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K+S

Q2 2020 Results Presentation
13th August 2020

K+S

Dr. Burkhard Lohr, Chief Executive Officer

Thorsten Boeckers, Chief Financial Officer

Questions From

Christian Faitz, Kepler

Alexander Jones, Bank of America

Michael Schäfer, Commerzbank

Markus Mayer, Baader Helvea

Thomas Swoboda, Société Générale

Andreas Heine, MainFirst

Lisa De Neve, Morgan Stanley

Patrick Rafaisz, UBS

Markus Schmitt, ODDO

Chetan Udeshi, JP Morgan

Thomas Wrigglesworth, Citi

Introduction & Key Highlights

Dr. Burkhard Lohr, Chief Executive Officer

Ladies and gentlemen, welcome to our Q2 call.

I would like to start by pointing out the highlights on Slide 3. Despite difficult market conditions, Q2 was a solid quarter. Due to lower potash prices in Agriculture, we lost around €80m compared to the previous year. But we were able to partially compensate this decline by showing a strong operational performance of our plants to which Bethune, in particular, made a significant contribution.

In addition, we had a strong cost discipline and did our utmost to make optimum use of our logistics network.

As in the first quarter, we had a COVID-19-related burden of around €10m for the measures to protect all employees and to ensure production.

Overall, our EBITDA reached €88m compared to €130m in the previous year.

Free cash flow is at minus €43m after the strong figure last year, and impacted by higher capex.

Please turn to Slide 4 to have a closer look at the Agriculture customer segment.

As expected, demand in Agriculture was good in the Northern Hemisphere and in Brazil. In South East Asia, demand did not pick up as a result of the Corona pandemic and limited availability of workers. New contracts in China and India have led to a restart of product flow, and the expected bottoming out of MOP prices in Brazil, followed by slightly rising prices.

Prices are still increasing despite higher volumes being absorbed by the markets. We expect that this price recovery, in most overseas regions, will also take pressure off the European market. And price for our special fertiliser specialities remained largely stable.

And now please turn to Slide 5 to have a closer look at the Communities customer segment.

In total, de-icing salt sales volumes in the second quarter were almost 30% below the level of the previous year. Largely due to higher stock levels of our customers at the end of the winter season, many are in a strong negotiating position in the upcoming bidding season. However, since we have multi-year contracts with many customers, and fixed prices, we only assumed slight to moderate price decreases overall.

In addition, we already signed contracts in some regions with good prices in Q4 2019.

And now please turn to Slide 6 to have a closer look at the Industry & Consumer customer segment.

Some products, such as food salt for hotels and restaurants, or chemical salt, are affected by the Corona pandemic. Other, such the pharmaceutical business, has more than compensated for these effects so far.

Our products for our chlorine production show a positive trend as well. A significant improvement in operational performance, high cost discipline and optimal use of our logistics networks, also contributed to the positive running development.

Revenues we lost in food salt in the B2B area was more than compensated for by the demand of the Consumer customer segment. The more people cooked at home, the more table salt was bought in the supermarkets.

Water and pool salt also saw a very strong demand in Q2.

In these uncertain times, customers buy well-known brands that they trust.

On Slide 7 is our outlook for the year as a whole. For 2020, we continue to expect EBITDA of around €520m. As in our last outlook, the figure does not take into account one-time restructuring expenses which could result in up to €40m. Including this one-off effect, we will see an EBITDA of €480m.

Due to the high cost discipline, and the optimised use of our logistics networks, EBITDA of the Americas Operating Unit is now expected to be only slightly lower than in the previous year, despite significantly lower volumes for the de-icing salt business.

We had a few moderate declines. We also saw good operating performance in our Europe+ Operating Unit which would help us also in the second half of the year.

Furthermore, we have some positive effects from our package of measures. These effects allow us to compensate for the slower recovery in potash prices, of foreign currency effect from the weaker US dollar, and COVID-19-related efficiency losses.

We continue to expect free cash flow around breakeven point with this EBITDA guidance, also because the biggest part of the restructuring expenses will not be cash effective in 2020.

Now, please turn to Slide 8.

Ladies and gentlemen, at this point, I cannot tell you anything new about the sale process of our Americas Operating Unit. You may have heard more details about this sales process in the news, but, please note, we do not comment on market speculation. However, we still expect signing this year and you should see that as positive news.

On Slide 9, I would like to briefly outline what is important for the new K+S.

With the sale of the Operating Unit Americas, a restructuring of the administration is mandatory. The overall target this year is positive free cash flow contribution from every site, even in difficult market conditions.

The Europe+ Operating Unit, and the holding company, was reformed into a leaner and smaller K+S with a focus on fertilisers and specialities.

The future of innovation enables a budget reduction for SG&A functions by €60m from 2021.

In the future, K+S will work in a functional organisation with an operational management team. The Executive Board will be supported by 15 direct reports. Without

the Americas Operating Unit, there were 36. The future direct reports are named and the design of the functions is now defined.

At the same time, negotiations with employee representatives have started. The expected restructuring expenses could be up to €40m. The reorganisation should be completed by the beginning of 2021. I'm convinced that the realignment of K+S will result in a leaner and more performance-orientated company, one that will have a solid financial base for future growth.

Now please turn to Slide 10.

Ladies and gentlemen, the situation would certainly be much better for us with higher potash prices, for sure. We have to focus on everything that we can influence. And, to this end, we are making really good progress. We have finally achieved our potash production targets. Our German plants are unaffected by wastewater-related shutdown, the nutrient content is good, and Bethune continues to ramp up thanks to improved product quality.

We were also able to cut costs significantly by optimising the use of our logistics networks. The OU Americas transaction and the realignment of the new K+S are on track.

Something I would like to add here, we have just reached an agreement with the KfW Bank for a syndicated credit line of €350m at market condition. This will help us if there are any additional unforeseen burdens coming from the Corona pandemic.

Ladies and gentlemen, this concludes my presentation, and we are ready to take your questions, and one at a time, please.

Operator, please open the line for the Q&A session.

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Questions and Answers

Telephone Operator

Thank you. If you would like to ask a question on today's call, please press '*1' on your telephone keypad. If you change your mind and wish to withdraw your question, please press '*2'.

As a reminder, if you would like to ask more than one question, please submit one question at a time. Once answered, we will then move to your next question, and you will be advised when to ask your question.

Our first question comes in from the line of Christian Faitz calling from Kepler. Christian, please go ahead.

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Christian Faitz, Kepler

Yes, good morning, gentlemen. Good morning, especially, Dr Lohr. I like to see and hear you're back. Three questions, please. So, one-by-one.

First of all, how has the Brazilian application season started in potash, obviously?

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Dr Burkhard Lohr, Chief Executive Officer

Yeah. It is still a little bit early, but volumes haven't been an issue in Brazil all over the year. As you know, pricing was an issue, but, after we have seen the bottoming out, and we have seen first increases, we believe that this will not rocket, but it will slightly continue. And we are very optimistic in terms of volumes for the upcoming season.

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Christian Faitz, Kepler

Okay. Great. Thank you.

So, the second question - I take it that the critical issues with the product quality out of Bethune are solved. Can you confirm this, and, also, elucidate us a bit? Thank you.

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Dr Burkhard Lohr, Chief Executive Officer

Yeah. Everything that we have done to get to this point was very helpful and successful, and I would really say, at this point, and that is confirmation, the product quality issues are history. We are now really on this, and normal production with high-quality. We know that the nutrient content, anyway, is higher than normal, so we are very happy with it. And that was one reason to start shipping into the US. And, again, this will not be on the plate any more.

And that is another reason why we have increased production. So, we have taken a big ramp up this year.

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Christian Faitz, Kepler

Can you name the volumes you are shipping to the US?

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Dr Burkhard Lohr, Chief Executive Officer

It's small volumes because you have to start with the logistics, etc. We're talking about, so far, 40,000 tonnes. But, anyway, it's a start. And there was a quite promising start, and the customers are happy.

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Christian Faitz, Kepler

Okay. Great. Third and final question, please.

Can you elucidate a bit the recent press reports about your discussions with the Thuringian Government about the payments for a salt plant acquisition in older mines? I mean, I'm specifically referring to the article in the FAZ from this Monday, which suggests that you are declaring the position as preventative measures against mine collapses rather than deposition which triggers payments by the Thuringian Government, I take it. Thank you.

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Dr Burkhard Lohr, Chief Executive Officer

That's a very complex issue. I hope I get this done in this call.

As you know, we will have to stop the deep well injection by the end of next year. And we will, beginning from 2022 on, deposit the processed waters instead of deep well injection into an old mine called Springen. This is in Thuringia. And the state of Thuringia, at the same time, has eternity costs because there is a leak, and they have to handle the water. That is a significant eternity cost for this small state.

And when we flood Springen, there will be this problem solved as well. So it's a win-win situation.

And we have to find an agreement of how to deal with the costs, and I cannot disclose the number, but this will be favourable for us to discharge the waters in the future and favourable for Thuringia as well. Does that answer the question?

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Christian Faitz, Kepler

Kind of, yeah [Laughter]. That's it for now. Thank you. Thanks.

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Dr Burkhard Lohr, Chief Executive Officer

Okay.

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Telephone Operator

The next question comes in from the line of Alexander Jones calling from Bank of America. Alexander, please go ahead.

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Alexander Jones, Bank of America

Good morning. Thanks so much for taking my questions.

And the first one would be on the overseas potash price that you've managed to achieve this quarter. You know, compared to the Brazilian one, where you're actually up sequentially quarter-on-quarter. Was that timing in the quarter, or was there some kind of improvement in the sale of allocations there?

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Dr Burkhard Lohr, Chief Executive Officer

So we just found out that we didn't get your question, sorry. Can you repeat it?

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Alexander Jones, Bank of America

Yeah. Sorry. It was about the overseas potash price for the quarter. You achieved your average selling price, was up sequentially compared to the first quarter whereas, I guess, Brazilian average prices were down. So, was there a factor behind that?

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Dr Burkhard Lohr, Chief Executive Officer

Now, we had high volumes in March in the first quarter, and there we've seen already the lowest price. And, from April on, we have seen a slight recovery, and that is slowing to our numbers, and that's the reason why the average selling price overseas in Q2 was \$6 higher than in Q1.

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Alexander Jones, Bank of America

Okay. Excellent. Thank you. And maybe one other question on capex guidance.

Are you all happy with consensus net capex being around €550m, or is there any room for that to come down in order to help your free cash flow guidance?

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Thorsten Boeckers, Chief Financial Officer

Alex, it's Thorsten. I can promise, we do our utmost in order to keep the cash within the company, but we have to stick to the guidance, that the capex increased significantly over last year. And we still feel fine with the consensus forecast for capex, which, as you said, is around €550m.

Nothing especially elevated compared to the normal level because of this year happening, environmental protection measures, which are especially tailings piles extension.

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Alexander Jones, Bank of America

Great. Thank you very much.

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Telephone Operator

The next question comes in from the line of Michael Schäfer calling from Commerzbank. Michael, please go ahead.

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Michael Schäfer, Commerzbank

Yeah, good morning. Thanks for taking my two questions, basically.

First is on the logistics cost relief you experienced in the second quarter. I wonder whether you can shed some more light on what you have saved, basically, compared to maybe the situation you've seen in the first quarter, and what should we expect heading into the third quarter when stronger de-icing volumes are kicking in again and may reverse the trends? So, this would be my first question.

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Thorsten Boeckers, Chief Financial Officer

Michael, I think it's two things. First of all, one project within our package of measures is dealing with optimising our logistics networks, and this is in the Americas case, but there is also the Europe case. And we're talking here about a review of sites and the products that we're talking about, networks between the sites, and to customers to stockpile, and also ocean freight networks.

The benefit - the benefit from this we haven't seen yet, but where we have seen benefits from was I would call it a smarter ocean freight, or also truck freight network and management. We boost free capacity from low cost de-icing freight contracts in order to ship higher volumes in Consumer business, for example, and it's hard to say how much of this we cannot use in the third quarter when de-icing volumes kick in again, but we always have enough capacity and freight in order to make use of that.

So, it's hard for me to give you a concrete number, but I would expect that we see this tailwind also a little bit in the third quarter too.

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Michael Schäfer, Commerzbank

Okay. The second question is on your cost saving measures. You've, thankfully, basically, indicated the €60m cost decline from 2021 onwards. The first, A, question is how should we think about the phasing of the €60m savings in 2021 against, presumably, €40m cash out? This would be my 2A question, and 2B would be do you think that this is sufficient to keep, basically, the, let's say, remaining - your non- OU Americas business, and, basically, at free cash flow breakeven, sorry, to bring it back to free cash flow breakeven given the current price situation on the potash side? Thank you.

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Dr Burkhard Lohr, Chief Executive Officer

Okay. First of all, beginning the part, well, the €40m will, of course, run into the earnings this year with the provision. We will have most of this as a negative cash effect in 2021, parts in 2020, but most of it in 2021.

Our target is to be done by the end of this year, but, of course, some costs will still run into 2021. Our running contracts. So, the dominating part of the €60m savings will be seen in 2021. The full part in 2022. Yeah.

On the current price level, this €60m is helpful, but, of course, not the whole measures we have to take to achieve a better free cash flow situation. That's why our package of measures is far more than only selling the OU Americas and only realigning our administration.

We are looking into every site, and we are looking into what has to be done to get this site, even on the current price level, free cash flow positive. Some are there. In Bethune, it's obvious we just have to follow our in depth path, but, in some cases, especially when we are talking high environmental costs, it's a little bit more tricky, but we are working on all aspects to get there.

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Michael Schäfer, Commerzbank

Okay. Thank you very much.

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Dr Burkhard Lohr, Chief Executive Officer

You're welcome.

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Telephone Operator

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

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Markus Mayer, Baader Helvea

Good morning gentlemen, two questions from my side as well.

Firstly, could you update on your US dollar hedging and also how should the US dollar sensitivity look like after divestment of your Americas business? That would be my first question.

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Thorsten Boeckers, Chief Financial Officer

Yeah Markus, the last question - we are not hedging the translation effects from the US business because we have revenue streams and costs in US dollar and it's just the translation effect into calculating the euro balance sheet.

The second is from now on, I mean the dollar weakened and let's assume it goes down by another ten cents, this would have an adverse effect which is just double digit.

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Markus Mayer, Baader Helvea

Okay, double digit. And this is basically then also the effect if the Americas business would be out, or is this just the effect right now for the K+S as it is right now?

Thorsten Boeckers, Chief Financial Officer

No this is - the main effects come from - we are talking about 2020, the Americas will still be for the majority of the year part of it, right ...

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Markus Mayer, Baader Helvea

No, no that's clear, I just wanted to know how that is right now and how it would be if Americas would be already out if this is possible?

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Thorsten Boeckers, Chief Financial Officer

There's no big difference I would say then.

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Markus Mayer, Baader Helvea

Okay, thank you. And then my second question would be on the demand situation of your Consumer and Industry business which was pretty strong in the second quarter. Is this also going into July as well, or was there a sequential weakening?

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Dr. Burkhard Lohr, Chief Executive Officer

July saw very good numbers as well; we expect that there will in the next quarter in total still be developments which are above normal and maybe below what we've seen in the second quarter.

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Markus Mayer, Baader Helvea

Okay, thank you so much.

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Telephone Operator

The next question comes in from the line of Thomas Swoboda, calling from Société Générale. Please go ahead.

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Thomas Swoboda, Société Générale

Yes good morning everybody, I have one question left if I may? And it's regarding your new competitor from Russia; they seem to be producing decent volumes so - at this mine already. My question is do you see them in any of your markets already, or is it directed and mostly for their internal consumption? And do you expect EuroChem to become active as the next seller of potash through this year, eventually next year? It would be great if you could share your opinion, thank you.

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Dr. Burkhard Lohr, Chief Executive Officer

Yeah, you're welcome. First of all maybe you're correct that there was - one or the other surprised about these volumes, we weren't. What we could read now is in line with our expectation for this year and for next year. Of course they started to use the MOP by themselves, so it was internal use. And the more they produce the more they will of course ship into the markets. Most probably not in our European home markets due to the small volumes and the logistical constraints, we will see them in the overseas market.

But take into account we could expect another two million tonnes demand next year, so it is running into a growing market. I'm not seeing this as a significant threat.

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Thomas Swoboda, Société Générale

This is very helpful, thank you.

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Dr. Burkhard Lohr, Chief Executive Officer

Thank you.

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Telephone Operator

The next question comes in from the line of Andreas Heine, calling from MainFirst. Please go ahead.

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Andreas Heine, MainFirst

Thank you for the opportunity to ask a question. I would like to come on with basically a follow on question on what I asked before.

On this US dollar hedging, specifically on potash, could you outline how you'd do this in the future? So we'd probably deliver much more from Bethune to Latin America and the German mines more focused on Europe. Maybe you can outline a little bit what your net US dollar exposure in the potash business is and what for 2021 it means if the US dollar stays on the current level?

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Thorsten Boeckers, Chief Financial Officer

Andreas I wouldn't see a significant increase of the net position because, yes we are delivering into US dollar regions, we are using this US dollar in part for paying costs, also costs from European shipments, but also from Canadian shipments, so freight is paid in US dollars, which reducing the gross position then.

We are securing the US dollar against the euro and we are also hedging the US dollar against the Canadian dollar in order to cover the costs there. And net position from 2020 to 2021 will not change significantly. In the long term when Bethune ramps up further we will certainly see a higher increase - or an increase of this net position in US dollar, but not in the short term.

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Andreas Heine, MainFirst

Okay thank you. And then the second, an add on on Christian's question. Not going into any detail of this contract you have with Thuringia, but if the change from 2021 to 2022 not using this deep well injection any more, is that adding costs or is the benefit from Thuringia paying something for you that is equalling this point?

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Dr. Burkhard Lohr, Chief Executive Officer

It's a question from where you're coming from, you know that another alternative was discussed - the pipeline to the Oberweser to replace the deep well injection. That would have been significantly higher costs for us. So we in a way had this in our capex plans and we can take a significant part of that out. But of course it's not for free, but the major portion will be paid by Thuringia.

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Andreas Heine, MainFirst

So there is still a slight negative, but not too much from 2021 to 2022?

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Dr. Burkhard Lohr, Chief Executive Officer

Yeah, we are starting to prepare things already. There will not be a step up in terms of costs related to that in 2021 compared to 2022.

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Andreas Heine, MainFirst

Okay. Then can you share with us what the market conditions are for KfW loan, I don't know what the market conditions are for a company like you are now?

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Thorsten Boeckers, Chief Financial Officer

I think what I can say is they are in line with markets for a company with a single B Rating, but we are not laying out the detailed condition, that's my understanding.

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Andreas Heine, MainFirst

And then could you remind me - this is really the last question I'd like to ask - what is now your sustainable production from Germany with the current product mix you have by having solved all the issues you have with the waste, so what can we expect from 2021 onwards, as production from the Germany mines?

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Dr. Burkhard Lohr, Chief Executive Officer

I think if you calculate it's roughly seven million tonnes. I think that's a good number.

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Andreas Heine, MainFirst

Perfect. These are all my questions, thanks a lot.

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Dr. Burkhard Lohr, Chief Executive Officer

Thank you.

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Telephone Operator

The next question comes in from the line of Lisa De Neve calling from Morgan Stanley. Please go ahead.

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Lisa De Neve, Morgan Stanley

Good morning everyone, I have three questions. The first one is a bit on your average selling prices, so I mean in terms of the outlook for average selling prices reducing from 239 to 231, I'm just trying to understand that you're expecting for the second half of the year, given obviously Brazil has been quite strong. I mean India has been buying a lot of fertilizer, especially urea, so do you expect and uptick there from India. I know you're not shipping there, but it's a global commodity? And what are you seeing in terms of China? That's my first question.

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Dr. Burkhard Lohr, Chief Executive Officer

The guidance is - the 239 was three months old, meanwhile we have seen that yes there is an increase in the prices, but it's slower than we have assumed three months ago. That's why we have cut this assumption. So we are still expecting an increase, but a little bit slower than we assumed three months ago.

But I think it is worth mentioning that we have - we can cover with our EBITDA guidance even this effect. And by the way it's not precisely 231 it's slightly above 231 what we expect now.

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Lisa De Neve, Morgan Stanley

Okay, sure and that's very helpful thank you.

And the second question, so very much congratulations on continuing to like manage your cash costs incredibly well. I have a bit of a question if we take the cash cost per tonne in correlation to your free cash flow. I mean obviously you're ramping up Bethune and that's bringing down your cash costs, but overall market prices are still unfortunately a little bit low on the MOP side, how should I think about free cash flow generation across your different German mines? I mean are they all currently at free cash or breakeven and can you provide sort of any detail around that? Thank you.

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Dr. Burkhard Lohr, Chief Executive Officer

Yeah I think I gave a flavour already with an earlier answer. If you look into our sites, again Bethune is in ramp up and it's only a matter of time until they will be able to be free cash flow even on current price levels. And the situation is very different here in our German mines. Of course the Werra site has the biggest burden with our environmental capex and that is why they are the furthest off achieving free cash flow breakeven on the current prices. But we are getting there I'm sure.

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Lisa De Neve, Morgan Stanley

Okay that's very helpful, thank you.

And then the final one is a very short one, you had a small uptick in your mining provisions over the first half, about €20m, is that just related to your environmental capex, or environmental provisions, is there anything specific in there - just anything you can point out?

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Thorsten Boeckers, Chief Financial Officer

It's just the accumulation of interest.

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Lisa De Neve, Morgan Stanley

Okay, thank you very much.

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Telephone Operator

The next question comes in from the line of Patrick Rafaisz, calling from UBS. Patrick please go ahead.

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Patrick Rafaisz, UBS

Thank you and good morning, three questions from me as well please.

The first is a follow up on your US market access - you mentioned the 40,000 tonnes currently, what's your plan over the next two to three years for the US market?

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Dr. Burkhard Lohr, Chief Executive Officer

That will not rocket; it will be a nice additional business but maybe get close to 100,000 tonnes in the next - in 2021, but not much more.

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Patrick Rafaisz, UBS

Okay thanks. And then also a follow up on the cost savings in admin, the €60m, how should we think about that from a modelling perspective, would that be partly in the re con line partly in Agriculture, or all in re com, how will you allocate those?

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Dr. Burkhard Lohr, Chief Executive Officer

That is mostly in the re con line, but our reporting will look different anyway when we have sold OU Americas, because there will not be an OU Europe any more. It is then one entity, but most probably we will have of course the segmentation, customer segment and it will be shown in a way in the re con line.

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Patrick Rafaisz, UBS

Okay thanks. And the last question on your financial results in the second quarter, this was better than expected versus previous quarters. Do you have the guidance for the financial result for the full year?

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Thorsten Boeckers, Chief Financial Officer

That's a tough one Patrick because it depends especially on the other financial results and here especially on the development of the US dollar to the euro, or the Can dollar to the euro and even the relation Can dollar to the US dollar.

And we this is - we saw a strong adverse effect in the first quarter, when you compare second quarter over first quarter we had a slight positive effect because the currencies didn't move much. This makes it difficult to forecast it, but on the levels we are forecasting and using also for our hedging, etc, etc, I would say the total financial result should be somewhere in the range of minus 140 to 150.

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Patrick Rafaisz, UBS

Very helpful, thank you very much.

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Telephone Operator

The next question comes in from the line of Markus Schmitt, calling from ODDO. Please go ahead.

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Markus Schmitt, ODDO

Yes thanks for taking the question. I have just one question regarding the probably 4% KfW loan. That is for what could you actually use the loan, I understand that you cannot simply use these funds for refinancing for example the 2021 bond? Of course there is a left pocket right pocket principle applicable, but what can you specifically fund with the facility - for instance in terms of capex, obviously the environmentally friendly, CO₂ emission reducing investment and what are potentially other restrictions or earmarks in terms of usage?

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Thorsten Boeckers, Chief Financial Officer

Yeah I think the main restrictions that are well known is the one you mentioned already, that indeed you cannot use these funds for refinancing of existing debt. And the second is you have to make use of the majority of the already existing credit facility before you can tap the KfW loan.

And what I'm always saying is it is for us a cushion, an additional cushion for financing the running business, and we don't know in that business how we've always communicated it, what happens in the markets, especially with regard to the development of Corona. And if we - according to our guidance we have given out, we have sufficient liquidity to run the business. And this is how I look at the KfW line and that's the information I could give you.

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Markus Schmitt, ODDO

Okay, but could you use it for instance for financing working capital, is that permitted?

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Thorsten Boeckers, Chief Financial Officer

Yes, that's business related, yeah.

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Markus Schmitt, ODDO

Okay, good - yeah thank you very much.

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Thorsten Boeckers, Chief Financial Officer

You're welcome.

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Telephone Operator

Okay the final question in the queue comes in from the line of Chetan Udeshi, calling from JP Morgan. Please go ahead.

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Chetan Udeshi, JP Morgan

Yeah hi thank you. Just one quick question which is around this administrative cost saving plan that you announced this morning. My question essentially is you know post the sale of you know - or the planned sale of the Americas business you might have some remnant cost within the organisation. So is the intention of these cost savings to essentially address some of those remnant costs, or are these net positive numbers in terms of contribution to the earnings?

Dr. Burkhard Lohr, Chief Executive Officer

I'm not 100% sure if I got this question, but the numbers we are communicating are all completely without OU Americas. So when we are saying we're taking €60m out, coming from €200m, to €140m this is the remaining K+S without any administrations from the OU Americas. Does that cover your question?

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Chetan Udeshi, JP Morgan

Typically most companies when they sell one of the big businesses you know they talked about remnant costs, which are costs that you have to a point - so for instance the common services costs might have been assigned to the Americas unit which unfortunately might not go with the business because you know it is still within K+S. So basically - will this €60m primarily offset all those costs which are not necessarily going with Americas, though they might be assigned to Americas at this point, or are these actual net incremental savings on top?

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Dr. Burkhard Lohr, Chief Executive Officer

Now I've got it. So the Americas are very independent already. They have all services they need in Chicago and in other locations in the Americas. We only had, if you wish, some strategical SG&A costs here to run the business and to integrate the business in the Group. So there will not be much of those costs that you're focusing on close to zero once the deal is closed.

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Chetan Udeshi, JP Morgan

Okay, understood, thank you.

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Dr. Burkhard Lohr, Chief Executive Officer

You're welcome.

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Telephone Operator

We do have another question coming through from the line of Tom Wrigglesworth calling from Citi. Tom please go ahead.

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Thomas Wrigglesworth, Citi

Good morning gentlemen, thanks for the presentation. So my questions, could you just refresh us on your expected schedule of cash cost production for Agriculture through the second half and the development into 2021? Thank you.

Thorsten Boeckers, Chief Financial Officer

Yeah Tom, we were in the last call still a bit more conservative than we would be today I would say. We forecasted for 2020 in Agriculture right, cost per tonne of about €210 per tonne. And we saw a strong cost development in the first half, despite Corona, we saw record production levels and this helps of course, both in Canada and in Germany. And I would dare today to say when I look at the consensus which stands I think at €207 or so, I feel comfortable that we can reach this number.

And for 2021 it's a little bit early to give this guidance right now.

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Thomas Wrigglesworth, Citi

Okay, thank you very much Thorsten.

.....

Thorsten Boeckers, Chief Financial Officer

You're welcome.

.....

Telephone Operator

Okay, there are no further questions come through so I will it now back over to yourself, Dr. Burkhard Lohr for the conclusion of the call.

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Dr. Burkhard Lohr, Chief Executive Officer

First of all thank you all for joining us today and for the good questions. We are looking forwards to seeing you soon, unfortunately virtually, but as we've learnt that works as well. Until then, stay healthy and thank you and bye-bye.

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END

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