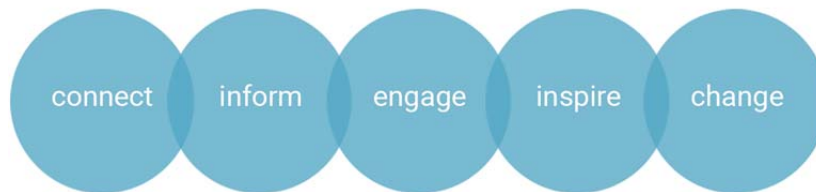


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**K+S**

Results Conference Call  
10th November 2016

**K+S**

**Dr. Burkhard Lohr, Chief Financial Officer**

**Thorsten Boeckers, Head of Investor Relations**

**QUESTIONS FROM**

**Yonah Weisz, HSBC**

**Stephanie Bothwell, Bank of America Merrill Lynch**

**Michael Schäfer, Commerzbank**

**Andrew Benson, Citigroup Global Markets**

**Oliver Schwarz, Warburg Research**

**Markus Mayer, Baader Bank AG**

**Martin Evans, JP Morgan**

**Patrick R....., UBS**

**Lisa De Neve, Liberum**

**Jeremy Redenius, Bernstein**

**Javier Castaneda, Anchorage**



## Presentation

### Dr. Burkhard Lohr, Chief Financial Officer

Ladies and gentlemen welcome to our Q3 conference call. Thorsten Boeckers and I will answer your questions after a brief presentation.

Now let's start with the highlights of another challenging quarter, and slide two. It has been a long time since K&S showed a quarterly loss. MOP prices continued to stabilise in the quarter. However in a year on year comparison lower prices have left their mark. On top of this the limited deep well injection permit caused further production standstills at our Werra plant.

We have made progress on the Legacy sites. Repair work has started in connection with the recent crystalliser incident. Production of the first one is expected in the second quarter of next year. Our salt business is preparing for the upcoming winter season, so these are mostly concluded with mixed results. All in all we expect an EBIT1 for the full year of 2016 in the range of €200 to €260.

Now let's go into detail on all of this, starting on slide 3.

I mentioned the two main reasons for the negative quarterly EBIT already. We would have shown a positive result even in this tough market environment if our potash unit could have fully produced. The limited permit for our Werra plant has resulted in more than 70 days of partial production standstill, with an EBIT impact of about €70m in the third quarter. This also had an adverse effect on our product mix as our specialities are mainly produced at the Werra site. Subsequently the average selling price of our business unit potash and magnesium products declined year on year and quarter over quarter.

Please turn to slide 4.

Our business unit salt faced lower de-icing volumes in the quarter at lower average prices. High inventories resulting from a milder previous winter had an impact on big prices and pre-season volumes in almost all regions. The biggest impacts are felt in Europe and the US Midwest which have both faced several mild winters in a row. Nevertheless our balanced regional presence makes us more robust than our competitors. It puts us into a great position for the upcoming season, and K&S is ready to deliver.

Speaking of a great position, our non-de-icing business continues to make progress with strong brands helping us maintain growth in very attractive segments. The salt business is also making good progress by executing the Salt 20/20 strategy.

Now let's turn to our potash business on slide 5.

The conclusion of contracts in India and China has stimulated global market demand. The only market in which customers are still a bit reluctant is Europe, but we expect this to change too. We mentioned in the Q2 call that we believe MOP prices will stabilise, and the third quarter has confirmed that. Our main issue at K&S is that we cannot fully participate in this positive development. The



missing volume from our Werra plant are resulting in lower sales volumes and average pricing because of the product mix effect. SOP prices remain at high levels despite a decline in the quarter

Legacy remains our flagship project. Despite the incident in July we are continuing to commission parts that were not affected. We have one of the biggest available cranes in Canada on site, and have started with the removal of damaged equipment. We expect production to start in the second quarter of next year. This should give us the ability to produce up to 700,000 tonnes of MOP next year, and we will reach the 2 million tonne capacity by the end of 2017 as planned.

Looking at the capex budget in 2013 we projected CAD \$4.1bn, and we were on track to achieve that. Now due to the incident we will face a moderate increase, but when we look at the amount in euro terms the budget is unchanged versus 2013 due to favourable currency developments.

Now please move to slide 7.

We have already highlighted the limited deep well injection permit as it has left a severe mark on our numbers. What we can say from today's point of view is that the review process is ongoing. Production remains challenging as we are dependent on the weather to a large extent. We are still confident that we will find a solution in the near future, but from today's point of view we can neither predict the outcome nor the timing. Permit procedures have always been part of our business and will continue to be in the future. All of these procedures are complex, and occasionally these adjustments take longer than previously expected.

Our roadmap shows what is on the horizon in the coming years. For example the application to extend the tailings pile capacity in Hattorf, also part of the Werra plant, is already underway. Also the construction of the KCS facility is making progress. This will help us to reduce salt water residues by around 20% from 2018 on.

Now please move to our guidance on slide 8.

We have narrowed our EBIT1 range by reducing the upper end. We now expect €200m to €260m for 2016. The salt business is expected to face a decline after the mild last winter. Our projection is always based on a normalised season. However in the end a lot depends on Q4 winter weather which may even surprise us positively. The main reason for the cut is our potash business. The previous upper end of €300m for the Group assumes a new deep well injection permit in Q4 which we don't have yet. Counter-measures are making good progress. However the missing permit is expected to cost us around €200m this year.

Now please move to slide 9 and let me conclude my presentation with our 2020 goal.

Our Salt 2020 strategy is well on track to delivering an EBITDA of more than €400m by then. Also Legacy will contribute positively. Today's potash prices makes the target very ambitious; however we still believe this low pricing environment is not sustainable. On top of that our business units are working on strategic initiatives that will support our goals of €1.6bn EBITDA by 2020.



Everybody within the K&S Group is very committed to delivering, irrespective of the challenges we are facing right now. Ladies and gentlemen thank you for your attention, and we will take all your questions now.

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## Questions and Answers

### Telephone Operator

Ladies and gentlemen if you would like to ask a question please press \*1 on your telephone keypads. If you change your minds 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 Yonah Weisz of HSBC. Please go ahead.

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### Yonah Weisz, HSBC

Good morning, thank you for taking my question. The first topic I'd like to ask about relates of course to your production abilities, or capabilities. Assuming that the current conditions that exist now are unchanged for the fourth quarter and for the full year 2017, and also assuming that you implement the truck and rail of some saline water that you disclosed yesterday, how much potash production do you expect in 4th quarter and in full year 2017, please?

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### Dr. Burkhard Lohr, Chief Financial Officer

Thank you for the question. When we have put together our guidance for this year the whole number is 6.1 million tonnes. We have already assumed that we would be able to reduce some measures to dispose our waste waters, and we are very happy that we could announce yesterday that we can use the inactive mine Bergmannsseggen-Hugo. That was an important step because it's a big measure. So that was already built in in our numbers, so we should end up somewhere around the 6.1 million tonnes for this year.

To give you a flavour for what one could expect in 2017 of course there are a lot of unknowns around us, still, unfortunately. If we would receive our deep well injection soon we should be able to fully produce and come back to our 7 million plus volume. But even without deep well injection for the whole year 2017 - that is not what I expect, but just give you a difficult scenarios - we would be able to produce more than what we have done in 2016 due to the measures that we are able to use.

Unfortunately due to the fact that there are so many unknowns, and even the weather is important for that scenario, we are not able to give you a precise number now but we hope to be able to do so when we regularly give the guidance for the following year. That means we should be more precise in March.

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### Yonah Weisz, HSBC



Okay. In terms of the truck and rail, the plan to use truck and rail to dispose or store some of the other waste water. Could you explain how this will progress when the trucking starts, when the rail starts, and approximately either on a quarterly basis or an annual basis how much extra cost that would add to production in 2017?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

We will start with the trucking immediately, and we will build a loading facility to be able to start riling the waters to Bergmannssegen-Hugo. That should be done somewhere in early, spring next year, and we expect that the total waste water that we can bring into Bergmannssegen-Hugo will be roughly on the level of the intermediate deep well injection that we have received for 2016 which was 725 million cubic metres.

The additional costs are more or less transportation cost only, and we expect here a number between €20m and €30m. But again that is all assuming there is no deep well injection for the entire year 2017. That is not what we expect but just to give you a number for this scenario.

.....

**Yonah Weisz, HSBC**

Right. And €20m to €30m is for the entire year, that's on an annual basis on this scenario?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

Yes.

.....

**Yonah Weisz, HSBC**

Okay. Then I guess my last question would be regarding your debt rating, which I understand was recently downgraded to junk. I'm wondering if this impacts your €1bn facility, either availability of cash or the rate you would have to pay for it.

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

As you mentioned by yourself we have this facility which is only with a small amount used so far. Due to the change in the rating we have a slight higher cost on that, but we're talking about I think 0.5%. Still very cheap money, if you wish, and we still have the full ability to use the entire €1bn. No impact at all. And by the way there is no impact on all the other debt facilities because they have six conditions and the change in the rating did not have any impact. And finally we have no financial covenants at all. So the impact on us is very limited.

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**Yonah Weisz, HSBC**

Great, thank you very much for your answer.



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**Telephone Operator**

The next question comes from the line of Stephanie Bothwell, Bank of America Merrill Lynch. Please go ahead.

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**Stephanie Bothwell, Bank of America Merrill Lynch**

Thank you very much and good morning everyone. I had one question with regard to your comment earlier on pricing and a second one on capex. You said in your introductory comments that European buyers are still pretty reluctant to accept higher prices on the MOP side. Some of the industry reports that we're reading are actually already talking about price increases of €5 to €10 a tonne, so I want to get a sense of whether or not you have seen any indication of that in your order book thus far in Q4?

Related to that, with regard to the deterioration in SOP pricing quarter on quarter can you give us an indication of whether or not those prices have now stabilised in Q4?

And the second question on capex. So the capex for Legacy is expected to remain broadly in line with the previous guidance in euro terms. Can you just tell us what you have actually spent already on Legacy and what is still to go in Q4 and 2017 in euro terms?

Following on from that, I think previously you've talked about €500m being the average maintenance level of capex for the Group. So aside from any incremental capex on Legacy should we be factoring in any other additional capex over and above around that €500m mark in 2017? Thank you.

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**Thorsten Boeckers, Head of Investor Relations**

Steph, it's Thorsten to answer your first question. The reluctance of European customers we were talking about is mainly related to demand right now, so we see strong demand from Asia. We also see a strong demand from Brazil. But with regard to Europe customers are right now waiting a little bit before they start buying. We don't expect this to last for long because usually customers start to buy at the end of November and December.

With regard to pricing, we indeed see a positive development there, but with low demand you don't really have much evidence there. When I look at our own pricing we don't expect any further decline. We even expect an increase in MOP prices also in Europe.

Can you repeat the second part of the question, please?

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**Stephanie Bothwell, Bank of America Merrill Lynch**

Yes, sure. So it was on the SOP side. You comment in the slides that there was a deterioration in prices quarter on quarter. I wanted to understand if that price development has now stabilised.

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**Thorsten Boeckers, Head of Investor Relations**

We expect that we found the bottom in SOP pricing as well, and we should see a better market price in the fourth quarter. This usually takes a little bit of time until it materialises in our average selling price. But from a market point of view yes, we have seen stabilisation also there.

And then the capex question?

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**Dr. Burkhard Lohr, Chief Financial Officer**

Many parts of capex concerning Legacy first, and that gives me the opportunity to again highlight that yes, we had this incident in Canada, yes in terms of Canadian dollars that means we have a moderate increase of our budget, but we always financed that project in euros and as we have a euro balance sheet the euro view on the project is more important, or as important, if you want it.

And due to the favourable currency development and some lucky hedge decisions we are able to keep the €3.1bn budget even taking into account the whole impact from the crystalliser incident.

We will have roughly another €100m to spend in this year in Q4 for Legacy, and then the final amount roughly €200m in 2017. And after we have finished the Legacy, our run rate capex number which is a bit lower than the €500m - what you have mentioned, is only impacted by further investment in our environment, especially in the Werra area, what we have called the Four Phases Plan that will start in 2018, with numbers of roughly €80m to €100m annually until 2021. I hope that answers your question.

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**Stephanie Bothwell, Bank of America Merrill Lynch**

That's very helpful. Thank you very much.

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**Telephone Operator**

The next question comes from the line of Michael Schäfer from Commerzbank. Please go ahead.

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**Michael Schäfer, Commerzbank**

Thanks for taking my questions. The first one is on your outlook for the sales volume of 6.1 million tonnes. Given that you have reported 4.4 million tonnes of sales in the nine months this would imply something like 1.7 million for the fourth quarter, which would be close to a record level, at least significantly above the five year average you recorded over the past years.

So I wonder where this comfort comes from that you can sell this amount, and where the product comes from, basically, in the fourth quarter. That would be my first question.





My second one is on the opex for Legacy in the third quarter you've booked in there, and maybe also what you expect in the fourth quarter. And then finally just a clarification on the Bergmannsseggen-Hugo flooding exercise. Have I got it right that basically the amount you can flood there on an annual basis is equivalent to the temporary injection permit you have received? And where would this bring you to? I mean are we talking without any kind of permanent permit would you look for a 6.5 million tonne of run rate, of production in 2017?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

Okay. I forgot to ask you to ask one question by the other. I have taken all the three, but I would appreciate if the other questioners would be one by one.

First of all yes, 1.7 million sales in the first quarter is a high number but we are sure that we will be able, if we have the production and after we have approval for Bergmannsseggen-Hugo we should be able to produce the volume. The demand is strong. We could have done more in the first three quarters of this year if only we would have the capacities available. And that's why we believe the 1.7 million tonnes in the fourth quarter is doable.

To the capex numbers in the third quarter we had €170m, and I mentioned earlier that there will be another €100m in Q4.

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**Michael Schäfer, Commerzbank**

Sorry, I was referring to the opex related to Legacy. You booked something like €22m in the second quarter, so I haven't found any number here in the report, so just to update us.

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**Dr. Burkhard Lohr, Chief Financial Officer**

I'll give you the expected annual number and then you can do the maths by yourself. It's a bit lower than we have expected previously due to the incidents. We have shifted some works from 2016 into 2017 and we will have roughly €110m opex for Legacy for the whole year.

Bergmannsseggen-Hugo I mentioned that we should be able to bring 700,000 cubic metres into that old mine, the inactive mine. There is lots of storage capacity available that we would be able to use it for many years. The only limiting factor is logistics, because if you take the 4,000 cubic metres annually by the production base you would end up with a higher number but there is an actual technical limit due to logistics. I already mentioned the €20m to €30m impact on the opex related to that. I'd still be reluctant to give you a number what that means really in production because, as I said earlier there are so many impacts.

If we are working with the scenario no further deep well injection, even the weather has an impact. So please allow me just to give you a qualitative answer. It will be more than this year, but it remains to be seen how much it will be in 2017.

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**Michael Schäfer, Commerzbank**

I have a last haul-up on this permitting issue. There will be a high-level meeting of politics on 21st November with Hesse-Thuringia. Is this is an event where you expect a breakthrough for the whole issue, or is this just informal and there's nothing major to expect from this one?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

That meeting is important in a sense, and this meeting as well. I would give that too much importance if I would say we expect the breakthrough that day, so I'm not expecting it. But we have made progress, and believe me we are very unhappy not being able to give you a more precise view on that. But that day is most probably not the day where we will receive the permit.

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**Michael Schäfer, Commerzbank**

Thank you.

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**Dr. Burkhard Lohr, Chief Financial Officer**

You're welcome.

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**Telephone Operator**

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

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**Andrew Benson, Citigroup Global Markets**

Thanks very much. I'll just ask them one to one. In the last slide you define the current price of potash as not sustainable. I just wanted to examine your rationale for that comment, please.

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

That was related to our view on 2020 and that we still believe we could generate €1.6bn EBITDA. Of course that is based on a set of assumption and one very important assumption is the potash price. We would need - I think I have mentioned that earlier in other calls - we would need a potash price slightly higher than \$300 per tonne and we are always talking about the reference meaning MOP gran in Brazil. We know that we are not there.

That was why I mentioned that I don't believe that the current level is sustainable, but because if that would be the case there would be a gap to the €1.6bn which of course we would try to close with other measures. But as we have seen swings especially in Brazil, especially in Q3, you know that we were trading around \$200 and now we are talking about \$140. So why should the current status remain until 2020? And I believe a price in that range of \$300 is not out of range.



.....

**Andrew Benson, Citigroup Global Markets**

Thanks for that. On your slide 8 where you talk about the price and volume and then the missing deep well injection permit, perhaps I'm being a bit thick here but I thought the absence of volumes caused by the inability to deep well inject caused the profit shortfall, and you've incorporated that into the first bar. So can you just explain how you're allocating that EBITDA reduction between the price volume and the absence of deep welling?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

The first bar is a mix out of the lower prices in the potash business. The effects from the mild winter on the salt business, meaning pressure on the prices and lower volume in the salt business. The second bar is a pure effect, and you are right that it is a volume effect as well. But that is a pure effect from the missing deep well injection in total expected for this year, roughly €200m.

.....

**Andrew Benson, Citigroup Global Markets**

I guess costs have started to creep up in Europe. Is that a factor that could be significant to the outlook for you next year?

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**Dr. Burkhard Lohr, Chief Financial Officer**

Are you talking about the cost per tonne?

.....

**Andrew Benson, Citigroup Global Markets**

Energy costs. Yes, that's right.

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

Energy costs. Energy costs are still on a very low level. I assume that this will not change entirely so that we still believe that we will save compared to 2015 a double digit percentage on our energy bill in 2016. I hope that covers your question.

.....

**Andrew Benson, Citigroup Global Markets**

I understand that in 2016 they were obviously quite a bit lower than 2015, but in 2017 they are likely to be higher than 2016, or it looks like it's going to be higher anyway. So I'm wondering how you are absorbing that additional potential cost?

.....



**Dr. Burkhard Lohr, Chief Financial Officer**

It will be marginal because the most important energy portion is gas, natural gas, and as you know Legacy will start up production and here the gas portion will be significant compared to what we have in Germany because we have a solution mine production in Canada and we have already locked in good parts of our requirement for 2017 with respective delivery contracts.

**Andrew Benson, Citigroup Global Markets**

Okay. And that's for Europe and Canada, or just for Canada?

**Dr. Burkhard Lohr, Chief Financial Officer**

Both Europe and Canada.

**Andrew Benson, Citigroup Global Markets**

Thanks very much.

**Dr. Burkhard Lohr, Chief Financial Officer**

You're welcome.

**Telephone Operator**

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

**Oliver Schwarz, Warburg Research**

Thank you for taking my questions, gentlemen. I'll try to walk you through one by one.

The first one is the given average range you are guiding to, the €200m to €260m on page 8 on your slides. You're assuming an average winter and you're assuming a total sales volume of 6.1 million tonnes which alludes to 1.7 million tonnes in Q4. We talked about that earlier on. So what gives you the €200m and what gives you the €260m, given that you don't expect a permit at the 21st November to be granted so most likely later than that. What is the volatility here based upon? Thank you.

**Dr. Burkhard Lohr, Chief Financial Officer**

The biggest swing factor of course is still the permission, because Hattorf is still not running, one of our three mines, sites in the Werra Valley, and that makes a huge difference whether we assume it's not running for the rest of the year or we get the permission today and we can start running fully.



**Oliver Schwarz, Warburg Research**

I get that. I guess your guidance is based on the volume number you gave, 6.1 million tonnes. So is that 6.1 million tonnes if you get the permit immediately or is that 6.1 million tonnes if that permit is granted by the end of this year, and are we to expect higher volumes if the permit is granted perhaps tomorrow?

**Dr. Burkhard Lohr, Chief Financial Officer**

The 6.1 million will be I wouldn't say the worst case, but the case without a permit.

**Oliver Schwarz, Warburg Research**

Okay. So that refers to the €200m then? Basically if you're saying we don't expect a permit any time soon.

**Dr. Burkhard Lohr, Chief Financial Officer**

There is more than only this one impact. This is of course the dominating impact but there are more impacts. There could be volatility for the rest of the year in the currencies; the prices are not fixed, etc. So we don't try to give a precise EBIT number to the 6.1 million tonnes.

**Oliver Schwarz, Warburg Research**

I just wanted to know whether that is more closely tagged to the upper end or the lower end of the guidance? Because as Mr Schäfer said before, the 1.7 million tonnes is something you haven't achieved very often having a permit in the last couple of years in Q4. So that is a very ambitious number as you said yourself, and hence I wanted to know what number refers more likely to the 6.1 million tonnes or 1.7 million tonnes in Q4, the upper or the lower end of the guidance.

**Dr. Burkhard Lohr, Chief Financial Officer**

If you want to have a qualitative answer it's closer to the lower end of the range.

**Oliver Schwarz, Warburg Research**

Okay, thank you for that. The second question - waste water. I guess you love that topic. The provisional permit that you have for deep water injection runs out by the end of this year. If it isn't renewed and if you don't get a permanent permit, I guess that the measures that you unveiled yesterday pumping, sending wastewater to Bergmannsseggen-Hugo will just compensate for the amount of waste water you were able to inject this year.



So basically let's say if the worst case scenario you don't get a permanent permit and you don't get a provisional permit it's most likely we'll see a production number in the ballpark of 2016 also in 2017. Would that be a fair assumption?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

No, I mentioned earlier that we will be able even in this scenario to produce more than in 2016 because Bergmannsseggen-Hugo is not the only measure we have, and this alone covers the intermediate permit. We have Springen, another inactive mine in Hesse-Thuringia, and we are working on additional measures. So we would even in this scenario be able to produce more than 6.1 million tonnes.

.....

**Thorsten Boeckers, Head of Investor Relations**

Oliver, you know that 2016 has been a very dry year, so more dry than we have expected, what we have especially experienced in the second quarter. And in our expectations we always expect what we call a hydrological normal year, right.

.....

**Oliver Schwarz, Warburg Research**

Absolutely. Thank you for that. And my last question is I think I heard you correctly when you stated that we might see production and Legacy already in 2016 of 700,000 tonnes. Is that correct, did I hear that correctly?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

I may correct the year - in 2017. 700,000 is correct.

.....

**Oliver Schwarz, Warburg Research**

But that basically implies that judging from the 1 million tonnes we heard before the incident at Legacy and now the 700,000, that basically the ramp-up is expected to be a bit faster than it was originally scheduled, if we assume that you can produce from Q2 onwards. Would that be a fair assumption?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

That is totally correct, and that if we look a little bit further down the road could have a slight impact on 2018. We will have the capacity definitely available of 2 million tonnes at the end of 2017, but due to this quicker ramp-up we might have more standstills in 2018 than if we would have started at the end of this year. So the production in 2018 might be marginally below the 2 million tonnes.

That is still the future, but your assumption that we have a quicker and steeper ramp-up curve is correct.



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**Oliver Schwarz, Warburg Research**

Wonderful. That covers all the questions. Thank you very much.

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**Telephone Operator**

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

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**Markus Mayer, Baader Bank AG**

Good morning, gentlemen. My first question is on the efficiency measures or cost measures. Have you planned any further measures besides the Fit for Future programme? That was my first question.

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

First of all thank you for your question. I would like to mention that all our Fit measures at the end of this year are sustainable measures, so we have this we gain from that positive ideas and implementation of projects for the future. But in addition to that we have a small double digit million number that we want to additionally save in 2017, 2018 and 2019. That is our new mid-term planning horizon.

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**Markus Mayer, Baader Bank AG**

The small double digit number is done per year, so every year an additional small double digit number?

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**Dr. Burkhard Lohr, Chief Financial Officer**

Yes.

.....

**Markus Mayer, Baader Bank AG**

Okay, that was the first question. The second question, on Reuters I saw the news to expect a decision for this deep well injection permit in the next few weeks, and then on the slide 7 I see that expect prolongation of Werra until 2019. Is the difference a temporary permission and the other one the long term permission, or how can I read this gap?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

There was a lot of speculation and we ourselves have often thought now we are done and we will receive the permit. That's why we have stopped giving any indications. Of course I have the hope

that it is not too far away, but we cannot predict when and if at all. I cannot say more to this chapter unfortunately.

.....

**Markus Mayer, Baader Bank AG**

Okay. And then the next question would be on the forex hedging for next year. Can you give us an indication on the sensitivity and what will happen if the dollar will weaken, etc?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

As usual we have hedged good portions of our USD exposure. It should be in the area of 60-70% of our exposure which is usually roughly a billion. Sorry, it will be more with Legacy, of course, but that is covered by the 60 to 70% as well. And we would have if I can answer that by heart if the dollar would weaken to 1.20, always compared to 2016 we would lose only roughly €20m due to the hedges. But we could gain if we would see parity, more than €100m on that scenario.

.....

**Markus Mayer, Baader Bank AG**

And then the last question on this. CAD \$100m higher capex, as far as I understood, part of this capex might be insured. But can you give us any kind of indication what kind of amount this might be, or is it too early to say?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

I cannot give you a precise number but I can give you a flavour. Of course the direct impact, for example we need a new crystalliser. That of course is insured and that will not be paid by us, and that is not part of the overrun. And again when we talk about overruns, it's only in Canadian dollars which is in a way a statistical currency because of euro finance. We have no overrun in euro terms.

.....

**Markus Mayer, Baader Bank AG**

And the over-run is basically due to other contractors which are on the working ground and currently writing the bills, and you basically do not take up those kind of services, that's the overrun?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

Yes, and their performance is lower than expected because we have to change the production pageant. That are the indirect costs which are not covered by the insurance. Of course we will try to find somebody who takes part of that burden, but for safety reasons we have put that, we have modelled that in our budget and that leads to a moderate overrun in Canadian dollar terms.

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**Markus Mayer, Baader Bank AG**

Okay, great.

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**Dr. Burkhard Lohr, Chief Financial Officer**

You're welcome.

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**Telephone Operator**

The next question comes from the line of Martin Evans from JP Morgan. Please go ahead.

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**Martin Evans, JP Morgan**

Morning. I just want to go back to your debt position and the 5 times net debt EBITDA and the fact that you said you don't have any covenants. Can you explain what the limitations on your borrowing facilities are, in as much as with EBITDA falling sharply and debt going up, theoretically if trading deteriorates from here and your net debt EBITDA goes up to 6 times, that historically is a dangerous level of borrowing whereby lenders do get very jittery. So what's your fall-back position in terms of where you can go to borrow more money urgently if you need to? Thanks.

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**Dr. Burkhard Lohr, Chief Financial Officer**

First of all as I mentioned earlier, the instruments in place are not affected. Only marginally the syndicated loan which means 0.5% higher interest rates on that. And there are a couple of €100m undrawn in this facility. We will tweak that number at the end of this year. We will have lower capex next year and we believe even with such a high leverage we would be able if necessary to enter the debt markets successfully. And you always have to take into account that the high debt, the good portion, the major portion of it is our provisions for mining obligations which will lead to cash outflow in many, many years from now. This number by the way is impacted by the low discount rates, and if you take that into account you will see that the situation is not nice but it's not dramatic.

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**Martin Evans, JP Morgan**

Okay. Just finally therefore, if you needed to raise funds obviously a rescue rights issue would be out of the question. You said there are other routes, but you wouldn't need to get the government involved at all given the number of jobs and the history of the mining industry. You're confident that you can self-fund without any further external involvement on that front, should things deteriorate very rapidly?

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**Dr. Burkhard Lohr, Chief Financial Officer**

Yes.



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**Telephone Operator**

The next question comes from the line of Patrick R.... from UBS. Please go ahead.

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**Patrick R...., UBS**

Good morning, thanks. A couple of questions. The first one is a very simple one on Legacy. Assuming the 700,000 tonnes, would you say my guess is correct in saying that the EBITDA contribution from Legacy would then still be negative at current spot prices in 2017?

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**Dr. Burkhard Lohr, Chief Financial Officer**

Yes. A short answer.

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**Patrick R...., UBS**

Good. Thanks. And then the second question, you mentioned the additional waste water disposal measures. Can you talk a bit more about what exactly that is? You were mentioning in the report this morning that it's still difficult from a timeline perspective, technical tests, permits that need to be obtained. Just a bit more colour on that would be very useful. Thank you.

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

Two examples we have reported on. Inactive mines, one in Hesse-Thuringia, one in Lower Saxony, and there are lots of these inactive mines in this area close to our Werra area. So there are many opportunities to find further storage opportunities for our saline waste water and dispose it there. And there are not further used gas coverings for example available. We have ideas to further build a further pond to temporarily store the waters that we can then bring into the Werra when the water flow in the Werra is high due to rain. So a full package of ideas.

We need permissions for every single measure but we are happy that we have received the two permits already and Bergmannsseggen-Hugo is a big one because there is a huge volume available for us. And additional measures are on the way.

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**Patrick R...., UBS**

You've given us quite good details on the Braunschweig-Lüneburg impact in terms of what you can dispose there. Can you give us a number for these additional measures in total, how much of that could be realised in a reasonable timeframe?

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**Dr. Burkhard Lohr, Chief Financial Officer**



No, unfortunately because if I be more precise on others who are not permitted currently I might be forced to tell you next time it was not able, we are now facing other alternatives. So the only information that is really important to know for full production without any impact, we need a deep well injection. But we can do a lot to get more in the normal pattern in 2017 with these kind of measures, but please understand that I don't want to be precise on things which are not realised so far.

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**Patrick R...., UBS**

Thank you very much.

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**Telephone Operator**

The next question comes from the line of Lisa De Neve from Liberum. Please go ahead.

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**Lisa De Neve, Liberum**

Hi, good morning. I had two questions. First of all I just wanted to allude to Stephanie's question on SOP prices. You mentioned you believe they have bottomed. Can you just give me some information on what you are seeing in the market that appears that prices have stabilised? When I look at industry reports I see that prices are still down from the 4th quarter relative to the third quarter.

On top of that, do you believe that the current premium to MOP is sustainable or do you suspect a strong recovery in MOP prices next year? Thank you.

.....

**Thorsten Boeckers, Head of Investor Relations**

We have seen now three quarters in a row a decline in the SOP prices, and we are talking about a broad mix of different markets. We're talking about US markets, you can talk about Middle East markets, you can talk about Europe, and we have to differentiate between granular and standard which goes into the NBK industry. Trade magazines are mostly referring to the top line prices of granular in the US. And there indeed we haven't seen a stabilisation yet which has also to do with the supplier structure, but when you look at our European markets and what we hear from our customers and from our sales it's that we don't believe that prices will go down further in that area.

With regards to the premium this answers also the question with regard to the premium to MOP. We don't like to think too much into MOP premiums because we are not a Mannheim process producer so the premium is less important to us. We look at absolute prices and they are still on a high level. MOP prices have stabilised as we said as well, and this indicates that the premium will be sustainable.

.....

**Lisa De Neve, Liberum**



Thank you very much. Then just a quick second question, onto pricing. The average operating costs have been quite a bit higher this quarter and my rough calculation points to a value of €278 a tonne versus €249 in the same quarter last year. Obviously this is due to lower production volumes affecting fixed costs spreading out over lower volumes, but I just wanted to understand the spread, or if you could give some split between how much is due to debt and how much is due to higher Legacy start-up costs or any other elements I may be missing out on.

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**Thorsten Boeckers, Head of Investor Relations**

Well, the majority comes from the operating leverage and the incremental Legacy costs are €11m.

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**Lisa De Neve, Liberum**

Okay, thank you.

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**Telephone Operator**

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 the question. Just coming back to the question about the long term potash price that you envisioned. I guess I think about the long term potash pricing as more determined by the economics of the industry rather than your specific profitability or the 2020 target. So I would think that very long run potash prices, MOP prices are determined by the cost you need to incentivise new capacity to the market.

So first I just wanted to check that logic with you, and secondly would you have a value that you would put on the price of potash you think that you need in the long run to attract new capacity?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

Of course there are a lot of impacts on long term prices, but I believe we are in an oligopoly, and even if we should have one or two more market entries it still ends up in a real oligopoly. And in oligopolies prices do not tend to develop to marginal costs. If you see what happened this year when prices were still a bit away from marginal costs, every competitor did the utmost to participate in a market where price is more important than volume, and capacities were not fully utilised.

And if you in a way expect that this continues to be the case in the market, that was my message earlier, \$300 price should not be completely out of range for the year 2020.

I know it is a question, and there are so many opinions on that, but that is my view in a very brief speech.



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**Jeremy Redenius, Bernstein**

I understand your observations and I would tend to agree. But I'm just looking at how do we know if 300 is the right number. Is \$300 per tonne enough to get companies to reinvest, to continue to build so the market remains supplied long-term, or would a number lower than that work?

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**Dr. Burkhard Lohr, Chief Financial Officer**

No, don't get me wrong, I did not say that \$300 is the price I expect for 2020. But that would be the price that we need to achieve our 1.6bn EBITDA goal. I'm not giving a guidance but I am saying \$300 is not out of range. But \$300 would definitely not be sufficient for additional capacities. Therefore I can't believe that any investment case would deliver a positive NPD on an assumption that \$300 is the long term price.

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**Jeremy Redenius, Bernstein**

What price do you think it would need to be, then, if higher than that?

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**Dr. Burkhard Lohr, Chief Financial Officer**

You would need to have a price starting with a 4.

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**Jeremy Redenius, Bernstein**

Okay, great. Because I've got somewhere between \$250 and \$325, but it sounds like you would think higher than that. Thanks for that.

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**Dr. Burkhard Lohr, Chief Financial Officer**

Of course it depends on the investment. Are we talking about brownfield or greenfield, etc. But I was more thinking about a greenfield project, and I cannot imagine that this could be economical with a price below \$400.

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**Jeremy Redenius, Bernstein**

Great, thank you very much.

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**Dr. Burkhard Lohr, Chief Financial Officer**

You're welcome.



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### Telephone Operator

The last question comes from the line of Javier Castaneda from Anchorage. Please go ahead.

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### Javier Castaneda, Anchorage

First of all many thanks for taking my question. My first question has already been asked, but I would like to look at it in a different way. So a per metric tonne basis what would be the cost next quarter and for the entire fiscal year 2017 when it comes to all these measures that you are implementing in relation to the production problems that you have at the Werra plant? And if you don't mind distinguishing between opex per metric tonne and then if you could again tell us what the capex is going to be in relation to for example a crystalliser and all those measures?

.....

### Thorsten Boeckers, Head of Investor Relations

When we would be able to produce fully - and I leave out Legacy right now because we said that Legacy's contribution next year will still be negative on a year level and also EBITDA level. So when we only look at Germany and we could produce fully, we wouldn't need to use our additional measures so this would avoid this extra cost. And thanks to the cost saving measures we have initiated we would be at a level which we have previously always expected for 2016 which was around €200 and €220 per tonne. We won't of course achieve that if the full production is not possible next year.

.....

### Javier Castaneda, Anchorage

Got it. So you're saying that independently of the costs going up because of all gasoline, waste water being taken from one part of Germany to another part of Germany plus other measures that you are implementing right now, your production cost is going to stay at the same level on a per metric tonne basis?

.....

### Thorsten Boeckers, Head of Investor Relations

Yes, including these measures and also assuming that when we have to implement those measures and use those measures we cannot produce fully, then you will see a number which is of course higher than that. And we said earlier than Bergmannsseggen-Hugo alone cost us between €20m and €30m next year if we're going to use it fully, so this gives you an indication.

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### Javier Castaneda, Anchorage

The former CFO something like a month ago was in London for a management presentation and he indicated €30m per metric tonne in relation to all those measures.

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**Dr. Burkhard Lohr, Chief Financial Officer**

The former CFO of which company, sorry?

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**Javier Castaneda, Anchorage**

Well, the former CEO, sorry.

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**Unidentified speaker**

Are you still CEO?

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**Unidentified speaker**

Mr Steiner is still CEO.

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**Javier Castaneda, Anchorage**

Okay. So part of the management team was in London and they indicated that. So that's why it was a bit, I couldn't really reconcile when you were saying today that production costs are going to stay at the same level with everything that is going on at the Werra plant.

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**Thorsten Boeckers, Head of Investor Relations**

I suggest the following. Why don't we go through it again offline? So give us a call after the call.

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**Javier Castaneda, Anchorage**

Sure. And then in relation to capex?

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**Thorsten Boeckers, Head of Investor Relations**

Can you repeat that question, please?

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**Javier Castaneda, Anchorage**

So the first question was in relation to opex, but then when it comes to capex for this coming quarter and then next year, for all these measures that you are implementing at the Werra plant.

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**Dr. Burkhard Lohr, Chief Financial Officer**

Capex is only a very low number. We will have a very low double digit number for all the measures that we can imagine in 2017. It's more a question of additional opex due to transportation.

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**Javier Castaneda, Anchorage**

Got it. And then my second question would be around the sustainability of current MOP prices. It seems to me that given that current inventories are at historical levels and then can protect increasing capacity next year, you're also increasing capacity next year. So it seems that it doesn't really, it's not really consistent to say that prices are not sustainable when you yourself have been springing capacity next year. And again crop inventories are at historical levels. So I just wanted to get your view on how you think about the fact that you are increasing capacity and still prices will go up.

.....

**Dr. Burkhard Lohr, Chief Financial Officer**

First of all we are expecting - it's not completely ruled out that there will be a demand increase for 2017. We will only have an additional 700,000 tonnes from Legacy in 2017. And again we have seen the behaviour of all participants in the market to not fully run the capacity and to prove that price over volume is the right strategy in the market. And by the way, now you could argue but you're running full capacity which is available.

We always said Legacy with the solution mine concept is so variable and so flexible that if necessary we would participate in such behaviour as well. So we have seen historical developments of prices and we believe - and it is not only our view, it's a common sense in the market - that the bottoming is behind us, and there will be a slow but continuous positive development. That is our expectation.

.....

**Javier Castaneda, Anchorage**

Thanks for that. Then my last question, and it goes along the lines of what you just said, you could potentially think about not producing at full capacity in Legacy which given your level of leverage it could be a bit dangerous. But I guess the scenario in which there's no permit for the Werra plant, costs are higher because of those transportation costs we talked about before, there's no visibility around timing. Potash markets could stay where they are, or even SOP premiums come down, and then again your plants aren't producing those, they are producing, the SOP are running at higher cost than in the past. The de-icing salt debate this winter, because of what we know about the inventory, ramp-up takes a bit longer or even if it is as it is, it's already delayed.

My question is - and that is a scenario I see as actually quite likely, it's not that you may run out of liquidity but you may be close, given the cash balance for example today is 130 versus quarter €300m. So in that scenario could you tap the equity market and could you go for an equity raise, or would you continue just raising debt?

.....

**Dr. Burkhard Lohr, Chief Financial Officer**





I said earlier that first of all there is other €100m available from our facility which is in place. And in addition to that, a BB+ rated company is still able to enter the debt markets. And if that would be necessary - and you have put together a lot of assumptions, I have a more positive view on the future but nevertheless let's talk about that - if necessary we would be able to enter the debt market. I'm not seeing any equity measures due to liquidity constraints.

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**Javier Castaneda, Anchorage**

Okay, many thanks.

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**Dr. Burkhard Lohr, Chief Financial Officer**

Thank you very much.

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**Telephone Operator**

Thank you. I will now hand back to Dr. Lohr for the conclusion of the call. Please go ahead.

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**Dr. Burkhard Lohr, Chief Financial Officer**

I would like to thank you all for joining us today. Obviously 2016 is a challenging year for us but I hope that we gave you some flavour that we are not too pessimistic for the future, and especially Legacy will make a big difference for the company starting in the second quarter of next year. If you have further questions please call Investor Relations. I'm looking forward to see you soon again. Bye-bye.

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END

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