

FINAL TRANSCRIPT

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SDF.F - Q1 2009 K+S AG Earnings Conference Call

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PRESENTATION

Operator

Welcome to the K+S conference call for analysts regarding the publication of the quarterly financial report Q1 '09. My name is Maddie and I'll be your coordinator for today's conference. For the duration of the call you'll be on listen-only. However, at the end of the call you'll have the opportunity to ask questions. (Operator Instructions) I'm now handing the call over to Christian Herrmann, Head of Investor Relations of K+S, to begin. Thank you.

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Christian Herrmann - K+S AG - Head - IR

Good afternoon. This is Christian Herrmann speaking, I am very happy and delighted to see that so many people again have dialed in on our conference call. We very much appreciate your continuously strong interest in K+S and welcome you to today's Q1 earnings conference call.

Norbert Steiner, CEO of K+S, and Joachim Felker, Member of the Board of Executive Directors, are going to present to you the first quarter 2009 results and are happy to answer your questions afterwards.

Before I hand over to Mr. Steiner, please allow me to mention that this presentation contains facts and forecasts that relate to the future development of the K+S Group, and its companies. The forecasts are estimates that we have made on the basis of all the information available to us at this moment in time. Should the assumptions underlying these forecasts prove not to be correct, actual events certainly may deviate from those expected at the present time.

I am now happy to hand over to Mr. Norbert Steiner, CEO of K+S.

Norbert Steiner - K+S AG - CEO

Good afternoon from myself as well. Thank you that you are here again in our Q1 conference call. To give you a lot of time for the question-and-answer session at the end of my speech I would like to jump directly into the slide number one.

And I am sure that you all heard it already numberless times in recent conference calls during the last week that our business during the first quarter was as well clearly impacted by the ongoing effects of the financial crisis. Although prices of agricultural products stabilized, high fertilizer stocks in the trade sector plus the planting season starting late this year because of unfavorable weather conditions for farming resulted in very weak demand for potash and nitrogen fertilizers.

By contrast the wintry weather conditions during the first quarter had a strong positive impact on our deicing salt business while sales volumes of salts for chemical use were somewhat impacted by muted demand because of the economic slowdown.

Slide number two, a brief look at the change of K+S Group's revenues within Q1 2009. As you can see from the slide positive price effect could not offset lower sales volumes and negative structural factors. With a strong and positive price effect on the one hand and the significant volume reduction effect on the other hand, structural effects generally become more decisive.

Changes in product mix plus, [now listen], unrealized price increases on unrealized volumes adds up to almost EUR280 million in Q1. Following table should be only understood as a rough indication how prices have developed. Factors like freight cost exchange rates, product mix can distort this picture.

Year-on-year the price increase in Europe was considerably higher as 2008 European prices were fixed in half-year contracts and had to catch up with the higher overseas market levels.

High stock levels and a distribution change coupled with weak fertilizer demand caused volumes to drop significantly. Both comparisons, year-on-year and quarter-on-quarter, underline that volumes contracted stronger in Europe than in the overseas as a result of high stocks in the trade sector level and a prolonged period of cold weather. Slight price decreases from quarter-to-quarter -- that means 6% in Europe and 9% in overseas -- are attributable to changes in our product mix.

Slide number four. A short look at selected key figures of the first quarter. As explained, revenues fell by 11%. In light of the financial crisis we are very pleased to see that our balanced portfolio with our fertilizer and our salt segment has shown a remarkable resilience. Operating earnings reached EUR174 million for the first quarter of 2009, a decline of 23%. The outstanding increase of earnings in the salt business segment could not completely but to a large extent compensate earnings decreases in the fertilizers business segment.

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At EUR29.1 million the volume of capital expenditure in the first quarter was up EUR4.9 million on the same period last year. The bulk of the capital expenditure was accounted for by the potash and magnesium products business segment and mainly related to measures to expand production capacity for industrial products of higher purity at the Zielitz site.

Q1's free cash flow was positive but dropped by 43% to EUR35 million. Net indebtedness including provisions at the end of Q1 2009 reached EUR535.6 million which is 46% lower on the figure for the same period last year.

Let us now put the first quarter figures into perspective and I turn to slide number 5. While Q1 earnings per share could not attain last year's record level, they are still markedly higher than in the year 2007 even though we are facing economically very challenging times. And new challenges are ahead.

Slide number six. In order to prevent a repetition of last year's food crisis, G8 agriculture ministers recently stressed the ongoing and still unsolved issues of protectionism, the volatility of food prices, and proposals for global grain reserves. As a further proof of that unsustainable grain supply situation, the latest USDA estimates, published on Tuesday, show that global grain supply is far away from being called sufficient.

Globally excellent weather conditions in 2008 helped farmers to produce the largest grain harvest ever recorded. However, with record demand, the increase of global grain inventories was only moderate and kept stocks-to-use ratios well below the long-term average. Reductions in planted acreage and unfavorable weather conditions for farming in the first few months of 2009 have already put a strain on yields. As a result of that, projections for the year 2009-2010 are expected to decrease the gap.

The fundamentally still restrained supply-demand situation for agricultural products -- and now, I am on slide number seven -- has led some soft commodity prices to improve markedly during the last half year. This encouraging price trend should therefore provide new incentives for farmers to increase and intensify their crop calculation.

As you know -- and now one slide further on -- this (inaudible) chart includes our production, sales and capacity forecasts over the coming years. In March '09 we saw the destocking phase to linger on to the first half year of 2009, and we therefore tangibly reduced the expected 2009 sales figures to just 50 million tonnes. Since then we have not changed our assumptions after the first quarter developed more or less as projected.

On the other hand, producers around the world meanwhile announced approximately 10 million tonnes production curtailments, most of them for the first half of the year. This is an impressive and unprecedented situation because suppliers know that potash demand is rather price inelastic. This scenario most certainly will end in suboptimal farm yields especially as there is no substitute for mineral fertilizers and any reduction in fertilization, in particular following last year's record harvest with high nutrient depletion, would lead to even more dire levels of stock-to-use ratios.

And as mentioned already in our last conference call, the application of fertilizers is to some extent deferrable but it is not escapable, and the deferral makes the necessity to fertilize in the following seasons just more acute. With an exemption of complex fertilizers, we currently observe that fertilizer stocks available on the market have been depleted significantly, with the result that we see good chances that global potash demand will pick up appreciably in the second half of the year, and of course, in 2010.

Last but not least, and this turns me to slide number nine, our revenue and earnings expectations for 2009 are unchanged to our guidance of March 2009 and for good [audits'] sake, they do not incorporate the Morton acquisition yet. In order -- in view of the current global financial economic crisis, we expect that the hitherto positive performance of the K+S Group will suffer a temporary setback this year.

This means that we expect significantly lower sales volumes, which will approximately offset the higher average price levels of 2009 in the potash and magnesium business segment compared with the previous year. While the revenues of the nitrogen

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fertilizer business segment should be down significantly, mainly in view of substantial price decreases, we expect significantly higher revenues for the salt business sector because of the good start for the deicing salt business.

In the second quarter, however, the stocks of fertilizer still available in the trade sector should be reduced and the normalization for demand for fertilizer should be able to consume for the second half of the year.

Overall, revenues of the K+S Group in 2009 should be down markedly on the previous year, and since the cost of the K+S Group should decrease only slightly in comparison to 2008, we estimate operating earnings of K+S Group to fall significantly.

This brings me to the end of my initial remarks, and I thank you very much for listening. Now, Joachim and Christian and myself are happy to answer your questions. Please start. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) And the first question comes for the line of Andrew Scott from Banc of America. Please go ahead sir.

Andrew Scott - Banc of America - Analyst

Hello, good afternoon, thanks for taking the question. There is a couple actually, just firstly, I just want to check whether you're still feeling that you are on track for consolidation of Morton sometime around mid-year, just update us on progress of the acquisition, if possible. And secondly, could you update us on the capacity closures, further to what you had already mentioned back in March, any change on that guidance? Thank you.

Norbert Steiner - K+S AG - CEO

I would like -- Norbert Steiner here -- to ask -- to answer the first question. Morton Salt, so far, is on track. I hope I am not saying too much that we have received the clearance from the Canadian antitrust authority, without any additional remark. And like expected, we will see that the SEC will have the so-called second request. So far we are still of the opinion that the closing of Morton Salt could be achieved by the middle of the year. But I do not, of course, promise that this will be the 1st of July now but mid of the year is still a reasonable and realistic point in time.

Christian Herrmann - K+S AG - Head - IR

Second part of the question will be handed over to Joachim.

Joachim Felker - K+S AG - Member - Board of Executive Directors

The usage of capacity announcements, almost all producers in the meantime have made announcements. The biggest ones are Mosaic and PCS in Canada, in total it's 5.5 million tonnes. And we have also announced that at the end of the year we estimate that we could perhaps use only 6 million tonnes out of our capacity. Silvinit and Uralkali, they are between 500,000 and 1 million. So in total, we estimate 1.75 million tonnes for the two Russian and the Belarusian producer have announced 0.9 million -- roughly 0.9 million which ends up around 10 million tonnes announced for this year, so far.

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Andrew Scott - Banc of America - Analyst

And --

Joachim Felker - K+S AG - Member - Board of Executive Directors

There are smaller ones also, Scott, there are smaller ones also, Intrepid but in -- they are very regional so it is not -- they are participating because they also see that the market is very slow but that is a few hundred thousand tonnes only, so I only mentioned the big ones.

Andrew Scott - Banc of America - Analyst

Okay, and sorry, just to follow on very quickly, are you aware of any other expansions other than SQM?

Joachim Felker - K+S AG - Member - Board of Executive Directors

Yes, there has been an announcement, which is very much -- well, not very much which is -- one of those guys who don't know the industry too well, there was an announcement recently from a Belarusian Potash Company that they have opened a new shaft in mine number five with ore capacity, it's only ore capacity. So it is not final product, of 6 million tonnes. But basically, that is to stabilize the supply of factory number one and two so there is a slight increase perhaps in the end but at present I think they will not use if they cannot use it. So on this side -- for this year I see no capacity increase west -- in the world.

Andrew Scott - Banc of America - Analyst

Okay.

Norbert Steiner - K+S AG - CEO

And this is already included in our projections because the announcements that --

Andrew Scott - Banc of America - Analyst

Old project.

Norbert Steiner - K+S AG - CEO

-- of that finalization of shaft number five is an old project, which they started years ago. And you also know that this preparation for shaft number six had been started already some time ago. And we were absolutely with our figures on our slide, what is it, in our presentation, number nine or eight. Also in that figures they are included but once again don't mix up -- crude salt ore capacity, 6 million tonnes will more or less equal 15% to 20% of fixed -- of finished product. And this was included in all our projections, which we have again cited here in our presentation today.

Andrew Scott - Banc of America - Analyst

Okay, great. Thank you.

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Norbert Steiner - K+S AG - CEO

Welcome.

Operator

Thank you. And the next question comes from the line of Karan Khemani from Cazenove. Please go ahead, sir.

Karan Khemani - Cazenove - Analyst

Good afternoon and congratulations, it's a good quarter. Can you provide me with a breakdown of how this 0.9 million tonnes of potash product that you sold broke down between fertilizers, specialty, industrial products and potassium fluorides?

Secondly, what are your thoughts on India's elections and the future of Indian agricultural subsidies, which have until now been largely supportive of potash negotiations?

And finally, regarding your out performance in potash volume terms in Q1 versus your American competitors, have you actually taken market share or is this simply a mix effect in play here? Thank you.

Norbert Steiner - K+S AG - CEO

Okay. Then we start with the 0.9, we don't give any comments, we just stick to what we always say, industry and agricultural applications. So we will not open up what it is.

When it comes to America, and when you make comparison, that's exactly connected to question number one. Our product range is much, much wider than the ones of the American or North American producers. We have a lot of industrial products, and don't forget, we have this mixed product with magnesia and potash. So we are much stronger in the oil -- palm oil field for example. So you are not able to compare it directly.

We are not taking away market shares or we are not gaining market shares in the standard product area. We are suffering the same fate and all the others.

India, we know that in India the stocks available for potash are very low because the last season was very strong with [Xubrin] testing very good. Consumption of potash in India has been very strong.

What we are facing now is -- elections, it's running. There are -- you know yourself there are 200 parties trying to form a government. But in the end we think that the people being responsible in India for the import and for the subsidy scheme of fertilizer, that is the state undersecretary, I think they will be reelected. They will be back on duty. And because of food security and employment, I think the Indian government will not change its strategy.

On the opposite, when they started their campaigns they announced that they will go on and subsidize and we should increase subsidy. When you see the total subsidy such as they have they are a little bit relieved by lower phosphate prices of course. But that's very difficult to judge how they see a different budget in the end.

Karan Khemani - Cazenove - Analyst

Okay, thank you very much.

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Operator

Thank you. And the next question comes from the line of Rim Bennani from Exane. Please go ahead.

Rim Bennani - *Exane - Analyst*

A question on the normalization of demand in H2 you're quoting, just trying to understand the basis of that. So I have three small questions in that regard.

The first one is, what kind of scenario are you taking for wheat acreages in Europe, given the supply there looks quite weak. So what's the underlying scenario for the view that you've taken on the sensitivity for application rates there for potash this autumn?

The second question is, what's the view as well you're taking on volumes taken by India and China driving the normalization of demand in H2?

And can we have a little bit more clarification on the levels of stocks at the distribution levels? And is there any risk that this could last until end of this year? Especially given the further deterioration in the NPK industry in Europe. Thank you.

Norbert Steiner - *K+S AG - CEO*

Now, where to start?

Joachim Felker - *K+S AG - Member - Board of Executive Directors*

It starts with distribution level. What I can tell you is that, at present the NPK industries -- so the buying of raw materials that is the standard products of NPK industry, there are virtually no discussions, because --

Christian Herrmann - *K+S AG - Head - IR*

Joachim, I'm sorry. There is someone listening to this call with some very loud background noise. Could you please put your speaker on mute?

Rim Bennani - *Exane - Analyst*

Yes, sure. Thank you.

Christian Herrmann - *K+S AG - Head - IR*

Okay.

Joachim Felker - *K+S AG - Member - Board of Executive Directors*

Try again now?

Christian Herrmann - *K+S AG - Head - IR*

Hello.

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Joachim Felker - K+S AG - Member - Board of Executive Directors

Hello.

Christian Herrmann - K+S AG - Head - IR

Okay, go ahead.

Joachim Felker - K+S AG - Member - Board of Executive Directors

So first of all discussions with distribution levels. I think we have to divide two -- three sectors in the end. And the one you are asking for is the one of the NPK producers. The NPK producers are the part of the industry and part of the fertilizer industry suffering most. They have still the highest stock compared to distributions level in agriculture. And what they do at present, they only buy what they actually need. So we are in a different scheme than before. Last year, we had three months -- six-month contracts. At present they buy only spot by spot. And the business is very low there.

China and India situation and the stock situation, as I said before -- India, very low; China, very difficult to judge. We know that the discussions are -- have been started and that then they have been interrupted. I think that they will only go on in the Shanghai meeting IFA, which is at the end of this month.

And the first one was very unclear to me, your question. You asked about potash application in wheat, was that?

Christian Herrmann - K+S AG - Head - IR

Wheat acreages, yes. She is on mute now but she is listening.

Joachim Felker - K+S AG - Member - Board of Executive Directors

Yes? Okay. So, I think the -- they are -- it is very difficult to answer this one. The professional farmers, with big areas, they will go ahead and they know the soil quality. They have -- they know the depletion of the very good harvest they have had last year. So they know that when they want to have a balanced fertilization, they have to apply potash. The question is very much, are they still sitting on old stocks with wheat, have they made mistakes in the speculation last year. And there are some of those guys.

When those -- there is another type, they have sold their wheat last time at a very high price. They have no problems now to invest in planting wheat again. And they will just apply normal potash application rates. So it's a mixed picture. In the end I think we will come out at -- over the whole year that has less than last year which is an extremely -- extreme year. So it will come to a lower average over many years I think.

Rim Bennani - Exane - Analyst

Sorry, just releasing the mute. I hope that you can still hear me, in the background that there is not too much noise. So basically, your assumption is that in Europe wheat acreages won't decrease for the '09-10 application -- season?

Joachim Felker - K+S AG - Member - Board of Executive Directors

Not really.

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Rim Bennani - *Exane - Analyst*

Okay.

Joachim Felker - *K+S AG - Member - Board of Executive Directors*

It is very, very selective.

Rim Bennani - *Exane - Analyst*

Okay. And if I can just get a quick follow-up on Mosaic was announcing flat Q2 volumes versus Q1. Is it something that you understand, foresee, and how do you see that breaking down between Europe and International on your side? If we can get more color on that? Thank you.

Norbert Steiner - *K+S AG - CEO*

I will say we are today on the 14th of May and this is only six weeks of the second quarter. We should not speculate too much on weeks or only months, and therefore please allow us that we stay with our projections which we have given in our outlook for 2009.

It's -- it can be, let's say, deferred by weather conditions from one day to the other. Like everything can be postponed or be done earlier. So we do not add to the speculations issued by Mosaic, as this is, from our perspective, not very, let's say, helpful for everybody.

Rim Bennani - *Exane - Analyst*

Thanks very much.

Operator

Thank you. And the next question comes from the line of Andreas Heine from UniCredit. Please go ahead.

Andreas Heine - *UniCredit - Analyst*

Hi, good afternoon. On the potash division, could you elaborate a little bit on what you see so far progressing in the individual sub-segments? You have already addressed NPK. How is the industrial volume developing? What we see from the chemical industry that it's gone down 20%, 30% in the production, which seems not to be the case in your business. Is it just late cycle and it's coming, a decline in volume now in Q2?

And secondly, in India, it is said that they might have the contract this year again earlier than the Chinese. Do you agree to this? And do you see then this as a benchmark for the price for all other markets in the second half? These are basically my questions.

Joachim Felker - *K+S AG - Member - Board of Executive Directors*

Okay. Andreas, the first thing when it comes to industrial products, again our product range is very, very -- or very broad I would say. What we see, we see normal sales of products going, for example, into the oil industry, into the food industry, into

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pharmaceutical industry. So very pure products. There it's quite stable. We feel that there is more discussion coming from the, let's take, electrolysis. But we have a very limited clientele there -- customer relations over many, many years and I think we will see a stable business. We will go up and down with their market, we are very close -- closely connected to them.

The question about who will close earlier, India or China; during the last year it was India. And in the end, when they looked into the books they have been very clever because when the -- the first eight or nine months and everybody was running for quantity the Indians got whatever they needed; the Chinese didn't.

Nobody could expect that the fourth quarter would then be very weak, though the Indian situation also is a little bit different because they have no local production, so they are more dependent on this one. So I could imagine that again India would be faster in making decisions. The complication this year is the elections. It's directly in the period that usually we discuss these contracts and that makes it a little bit late. What we know is that the stocks in India are rather low, so you're right, it could be that they are before the Chinese.

Andreas Heine - *UniCredit - Analyst*

Do you think -- sorry -- do you think that India, if the contract is earlier, is then also a benchmark for China or is it a complete different story, the Indian contract and the Chinese contract?

Joachim Felker - *K+S AG - Member - Board of Executive Directors*

They are always connected. The one who shuts -- goes first more or less is giving a [plum time] to the second big market. So they are connected. And then, of course, those two decisions are -- influence the worldwide business, I think that that's normal.

Andreas Heine - *UniCredit - Analyst*

Okay, thanks.

Operator

Thank you. And the next question comes from the line of Felicity Smith from Bedlam Asset Management. Please go ahead.

Felicity Smith - *Bedlam Asset Management - Analyst*

Yes, thanks for taking my question. You seem very confident that the prices will hold but if your expectations of the daily stock levels and stock levels generally are too optimistic would you expect some price correction as we go through the year and into the early part of next year for potash particularly?

Joachim Felker - *K+S AG - Member - Board of Executive Directors*

Excuse me, I didn't want to interrupt you at the end of the question. We have been given our outlook for the public in March for the first time and yesterday connected with the Q1 report and of course you can build up thousands of scenarios--

Felicity Smith - *Bedlam Asset Management - Analyst*

Right.

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Joachim Felker - K+S AG - Member - Board of Executive Directors

-- which you could underlie that -- to that what you give to the public. We have been giving you that what we see and Christian has mentioned that these assumptions that we take are more or less based on the best knowledge that we have. I can easily give you a couple of different ways and different scenarios but then we would be only speculating. Let's stick to that what we have. This is our best knowledge.

Felicity Smith - Bedlam Asset Management - Analyst

Okay, thank you.

Joachim Felker - K+S AG - Member - Board of Executive Directors

And one remark from Christian.

Christian Herrmann - K+S AG - Head - IR

I would also like to add one -- we never said that the prices will hold. Also last year, we never have given you guidance where the price will be at the end of the year. Always told you because there are so many things influencing the price level globally we just cannot -- it has to be developed. On the other hand the producers -- you are seeing the international producers are doing right now the utmost to keep the price level where it is because we all believe this is temporary, and it has to stay there in order to facilitate the new extensions that the global world will need over the next few years.

Felicity Smith - Bedlam Asset Management - Analyst

Okay, thank you.

Operator

Thank you, and the next question comes from the line of Jesko Mayer-Wegelin from HSBC, please go ahead.

Jesko Mayer-Wegelin - HSBC - Analyst

Jesko Mayer-Wegelin from HSBC, hello. I have three questions. First of all, I read in your quarterly report that the average price currently in Europe is something like EUR555 I think per tonne and could you give us a feeling what the average contracted price was in Q4 2008? And also if you expect further slides, price decreases this year.

And secondly, regarding your AGM yesterday, could you tell us how many shares EuroChem actually registered for the AGM and also I think that the convertible bond was not approved by the AGM. Could you give us an idea what impact this has if you want to change anything in your finance situation due to this?

And thirdly, very briefly are you shipping currently potash actually to China or -- and when could you start shipping potash to China this year?

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Norbert Steiner - K+S AG - CEO

Yes, so I'll start with the first question. We have had a participation of about 56% in our AGM yesterday and you know that publicly -- it is public knowledge that EuroChem and its subsidiary holds about 16% of our shares. And I do not have to -- and they were there, of course, and I do not know which shares they have recorded yesterday by heart. So it is right, and the second part of your question that we failed to get 75% majority but we are never ever speculating about and disclosing that what the shareholders do in their annual -- in their voting in the annual shareholder meeting.

So I beg your pardon, we do nothing else but respect this and therefore I cannot go any further with that. On the other hand materially, with respect to that point, we have always said that we would have had it at hand. It would be -- given us, let's say, quite favorable options to finance our ambitions to grow. However, we were not dependent on that so we will continue with our business also without having this on our hand. This is like we did it already in the last year.

Christian Herrmann - K+S AG - Head - IR

And before Mr. Felker's commenting on China just to your other question with regard to the contracted price in Europe that is correct. I think it is well two weeks we lowered the price from EUR615 to EUR555 for our granular MOP and this was the price for the first -- sorry -- for the fourth quarter, yes. So the granular price now being at EUR555 and the respective standard product is sold currently at roughly EUR540.

Joachim Felker - K+S AG - Member - Board of Executive Directors

Yes, so China shipments, I think the last ship is swimming or has already arrived. I don't know out of head but that is all leftovers from contracts and since the beginning of this year we have not made any new contracts, so that will be it for the time being and we have to wait for future decisions being made in China.

Jesko Mayer-Wegelin - HSBC - Analyst

But when would you start to think about or negotiate how much you could ship to China, is there -- or is there any plan when you could start this?

Joachim Felker - K+S AG - Member - Board of Executive Directors

Now, we will have discussions in end of May, that's the next --

Norbert Steiner - K+S AG - CEO

We are ready, everyday, for discussions to ship materials to every destination in the world, just briefly, like everybody in the potash business. This is our business.

Jesko Mayer-Wegelin - HSBC - Analyst

Okay, maybe one follow-up question also regarding the price, the EUR555, how this compares to the average contracted price in Q4 2008. Is this below or above the average price in 2008 for this product?

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Christian Herrmann - K+S AG - Head - IR

Now as I said the Q4 was EUR615 and now the price was lowered two weeks ago from EUR615 by EUR60 to EUR555. This is the price for granular materials sold in Europe.

Jesko Mayer-Wegelin - HSBC - Analyst

Okay, so this EUR615 was not the spot market price but was really the contracted price?

Christian Herrmann - K+S AG - Head - IR

The granular price, Jesko, is the spot price. We can change this price whenever we like, so two weeks ago we lowered it to EUR555, which is actually exactly the comparable figure in euro terms to the overseas price of \$750. And so certainly, we cannot have an island here of high prices compared to the overseas markets in Europe. So certainly the European price somehow has to regard the overseas market.

Jesko Mayer-Wegelin - HSBC - Analyst

Okay, thanks for your answer.

Operator

Thank you. And the next question comes from the line of Sophie Jourdier from Citi. Please go ahead.

Sophie Jourdier - Citi - Analyst

Yes, afternoon, I've got three questions. First of all, you mentioned that you will still have quite a strong balance sheet once and as Morton Salt completes. I wonder whether you could talk about whether you feel post that acquisition you would have the balance sheet and management capacity for further acquisitions should they present themselves in the medium term. That's the first question.

And second, just back on European potash, could you give us an indication of whether you've seen any pickup in demand as the planting season has started and with the price coming down to EUR555 in Q2? And then finally, in South America, we know that volumes have risen with the new price emerging of \$750 a ton. Could you just give us an idea of where that level of demand is versus the normal year? Is it -- in Latin America are we back to normal levels, or are we at a level below -- if we are below normal levels? Thanks.

Norbert Steiner - K+S AG - CEO

To start with your first question, I think we need to take into our mind that once we have had closing with Morton Salt, we have a lot of things to do to integrate that company into the K+S Group. And this requires a lot of work from us so that we should be not too ambitious to want to show a second acquisition of the same size in the too distant -- too near future.

That means we have not said that we would face another mega acquisition in the size of Morton Salt, but we have leftover money, financing power based on the combined balance sheet, including Morton Salt, for smaller ones but we have always said and also said that we more or less are still more ambitious to get into the corporation on the field of greenfield activities in potash. And as you know, it's -- that must require that -- big amounts generally upfront and can be financed in this investing

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-- investment phase over the years. So having this in mind, I think you can understand quite nicely what we have in mind when we say that there is still room for the further enlargement of the K+S Group.

Joachim Felker - K+S AG - Member - Board of Executive Directors

And so the activities on the wholesale level in Europe, I think that the activities -- wholesale to farmers that has been increased and the warehouses slowly are more empty than before. Our sales, producer sales, to wholesalers are still very, very slow.

And the season in Europe, fertilizer season, or potash season, end of May is usually very, very quiet and only it starts up with the pre-stocking season, let's say in July, 1st of July. So it's generally -- the season generally in Europe at that time is slow also. This year perhaps it's a little bit longer because of bad weather in the very early part.

So again wholesale has two phases, a little business with us and more business with their clients either retail or farmer directly. And that's what we call the depletion of stocks at the present. Is that good, Sophie?

Sophie Jourdier - Citi - Analyst

It's perfect, thank you. And South America?

Joachim Felker - K+S AG - Member - Board of Executive Directors

What's that?

Christian Herrmann - K+S AG - Head - IR

Yes, Latin America, Brazil, the level of demand.

Joachim Felker - K+S AG - Member - Board of Executive Directors

The level of demand in Brazil, we think that more or less the same situation -- little import but we see that increased activities of distribution level to farmers or to retailers, that started already some weeks ago and that in the end also made us adjust these prices. Because this business is done at \$735, \$750, which seems to be a price where product is moving and that's why you could see that -- or the -- some shipments have been made at that level.

So, I think about stock decrease in this area, about 800,000 tonnes over the last six, eight, nine weeks something like that. So business is there but of course not as strong as in the very strong year 2008, and perhaps even -- not yet even comparable to 2007, but it's starting.

Sophie Jourdier - Citi - Analyst

Perfect, thank you very much, very clear.

Joachim Felker - K+S AG - Member - Board of Executive Directors

Also commodity prices also have been quite interesting for these chaps. When you look at the big farmers being in the soy business, I think they can have quite some profitable business already. So, it's more a distribution question, it's not so far planting and farmers level, big farmers in this case, very big farmers.

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Sophie Jourdier - *Citi - Analyst*

Thanks very much.

Operator

Thank you, and the next questions comes from the line of Wolfgang Fickus from WestLB. Please go ahead, sir.

Wolfgang Fickus - *WestLB - Analyst*

Yes, good afternoon. Most of the questions have already been asked; still some left. On -- I want to come back on Brazil and the shipments which go into the Asian CFR market. Those soils are more potash-hungry than the North American and the European soils, so what I want to know is what your feeling is about the ramp-up of deliveries into those markets which, as you have pointed out, has increased and we have seen that. Is that a good indicator also for Europe and North America, or would you say that given the different quality of the soils there could be a bigger [leg] actually in Europe and North America? That's the first question.

And the second question, as I think Mr. Steiner, you already actually refrained from or declined to comment on it but could you give us a guess on the volume figures for Q2? What's your expectation, is the momentum rather going up, or is it stable, or do you still see some strong effects from de-stocking?

Norbert Steiner - *K+S AG - CEO*

Who will start? Shall I start? Yes.

Joachim Felker - *K+S AG - Member - Board of Executive Directors*

Yes, the question -- I think that at present when I would like to measure I think then Brazil has a slight advantage over North America and Europe when it comes to business activities, which is partly depending on what we mentioned before, soil condition but also the crops we look at. So soy, maize, and wheat, they love potash, and in Europe our crops are a little bit more mixed and it's also a seasonal question.

So you are right, the importers will see activities I think on -- to compare Europe in total than activities in Brazil also, it doesn't mean that we export a lot to Brazil but in the country I think the activities are quite all right so far. They are improving on a good level. And --

Wolfgang Fickus - *WestLB - Analyst*

Sorry, just to interrupt you. So, with all those differences in soil, in planting, in the plants which are planting, which are maybe more potash-hungry, do you think it's still a good, let's say, market to extrapolate with the seasonal-like demand coming back into Europe or do you think that it's not really comparable?

Joachim Felker - *K+S AG - Member - Board of Executive Directors*

No, I would not compare it. When you look at Brazil, I think what you have to see is when it comes to potash. First of all it's all imported with one small exception, there is one producer with about 800.000 tonnes of products locally. Now, when you see the activities they have -- production and imports are lower but they -- sales of distribution to farmers are not that as slow as

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production or imports. And that's what I said, they are a little bit further advanced in buying and planting activities but that's no wonder because the structure of the industry is totally different.

The -- when you see the farms being export-oriented, when they look at soft commodity prices, they are more, how should I say it, not professional or it would be perhaps tough to say. But they are a little bit more advanced, they use different -- they hedge their currencies and things like this which a normal farmer in Europe would not do. They are not that sophisticated, let's say.

Wolfgang Fickus - *WestLB - Analyst*

Okay.

Norbert Steiner - *K+S AG - CEO*

Okay. Then the question -- I think we should expect once we were talking about potash, if I'm not mistaken, we were -- we should expect revenues higher than in the first quarter, and the -- but I think it should be, if you compare the second quarter of 2009 to the second quarter of 2008, it should be less.

Wolfgang Fickus - *WestLB - Analyst*

Okay.

Norbert Steiner - *K+S AG - CEO*

I would not be more precise, if you mind.

Wolfgang Fickus - *WestLB - Analyst*

That's perfect, thanks a lot.

Norbert Steiner - *K+S AG - CEO*

Thanks, okay.

Operator

Thank you. And the next question comes from the line of Martin Evans from Cazenove. Please go ahead, sir.

Martin Evans - *Cazenove - Analyst*

Thank you very much. Just in terms of these potash negotiations in China, that I understand is still ongoing. Are you aware as to whether we are any nearer a conclusion of those discussions and negotiations? And also perhaps to help me understand the mechanics of that market, could you explain why they appear to take so long?

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Norbert Steiner - K+S AG - CEO

If I may take that question, although it belongs to the potash business, once again this has been a visible and confirmed [path] that we have small visibility into China, but small visibility into China with selected importers where we have the long relationships.

What you are generally talking in the potash market is a discussion between the big exporters to China and Sinochem, [Sinotech]. And this is something where we are not taking part in. Therefore, we can only speculate about that what is happening there since we are not sitting at that table. And we are not also -- we are also not talking with our competitors what they are doing. We will hear from them what the outcome of the negotiations will be when they are ready. And obviously, they are not yet ready.

This, remember 2006, when in a different situation globally, China also tried to break the pricing power of the supplier side by waiting and waiting and waiting and sitting and sitting and sitting, and made the people nervous. I think this is something which they maybe also might have in mind in 2009, even taking into consideration that the producer side now has reduced already to a large extent their production utilization.

So I think it's highly political. And it's a different type of, let's say, attitude to my understanding when you compare it to India. Joachim has already explained our view on India and about the reasons and the rationale of their policy in the past, where we think they will continue to the benefit of their people and to the benefit of their country.

And this is a little bit more -- now, I would like to call it democratic-like, I think, the behavior of the state-owned or state-influenced Chinese importation agencies will be. Therefore, it is more a political issue when you compare China to India. And therefore, I would say they wait until they think the time is right when -- and they are still hoping that the producer side do not show any sign of strength anymore.

Martin Evans - Cazenove - Analyst

Thank you. That was very clear.

Operator

Thank you. And the next question comes from the line of Karan Khemani from Cazenove. Please go ahead.

Karan Khemani - Cazenove - Analyst

Gentlemen, just two follow-ups. One is regarding the game that the Chinese or Sinochem is playing right now. They lost in 2006 and they paid very dearly for that, for sitting on the fence. They had to come back in '07 and buy very expensive potash. Why are they doing it again?

And that's my first question. I'm trying to understand why they would want to go through that pain again.

And the second is, in terms of inventories in China, you -- I think the gentleman in charge of your potash business said that we know that stocks are very low in India. But how do you know that and why don't know the stock situation in China?

You know how much you sold them last year. You know how much food they eat in that country and you know how much they produce. So surely, you should have a rather educated guess internally of how much inventory they have left. Thank you.

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Joachim Felker - K+S AG - Member - Board of Executive Directors

Okay. So, India it's very simple. They have a good statistic. They have been taught by the British guys how to keep statistics. And the import statistics, so that you can see ship by ship going in.

And the Indians in the price negotiations, they have never tried to use the argument, we have a lot of stocks, if they didn't have any. They are quite open with the consumption. They are quite open with the stocks they have. They are hard negotiators. And they have certain budgets which the government allows them to spend, and that's why they are hard in negotiating.

In China the first difference is, they have a local production. The local production is hardly interest-bearing for us. And you have another thing, it's not very clear how much of this local production actually goes into agriculture or goes into other applications, chemical applications. So there is not a very clear picture there.

And the Chinese are so far not willing also to open up figures about this. So, the other next layer of information is you have a few hundred very small NPK producers. In Europe you can count the NPK plants, I think, we have two handful of it. In China, you have very small ones, big ones, and they are adding up, I think you need a little book to note down all the names. And you don't know how much stock they have. How much is their necessity. It's all state influenced, and so it gives you an in-transparency.

And the other one is, you have the state and you have provinces. They also play. So it's much more complicated in China to create a clear picture than in India.

Karan Khemani - Cazenove - Analyst

Okay. And if I may just ask a branch-off from that. If I look at China right now, why do you put yourself through this uncertainty every year? First of all, why doesn't K+S take part in the negotiations? You mentioned potash producers talking directly with Sinochem. You act as if you're not a potash producer but you are a potash producer, and a quite a major one. So you should be sitting on that negotiation table right now. Number one. That's my view, I could be wrong but maybe you can tell me why.

Joachim Felker - K+S AG - Member - Board of Executive Directors

You are right.

Karan Khemani - Cazenove - Analyst

And the second question is, why not just put an export ban on China collectively. Canpotex and BPC are pricing and distribution syndicates. People call them cartels. Some people call them pricing and distribution syndicates. It's apples or oranges, whatever.

But my view is, every year we have to sit here with this uncertainty, what will China settle at. It's almost like a romance that's developed between the potash sector and China. Why not just not sell them any potash anymore? Just end it.

In 2006, if they didn't buy any, what, it's 4 million to 6 million tonnes that you have take away from the 50 million every year. Don't you think it is better?

Joachim Felker - K+S AG - Member - Board of Executive Directors

Karan, what you should do is join one of these advisers to these industries. You're actually -- you are right in the end. Now, look at our business in China. Our China business, we have a relatively small business. In good years, in very good years perhaps we have ever reached 500,000 tonnes of export in very good years. Of all kinds of products.

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And we are trying to avoid to sell standard products to China. What we have done over many years, we have started very early trying to find out local private distributors, very small and we build them up over many, many years. And we have one very big advantage in this. Because we can ship potash in containers to China, we build them up very slow, we give them a high frequency of shipments, and that helps them.

Now, in the meantime we have established and those distributors originally they are quite good. We fear them, they are not like the other companies, but they are very much depending on us on one hand and they are also much -- they also enjoy a certain exclusivity, which is good for them and they make good money. That is our business.

We have never -- we have always avoided to do business with Sinochem. We have done that in the nitrogen division. We know how it works in the nitrogen division, we still do it. And on the other hand we feel very good in being independent. Not being part of any cartel or, I don't know, distribution between -- distribution arrangement between a government facility and a private facility. We don't like that too much.

Karan Khemani - *Cazenove - Analyst*

Okay.

Norbert Steiner - *K+S AG - CEO*

And last, but not least. We have centers of interests and you know that we have years ago already discussed strategy and have focused on Europe. And of course, we also do a lot in order to satisfy the demands of our long-relationship with customers. And therefore, we cannot just shift from Europe to Asia and backwards from one half-year to the other half-year.

And therefore, it's always also a question of volume that we have available for several markets. And it would be only a situation, just speculative to say, to be on the table together with Sinochem, not at the side of China -- of BPC or Canpotex, while we would offer them millions of tonnes per year, which we do not certainly do not have available for China.

So I think this is a well-structured strategy to be present in several important regions in the world and this cannot be changed from one day to the other.

Karan Khemani - *Cazenove - Analyst*

Christian, before I go -- sorry, for the extra-long questions. But this price decrease in Europe, it's just so that you are calibrating for exchange rates, is that correct? It's not you guys undercutting Canpotex and BPC on their \$750, is that right?

Christian Herrmann - *K+S AG - Head - IR*

If you transfer the \$750 you would have sold out by \$1.35 rate, you (inaudible) at EUR555. So --

Karan Khemani - *Cazenove - Analyst*

So that is the reason behind the change in pricing. Is that correct?

Joachim Felker - *K+S AG - Member - Board of Executive Directors*

Yes, yes.

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Karan Khemani - *Cazenove - Analyst*

Just wanted to confirm that. Thank you.

Joachim Felker - *K+S AG - Member - Board of Executive Directors*

Yes.

Operator

Thank you. And the next question comes from the line of [Wesley Brooks] from Morgan Stanley in London. Please go ahead sir.

Wesley Brooks - *Morgan Stanley - Analyst*

Thanks, afternoon, guys. I just have two quick questions. Firstly, on your inventory buildup, can you give us an idea of how much your costs benefited from running up potash inventories of your own, and going forward, can you run up any more inventories or are you full?

And then the other question, just to do with your discussions with your customers and what they are saying to you and how your relationship is with them and what they feel is going to be the catalyst to get North American and European farmers to really start buying? Thank you.

Joachim Felker - *K+S AG - Member - Board of Executive Directors*

I'll start with the first question, Wesley. Last year, in the fourth quarter, we had an inventory buildup and in March we told the public in our Q4 conference call or at the -- in Frankfurt that we had at the end of last year roughly 1 million tonnes of potash in our inventories. And the fourth quarter was relieved, our P&L, in the fourth quarter was relieved, because we capitalized the cost of the additional inventory buildup.

The effect of that in the fourth quarter was roughly EUR70 million. And we also told in March, the people, that we have limited scope actually on that basis to increase our inventories in potash significantly further. And in the fourth quarter the inventory level in potash was more or less the same as at the end of last year. And so -- that means this relief, what we have in the fourth quarter last year, cannot be repeated in 2009, and therefore we foresaw that the overall cost will certainly inflate automatically this year against last year by at least EUR70 million just by this effect.

Wesley Brooks - *Morgan Stanley - Analyst*

Okay, sure. I am just trying to think of the cost in this quarter, and how we see that developing next quarter assuming you saw the same amount of volumes?

Joachim Felker - *K+S AG - Member - Board of Executive Directors*

Well, first of all, Mr. Steiner said we have a belief that Q2 volumes will be up compared to Q1. And secondly, we will -- this is less than, certainly, capacity and therefore, we have to reduce our production. So inventory levels, there will not be any additional possibility or no significant possibility to capitalize costs for inventory buildup. So the cost evolution will be the same as in the first quarter.

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Wesley Brooks - Morgan Stanley - Analyst

Okay, thank you.

Norbert Steiner - K+S AG - CEO

Okay, confidence of farmers is a very good topic. I tell you, I have just had this morning a discussion with some of our guys being responsible for the German market. And we were just going about what happened last year. Last year, the harvest was very good. And prices were very, very high. For wheat, for example, they were EUR180.

And there are two kinds of farmers in the end. Some have sold at very high prices last year. They have been very happy and they are just investing like they do every year. So they are applying potash at a normal level. And then there has been guys who thought EUR180 is not enough. We wait, and we wait for EUR200 or EUR220. And unfortunately, these guys are still sitting on their product. And they have no confidence whatsoever because when they sell now, they sell at EUR140, and they make a loss in the end. And they have partly tried to make savings on plant protection, on seeds; they were postponing buying tractors and stuff like this.

Those are the guys who are having no confidence. Now, they are in discussions with their banks, they are in discussions with the distribution prolonging payment terms and stuff like this. And actually, it's to the distribution to make them go again and it's to the farmers' associations and it's to looking at the markets, seeing that wheat prices are going up, that maize prices are going up, and that would give them confidence.

What would not give them confidence, that is what I also tell you is if we decrease prices, it will not give them confidence. Confidence comes not from our pricing, it comes from their market, not from us, it comes from the whole issue. When you have newspaper articles all day long, we are in a worldwide crisis, soft commodities go down, we don't know where to sell, that's not helping them. Helping them is their local bank, their local farmers' associations and their experience what happened if they are not applying products to be used next year. They can't, because that is the trap they are falling in, and that's the risk of it, and they know that, they know it.

Wesley Brooks - Morgan Stanley - Analyst

But if I may just, do you not believe there is -- we hear -- hearing in North America that there's an element of farmers not buying because they want to stand up to the price increases and to the current price and they won't buy [at debt], do you think it's purely down to economics and confidence, not an attitude or --

Norbert Steiner - K+S AG - CEO

There is -- in Europe, there is no boycott for fertilizers or for potash, not at all. That's not at all the issue.

Wesley Brooks - Morgan Stanley - Analyst

Okay, thank you.

Operator

Thank you. And the next question is a follow-up question from Rim Bennani from Exane. Please go ahead, sir.

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Rim Bennani - *Exane - Analyst*

Yes. I just wanted to know if actually in potash, the Q1 had developed actually according to your plans, better, lower than expected? Also, if we can get a little bit flavor, you said that in potash, Q2 volumes will be higher than Q1. Do you think the trend will be followed as well in your nitrogen business or not?

And the other question is, could you maybe, to refresh my memory 00 as far as I know there hasn't been a big discount between Chinese prices, European prices and Lat-Am prices over in a year's time that there is a catch-up effect. Was this true historically or have we seen in history times where there has been a disconnection because of big markets and in a weak year like this year, for instance, or do you think that the impact will be felt this year as well on the European and Latin American prices? Thank you.

Christian Herrmann - *K+S AG - Head - IR*

I'll try to answer your first two questions.

Rim Bennani - *Exane - Analyst*

Okay.

Christian Herrmann - *K+S AG - Head - IR*

First of all, question number one was Q1 according to our plan. Our latest update on our outlook, what we gave to you yesterday, is more or less the same as we gave it to you middle of March, and when we published our middle of March prognosis and estimates we now have to see and we see that the Q1 was as expected for K+S. So here we are fine.

With regard to Q2, I think you heard it quite clearly that Mr. Steiner is a bit reluctant to give you, as of today, when we discussed the Q1 figure already too much flavor on Q2, because we are now still in the middle of Q2 yes. So, please we told you our thoughts on Q2, but today, please no more on Q2. Yes, please you have to wait until the middle of August.

Joachim Felker - *K+S AG - Member - Board of Executive Directors*

So, and then you asked about price differences between China, and the other world. Traditionally, China has low potash prices, the reason being that they gave the exporters one-year contracts, which at that time was very good for the producers because they know exactly how to plan, they know how the capacity utilization would be and I would say until 2006 and 2007 that was a very good system for all parties concerned.

When the potash market became short, offer and demand were small as balanced then the system became a little bit critical. And that is why there was also this difference why it is suddenly the Indians conclude a contract much early than Chinese and that became a little bit diluted. And when you saw them, the Brazilians in a very strong demand market, with a very strong demand, they were increasing -- accepting pricing increases much, much faster in the end.

Now, the situation now is we have -- how should I say it -- put a bottom price in presumably -- with \$750, \$735 depending on (inaudible) a little bit and we will see how much would be this old historical bonus for China and India. How much lower would that be. And influence also is that in many cases the Chinese use their own ships so they -- because they want to have their trade fleets being involved. That also is a little bit diluting the issue, it depends on how the shipping market is. So, we have to wait for that but traditionally, you are right, the big two state importers, India and China, are on the low side when it comes to potash prices on a world-wide level.

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Rim Bennani - *Exane - Analyst*

Thank you.

Operator

Thank you and the next question comes from the line of Martin Roediger from Cheuvreux. Please go ahead.

Martin Roediger - *Cheuvreux - Analyst*

Yes, thank you for taking my questions, actually, three ones. First one, shareholders. Your major shareholder, Andrei Melnichenko, wants to have more influence in K+S, and yesterday Mr. Bethke, the head of the Supervisory Board of K+S said K+S is seeking for a solution which satisfies both parties. Which kind of solution are you looking for?

Second question is on potash, and can you give us an update on your aspiration to get the license for the potash mine in Eastern Germany?

And the third question also on potash, in the first quarter the potash volumes splits between Europe and overseas was 50%, 50%. Given the fact that Latin American and Asian customers are currently still buying while European customers are restrained. Could you mention that in the full year we will also have a split of 50%, 50% in terms of volumes. In previous terms, I recall that the -- that your majority of volumes were shipped to European customers and not to overseas customers.

Norbert Steiner - *K+S AG - CEO*

With respect to the first question Mr. Roediger, we mentioned intentionally that we want to have a solution which is satisfactory for other parties and this is what I can tell you on that. I have never speculated on any content of such a kind of discussion. And therefore once we should have reached to that we will certainly inform the public but not yet. The second question was something --

Christian Herrmann - *K+S AG - Head - IR*

Rossleben.

Norbert Steiner - *K+S AG - CEO*

-- Rossleben, yes. The latest official announcement from the agency, the company belonging to the Federal Republic, Ministry of Finance was that they wanted to have that thing settled during the summer or in the middle of the year, 2009. So, I know that there are continuous discussions between us and this company and also our competitor Florett.

But I have not been given any signal that this is close to be done or it will be postponed. So this is the latest official announcement and we are working hard in order to present us well in order to get -- let us say the proposition in that further conduct of the business.

Therefore, no official news to be added.

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Christian Herrmann - K+S AG - Head - IR

I will try to answer your third question, Martin. By the way, Mr. Felker has to step out because he has to leave for a road show, to Zurich. Your question with regard to the split for the year 2009 between Europe and overseas well yes, also in March we said that we believe that the European market will be more affected by this reluctant and lower fertilization application than we see that in overseas market. Therefore yes, we could think that the average -- that the share of the European business will decrease compared to the share the European business had last year

But that we come down to 50%, 50% that is too much because don't forget that the first quarter in Europe was not only hit by high stock levels in the trade sector but was certainly also hit by a very long lasting and severe winter weather. And this would certainly not hold on and therefore we see some uptake also in Europe and therefore the majority will still be sold in Europe this year no doubt.

Martin Roediger - Cheuvreux - Analyst

Thank you.

Operator

Thank you. And the next question comes from the line of Sophie Jourdier from Citi. Please go ahead, Sophie.

Sophie Jourdier - Citi - Analyst

Yes, thank you so much, just one more question. On SOP could you just talk briefly about demand development in SOP and any differences you have seen from MOP, thanks.

Christian Herrmann - K+S AG - Head - IR

I also have to take this question. SOP as -- we see the same more or less the same development as in MOP and therefore there is no big, there is no big change -- no difference.

Sophie Jourdier - Citi - Analyst

Okay, thanks very much.

Operator

Thank you. And the next question comes from the line of Virginie Boucher-Ferte from Deutsche Bank. Please go ahead.

Virginie Boucher-Ferte - Deutsche Bank - Analyst

Good afternoon, thank you. I've got two quick questions. The first one you were talking earlier about customers' confidence on the summer side. I like you to talk about your distributors now. And just to clarify in your base scenario, are you assuming a normal pre-stocking pattern in the next season so starting in early H1, or are you conservatively assuming that the pre-stocking maybe slower than unusual?

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Distributors are likely to be willing to avoid sitting on high price inventories after having been burnt last year, but also because of a tighter credit situation. And if you assume a normal pattern could you please explain why you are not worried about the potential change of the ordering pattern behavior from the distributors? And the other question was do you have a view on the liquidity situation of some of your competitors especially in Russia and how long they may be able to run solo operating rates before they have to cut prices? Thanks.

Norbert Steiner - K+S AG - CEO

To start with the second question we only have the same insight that you could have from following up of Russian newspapers, news articles, Internet articles. We hear from the banking system that their liquidity is restricted and if you look a little bit broader not only into the fertilizer business but also in the entire business in Russia and to the ability of Russian owners, you see that they are restricted from time to time. So no further insights, we are not insiders in the Russian market and therefore no speculation should be done on that.

With respect to the expectation and the confidence, I would assume that the willingness of our direct customers the wholesalers to show up again in the same manner like we have seen it in the first three quarters of 2008, will be reduced at the end of the year.

They will certainly try to avoid building up too much because of the working capital effect that they will face and therefore, I think, it is an entire trend not only seen in the fertilizer producers area but also in many other part of the industry. That the industry, as such, should be more or less the warehouse keeper of the next steps to come. So, we are not desperate about that but we should be realistic that this will be an effect that we will face in the fourth quarter. But before the fourth quarter comes and this stocking effect will be seen, we will have at least in the northern hemisphere the application time after the harvest and we are looking very confident through this.

Virginie Boucher-Ferte - Deutsche Bank - Analyst

Okay, thank you.

Norbert Steiner - K+S AG - CEO

Welcome.

Operator

Thank you, we currently have no questions coming through. (Operator Instructions) Thank you, we have no further questions coming through, so I will now hand you back to Norbert Steiner for the conclusion of the call. Thank you.

Norbert Steiner - K+S AG - CEO

Yes, once again, thank you very much for that very interesting discussion. Unfortunately, we are not in a position to satisfy every one of your questions, particularly, when it comes to the Asian markets and China ranking first there. However, I hope that you have gathered additional information within that scope that we are able to give to you. Thank you very much for participating and hope to see all of you quite soon. Thank you very much and goodbye.

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