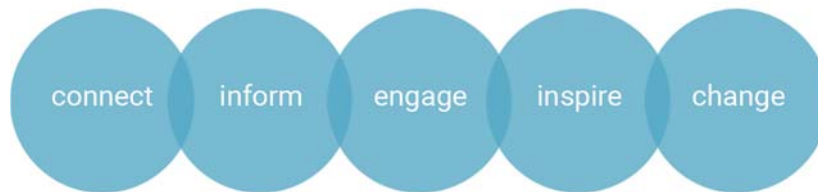


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**K+S Group**  
Results Conference Call  
16th March 2017

**K+S**

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

**Thorsten Boeckers, Head of Investor Relations**

**Jörg Bettenhausen, Head of Finance and Accounting**

**QUESTIONS FROM**

**Joel Jackson, BMO Capital Markets**

**Oliver Rowe, Scotiabank**

**Christian Faitz, Kepler Cheuvreux**

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

**Neil Tyler, Redburn**

**Markus Mayer, Baader Helvea**

**Michael Schäfer, Commerzbank**

**Patrick Rafaisz, UBS**

**Lisa De Neve, Liberum**

**Andreas Haindl, MainFirst**

**Andrew Benson, Citigroup**

**Oliver Schwarz, Warburg**

**Stefan Kippe, Commerzbank**

**Brendan Green**



## Presentation

### Dr. Burkhard Lohr, Chief Financial Officer

Ladies and gentlemen welcome to our conference call. I'm joined here joined by our Head of Finance and Accounting Jörg Bettenhausen and Thorsten Boeckers from Investor Relations.

Let's turn directly to Slide 2. Our Legacy project is heading towards its official opening. The rail connection to the Canada Pacific spur line has been completed and the first of our railcars have been delivered.

The new harbour facility in Port Moody near Vancouver is almost complete and at the production site construction is largely finished, except for the areas that were directly affected by the collapsed crystalliser last summer. Six well pads will initially be available to mine MOP.

All of this gives us confidence that we will begin to product potash in the second quarter of this year. we expect to have saleable product already in June. Our goal to reach a capacity of two million tonnes by the end of 2017 is also expected to be met.

As well the budget remains on track with our projection of €3.1bn. Now please turn to Slide 3.

It was a great relief when we received the deep well injection permit at the end of 2016. This is an important step in securing long term domestic production. In 2017 however, production may not run as smoothly as hoped, due to the fact of the far reaching restriction of the permit, including a maximum limit for the daily injection volume. This will continue to impact, in particular production at our Hattorf plant, when the Werra River water levels are low.

We saw this already happen during the first weeks of this new year. The standstills to date had a negative impact of about €40m. Therefore we continue to implement alternative measures for the disposal of wastewater. In addition to existing measures, for example the mining field Springen, or the old Bergmannsseggen-Hugo mine, we now also have the ability to use old gas caverns for permanent storage near our salt plant in Bernburg. This increases our flexibility, but is still not sufficient for full production in dry periods and it comes along with higher costs.

There is good progress however on one important element to reduce dependency on the weather, the new KCF facility which is currently under construction, will reduce salt water residues by around 20% from 2018 onwards. This will help us to secure production to a large extent and make us much more independent from the water levels. And the KCF extracts further marketable products.

Now please turn to Slide 4. Our Salt 2020 strategy is full on track to achieve the target of a normalised EBIT level above €250m by the end of this decade. We normalise our annual Salt business earnings to account for unusually strong de-icing volumes as we saw in 2015, or unusually weak de-icing volumes as we saw in 2016. This internal measure enable us to track the development of our business without the impact of uncontrollable factors.

Our normalised earnings are developing steadily and positively, as a result of the numerous earnings growth initiatives we have been implementing, focusing on further efficiency measures, new market opportunities like the copper leaching business is in South America, and of course the strength of our highly valued consumer brands will enable us to meet our goal.

We firmly believe in the de-icing business and are confident that it will deliver attractive margins over the time. However, as we continue to strengthen other segments of the business the percentage of earnings come from the more stable non-de-icing segments will increase to more than 50%. This will reduce volatility of earnings in the Salt business further.



Please move to Slide 5. The cost discipline plays an important role in our company. Our Fit for the Future programme which we initiated in 2013 delivered very good results. Since then we have saved about €600m and outperformed our expectations. The measures we have implemented will reveal their full effect in later years. This and further top down targets, should reduce costs across the company by another mid double digit million amount by 2018.

Now let's have a look at the main drivers for the reported results on Slide 6. The sentiment in Potash markets remains strong. Demand is on the rise, as are prices for MOP from the lowest seen in the third quarter. Also SOP and sulphur based fertilisers like Kieserite, increased again in Q4 last year.

In the Salt business the non-de-icing segment was again stable in terms of pricing and demand. The de-icing business has a sound fourth quarter, especially in North America, but overall remained well below long term averages.

2017 showed a good start in Europe, but North America and thus the entire business unit has remained behind its long term average.

Slide 7, our Salt business helped us to see profits in the fourth quarter after a loss on the Group level in the third quarter. This was achieved despite a year over year decline in potash prices. In addition the restricted deep well injection in combination with drier weather conditions led to another quarterly loss in the Potash and Magnesium product business.

On a full year basis we finished 2016 with an EBIT 1 of €229m. The restricted permit resulted in a loss of around €200m, while ramp up costs for the Legacy project running through the P&L amounted to around €90m. The adjusted Group net income declined accordingly and we ended 2016 with €131m. I'm mentioning this because our dividend payout of 40 to 50% is based on this result.

We will propose a dividend per share of 30 cent to the AGM in May, this represents a 44% payout ratio.

Please turn to our guidance for 2017 on Slide 8. On the positive side we expect tailwinds from potash prices and from higher volumes in both business units. We will continue with our initiatives to reduce costs across the Group and execute our Salt 2020 strategy.

On the negative side, mainly the production start in Canada will burden our EBIT significantly more than the €90m seen in 2016. This is because D&A kicks in at amounts exceeding first profits from potash sales.

Taking into consideration all of the above mentioned items, the 2017 operating profit should increase tangibly compared to the depressed results in 2016. However, in the business unit Potash and Magnesium products, the forecast remains complex. The permit we have been granted along with our additional measures should give us some relief, but is not sufficient for full production during dry periods. This means, depending on the water levels of the Werra River, our Hattorf plant will continue to operate on an on and off basis. Extraordinarily dry periods could have a significant negative impact once again on our German production which would impact profitability heavily.

Ladies and gentlemen I would like to finish my presentation on a positive note. The road in 2017 remains bumpy, but we are looking into the future with optimism. The new KCF facility will help us to reduce the volume of saline wastewater by 20% from 2018 onwards. This means that we will reduce the risk of production standstills significantly. Our Legacy project is expected to deliver a positive EBITDA in 2018. Our Salt business continues on its path to consistently improve earnings.

The Group's capex will be about half of what we have seen in 2016. This will result in positive free cash flow from 2018 onwards and we will make the first step towards deleveraging the K+S Group.



Last but not least our mid term outlook on Slide 9. Our Salt 2020 strategy is well on track to deliver an EBITDA of more than €400m by 2020. Our business unit Potash has developed a new vision and strategy that is based on nine action fields to shape the future of the business. The aim is to achieve an EBITDA contribution of €1.2bn from 2020 onwards. Legacy is of course one important component. We are aware that today's Potash prices make the target very ambition, however we still believe that prevailing low price environment is not sustainable.

Additionally everybody within the K+S Group is very committed to delivering the €1.6bn by 2020, irrespective of the challenges we are facing right now. We want to keep this momentum.

Ladies and gentlemen thank you and now we look forward to your questions.

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## Questions and Answers

### Telephone Operator

Thank you, ladies and gentlemen if you'd like to ask a question please press \*1 on your telephone keypad. If you change your mind and wish to withdraw your question please press \*2. You will be advised when to ask your question.

The first question is from Joel Jackson, from BMO Capital Markets. Please go ahead.

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### Joel Jackson, BMO Capital Markets

Hi good afternoon, so my first question is looking at potash volumes in 2017, so if your guidance for first saleable time is in June at Legacy occur and you get to two million tonnes at the end of the year, how much production could we see out of Legacy could we see this year?

And then at Werra - or sorry in Germany, if you get normal weather how much incremental production in 2017 could we see versus 2016? Thanks.

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### Dr. Burkhard Lohr, Chief Financial Officer

Thank you for the questions. I think we have indicated in the past that we are talking about roughly 700,000 tonnes from the Legacy site. But I want everybody to take into account we are talking about a \$4bn project ramping up, so we will not be able to precisely predict now what the outcome will be. It doesn't mean that we will defer significantly from that, but we always should look into ranges, maybe 600,000 to 700,000 tonnes is what we expect for this year's production. And we will take roughly 100,000 tonnes out of that to put it in our stockpiles in our storage facilities.

Germany, yes of course that depends heavily to the situation that I have described earlier. But again we are better prepared this year, we're having a better deep well injection permit and we have our measures. So maybe we try to answer the question coming from a potential risk of standstills in Hattorf.

We have seen in the first quarter already 25 days and that cost us roughly €40m EBIT. When we take into account from now on and normal weather conditions in this area for the rest of the year we will most probably lose another 30 days. And in total that would mean roughly lost production of 200,000 tonnes. So significantly lower than last year, but again if we see a drier summer or autumn the outcome could differ from that.

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### Joel Jackson, BMO Capital Markets



Okay, that's very helpful. And just my last question would be on potash and magnesium costs. So costs, they went down a little bit sequentially in Q4, but they stay high, how will potash magnesium costs ramp across the year, can you give us some idea of what to expect maybe in the quarter - Q1 and then for 2017 versus 2016, I know there's a lot of moving parts, Werra, Legacy, but if you could help us out that would be very helpful?

.....

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

First of all I'm thankful for that question because if you look at the 2016 numbers and I'll come back to 2017 later, if you look at the 2016 numbers you have to take into account that there is of course the Legacy effect, and that there's a volume effect due to the Werra situation. If you adjust all that you end up for the full year 2016 with a number precisely on what we've seen in 2015. So all our measures have helped - measures in terms of cost cutting have helped us to compensate inflation and other developments. The precise number was €216 per tonne for 2016, which is again on the level of 2015.

At the end of your questions I have to disappoint you because I think it would not be very helpful or not very good early this year, in a year where we will see all these moving parts, as you said, to give you a precise number for the quarter and the full year. Of course it will have a significant impact from the Legacy ramp up and because of the fact - how much production are we going to lose in the Werra area.

So please be a bit patient for receiving a precise number for 2017, we are not able to do it now.

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**Joel Jackson, BMO Capital Markets**

Thank you.

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

Thank you Joel.

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**Telephone Operator**

The next question is from Ben Issacson from Scotiabank. Please go ahead Ben.

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**Oliver Rowe, Scotiabank**

Oliver Rowe on for Ben, thanks for taking my question. Looking out there's a few specialty projects in the pipeline in both SOP and also some Polyhalite projects, do you view Polyhalite as a competitor to your Keiserite? And if not what's insulating that from increased competition and demand switching?

.....

**Thorsten Boeckers, Head of Investor Relations**

Morning, you know when you talk to our sales people and talk with them about Polyhalite they say well you know they've got to make fertilisers out of it which are not in the markets today. So customers know, especially here in Europe the merits of our Korn-Kali products and around the globe of our potassium sulphate so the SOP products. And this is something Polyhalite product has to reach first of all.



And then I mean when you look at the nutrients included in the Polyhalite products we believe that the specific costs those products will have in the end are much higher than those of the specialities which are right now in the markets already and Polyhalite has one big disadvantage which is it contains plaster, which makes it very difficult, or it takes very long until the soils can absorb the Polyhalite based fertilisers. So we are not convinced about the success of those products.

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**Oliver Rowe, Scotiabank**

Thank you. I'll just follow on with one question on Salt as well. Your de-icing volumes recovered a bit this year but they're still down from, you know the earlier years, as a result of the mild winters. Are you actually producing less or are your inventories growing?

And then further to that where do you currently see industry wide inventory levels at both producer and customer levels?

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

The season has not completely finished yet, so you know we have seen some snowfall in the US in the East Coast, but of course we react with our production on what we've seen in the winter weather, we have done that last year definitely in Europe, the production was lower than normal because season '15 to '16 was by far weaker than the current season. But nevertheless we will end up with higher inventories and this will be the case in the storing facilities of our clients and competitors as well.

So it's not in the same magnitude Europe and US, because the European weather in the first month of this year was not that bad, I would even say we were not far away from our average - long term average. But the US business was by far weaker. But again we are still in the first half - no we're precisely in the middle of March, we even has some weather in April and then we will see the final outcome of that.

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**Oliver Rowe, Scotiabank**

That's great, thank you.

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**Telephone Operator**

We have a question now from Christian Faitz, from Kepler Cheuvreux. Please go ahead Christian.

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**Christian Faitz, Kepler Cheuvreux**

Yes, thank you a follow up to the de-icing business, I'd like to get a better understanding of weather effects on your de-icing salt business. Can you please elucidate in brief if it's more important if there are intraday frost and thaw conditions, or is it much more relevant if there is precipitation coupled with frost days? Is there an easy rule of thumb we can work with?

And then coming to potash, how as the European application season started so far this year, comparing kind weather conditions with a rather wet spring last year demand should have come off to an excellent start in Europe, is this an observation you would share? Thanks.

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



Thank you for the questions. The perfect weather for us is around zero and days of a little bit of ice at night and over the days dry conditions that the trucks can deliver our product to the clients and the applications on the roads can take place.

And this would be the perfect condition for the de-icing business and we have seen this in January in Europe and this - it was about two weeks in Europe and these two weeks were good for very significant business and as I said earlier we might come out on average in the European business, although February and March so far was by far too mild.

Yeah, and the European business - I'm now talking about Potash, the European business starts very promising, a strong demand and your assumption is completely correct.

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**Christian Faitz, Kepler Cheuvreux**

Thank you very much.

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

You're welcome.

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**Telephone Operator**

We have a question from Stephanie Bothwell from Bank of America Merrill Lynch. Please go ahead.

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

Yes thank you and thanks for the opportunity to ask my questions. The first one was on your capex comments, I believe in your opening remarks you said that in the medium term capex should fall to around half of the levels of 2016. But just thinking more near term in terms of 2017 I think on the Q3 earnings call you said you still had around €200m to spend on Legacy. So could you give us a bit more clarity in terms of what you expect the overall capex budget to be for 2017? If I look at consensus it's currently factoring in around €600m, can you confirm you're comfortable with that?

And the second question was on the €40m negative impact EBIT impacts that you've had from the stoppages from the dry weather in the first part of the year. I think you also said in your introductory remarks that an additional 30 days stoppages would be expected for the rest of the year. So it is fair to assume that negative €80m for the whole year would be reasonable if that indeed was the case? Thanks.

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

Thank you for the questions, capex - 2017 is in many years a transition year, it is true for the capex number as well. We have a lower capex number than last year, but still higher than in an average year. We had some shifts from Legacy, due to the incident, it was difficult to precisely predict what can we finish in 2016 and what is going to have to be done in 2017. So the capex for Legacy will be higher than the €200m that you mentioned. And 2017 is a year of high capex in our KCF plant and some other environmental investments. So the number will be higher than the €600m that you mentioned would be the guidance for the capex in 2017.

€40m is the number for the impact that we has in the first quarter on the Werra situation. We can give you a rule of thumb, it's a bit more than €1m impact per production standstill day in Hattorf. And then you surely wonder why it's €40m on 25 days, because we have additional costs for our measures that





we use. So it's roughly €1m per day and we have 55 days in our forecast and some €20m, €30m for additional measures all over - for the full year. Then you should have the impact based on normalised weather situation for the rest of the year.

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

Okay, thank you. Just to go back on the capex comment once again, so if I take the €1.2bn in 2016 and a €600m medium term average and I just go to the midpoint of around €900m, would you be comfortable with us assuming that for 2017, does that seem reasonable?

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

Let's say - far closer than the 600.

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

Okay, so 900, thank you very much.

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

You're welcome.

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**Telephone Operator**

We have a question now from Neil Tyler from Redburn. Please go ahead.

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**Neil Tyler, Redburn**

Good afternoon, I'd like to come back to the Legacy project please and a couple of questions there. firstly, it feel like piecing together your guidance that the operating costs at Legacy before depreciation will be in the region of €220m or so next year, does that result sounds sensible to you based on the production schedule that you're planning? Thank you.

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

Yeah, we have to be careful because this year '17 I guess you were talking - you said next year but you mean '17 right?

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**Neil Tyler, Redburn**

Sorry, yeah '17.

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

Because we have a mix of still ongoing production - construction story, construction on site and the start of the production, so we shouldn't talk about opex, but we should talk about an EBIT impact and that is going to be roughly €150m this year. Out of all the components I mentioned earlier some opex

during construction side, then kicking in D&A, and other cost components, but we expect negative impact of roughly €150m.

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**Neil Tyler, Redburn**

Okay, thank you. Perhaps if I can ask another question sort of related to that just to make sure that the assumptions I'm using are broadly accurate. How should we think about the realised price - or the best benchmark to use for the realised price for the Legacy project, you know relative to other realised prices that you disclosed? I mean should we just look at a Vancouver FOB price and work back from that, is that a sensible way of looking at this?

.....

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

The realised price of course is a mix of our deliveries, we will be a new entry - have a new entry in the US market, luckily we have seen a strong increase in the US prices there. We are going to deliver via Vancouver into Asia, China and India, we are targeting to increase our footprint there. When we are able to deliver into these markets we will business the new price indications due to the new contracts, everybody is expecting higher prices - what the final outcome will be it remains to be seen. And there will be portions into Brazil and important also to remember that 20 to 30% of the production that is not going to be this year, but '18 and '19 with strong volumes we will have KCL 99 so industrial product, with completely different prices. And that will be the mix of the price impact of our Legacy site.

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**Neil Tyler, Redburn**

Okay thank you. Just one final housekeeping point, just in terms of the reconciliation line in the - at an EBIT level, can you give us some help on how to think about that for '17 and beyond please?

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**Thorsten Boeckers, Head of Investor Relations**

So it should not be far away from what we have seen in '15 and '16, I mean you have always a little bit of movement there, but when you see it was in '15 minus 16, now it was minus 30, so where in between for the next couple of years should be a valid assumption.

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**Neil Tyler, Redburn**

Thank you.

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

You're welcome.

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**Telephone Operator**

We have a question now from Markus Mayer, from Baader Helvea. Please go ahead Markus.

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**Markus Mayer, Baader Helvea**



Good afternoon gentlemen, three questions. The first one is on the - what you state in your presentation additional measures on Fit for the Future, can you give us a flavour on the impact for '17, '18, also what are the costs for those measures?

Secondly, on the outlook can you also give us more flavour on what you expect for the overall potash market in terms of demand for 2017 and also the same question for de-icing, in your presentation you stated you expect higher de-icing volumes, why is this the case?

And then lastly maybe an update on the forex hedging strategy and the impact you expect for 2017?

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

This gives me the opportunity to answer one question by the other, but I guess we have taken all these. We want to keep the momentum with our cost discipline and we have delivered by far more than we have targeted with our Fit for the Future programme. And there are still ideas in the company to be more efficient and to save here and there, that is why we believe we will not only let it go, we are going to reduce our cost by a defined number. And that is the mid-sized double digit million amount annually starting in '18. And the costs that we are going to have with these cost reductions are very, very low, I would even say not meaningful. So this is almost a net effect.

The de-icing question, it's a normal technique that we use, we take a ten years average for our forecast, that the best you have, the best you can use to forecast your de-icing volumes. And as '16 was in total below a long term average you end up with an increase in volumes, in de-icing volumes. And now you have to help me out with the question three?

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**Markus Mayer, Baader Helvea**

Yeah, so the question it's basically the same question on the potash market in terms of global demand outlook, you always give it for MOP and SP together, whereas Potash Corp only looks at MOP, maybe some more flavour on that would be helpful?

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**Thorsten Boeckers, Head of Investor Relations**

Hi Markus it's Thorsten here. So we have seen 64 million tonnes in our world, i.e. including the specialties in 2016 and we expect a slight increase on that number when you deduct the four million you see that we are not far away from what the whole market is expecting there.

You asked also about the pricing I think in potash same as on the salt side, we - I mean you see price - a positive price effect because of the volume mix, because when we expect normal weather conditions for the rest of the year, Burkhard elaborated on our volume expectations earlier, this means also we can produce more specialties and this means our ASP is not as depressed as it was last year. and this is what we have factored into our guidance.

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**Markus Mayer, Baader Helvea**

And then the last question on the hedging strategy, or an update in general on hedging?

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

We stick to our strategy, but I think it's not your question, what is - which technique do you use, I guess you want to know what ...



**Markus Mayer, Baader Helvea**

I'm always interested in that.

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

If the euro/dollar parity, or if the currency exchange rate is on 1.20 we're going to lose roughly €20m, always compared to 2016, if it should stay on 1.10 we gain €36m, and if we would even see parity then we gain roughly €100m. these are the current numbers.

**Markus Mayer, Baader Helvea**

Okay perfect.

**Thorsten Boeckers, Head of Investor Relations**

Assuming this stays throughout the year right.

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

Yeah, of course an average of the whole year.

Markus are you done?

**Markus Mayer, Baader Helvea**

Yes, sorry thank you very much.

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

Thank you.

**Telephone Operator**

The next question is from Michael Schäfer, from Commerzbank. Please go ahead.

**Michael Schäfer, Commerzbank**

Yeah, thanks for taking my two questions. The first one is a clarification one Burkhard you mentioned previously on the, let's say average type of production you're expecting in Germany and primarily relating to 2017 with the working days, something like 55 working days off basically in Hattorf. Have I got you right that you basically said 200,000 tonnes lower production compared to kind of base year? I mean looking in the 2013 to '15 period, I mean this has been the years where we haven't seen any kind of negative impact from permitting, etc. So you product at Group level something like 6.9 million tonnes of salt, or 6.9 million tonnes of P&M products, so is this the right base we should deduct the 200K from, or how should we read this?



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

Yeah that's the right base. On that base we have lost in '16 roughly 800,000 tonnes and if we only lose the 55 days we would lose 200,000 out of these, roughly 6.9.

**Michael Schäfer, Commerzbank**

Okay thanks. Second one is on Legacy, so you mentioned €93m, it's probably in the Annual Report, opex burden or EBIT burden in 2016. So you guided back in '16 something like €110m so is that kind of carry over effect we should assume into '17 also contributing to the €115m negative you are guiding to for year '17? So can you quantify this, what kind of extra costs you account for in '17 basically which would otherwise have happened in '16?

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

So the change of that number was also due to the impact - to the incident that we had with our crystalliser and that we had completely changed the plan how to continue with the project, but everything which comes additionally in '17 is already incorporated in the number that I gave you earlier, the €150m that we expect negative EBIT impact for '17.

**Michael Schäfer, Commerzbank**

Okay last but not least a quick one; on KCF you mentioned construction is currently underway. Is there any kind of milestone we should look at, any kind of headaches you have experienced in the meantime which would dilute basically visibility for commissioned start in 2018?

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

No not really. We are very well on track. We had a case of insolvency of one important supplier but we have overcome that situation as well. There is good reason to believe that we will see the full effect in 2018.

**Michael Schäfer, Commerzbank**

Thank you very much.

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

You're welcome.

**Telephone Operator**

We have a question now from Patrick Rafaisz from UBS. Please go ahead Patrick.

**Patrick Rafaisz, UBS**

Thank you and good afternoon. Maybe two questions on Legacy. Of the volumes you plan to produce has the destination for your targeted customers changed in any way over the last few



months? So are you still mostly targeting Brazil at the first instance in 2017, and then expanding further into US and other Asian markets by 2018 as you ramp up? That's the first question please.

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

As you know we have an agreement with Koch Fertilizers. They are going to market up to 500,000 tonnes for us in the US market. So I wouldn't say that Brazil is first and then the rest goes into the US market, we want to materialise this contract and then in parallel go into the other markets.

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**Patrick Rafaisz, UBS**

So you already plan to ship to the US in the second half of this year?

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

Yes. Of course not the full 500,000, but that will ramp up to the 500,000 that we have agreed with Koch.

.....

**Patrick Rafaisz, UBS**

Okay good. And then the other question just on your visibility or your understanding of the quality of your resources at Legacy. You said you have six well pads. Do you already have a feeling of what kind of material is going to come out there, because as I understand it can be a very complicated process with a lot of surprises with production start-ups with these kind of projects?

.....

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

We are working on more than the six pads. The six pads are now completely available for us for starting the production and of course we have a very precise idea of the quality of the product and we are very happy with the quality of the product. And we are not waiting for the outcome out of the pads; we have a lot of geological research work to make sure what is the quality of the deposit and where to position our wells. So we are very - we shouldn't have a surprise out of that.

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**Patrick Rafaisz, UBS**

Okay, thank you very much.

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**Telephone Operator**

We have a question now from Lisa De Neve from Liberum. Please go ahead Lisa.

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**Lisa De Neve, Liberum**

Good afternoon. A question actually on what you have seen as a theme in the market. Some consultants are revealing improved demand in the first quarter and some competitors such as ..... are cautiously optimistic for 2017. Could you provide a bit of comment of what you're seeing and expecting for SOP this year? Thank you.

.....



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

We have seen a good Q4 and both pricing and demand wise and we are seeing both in Europe, all around the globe actually, that the demand and also the pricing will remain at the levels we are currently seeing so we are pretty optimistic about the SOP markets.

**Lisa De Neve, Liberum**

Okay thank you. And just a quick second one on the Fit for the Future programme you mentioned that you target additional double digit cost savings by 2018. Could you provide some colour on where you are seeing these further savings and efficiencies? Thank you.

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

The Fit project has the focus in the production, logistics and administration. And these are the same areas we are going to work on for the additional cost savings.

**Lisa De Neve, Liberum**

Okay great, thank you.

**Telephone Operator**

We have a question from Andreas Haindl from MainFirst. Please go ahead.

**Andreas Haindl, MainFirst**

Thank you for taking my questions. The first could you elaborate a little bit how you see the Potash pricing environment in spring now in Europe, your most important area?

And then I would like to understand what you would think that your unit costs under good conditions in 2018 will be with the cost savings in place and the KCF plant coming on stream?

And then lastly it was very helpful that you have given us what your best guess is on the production level with the Hattorf issue. Would you also provide what a worst case scenario under very dry conditions could be, so what is let's say the range we have to think of if the weather becomes nice and hot in the summer which would obviously not be fun for you but potentially for me? That would be helpful.

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

Yeah so I said earlier that we are quite happy with our volume development in Europe and that goes along with a healthy price development as well. I think in almost all areas over the world we see a recovery of prices, partially a bit quicker, partially slower, but no further development that could keep us awake at night. And Europe is from both perspectives, price and volume, very promising.

Let's skip the second question because I'm not quite sure if I got this correctly, I'll directly go to the third and then I would like to ask you to repeat the second question. For all the other participants please one question after the other.



Worst case weather, this is almost impossible to answer. I only said every single day and we are only talking about Hattorf because we believe with our additional measures we are able to keep all the other two sites running. That was not the case in '16. We had close downs not only in Hattorf last year. This year we expect it can only impact Hattorf so we expect an impact of roughly a million and now it's up to you to imagine how dry a year can be. We are safe for the next couple of weeks but what's going to happen after that I don't know. I'm sorry to not be able to give you a worst case number.

Laughter

On the other hand why should we always see the downside, it could be rain more and then we have some upside here.

.....

**Andreas Haindl, MainFirst**

I was just looking on these both, upside and downside.

.....

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

You asked about the KCF but I'm sorry I didn't get it completely.

.....

**Andreas Haindl, MainFirst**

Completely it's just I would like to have a flavour what your unit costs will be if everything is solved in 2018. So with the KCF plant in operation and no issue anymore with this water flow level of the Werra, would that still be on this level of 216 mentioned for '15 and normalised '16 or would it be different?

.....

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

Andreas I remember the first question from Joel was what could be your unit costs for 2017 and we said it's pretty tough to work that out so we're going to wait a little bit more until into the year before we answer this question that concrete.

.....

**Telephone Operator**

We have a question now from Andrew Benson from Citi. Please go ahead.

.....

**Andrew Benson, Citigroup**

Thanks very much. Funnily enough most of the questions have been answered but can you just give us a bit of an update on what you think the financing costs and tax rates are going to be this year? And also you've made two acquisitions, can you just give a little bit of detail on those and how they're going to fit and what the financial contribution is likely to be this year? Thanks.

.....

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

Financing costs, do you mean the total amount of interest rates or financial result?

.....





**Andrew Benson, Citigroup**

The financials so your hedging, any pension costs as well as the financial challenges?

.....

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

To be sure that we're on the same side, I mean financial result was last year so in '16 minus €52m and this includes everything, interest income, interest cost and cost on provisions etc. And I would assume that this goes up because we are no longer that much capitalising the finance costs for Legacy so this should go up into the area of a little bit north of €80m.

.....

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

Did you mention the tax rate as well, did I get that correct?

.....

**Andrew Benson, Citigroup**

Yeah that's right. I mean are there any tax breaks in Canada that could pull it down a bit or prop it up or...?

.....

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

A normalised tax rate for us is about 28%. We were a bit below in the last two years but that is what one should expect.

.....

**Andrew Benson, Citigroup**

And then the acquisitions?

.....

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

Due to the fact that we have acquired a debt burden already because of the biggest investment of the history of the company, namely Legacy, there is nothing meaningful in the pipeline, additional acquisitions, meaningful in terms of cash requirements.

.....

**Telephone Operator**

We have a question now from Oliver Schwarz from Warburg. Please go ahead Oliver.

.....

**Oliver Schwarz, Warburg**

Thank you. I'll cope with your demand get through one by one. In regards to the measures with the water removal from the mines, are there additional measures to come or are you satisfied with the measures in place?

.....

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


Well we are working on additional measures. For example currently we are only allowed to bring our waters from the stockpiles into Bergmannsseggen-Hugo mine. We hope that we will be able pretty soon to bring our production waters into that old mine as well, that would have a meaningful impact because there is a big volume available there. And the next big one is B....., another old mine with a meaningful available volume. We hope to get a permit to dispose waters there in the second half of this year. These are the most important further steps in addition to what we have in hand already.

.....

**Oliver Schwarz, Warburg**

Would that affect Hattorf or would that mostly affect the other parts of the Werra mine?

.....

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

It could have a positive effect on Hattorf.

.....

**Oliver Schwarz, Warburg**

Okay and just coming back to the calculation on the negative impact in the first quarter you gave, the €40m you referred to, just trying to do the maths here. €25m for the standstill but obviously around about €15m from the costs of additional measures. But you said on the other hand €20m to €30m for the measures for the full year. So why is that front loaded?

.....

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

Because I said slightly more than €1m.

.....

**Oliver Schwarz, Warburg**

Okay. Could you give us an indication, should Legacy start up let's say 1st of July 2017, how much depreciation because that's certainly something you can control very easily, what would be the level of depreciation for 2017 for Legacy?

.....

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

It would be a number between €10m and €15m per month.

.....

**Oliver Schwarz, Warburg**

Okay thank you very much. And lastly I'm still a bit puzzled about the lack of movement in the provisions for mining provisions. When you look at the pension provisions obviously depending on the interest rates they tend to move all over the place, up and down depending where the interest rates go. That's simply not the case in the provisions for mining. Assuming that we'll retain that silly low interest environment for another extended period of time how would that affect the provisions for mining you have in your balance sheet?

.....

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

Yeah we are affected by adjustment of our discount rates on the mining provisions. So we have reduced the discount rate from 3.5% to 3.3% following the market and following our methodology and



that had an impact of additional mining provisions of roughly €130m. In total we have increased our provisions due to interest rate developments by €150m and that all drove our net debt number as well. But we believe now we have achieved the end of that story because there are more indications for rising rates than further decreasing rates. But we have taken the whole hit already.

.....

**Oliver Schwarz, Warburg**

Okay, understood. And lastly just a housekeeping question. The royalties you are going to pay to the Canadian government for the production of Legacy, or better to say for the sale of the product you produce at Legacy, would that be recorded or recognised as a production cost or is that part of your tax payment?

.....

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

Part of the EBIT.

.....

**Oliver Schwarz, Warburg**

Okay thank you.

.....

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

But this was the last question Oliver right?

.....

**Oliver Schwarz, Warburg**

Yes it was. Sorry about that.

.....

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

No everything is fine, and you asked one by one, everything is okay. Thank you very much.

.....

**Telephone Operator**

Have a question now from Stefan Kippe from Commerzbank. Please go ahead.

.....

**Stefan Kippe, Commerzbank**

Thank you. I'll also start with the first one. Talking about the capex assumptions for 2017, what do you expect for phasing? So one might think that because the start-up is planned for midyear that probably capex will be higher in H1 versus H2, so what do you think the split will be, 60/40, 70/30? What is your assumptions for that?

.....

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

Yeah I went as far as I wanted in the beginning of this call. Now you have a very precise idea of the capex in '17. That should be very linear so there is no reason for believing that we will see significantly more in the first half than in the second.



.....

**Stefan Kippe, Commerzbank**

Okay so there is no remaining capex for Legacy that would have to be paid before start-up?

.....

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

There is remaining capex for Legacy yes but then we have heavy capex on at the Werra area so it almost levels out. You can expect same amounts in both halves. Because also after the production starts the pure maintenance capex for Legacy kicks in right so it's 50/50.

.....

**Stefan Kippe, Commerzbank**

Okay that makes sense thank you. Staying with Legacy you talked about a minus €150m EBIT impact that you still expect in 2017 due to start-up issues. Do you have an expectation of how much the operating cash impact from Legacy will be in 2017? I guess it's probably not going to be positive but can you give an assumption of where that will be? Except for capex, just the operational cash from Legacy.

.....

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

Yeah as we said EBITDA will not be positive before 2018, that means that we will have a still significant I guess free cash flow in '17 which is close to the number that we gave you for the EBIT impact. But I would like to use the opportunity - I always say roughly because and we are talking about a €4bn project which will be ramped up in the course of this year. Please allow us to be not as precise as with a type which has been running for decades. But that is what we believe today.

.....

**Stefan Kippe, Commerzbank**

Very clear thank you. And pulling that all together I guess if I made the assumption that there is a very good chance that net debt of the Group at the end of 2017 will still be quite a bit higher than it is now, that would not be unreasonable now would it?

.....

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

That is not unreasonable. In '18 we will reduce that portion significantly but it will still be on a high - it will still be a comparable number at the end of this year.

.....

**Stefan Kippe, Commerzbank**

So not meaningfully more than it is now?

.....

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

No not more but not meaningfully less than what we've seen at the end of '16.

.....

**Stefan Kippe, Commerzbank**



Very clear, thank you very much.

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**Telephone Operator**

We have a question from Brendan Green. Please go ahead Brendan.

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**Brendan Green**

Just following on from what you said about capex, could you just clarify I think you said earlier that you expect positive free cash flow in 2018 which will then lead to deleveraging.

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

Yes that's correct, positive free cash flow. And not only a very slight number.

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**Brendan Green**

And just to clarify what the individual before me asked, you think net debt will be or could be slightly higher at the end of 2018 than it is currently?

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

I said it will not be significantly lower but we are not expecting - sorry are you talking about '17 now or again '18?

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**Brendan Green**

End of 2017.

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

In '17 it will be only slightly below the '16 number.

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**Brendan Green**

Okay thank you.

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**Telephone Operator**

And the final question we have coming through is from Stephanie Bothwell from Bank of America Merrill Lynch. Please go ahead.

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

Just a couple of follow up questions. So you've committed to being at EBIT loss making level round €150m in 2017. For 2018 you've committed to being EBITDA positive like I say. I was wondering if you could be committed to an EBIT breakeven level for 2018, is that reasonable?



And the second question is just on your net financial debt. Can you just confirm how much headroom you do have at this point in time in your existing facilities? Thanks.

.....

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

You should expect a positive EBIT in '19, no breakeven on EBIT level in '18 for the Legacy side.

And with our financial debt we still have significant headroom. We have our syndicated credit facility which was drawn up to roughly €300m as of 31st of December 2016. The total amount is €1bn so it's still a quite significant amount of headroom. But that gives me the opportunity even though you did not ask for that but I would like to give you the indication that there is one bond maturing next year. It has to be paid back and we believe that the current environment is perfect to early refinance this one so we might see a transaction not far away from today.

.....

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

Okay very helpful, thank you very much.

.....

**Telephone Operator**

And at this point I'll hand back to your host Dr. Burkhard Lohr for any concluding remarks. Thank you.

.....

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

Thank you very much for joining us today with many interesting and important questions. I think it was clear that '16 was difficult. We believe '17 will be better but could still be bumpy because we still are dependent on the weather situation. But we are very optimistic for the future. Legacy will kick in, we will finish our KCF planned, Salt 2020 is on track, so good reasons to be positive. And if you have further questions please contact our investor relations department and have a great day and we are looking forward to seeing you soon again. Bye-bye.

.....

**Telephone Operator**

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

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END

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