, could you describe perhaps an example of one of the disclaimers?

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Dr Burkhard Lohr, Chief Financial Officer

Sorry. I cannot be more precise on that.

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Jeremy Redenius, Bernstein

Okay. Right, thank you very much.

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Moderator

The next question comes from the line of Neil Tyler from Redburn. Please go ahead.

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Neil Tyler, Redburn

Good morning. A couple of questions please. Firstly, on the Potash business in Europe, could you give us a little bit of description as to how you view channel inventories - not just your own inventories, but those of your customers and end users, in the current environment, please?

And the second question relates to your mid-term guidance. Really just a question as to why you've switched the guidance to emphasis EBITDA as opposed to EBIT, which has traditionally been the metric on which you've tended to focus. And I wonder whether you could frame your 2020 EBITDA guidance in terms of EBIT, please? Thank you.

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Dr Burkhard Lohr, Chief Financial Officer

First of all, there are no reliable statistics available about inventories in potash stocks. And of course, with our sales network we have a very good inside view, and we're talking about quite healthy volumes. No development that could be interpreted like there might be lower sales in the future. Very healthy inventory development. And, as I said earlier, the European development is, in terms of volume and in terms of pricing, very robust anyway.

The second question. When you look more in the future, 2020, we thought you might be interested in cash flow numbers. So the EBITDA is closer to the cash flow for potential valuation purposes, and that's why we have guided on the EBITDA number, Euro 1.6bn.

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Neil Tyler, Redburn

And are you prepared to help us understand what that would look like in terms of EBIT?

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Dr Burkhard Lohr, Chief Financial Officer

Not today.

Laughter

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Neil Tyler, Redburn

Perhaps in that case, in terms of cash flow, your comments on the Legacy contribution for 2017 - just a little bit of clarification. You said that you expect it to generate positive cash flows in 2017; does that also mean that you expect it to be cash flow positive for 2017?

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Dr Burkhard Lohr, Chief Financial Officer

I'm not sure if I've got your question correctly.

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Neil Tyler, Redburn

Well, I'm trying to establish whether for the year of 2017 you expect the Legacy to be a net cash contributor or whether the comment on positive cash flow just really refers to later on in the year as CAPEX fades away and sales volumes ramp up.

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Dr Burkhard Lohr, Chief Financial Officer

For the full year - I confirm for the full year we are expecting a positive cash flow.

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Neil Tyler, Redburn

Perfect. Thank you.

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Moderator

The next question comes from the line of John Klein from Berenberg. Please go ahead.

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John Klein, Berenberg

Yeah, hi. Good morning. Thanks for taking my questions. I've got actually three of them.

Can I infer that from your guidance for 1.6bn of EBITDA, if I just backwards calculate a bit from my assumptions on Legacy and the Salt business at 400, that you're actually taking a very conservative view on pricing underlying, because it would basically mean that the European Potash business would only be growing 1 to 2% a year, on my numbers at least. So if you could help us a bit on how conservative you are on your pricing outlook?

Second question, simply on FX. What are you seeing from the Brazilian Real, and how much does that actually contribute towards the weakness in the market that we're seeing in Brazil?

And then thirdly, simply on SOP volumes, where do you see the shift happening from Q2 into Q3 regionally? Thank you.

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Dr Burkhard Lohr, Chief Financial Officer

First of all, when we give guidance, we are always a bit more conservative, on the conservative side. I would not like to confirm your percentage numbers that you have raised for price development, but this is not an aggressive number, it's important to say.

Yes, Brazil - the currency has of course an impact, but there are so many developments that it is almost impossible to take one development and give an impact on our bottom line. You know that in Brazil potash is a US dollar-based business. Most of the sales of our clients are US based as well. So I think the overall condition of the country has a bigger impact than the currency rate.

And SOP?

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Jörg Bettenhausen, Head of Finance and Accounting

Yes, John. I mean the reason why we had approximately 100,000 tonnes net in futures this year compared to futures last year are overseas shipments, and we have these shipments catching up in the quarter, so this implies that it's also overseas related. And I can't give you a further split between the Americas and Asia because it's more or less an equal split.

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John Klein, Berenberg

Okay, thank you. Very clear, thank you.

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Moderator

The next question comes from the line of Andrew Benson from Citi. Please go ahead.

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Andrew Benson, Citi

Yeah, thanks very much. If I can ask a couple as well.

Just on the interest line, can you just explain the changes between the first quarter of this year and the second quarter - whether you've changed the policy now to capitalise all of Legacy - just what the main changes are? And if you could just be a little bit - you did give an indication - just perhaps be a little bit clearer on the outlook. Shall I - ?

Dr Burkhard Lohr, Chief Financial Officer

Yes, please give us a chance to answer that question.

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Jörg Bettenhausen, Head of Finance and Accounting

That's the capitalisation of debt cost of about 9 to 10m in the first half of the year. And this we did not have any the year before, because we had to, according to IFRS standard to start with capitalisation this year. It's a fact we will have this year, next year, until we start this operation of Legacy.

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Andrew Benson, Citi

Okay. On the PotashCorp bid - and again I may be slightly behind the times here, so I apologise if I'm asking something that's stupid. Break fees have become an important part of the, if you like, the armoury to protect shareholder value for the company being bid for. What is the status of any break fee? And what are your - as far as you can disclose - any demands you might have to protect shareholder value in the form of any break fee?

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Dr Burkhard Lohr, Chief Financial Officer

Yes, it's not a stupid question; it's a very good question, but you're raising it to the incorrect address. I cannot elaborate on that at all.

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Andrew Benson, Citi

Okay. Okay. But would you, as part of any - perhaps you choose not to understand that for negotiation reasons - you've got to give yourself as broad a scope as you can. What would it be likely that you would insist on a break fee of materiality if there were to be any substantive negotiations?

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Dr Burkhard Lohr, Chief Financial Officer

We haven't got anything on the table, which would bring us in a position to talk. The price is not sufficient, the conditions and the reliability of the commitments for our employees and communities are not there, so it's far too early to talk about some aspects of a potential transaction.

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Andrew Benson, Citi

I understand that. And lastly, and again it may be slightly left of field for you because you've got limited volumes into China, but do you think that the change in the VAT that will now apply to imports into China will have any material impact on the market in general?

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Dr Burkhard Lohr, Chief Financial Officer

As you stated by yourself, we are not a big player in China. We are planning to increase our stake in China with the Legacy project. But the most direct impact of the VAT development could be positive for us because it makes huge exports from SOP out of China into other areas less probable, and that is good news for us.

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Andrew Benson, Citi

Thank you very much.

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Dr Burkhard Lohr, Chief Financial Officer

You're welcome, Mr Benson.

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Moderator

The next question comes from the line of Yonah Weisz from HSBC. Please go ahead.

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Yonah Weisz, HSBC

Yes, good morning, and thank you for taking my questions. I have a couple of them, if that's okay.

First, I wanted to ask about your 2020 Target of Euro 1.6bn, which you talked about being achievable with market conditions remaining essentially the same. I can understand, if you want to take a conservative view on the potash market and say - no big changes in the potash market. But if I could take that phrase and apply it perhaps to the Salt division, the salt prices which you have been achieving in the first half of 2015 have been uncharacteristically very high. And I'm wondering if you think that these high salt prices - or if these high salt prices essentially are part of these unchanged market conditions over the next five years?

And what has maybe led to this big shift in Euro 10 to 15 per tank all of a sudden, in terms of sustainable, in what is traditionally very season, very volatile type of factor. How can you get to this increase in salt prices sustainable over the next five years?

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Dr Burkhard Lohr, Chief Financial Officer

Yes, we have said that we are on track with our salt 2020 and potash strategy, and some initiatives are in place already. That is one reason why we have such a positive salt development. The biggest driver of course is the good winter condition, or was the good winter condition last year and the season before. That's why the prices are on a very high level. We have of course not assumed to remain on that price level when taking a long-term view, and giving you the Euro 1.6bn EBITDA guidance. We are assuming normalised winters, and a now normalised winter would end up with good prices but not with prices on the current level.

Yonah Weisz, HSBC

Okay. In terms of the cost per tonne in potash, if I'm not mistaken, I think you have previously talked about 2015 annual cost return being, I believe, either similar or below 2013. And I'm wondering if you're still on track for that? In addition, would you be able to say how much Legacy cost return we should expect in the third and fourth quarters of 2015?

Dr Burkhard Lohr, Chief Financial Officer

So we have - yes, the guidance is still intact and I can confirm that we will be low the 2013 cost per tonne, excluding the Legacy OPEX, and we are expecting roughly Euro 60m for the full year as Legacy OPEX.

Yonah Weisz, HSBC

That's five zero or six zero?

Dr Burkhard Lohr, Chief Financial Officer

Six zero. Six zero.

Yonah Weisz, HSBC

Okay, very good. And I guess -

Thorsten Boeckers, Head of IR

Yonah, can I add something? I mean, when you look at the Q2 results, always keep in mind the 100,000 tonne, so to speak, missing which will be recurring in the third quarter. This makes the Q2 cost per tonne number in our metric - revenue minus EBIT over volume - appearing high because there are 100,000 tonnes missing, and also the profits for that, right.

Yonah Weisz, HSBC

Okay. Thank you for noting that. The last question - just out of curiosity - if you state that your recast shareholder base represents 30% of all outstanding shares, I'm curious why you decided to poll for their views. Wouldn't it be more logical to take the majority shareholder base views, i.e. the institutional investor view, and release their type of opinion on this proposed deal with PotashCorp?

Dr Burkhard Lohr, Chief Financial Officer

Of course we have done both. We started talking to our North American institutional investors and we have had intensive roadshows in Frankfurt; we have had intensive roadshows with many participants in London and that was the first thing we have done after the unsolicited - And after that, we thought - why not also asking our retail shareholders for their opinion, because we're talking about roughly one third of our total share. And it gives me the opportunity to make one thing clear. We had an extremely positive return - 28% of all that had been asked, answered - that means statistically we would have only needed one thousand answers to have the view of the entire 30%. So we now really have the view of these 30% and in addition - and we even did this first; we talked to all investors who were willing to see us in North America, Frankfurt and London.

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Yonah Weisz, HSBC

But would you be willing to release a poll about the institutional investor views? Why not?

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Thorsten Boeckers, Head of IR

Yes, I mean, that's what we're doing in our talks with them. I mean, we have offered plenty of phone conferences or telephone calls with anyone at management. But it's a bit more difficult to reach out to everybody there than it is to the retail shareholders when you have registered shares. And of course, we need to filter out the opinion of the long-term oriented shareholders and let - we need to look at the event driven.

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Yonah Weisz, HSBC

Thank you very much.

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Moderator

The next question comes from the line of Li Dunlop from JP Morgan. Please go ahead.

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Li Dunlop, JP Morgan

Good morning, gentlemen. Just in regard to the PotashCorp approach, I was just wondering whether potential regulatory hurdles or anti-trust issues are part of your consideration process, and whether that represents an issue to navigate or it's not really an issue and you don't think it's really a concern for deliverability? Thank you.

.....

Dr Burkhard Lohr, Chief Financial Officer

Yes, thank you for that question. Of course, it's in a way plausible or it's obvious - if we are in a tight oligopoly. The number two in the market is trying to take over the number five in the market that this will end up with an anti-antitrust review, and not only one

country. But the outcome of such a very difficult undertaking is very difficult to predict, and I will not try to speculate on that.

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Li Dunlop, JP Morgan

Thank you very much.

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Dr Burkhard Lohr, Chief Financial Officer

You're welcome.

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Moderator

The next question comes from the line of Markus Mayer from Baader Helvea. Please go ahead.

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Markus Mayer, Baader Helvea

Good morning, gentlemen. Two questions, the first on your Potash Magnesium business. Does quarter pricing, like you said, this came from the mix of sector. Was it solely mix or do you already see that this year's standard product see price declines sequentially?

And then secondly, on your salt business, you said that the good progress on the tenders for Q3 imply a strong Q3 business. But at the same time you said that the high prices Q2 might come down to some extent - at least if I read the comments rightly. So maybe a little more flavour on your price assumptions for the second half? Thank you.

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Dr Burkhard Lohr, Chief Financial Officer

On the first question, that is purely a mix effect, not a price effect.

.....

Markus Mayer, Baader Helvea

Okay.

.....

Dr Burkhard Lohr, Chief Financial Officer

The pure price is even a bit higher. And salt, we said that we are not expecting the salt prices to remain on that high level, but that is true for the mid-term view. There's no reason to believe that we will see lower prices in the next quarter.

Of course the next winter season will then indicate what the development of the prices will be like, but we are very positive for the rest of the year for the Salt business.

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Markus Mayer, Baader Helvea

Okay. Maybe I can ask a third question as well.

The savings targets you have, can you maybe give us more light on this kind of phasing of the savings until 2020?

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Dr Burkhard Lohr, Chief Financial Officer

Now, when you talk about Fit for the Future, of course we will never finish our cost saving efforts. But the project, Fit for the Future, is touching the years '14, '15 and '16. And you know, the numbers that we are targeting, we are on very good - on track. And if you want to know what is the effect of that in the following year - the 2016 measures will all be sustainable. So what we say in '16 will not come back in '17 and the years to come.

And if we listen to this, we continue to have cost discipline after the Fit for the Future programme.

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Markus Mayer, Baader Helvea

But in this 2020 Target, no other savings are pegged in which are so far not yet announced?

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Dr Burkhard Lohr, Chief Financial Officer

No, no.

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Moderator

We have a follow up question from the line of Lutz Grüten from Commerzbank. Please go ahead.

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Lutz Grüten, Commerzbank

Yes, thanks. It's a follow-up on salt. There seem to be a couple of positive effects in the second quarter. Could you give us a number or some help on the cost effects which were achieved in the second quarter as a part of the 2020 cost saving programme, so the year number for the second quarter, and if that is sustainable for the full year as a run rate? Thank you.

.....

Dr Burkhard Lohr, Chief Financial Officer

Yes, the salt - if you only elaborate on the salt, the pure quarterly number was a low single digit number. So that was not a big lever for the good result of our Salt business.

.....

Thorsten Boeckers, Head of IR

But there was of course, also we had a good effect already there also in the first quarter and this remained in the second quarter, right. So year over year, there was an effect from Fit for the Future included.

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Lutz Grüten, Commerzbank

Okay, thanks.

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Moderator

We will now take our last question from the line of Michael Schaefer from Equinet Bank. Please go ahead.

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Michael Schaefer, Equinet Bank

Yes, so I'll do the last one. Two questions, if I may.

First one, on your outlook statement you said that in the EBIT guidance you provided for 2015, there are some provisions for the whole takeover process, i.e. legal costs, etc. included. I wonder whether you could shed some light and quantify what you have already provisioned for and whether we should account this under the T&M segment or whether this is in Others or anything?

Second is on the SOP, the European SOP market. One of your competitors is scheduled to re-start an extended production in the second half, so I wonder whether you can provide some insight what you see in the market there, and whether you see any kind of price pressure in the SOP market would be helpful?

.....

Dr Burkhard Lohr, Chief Financial Officer

Well thanks for that question. First of all we have the price in the potential costs for the phase we are in, with a low double digit million number. And that again is already incorporated in our guidance.

Secondly, SOP - I said positive development expected, and even the additional capacity that you were elaborating on will not change the picture because the volumes will not be really a game-changer for that market. And you heard that the originally-indicated volumes will be not achieved, it will be even lower, so that will not change anything.

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Michael Schaefer, Equinet Bank

Thank you.

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Dr Burkhard Lohr, Chief Financial Officer

You're welcome.

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Moderator

There are further questions, and we will take the next question from the line of Rajesh Singla from Société Générale. Please go ahead.

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Rajesh Singla, Société Générale

Hi, thanks for taking my question. This is on the salt 2020 guidance. If I look at slide 12, I think, you have guided for an EBIT of around Euro 250m, and also you're saying that EBITDA will be Euro 400m, which means like D&A might be around 150m. But your actual D&A for Salt segment in 2014 was around Euro 110m. So are you - this guidance of Euro 250m of EBIT from Salt segment, does that include any inorganic transition or any amended activities which you might do in the future?

.....

Dr Burkhard Lohr, Chief Financial Officer

Yes, thank you for that question. First of all, we say there's a slight difference, but of importance - the guidance is 250 and 400, it's more than 250 and more than 400 that we're expecting.

Yes, there is some growth and potentially it's nonorganic growth incorporated here as well - so some investments that will then change the underlying number - and that is the reason for this development that we have just explained.

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Rajesh Singla, Société Générale

Okay. My second question would be on PotashCorp offer. Will you be open for a share swap deal with PotashCorp? If we assume that PotashCorp may also use your pricing as well as volume growth assumptions while valuing PotashCorp's share price? So will you be open to a share swap deal with them, which may value PotashCorp back at say \$40 or \$45 per share?

.....

Dr Burkhard Lohr, Chief Financial Officer

As I said earlier, we have nothing on the table that would cause us to or make us talk. That would be an aspect that would be far reaching, and it's by far too early to speculate on these kind of transaction modes. I'm sorry - I cannot answer on that.

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Rajesh Singla, Société Générale

No problem. Thank you.

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Moderator

The next question from the line of Peter McKay from BNP Paribas. Please go ahead.

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Peter McKay, BNP Paribas

Good morning, everyone. Sorry, my *1 clearly wasn't working earlier on in the call. I just have three little clarification questions, if I can, please.

First, you talked about, you know, you're still talking about 60m of Legacy OPEX, but it looks like it was around 20m in the second quarter and it's obviously been ramping up over the last five or six quarters. So I just wonder - was there something unusual in that Legacy spend in the second quarter, please?

.....

Jörg Bettenhausen, Head of Finance and Accounting

Yes, there were some costs incurred in the second quarter which will not repeat in the third quarter. So we stick to the around 60m for the full year, which means the 20m for the second quarter cannot be applied at the run rate.

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Peter McKay, BNP Paribas

Okay, but the 60m includes 20m for the second quarter, does it? Or does it strip out some of these one-off items?

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Jörg Bettenhausen, Head of Finance and Accounting

No, it's not a one-off; it's just a saving effect here. Costs we had previously expected in the second quarter, cropped up in the second quarter, so of course, it's all included there.

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Peter McKay, BNP Paribas

Okay, understood. Second, going back to Andrew Benson's question around the interest expense - apologies, could you clarify again the amount that you're going to be - amount of interest that you think you'll be capitalising say in the second half of the year? Because you believed that we weren't fully reflecting that in our forecasts, so I wondered if you could quantify that. And I wonder if you could tell us when that stops, when the plan comes on-stream next year, and perhaps what you think the reverse effect of that's going to be in '16 and full year '17, please?

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Dr Burkhard Lohr, Chief Financial Officer

Yes, we are expecting to capitalise for the full year this year and I shall answer your question at Euro 29m.

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Peter McKay, BNP Paribas

Right, okay, perfect. And that capitalisation will stop as soon as the plant starts to be commissioned, is that right?

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Dr Burkhard Lohr, Chief Financial Officer

That is correct. Only next year we will have the comparable effect.

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Peter McKay, BNP Paribas

Okay, wonderful. And final point was - in the cash flow, it looked like there was 100m of cash outflow relating to provisions. I might have missed something, you know, blindingly obvious, but I wonder if you could just explain what that was, please?

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Jörg Bettenhausen, Head of Finance and Accounting

It was - the first quarter we had to make adjustment of our discount rate -

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Peter McKay, NP Paribas

What - sorry?

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Jörg Bettenhausen, Head of Finance and Accounting

In the first quarter of this year we had to make an adjustment of our interest rate and it was - in fact was an increase of minor provisions of about 120m. And this is also included in how we get that number.

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Peter McKay, BNP Paribas

Right, okay. So it's a reverse of something that happened in the first quarter, is it?

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Jörg Bettenhausen, Head of Finance and Accounting

Yes. On the half-year basis, you see that it levels out, actually.

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Peter McKay, BNP Paribas

Right, okay. Thank you. Thank you.

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Moderator

Thank you. I will now hand back over to Dr Burkhard Lohr for the conclusion of the call.

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Dr Burkhard Lohr, Chief Financial Officer

Yes, ladies and gentlemen. Thanks again for your interest in K+S. Our strong performance in the second quarter 2015 encouraged me and my colleagues of the Board of Executive Directors that our company remains well positioned to deliver great returns for our shareholders.

The Legacy project, one of the largest profit contributors in the near future, is on target to be commissioned next year. Our Salt business continues to perform well and confirms our view that K+S will have a great future as an independent company.

Now thank you for joining, and have a good day.

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END

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