



K+S Group

Shaping 2030 - Conference Call

9th October 2017



K+S Group

Dr. Burkhard Lohr, CEO

Lutz Grüten, Head of Investor Relations

Questions From

Michael Schäfer, Commerzbank

Neil Tyler, Redburn

Andreas Heine, MainFirst

Christian Faitz, Kepler Cheuvreux

Andrew Benson, Citi

Markus Mayer, Baader Helvea

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Presentation

Dr. Burkhard Lohr, CEO

Ladies and gentlemen welcome to our conference call, which is entirely focused on the presentation of our new strategy, Shaping 2030, our ambitions and how we will get there.

With me on the call today is Lutz Grüten, our Head of IR. Shaping 2030 is the result of the intense work of the Board and senior management team over the last six months and we are very proud to share the first details with you today.

Shaping 2030 - what is it in a nutshell? In Phase 1 we will turn K+S into a much more customer focused company. This will be reflected in our four product market segments, Agriculture, Industry, Communities and Consumers. We will transform, tear down silos, and expect synergies of at least €150m annually by the end of 2020.

As a result we will be free cash flow positive again by 2019 and we will half our indebtedness one year later.

We will become investment grade in 2023. After 2020 we will pursue accelerated growth to significantly reduce our dependency from MOP price and weather.

We have the ambition to shape our company for it to be able to generate an EBITDA of €3bn by 2030.

First let me explain why we are adjusting our strategy at this moment in time starting on page 5. We think the timing for the new strategy is perfect. We have successfully concluded our major investments, Bethune has started to operate and we have implemented measures to improve our waste water situation at the Werra. After achieving these important milestones it is now time to think about our strategy and management focus in the upcoming years.

Secondly, the appointment of a new management team offered the opportunity to have a fresh look at K+S and have an open minded discussion about our longer term ambitions and the best way to maximise the value for our stakeholders. We are in regular discussions with our stakeholders and your feedback is not only appreciated, but also reflected in Shaping 2030. However, we have just started our journey and there is more to come.

Moreover, markets are moving fast and it was also worth diving deep into the most important megatrends, like digitalisation, demographic changes and emerging markets. This is why we have now developed our new strategy which takes all of these considerations into account.

Now please turn to slide 6 and let me briefly show you how we developed our new strategy. For us Shaping 2030 is the best way to move K+S forward. The aim of developing this strategy was to create a new long term ambition for ourselves with an



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eye on 2030. The goal was to define a portfolio that will offer the highest value to our stakeholders in the long run and to draft a roadmap for the implementation.

After analysing our capabilities the existing portfolio, market trends and possible growth opportunities we have identified alternative portfolio development options. We have had a no taboo approach every thinkable option was on the table and thoroughly assessed.

We dived deeply into the economics of every meaningful option and compared them based on their value creation potential. When we started the strategy project it was very important from day one to agree on an open, honest and fair understanding of our current situation of which we describe on page 8.

We are convinced that we have already demonstrated some of our strong capabilities in the past. We are already a market leader in many attractive market segments. We have proven know how in exploration and project execution and we have shown that we can successfully move into new markets and also grow our business in high margin fields.

On the other hand we know that we still have potential in our existing organisation and portfolio to conduct our businesses even better. On the financial side our high financial leverage currently restricts our room to manoeuvre and to support growth beyond our existing activities. K+S is only perceived as an MOP or commodity player and the full breadth of our portfolio is neither well-known nor priced in appropriately. Also we are lagging behind our ambitious in terms of ROCE and value generation. Moreover we are faced with environmental challenges which will now be addressed in a more proactive and also more sustainable way.

Finally, looking at our organisation we are too complex and there are synergies which are untapped within our two pillar structure.

Although we have not fully utilised our capabilities yet we believe we are already in a very strong position when looking at our existing portfolio on slide number 9.

I already mentioned that while intensively working on the strategy project we have taken a fresh look at what is driving the success of K+S. It's all about our customers and less about potash and salt and our production background. So when I say looking at our portfolio I'm not talking about our two production pillars any more. The new focus from now on is our most important customer goods, Agriculture, Industry, Communities and Consumers. With this fresh customer centric view we see that already today only about 15% of our sales is MOP, interestingly part of our portfolio comes to light that were hidden champions before, this is especially true for well performing parts.

Last year one third of our revenues and the largest EBITDA contribution came from our Industry business, where we see very different customer structures and earnings compared to our fertiliser and de-icing businesses. This Industry segment contains many high margin speciality products from both potash and salt and were only hidden champions in our two pillar perspective. From our new vantage point the value contribution and potential of these businesses comes to light much better. This customer



focus will not only be a new way of looking at ourselves, it will be the new way of how we conduct our business.

So what does this actually mean? Let me show you where we are heading on slide 11. With the development of our new strategy we have also fundamentally redefined how we perceive ourselves. The cornerstone of this is our mission - We enrich life by sustainably mining and transforming minerals into essential ingredients for Agriculture, Industry, Communities and Consumers.

As you see our mission embraces our customer focus in the way we conduct our business. This is why we explicitly name our four customer groups. We refer to these groups as product market segments. In our mission we also emphasise our commitment to sustainable operations. I will tell you more about this later. Based on this we also created an all-new long term vision on slide number 12.

What will guide us over the next years is our vision to be the most customer focused independent minerals company and grow our EBITDA to €3bn in 2030. Again, we are talking here about a very long term strategy. The strategic path with an ambition of creating a €3bn EBITDA company in the future. With naming an EBITDA ambition we emphasise that we will not merely continue to manage the status quo. We hope that K+S has a long term value perspective, if we systematically develop our organisation and our businesses further on.

Your focus, the focus of the capital market is more short term; we are well aware of that, therefore please allow me to explain to you in a bit more detail how we want to get there. Please turn to slide 13.

So to be more precise let me show you what we will address in the coming years. As you have seen at the heart of our strategy lies our conviction that there is significant potential in our current portfolio yet to be unlocked. This is why we will establish a portfolio combination unleashing the highest value in the long term. At the same time we will serve the markets via our four product market segments and better penetrate markets with our high margin products.

Moreover we will list our significant synergy potential, until 2030 we will reduce our dependency on commodity product, balance our portfolio regionally, benefit strongly from megatrends and realise our untapped growth opportunities. We are certain that our strategy will create the highest value for all stakeholders as shown on page 14.

Our customer first approach will be reflected in our new organisation. Hidden champions will come into the spotlight. Our shareholders will benefit from the value creation by lifting measurable synergies and later from profitable growth opportunities which we have identified.

Our employees will benefit from attractive career options, reduced complexity and the commitment to our major sites. Our neighbours will benefit from our clear commitment to sustainability and continued investment in value adding operations in Germany and abroad.



To achieve our ambition and to create the best portfolio combination we have defined a roadmap for the years ahead on the next slide, slide number 16.

Our road to 2030 has two phases, until 2020 it's Phase 1 and we call it transformation. After 2020 we will enter Phase 2 with a clear focus on growth again. However, to be capable to be acting towards growth we first need to build a strong foundation. And therefore we are already committed to reduce our indebtedness significantly by the end of Phase 1. Coming from a net debt to EBITDA level of about eight times we will half this by the end of 2020 and in 2023 we will become investment grade again.

This will not be a walk in the park, however, supported by a strict capex discipline and a synergy programme we'll return to positive free cash flow by 2019. The free cash flow will be used to strengthen our balance sheet again and to get ready for accelerated growth after 2020.

Now let's have a look at Phase 1 in a bit more detail on slide 17. Phase 1 will be divided into two chapters, to strengthen our financial base we need to shape our organisation and build a more customer oriented company. Top down we have already identified a remarkable earnings potential in our existing portfolio as you can see on the left hand side. In total we will achieve an annual EBITDA impact of at least €150m by the end of 2020.

We see potential in the streamlining of our production and the establishment of more digital and autonomous operations. Moreover we will bundle global procurement, analyse the options of alternative use of tailings piles and we will also strengthen our sales organisation and benefit from employing best practices in pricing. In addition to that we will use our wallets and our common supply chain and logistics, and these reduce G&A costs as we abolish double structures.

To strengthen our financial base we need to tear down the silos which grew over the years when K+S was geared up for production rather than our customers. To be frank this change will take some time and cannot be implemented within days. But we have started working on that already and there is a strong commitment of our top management level.

Addressing the first findings on potential synergies among our existing activities is also supporting our decision to define potash and salt as core activities. Now please turn to slide 18 to see the topic in detail.

In the past our financial targets and KPIs have often been influenced by external factors such as weather or MOP price developments. First of all with Shaping 2030 we will move towards financial targets and KPIs which are more in our hands and less influenced by external factors. This will improve how we steer the company internally. At the same time it will make us more transparent and allow a better external evaluation of our performance.



Secondly, in order to make our performance more visible we will report along our new product segment logic.

Lastly, we will also establish a new performance based incentive scheme. Currently we are still working to detail and quantify our new KPIs and reporting lines. We will provide you more clarity in 2018. However, already in the short term we will see a measurable improvement of our financials as shown in the next slide, slide number 19.

What is our starting point? With acquisitions like SPL in Chile back in 2006, Morton Salt in 2009, the consolidation of the European salt activities today called esco and finally our investment in Canada, we have laid the foundation. In other words we are invested in a great portfolio and now make the best out of it.

However, the first priority now remains on our free cash flow. We will see a strong improvement already in 2018; this is due to the conclusion of our major capex programme in Canada, stabilising output at our Werra site and the successful start in Bethune. The currency effect and the build-up of some inventories in Canada will be slightly dilutive in that regard. Nevertheless we expect a significantly positive swing in 2018. In 2019 we will achieve a positive free cash flow with a further positive momentum in the following years.

The management of K+S is committed to use this free cash flow to lower our net debt to EBITDA ratio significantly already by the end of 2020. Investment grade remains our target and will be achieved in 2023. This financial consolidation is preparing the grounds for growth to reach our long term ambitions by 2030. Now please turn to slide 20.

In Phase 2, so after 2020 and after establishing a more solid foundation, our focus will turn towards growth. Looking at our four segments, Agriculture and Industry will be the segments in which we see the highest growth potential. In the Agriculture segment we will achieve our ambition by expanding the offer of specialty fertilisers and strengthening our position. Moreover we will use innovative and advanced business models, such as agro-platforms for our growth. Our global footprint will increase, especially in the rapidly growing economies in Africa.

In the industry segment it is our key focus to strengthen our portfolio of speciality industry products, which is an area where we are able to achieve high margins already today. Moreover we will increase our activities in the adjacent fields, such as pharma.

Our path for growth in the segment Consumer will be based on us using our existing strengths to enter new growing markets; thereby building on an existing branding capability in consumer salt.

In both our Industry and Consumer segments we will increase our geographic footprint and expand what we can offer, especially in Asia.

In our Communities business we aim to remain in our existing markets and intend to grow with the market.



All in all we will lower our dependency on MOP prices and the weather as we'll show on the next slide, slide 21.

The share of our MOP and de-icing activities will drop to about one quarter of our total activities. This means our value generating ambition will be much less diluted by mild winters of potash market price volatility. Now please turn to page 22.

To ensure our future viability and secure our licence to operate we are making a clear commitment to sustainability. As part of Shaping 2030 we've set ambitious targets in three areas, people, environment and business ethics.

We aim to fulfil our targets regarding health and safety, as with respect to tailing waste water. As a concrete measure K+S will discontinue the practice of injecting tailing waste water from potash production underground in Germany by the end of 2021. Our targets during 2018 will be underpinned with key performance indicators to provide a transparent view of progress and results. Let's summarise our key findings and how they will be addressed by Shaping 2030 on the last slide.

Our strengths through leading market positions, our prudent know how and our role will be addressed by Shaping 2030. We have spread our salt capabilities across other regions. We will expand our existing capabilities when markets are ready and we will grow in specialties like fertilisers.

On the other side Shaping 2030 addresses also our challenges, the identified synergies will be used to strengthen our balance sheet and value based steering tools will be introduced. Business challenges will be addressed by our commitment for sustainability, our renewed stakeholder focus and the push for innovation. And I'm not talking only about product but also about processes.

Our structure will be changed towards one company and our customers and product market segments move into the focus. The Board and the management team are ready and willing to deliver and we will deliver. Now thank you very much for your attention, I'm sure you have many questions on how we will develop K+S further, let's get into them now.

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Questions and Answers

Telephone Operator

Thank you. Ladies and gentlemen if you would 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 comes from the line of Michael Schäfer, from Commerzbank. Please go ahead.

.....



Michael Schäfer, Commerzbank

Thanks for taking my two questions; I'll ask them one by one. The first one is on your free cash flow outlook you have provided. Back at the Q2 results reporting you built a bridge towards positive free cash flow already in 2018, so now you've deferred this basically to 2019, so I wonder what has changed in between basically in terms of your assumptions?

And also related to this one, I'm looking at your slide 19 where you're elaborating on the free cash flow evolution in the outer years, is it right to assume basically that you're looking for a much stronger 2020 free cash flow when compared to 2019? This would be my first question.

.....

Dr. Burkhard Lohr, CEO

Thank you Mr Schäfer, for your question. First of all I'm thankful that you focused on page 19 again because it shows I think a very impressive development in terms of our free cash flow and we are on the right path. Yes, earlier we thought that we could already breakeven free cash flow in 2018, now we have adjusted some assumptions; one major assumption is the obviously weaker US dollar. And as you know with Bethune our US dollar exposure is increasing so that has a real impact.

Secondly, as you might have seen we have slightly adjusted our production assumptions in Bethune, 500,000 tonnes this year and the lower end of the range that we have been giving for 2018. And we also see, yes the very positive development in potash pricing in general, but SOP is lagging a little bit behind and that is reason number three for us to be more cautious for 2018. But again earlier we expected a slight positive free cash flow now we see a slight negative free cash flow, but the trend is still intact?

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Michael Schäfer, Commerzbank
2020 versus 2019?

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Dr. Burkhard Lohr, CEO
Sorry?

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Michael Schäfer, Commerzbank

Now the question - the free cash flow outlook basically for 2020 versus 2019 is it fair to assume there is a significant increase basically?

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Dr. Burkhard Lohr, CEO

Yeah, as you know a strong lever is for example the continuous ramp up of Bethune, as you know we are only fully ramped up in 2023 and especially the secondary mining is the very profitable and cash flow generating phase which will take place in this time, that is one lever. And I think it's too early to give you more precise numbers on what the difference this precisely makes between '19 and '20 but the trend is intact.

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Lutz Grüten, Head of Investor Relations

Michael, Lutz here again, the other thing that we can also add is that the capex certainly is coming down further in 2020 versus 2019. And finally the synergies of at least €150m, yes they will be backend loaded but they also will kick in and start to kick in in 2020.

.....

Michael Schäfer, Commerzbank

Okay thanks. My second question is on your dividend strategy. You're talking about the healthy dividend basically you're envisaging, can you just elaborate on this, whether we still look for a 40% to 50% payout ratio as in the past, or what's your view on your dividend strategy going forward basically?

.....

Dr. Burkhard Lohr, CEO

We haven't touched our dividend strategy and of course with higher earnings the dividends increase as well and we have very aggressive targets and that is true. And we want to give the share to our shareholders of course. So the dividend strategy is still 40% to 50% payout ratio of the net profit.

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Michael Schäfer, Commerzbank

Okay, thank you.

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Dr. Burkhard Lohr, CEO

Thank you.

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Telephone Operator

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

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Neil Tyler, Redburn



Good morning a couple from me please. Firstly, on the leverage target that you quote halving the net debt to EBITDA ratio, can I just ask you what the base comparison figure is for that, is that the 8.1 times that you put in your half year report?

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Dr. Burkhard Lohr, CEO

Yeah, may I answer one by one as well, that makes it easier for us? The answer is easy, yes I mentioned that in my speech that the base is the 8.1 times that we have disclosed with our half year report and that is the base for - we want to half this number by 2020.

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Neil Tyler, Redburn

Okay, are you prepared to sort of help us understand that dynamics within that halving and whether the greater portion presumably will come from EBITDA growth as opposed to cash flow generation and debt pay down?

.....

Dr. Burkhard Lohr, CEO

No that comes back to what we told Mr Schäfer already, so the ramp up of Bethune plays a big role here and at the same time we see lower capex numbers for the years to come and both together will definitely help us. And of course we have - we will be very disciplined in terms of capex and that's why we start our growth initiative, we have precise ideas about where and how to grow only after 2020. And of course we will find at least €100m - €150m synergies which will help of course to deliver this halved indebtedness as well.

.....

Neil Tyler, Redburn

Okay thank you. The next question, back to the cash flow topic, you mentioned lower production in Bethune, I understand that there has been some teething problems in bringing that production up. Are your lower production assumptions for this year and next - I'm more interested in next year really, a consequence of that, or are they a reflection of perhaps and expectation of slightly lower demand than you had previously anticipated?

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Dr. Burkhard Lohr, CEO

No I wouldn't even call it problems; it is a normal hiccup if you ramp up a site of €3bn investment. Every process has to get in place properly. People have been trained during the ramp up of course we have started training, but it's different if you really start to train people in advance or if you really have production up and running. And we are only talking about small abbreviation, so the earlier expectation for this year was 600,000 to



700,000, now we're talking 500,000 and for '18 we are still talking about the lower end of the range. That is not market driven it is purely ramp up driven.

.....

Neil Tyler, Redburn

Okay and then just finally on the free cash flow, again the chart on slide 19 suggests in 2017 that the free cash outflow won't be that dissimilar to the 2016 figure. I mean slightly smaller but not materially smaller. Is that a fair assumption and is the number against which we're comparing 2016 about €760m negative?

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Dr. Burkhard Lohr, CEO

That is a fair assumption but that has always been in the assumption.

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Neil Tyler, Redburn

Okay, that's clear, thank you.

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Dr. Burkhard Lohr, CEO

Thank you.

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Telephone Operator

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

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Andreas Heine, MainFirst

Thank you, three questions and I'll ask them also one by one. The first is thank you very much for giving us some flavour on how the four business segments will look like, also financially. As I understand it right basically the Agricultural part carries most of the volume in potash and the Communities most of the volume in salt. Could you elaborate a little bit when you calculated the earnings of the four segments how you treated the transfer prices between the different segments?

And then secondly the - maybe you answer first this and then I'll ask the other questions.

.....

Dr. Burkhard Lohr, CEO



Yeah first of all you're correct. Agriculture is MOP, our specialities and a little bit of fertigation - we mentioned that already because that will become a more meaningful segment for us. Commodities and Consumers both are purely salt, but our hidden champion Industry is a combination of deliveries into industry markets from potash and salt and we are talking about the chemical industry that's almost 50/50 and the pharma is one quarter potash and three quarters salt and industrial specialities 30% potash, 70% salt and in food processing there is only a very small stake stemming from the potash business.

But we serve this market today mostly independently from our potash business and the salt business divided by region, so Morton has an industry segment, esco has an industry segment and there is surely potential to increase the stake and the profitability of that hidden champion. And transfer pricing is not a big issue here because that is a sum up of what we do from the businesses and there incorporated are 100% the production costs out of the sites delivering into these markets. So transfer pricing is not really an issue here.

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Andreas Heine, MainFirst

The second question, you mentioned that you would like to optimise the tail pilings, does that mean that you might use the salt content for the salt business, or what does it mean by optimising these tailing piles?

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Dr. Burkhard Lohr, CEO

We have a lot of piles, one of the biggest - or the biggest piles have up to 300,000 million tonnes of salt and some other contents of course. And there were some ideas in the past of what to do with it, but it's different when you think about that in silos or if you break up the silos and really develop potential for one and the other. So we really look into whether the salt business can use that as a product instead of getting that out of the mines.

That could have a big lever for the company, but again that is in the list of good ideas, whether we will be able to achieve it or not remains to be seen. But we will approach it really meaningfully and we work hard on ideas. And maybe not only internally, maybe we ask the crowdsource how to generate ideas. Because innovation plays a big role in our strategy as well and we will establish a new group to make sure that we get every impact possible via digitalisation and other impacts to make our ideas more meaningful and give it more potential.

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Andreas Heine, MainFirst

Okay thank you, maybe the last one if I may add, is on the growth that you presented on slide 20, which ranged from a CAGR from 6 to 10%, while that is significantly above what the agro industry will grow, or the chemical industry will grow, GDP will grow, and



certainly is not only based on organic growth but also external growth where you have limited resources even after 2020. Could you outline a little bit more how you can get to this really high CAGR over such a long period of time?

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Dr. Burkhard Lohr, CEO

Yeah, as you said by yourself this is a mix of the existing business and the growth initiatives. And in 2016 by the way there is no production from Bethune incorporated and of course our ramp up will play a big role in this growth as well. But with the growth initiatives - coming to the growth initiatives, our target - our ambition of €3bn and the biggest portion stems from the existing businesses which is really good news because we do not have to invest too much money to get there. And we have clear ideas on how to grow, especially in the Agriculture segment and in the Industry segments without spending for example in a single project money as we spent it into Bethune.

So first of all we will half our indebtedness, we will come back to investment grade in 2023 and our cash flow will allow us to invest meaningfully in these growth initiatives. Of course we will prepare them earlier but capex will start after we have achieved this investment grade rating again and we will remain on that level, although we invest in these growth initiatives.

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Andreas Heine, MainFirst

Thanks a lot.

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Dr. Burkhard Lohr, CEO

You're welcome, thank you.

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Telephone Operator

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

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Christian Faitz, Kepler Cheuvreux

Thank you, can you hear me because there is ...?

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Dr. Burkhard Lohr, CEO

Now it's better.



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Christian Faitz, Kepler Cheuvreux

Three questions if I may, or two related and one separate one. Looking at your goal of these - bringing the, let's say basic products from 38% in 2019 down to 25%, I mean ramping up Bethune in my view would actually imply that you actually will ramp up more MOP as such, basic products, and specialities come more from your German mines. Those German mines tend to go down over time and hence at some point Bethune with its vast MOP reserves will be the main contributor in terms of production, so how do you plan to upgrade MOP in Canada in order to achieve your goal of lowering your dependence on basic products?

And in that context what is your general roadmap for the Germany mining system, would it be an option at some point to build a new shaft to make the reserves you sit on more efficient? And then I'll come back with a separate question, thanks.

.....

Dr. Burkhard Lohr, CEO

Thank you, first of all you're right, the ramp up of Bethune will first in the next couple of years increase the MOP stake, but at the same time we will grow in the non-MOP segment, fertigation, specialised - fertiliser specialties and in the Industry segment. So our growth initiatives are mostly non-MOP and non-de-icing initiatives. And that's why we will achieve in 2030 a stake of these commodities of only 25%.

Coming back to your question concerning German capacities, there's one mine that will be finished in this period that's Sigmundshall that will happen pretty soon and all the other mines that will run off their normal lifetime it will happen after 2030 so they are still ongoing and producing until 2030. But as you know beside Zielitz they are all specialty mines anyway.

There are actually really some ideas to increase our capacities in Germany, there is - as as you know one option which will play into our specialties and there is another half-life (?) layer in Zielitz, so yes German production is also something which could play an important role in our roadmap to 2030. And that's why sustainability is so important; we need to get our things down around the environment. We are a very good track here and then Germany is an option to grow as well.

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Lutz Grüten, Head of Investor Relations

And then just one add on from my side Christian, the pie chart you're comparing here on page 21 of the presentation, it's based on 2019, so after the ramp up of Bethune about 30% ...

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Christian Faitz, Kepler Cheuvreux

But still the final ramp up of Bethune as Dr. Lohr said anyway so it was in 2023, so a follow up question on this one. So do we have any plans to chemically upgrade MOP to SOP or something in Canada at some point during that time period?

Dr. Burkhard Lohr, CEO

That is not part of the numbers that you're seeing.

Christian Faitz, Kepler Cheuvreux

All right, and then my third separate question, have you already nominated key people managing the new segment structure?

Dr. Burkhard Lohr, CEO

We are currently working on our - as you know structure follows strategy and we have clear commitment to work on our organisation and we are working on that already and after we have designed the new organisation we will appoint the respective people. But be assured we already have everybody we know to run business - product market segments onboard, that will not be the problem. We have to combine them and force them that is what we have to achieve.

Christian Faitz, Kepler Cheuvreux

Thank you.

Dr. Burkhard Lohr, CEO

You're welcome.

Telephone Operator

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

Andrew Benson, Citi

Thanks very much, can you define as best you can the volume and pricing components of the growth that you set out in - slide 20? And in order to achieve that pace of growth



can you set out the annual run rate of capex that you'll need in order to achieve that 9% volume? That's the first question, or perhaps that's two.

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Lutz Grüten, Head of Investor Relations

Hi Andrew, Lutz again, well as Dr. Lohr already said before the revenue cases they have given you there on page 20 of the presentation they are based on organic growth and also on external growth. We are not breaking up that in the presentation on volume and prices. And the vast majority of that growth is coming from organic growth, so nothing to do with external growth and acquisitions. And these are the numbers and the details we want to give you today.

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Andrew Benson, Citi

But would it be reasonable to accept that the global potash market is likely to - the global potash market is likely to grow in the order of 2% per annum, the volume growth is in the order of 2%?

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Lutz Grüten, Head of Investor Relations

On the volume side we would not disagree, this is a number of 2 to 3%; MOP yeah, not the specialty.

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Andrew Benson, Citi

And so you're basically saying you're planning on growing between 3 and 5 times faster than the market for 14 years?

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Dr. Burkhard Lohr, CEO

You always have to take into account the special situation of 2016. You know that everything came together that was negative for us, especially the Werra situation. And Bethune is not incorporated at all in the 2016 numbers. So if you take the normalisation of course we are back to market growth numbers. But the comparison, you have the '16 numbers that's why we incorporated them here into slide 20, and we wanted to show the bridge to our ambition of 2030 and you have to take into account the special situation that were in in that base year and then you come to a normal growth assumption. We have not taken any aggressive assumptions here at all.

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Andrew Benson, Citi



All right, okay. Well the same question was really on the capex per annum required to achieve 9% revenue growth?

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Dr. Burkhard Lohr, CEO

Yeah, as I said earlier there we will drive down our capex more or less to the base capex number of - as you know of roughly the run rate will be roughly €400m to €500m annually for the next couple of years. And then we will start between 2020 and 2023 mostly in 2023 with a capex linked to our growth initiatives. And I think it's a bit too early to give you a capex number for the time between 2023 and 2030, but we have a clear idea, growth initiatives and we know that we can finance that by our cash flows.

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Andrew Benson, Citi

But it's not unreasonable to believe that if the maintenance capex is somewhere between €400m to €500m in order to achieve 9% of revenue growth the capex has got to be quite a far but higher than that?

.....

Lutz Grüten, Head of Investor Relations

Yeah, the €400m to €500m is maintenance capex only and there will be growth capex also dedicated, but as we said before this then will be generated from the free cash flow out of the existing businesses.

.....

Dr. Burkhard Lohr, CEO

And what is important to understand, that's why I'll repeat that again - it's we want to be investment grade by 2023 and there will be strong cash flows which allow us to invest into these growth initiatives and still remain on an investment grade rating level in terms of net debt to EBITDA.

.....

Andrew Benson, Citi

This is the last question, many of the fertiliser specialties are built around granulated NPKs or complete fertiliser solutions, including my understanding fertigation is a complete fertiliser package, you don't have any nitrogen or phosphate, so does it require to achieve that offering some sort of alliance with companies that do?

.....

Dr. Burkhard Lohr, CEO

First of all when we talk about the specialities of premium fertilisers we talk about growing in the segments where we are already in, so magnesium sulphur, maybe we feel



some more mag powers and SOP where some ideas. Fertigation of course is a completely different animal, currently we only have some water soluble product, so that is half a foot into the fertigation, but we all know that if you want to be a meaningful player here you need to have far more. But that does not mean that get into perhaps phosphate or nitrogen, but we want to go into the delivery of total systems of fertigation at this stage.

.....
Andrew Benson, Citi

So you would need some sort of alliance to provide access to those other nutrients?

.....
Dr. Burkhard Lohr, CEO

Not necessarily alliance.

.....
Andrew Benson, Citi

Can you elaborate?

.....
Dr. Burkhard Lohr, CEO

If you mean under alliance deliveries, yes that is true, but not in joint ventures or something like that.

.....
Lutz Grüten, Head of Investor Relations

Andrew given the timing there is not a lot of - but there is a chance tomorrow in London again to talk about that in detail.

.....
Andrew Benson, Citi

Okay thanks.

.....
Lutz Grüten, Head of Investor Relations

Thank you.

.....
Telephone Operator



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

.....

Markus Mayer, Baader Helvea

Good morning gentleman I also have several questions from my side, I will ask one by one. Sorry to come back on this growth, can you maybe - I understand that you want to break it up specifically on price, volumes, etc, but what is your price assumption for this target for salt and potash?

.....

Lutz Grüten, Head of Investor Relations

You're referring to slide 20 Markus, the price and volume assumptions?

.....

Markus Mayer, Baader Helvea

Yes, so any kind of positive price effect in this bridge?

.....

Dr. Burkhard Lohr, CEO

Yeah, so when we're talking about 2030 this is an ambition. And we have discussed or have shown you that our dependency on MOP pricing is decreasing significantly. And this ambition is the midpoint of a range that we have discussed in this project which is really achievable, but it wouldn't make sense to discuss potash pricing in 13 years from now.

But take it that it is not an aggressive development that we are expecting here. It's not a new mid-term target it's an ambition and that really makes the company move and we all want to work for it. But now discussing all the detailed assumptions I think doesn't really make sense.

.....

Markus Mayer, Baader Helvea

Okay, understood. And the second question, you said that this new management team there are no taboos and you have discussed all kinds of options, maybe you can shed some light on what kind of options have been discussed and also this new strategy One K+S Group, is this a combination of more of salt and potash next is partly a view of salt then completely off the table from this kind of strategy, maybe you can shed more like on your thoughts and the discussions you had?

.....

Dr. Burkhard Lohr, CEO



Yeah, we went into this approach - this project and said every idea is allowed. And as we have analysed our very strong existing business we said what could we develop out of this business would be one option. What could we make out of K+S without salt, having an exit only an IPO and taking the money and what would be the best use of that money? And we even thought about now we have de-risked Bethune and definitely we would find somebody being interested in Bethune, what if we exit Bethune and no longer invest into our Germany mines and become the global salt company?

And all these different options ended in a clear picture for several reasons. That's the combination that we are proposing today raises the synergies in our strong existing business and adding some tailor made growth initiatives had two opportunities against these other options. First of all it's the most robust option, the dependency of commodity trends, the dependency of weather trends and the dependency on single growth initiatives trends and it delivers the highest profitability. And that is why we have chosen that and I hope that answers your question.

.....

Markus Mayer, Baader Helvea

Understood. And then another small question, you said with the new strategy update or strategy update you said that you would update your forex sensitivity, maybe you can shed now some light on the forex sensitivity?

.....

Dr. Burkhard Lohr, CEO

So the line is not really good, I didn't really get your question.

.....

Markus Mayer, Baader Helvea

And update on your US dollar forex sensitivity maybe that would be great?

.....

Dr. Burkhard Lohr, CEO

So the update means the new volume that we run into US dollar exposure with Bethune is that what you're asking for?

.....

Markus Mayer, Baader Helvea

Previously you gave a sensitivity you said a one cent change means ...

.....

Dr. Burkhard Lohr, CEO



Our sensitivity, now I've got you yeah, okay therefore please wait another six weeks for our next quarterly call, I think that is the better timing to do so.

.....

Markus Mayer, Baader Helvea

One question, can you also as there is new management incentivisation now with this new team in place and when will this new incentivisation start?

.....

Dr. Burkhard Lohr, CEO

There will be a new incentive system implemented in the course of this year to the non-executive Board members, so the executive Board remuneration is of course a matter of the Supervisory Board and not our matter, but there will be a new system and that pays into the new strategy and pays into the target and pays also into the share price development.

.....

Markus Mayer, Baader Helvea

Okay, perfect thanks so much.

.....

Dr. Burkhard Lohr, CEO

Thank you.

.....

Lutz Grüten, Head of Investor Relations

Just given the timing it would be great so that everybody has got a chance to ask a question here if you could just focus on one question, your most important one, we've got another ten minutes please.

.....

Telephone Operator

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

.....

Thomas Swoboda, Société Générale

Yes hello I will limit myself to one question. When you were talking about this €150m of synergies I was just wondering, you did not mention any costs, so what is the cost and the cash outflow you need to invest to get those synergies? Thank you.



.....

Dr. Burkhard Lohr, CEO

We haven't defined that, we have a lot of ideas of how to find that buckets, we have started the project and it's maybe to elaborate a little bit more on that. So far we have worked pretty independently in the potash business and in the salt business, although both are salt mining. And we have found a lot of potential in the production, in procurement, in logistics - opportunities to further optimise our warehouse networks and even touched ideas of how to optimise our tails pile situation. And that is now starting and of course we know that there will be costs related to that, but these costs are not 100% defined, we will come back pretty soon with a more precise number on that.

.....

Thomas Swoboda, Société Générale

That's fair enough, thank you.

.....

Telephone Operator

The next question comes from the line of Paul Walsh from Morgan Stanley. Please go ahead.

.....

Paul Walsh, Morgan Stanley

Thanks very much, morning guys, my one question really relates to the sort of growth outlook for the business and I understand you're not going to be drawn on specifics around pricing and so on, but the strategic review has obviously revealed an opportunity to accelerate that growth in the portfolio and I was just wondering really what was at the core of that? Obviously M&A is a relatively small component and you see the opportunity largely in the existing asset base. So in practical terms that we can measure looking from the outside in, what is it really that's going to change in the portfolio to supercharge that growth? And I understand Bethune is ramping and so on so I'm assuming all that is going to be pro forma, so with the existing base what is it specifically that you feel can really get the top line and the mix improving?

.....

Dr. Burkhard Lohr, CEO

Obviously there is a need to further explain the big change between 2016 and 2030 I think we will deliver this pretty soon because if you really adjust what's going to happen naturally, no further standstills in Germany and the ramp up in Bethune you will see that the growth rate stemming from the existing business are what you see in the market, 2 to 3% nothing special.

.....



Paul Walsh, Morgan Stanley

Got it, okay.

.....

Dr. Burkhard Lohr, CEO

And in addition we have - I didn't say that the growth initiatives are not meaningful from the €3bn the biggest part stems from the existing business, but there is still meaningful tailor made sum of growth initiatives which in total mean further growth for the business. But again if you would see that maybe we will deliver that later on you will see that there are no over the market growth assumptions in, definitely not.

.....

Paul Walsh, Morgan Stanley

Also just whilst I've got you on the line, I know you said one, but this is a very short one. Moving into next year what benefit to EBIT will we get from K+S from the absence of the remedial costs and the lower costs from Bethune, what does that add up to on your EBIT bridge for next year?

.....

Dr. Burkhard Lohr, CEO

Give me the opportunity to talk about that in another call.

.....

Paul Walsh, Morgan Stanley

No problem, thank you.

.....

Dr. Burkhard Lohr, CEO

We're talking about the strategy here not the forecast for '18, sorry.

.....

Paul Walsh, Morgan Stanley

Thank you, no no problem thank you.

.....

Lutz Grüten, Head of Investor Relations

So final question.

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Telephone Operator



Our final question comes from the line of Knud Hinkel from Equinet Bank. Please go ahead.

.....

Knud Hinkel, Equinet Bank

Thank you for taking my question, hello everybody. My question is again on the growth target, so you mentioned several times that it includes Bethune and the ramp up of Bethune, but what about the option of a greenfield expansion beyond 2023, is that also included into the growth target? Thank you.

.....

Dr. Burkhard Lohr, CEO

Which greenfield expansion do you mean, or do you mean brownfield in Bethune?

.....

Knud Hinkel, Equinet Bank

Sorry I mean brownfield, sorry, sorry I mean brownfield, so my understanding is that you have brownfield options there and the question is whether you will go for it?

.....

Dr. Burkhard Lohr, CEO

Yes there is an option to further increase secondary mining, that would be in the second half of the 20s and that plays a role here as well and that is very, very profitable because the additional costs are only - below €30 per tonne and that is not linked to significant capex numbers. And as the market should be ready for some additional tonnes from Bethune that is also one of the growth options correct.

.....

Knud Hinkel, Equinet Bank

And that is also included into the 9%?

.....

Dr. Burkhard Lohr, CEO

All growth options are included yes.

.....

Knud Hinkel, Equinet Bank

Okay, thanks.

.....



Dr. Burkhard Lohr, CEO

That was the last question and I am thankful for your understanding because there will be a press call later on and our management team level 2 will be informed and some others. But we will be on the road for the rest of the week and we will meet many of you I'm sure, I'm looking forward to that. That was only the start, we will keep you updated about Shaping 2030 and the achievements regularly. Thank you for your attendance and goodbye.

.....

END

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