

genuine  
**SUBSTANCE**

1:1  
SCALE

**Presentation of Annual  
Financial Statements 2009  
of the K+S Group**

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Jan Peter Nonnenkamp, CFO**

**11 March 2010, Frankfurt am Main**



**Experience growth.**

# Economic and Financial Crisis

## Raw Materials as Basis for Industrial Production



- Our strategy is geared towards sustainable economic activity and the creation of values
- The special depth of our value chain and the global presence in the Fertilizers and Salt business sectors make us strong
- Nevertheless, we too were unable to escape the impact of the financial and economic crisis

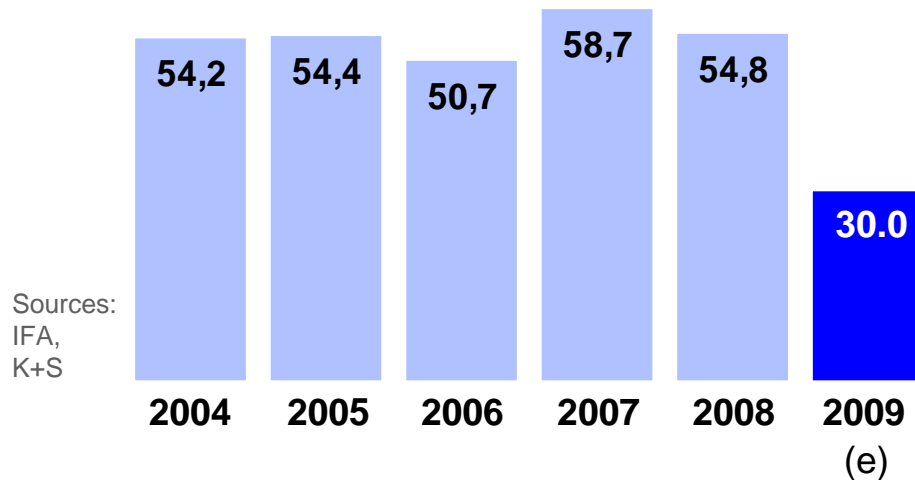


# Global Agricultural and Fertilizer Markets

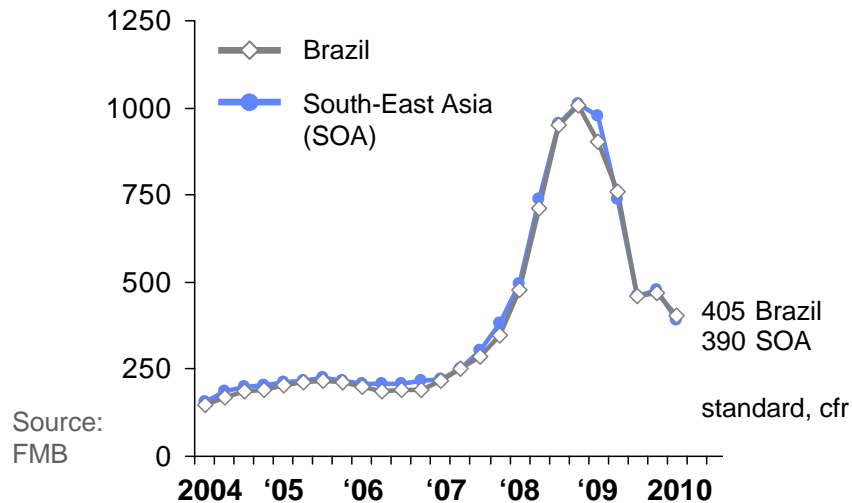
## 2009: Correction after Boom



million t **Global potash sales volume**



US\$/t **Potassium chloride prices (Ø)**



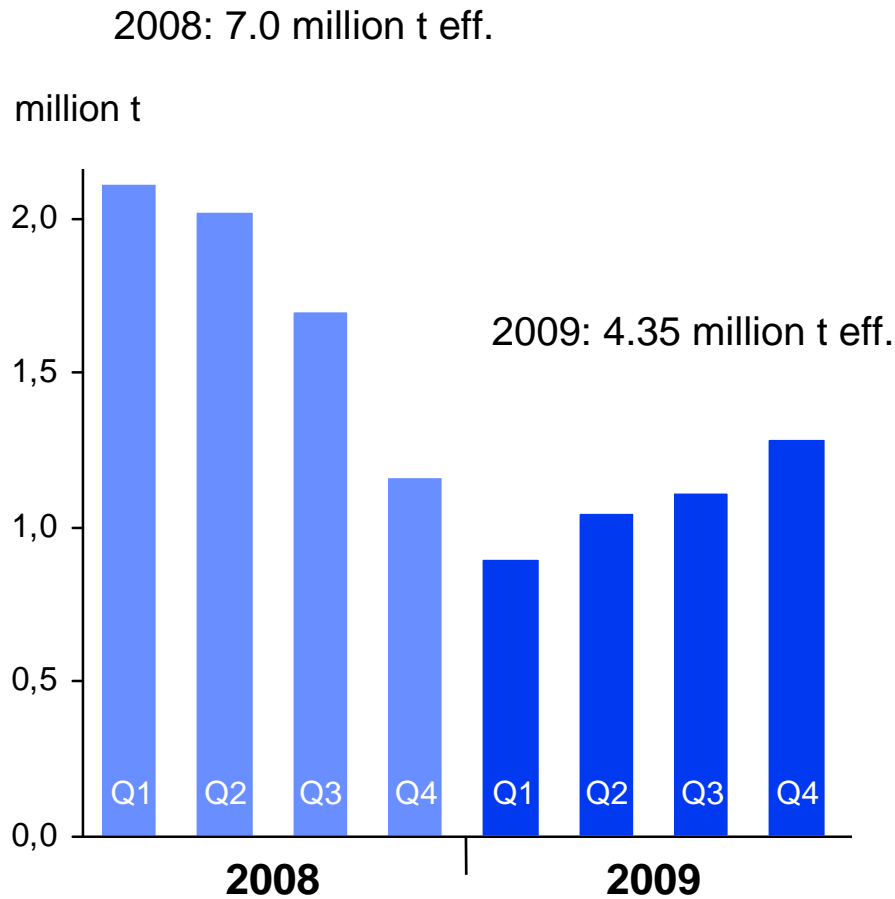
- Continued strong uncertainty in agriculture as a result of agricultural prices not recovering
- Slump of fertilizer demand
  - Steepest annual decrease in global potash sales volumes, so far by 50%
  - Demand for complex fertilizers weak all year
  - Only demand for straight nitrogen fertilizers picks up in H2
- Sharp price reductions – but differentiated situation on individual fertilizer markets
- Significant production cutback necessary at all fertilizer producers

# Potash and Magnesium Products / Nitrogen Fertilizers

## Production Cutback and Short-Time Working



### Potash sales volumes (K+S)



- Potash output reduced by 400,000 t in Q4/2008
- Potash output reduced by ca. 4 million t in 2009
  - Reduced operations at sites and short-time working in H1 and H2
  - A total of ca. 100 short-time working weeks
  - Ca. 6,000 employees affected by short-time working
- Only 50% of NPK capacity utilised at Krefeld site (COMPO) in 2009
  - 15 weeks of short-time working necessary

### Volumes and average prices by region for Q4 and for whole year (2009 / 2008)

	Q4/2009	Q4/2008	%	FY/2009	FY/2008	%
<b>Sales volume</b> (million t)	<b>1.29</b>	<b>1,16</b>	<b>11.2</b>	<b>4.35</b>	<b>6.99</b>	<b>(37.8)</b>
- Europe	0.60	0.64	(6.3)	1.88	4.45	(57.8)
- Overseas	0.69	0.53	30.2	2.47	2.54	(2.8)
<b>Average price</b> (€ per t)	<b>280.1</b>	<b>428.5</b>	<b>(34.6)</b>	<b>327.1</b>	<b>342.7</b>	<b>(4.6)</b>
- Europe (€ per t)	266.4	450.9	(40.9)	332.3	337.9	(1.7)
- Overseas (US\$ per t)	431.2	560.0	(23.0)	452.0	524.9	(13.9)

# Salt Markets in Europe and America

## Strong Winter Road Clearance Business



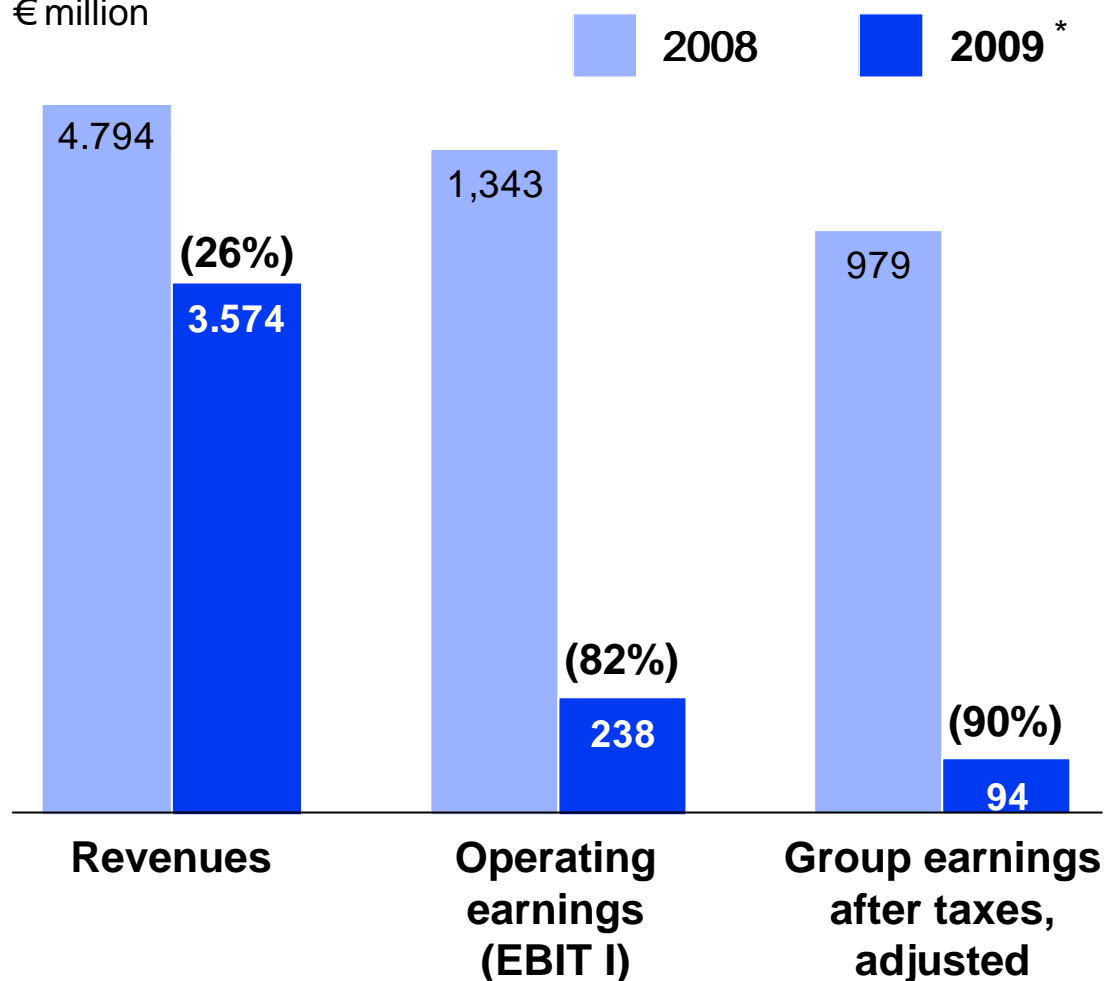
- At the beginning and the end of 2009 strong de-icing salt business in Western Europe and the US East Coast
  - In Q1, supply bottlenecks in North America result in above-average price increases
- From Q4, inclusion of Morton Salt; but milder weather conditions in the remaining regions of North America
- Food grade and industrial salts show increases
- Salt for chemical use business weaker due to economy (mainly in Europe)

# 2009 Figures

## Significant Decline of Revenues and Earnings



€ million



### Record year 2008:

- Q1-Q3: significant volume increase for fertilizers; high price increases at low availability
- Q4: First output cut-back required for fertilizers

### 2009:

- Very sharp sales volume decrease as well as declining prices for fertilizers
- Reduction in dividend to € 0.20/share (proposal)
- Payout ratio at € 38.3 million essentially within target corridor \*\*

\* Including Morton Salt in Q4/2009

\*\* 40% to 50 % of adjusted Group earnings after taxes

# Business Segments' Operating Earnings

## Differentiated View Necessary

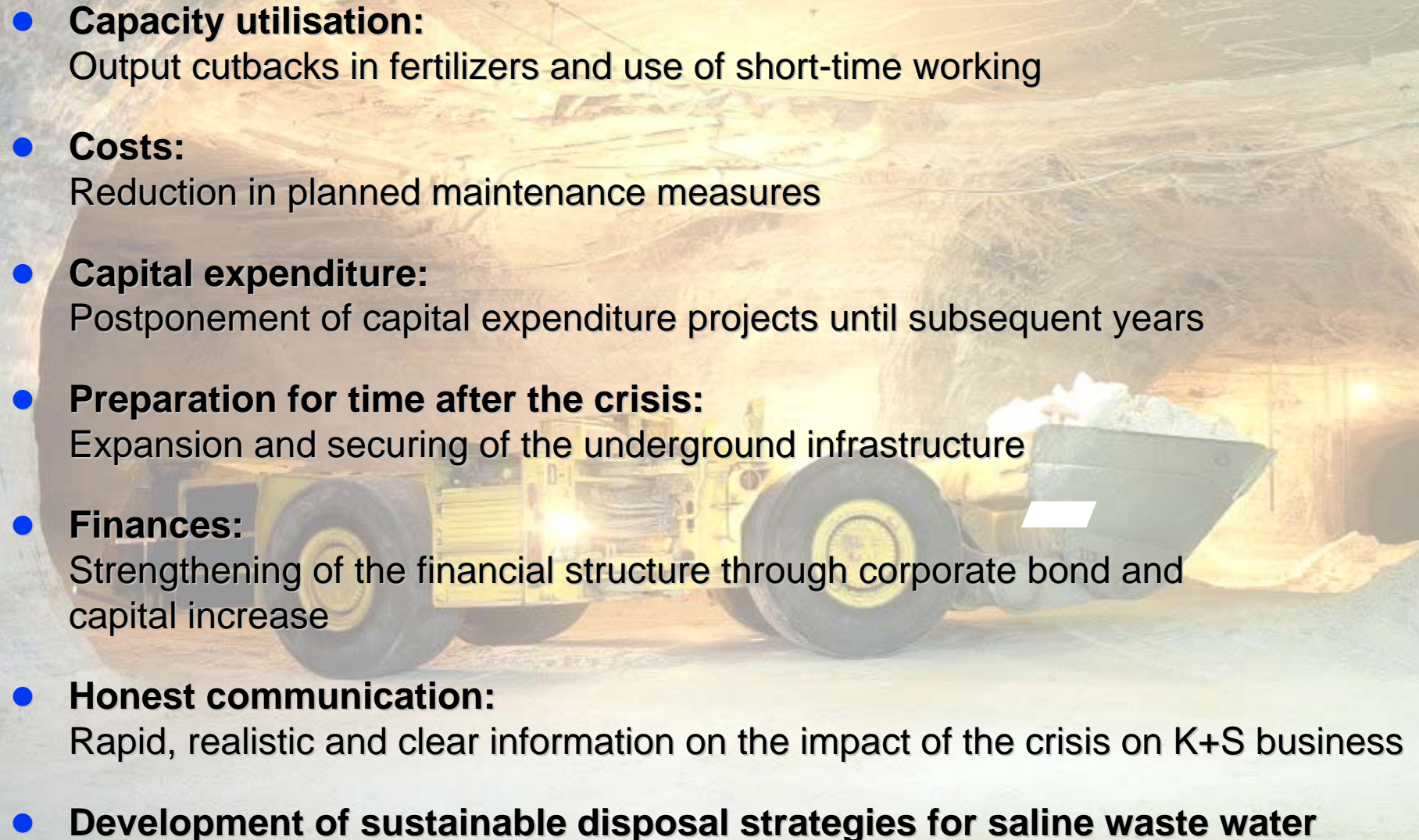


<b>EBIT I</b> (in € million)	<b>2009</b>	<b>2008</b>	<b>△</b>
<b>Potash and Magnesium Products</b>	231.7	1,203.2	(81%)
<b>Nitrogen Fertilizers *</b>	(108.1)	121.4	(-)
<b>Salt **</b>	140.4	45.2	+ 211%

- Despite steep decreases, second-best result in Potash and Magnesium Products business segment (thanks to high prices in H1)
- Losses in Nitrogen Fertilizers
  - Negative price and volume effects
  - High raw material costs for production of complex fertilizers
  - Adverse extraordinary effects
- Salt earnings approx. tripled
  - Morton Salt earnings contribution (€9 million in Q4) reduced by extraordinary effects \*\*\*
  - Actual "operating" earnings at Morton Salt €52.0 million

\* From 1 Jan. 2009, combination of hitherto COMPO and fertiva business segments (previous year figures adjusted)  
 \*\* Including Morton Salt in Q4/2009  
 \*\*\* Revaluation of inventories, depreciation on value adjustments in connection with purchase price allocation and integration costs



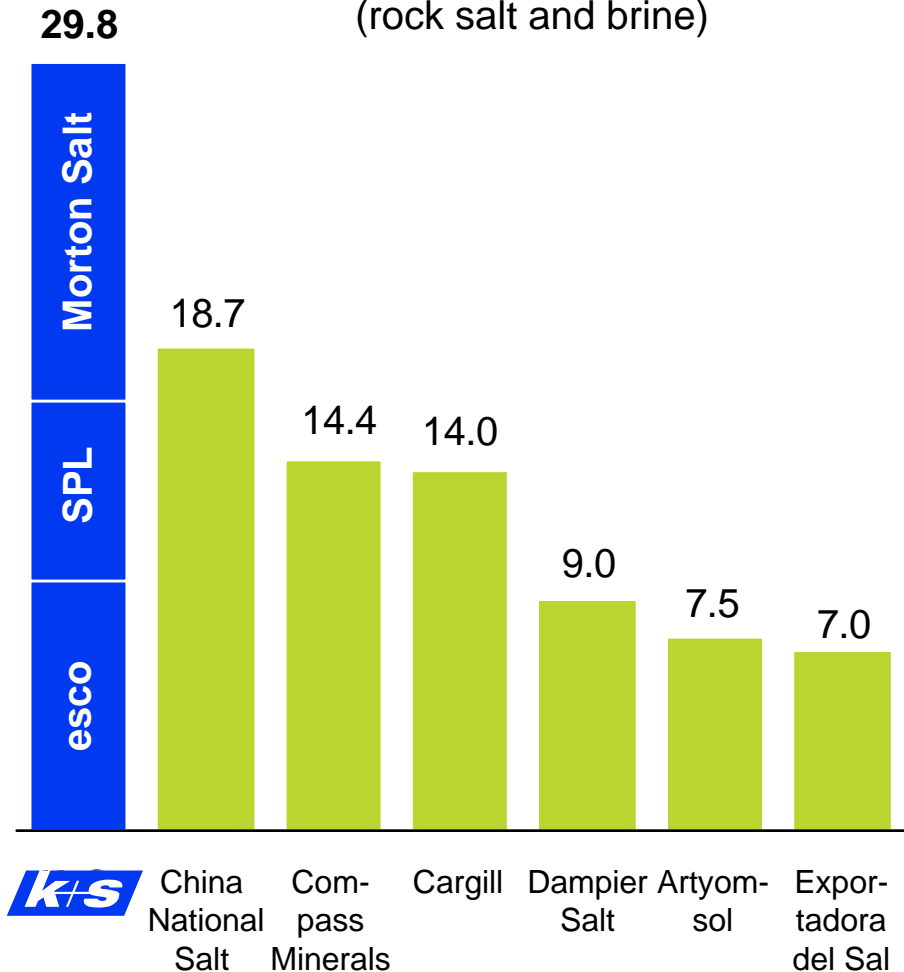
- 
- **Capacity utilisation:**  
Output cutbacks in fertilizers and use of short-time working
  - **Costs:**  
Reduction in planned maintenance measures
  - **Capital expenditure:**  
Postponement of capital expenditure projects until subsequent years
  - **Preparation for time after the crisis:**  
Expansion and securing of the underground infrastructure
  - **Finances:**  
Strengthening of the financial structure through corporate bond and capital increase
  - **Honest communication:**  
Rapid, realistic and clear information on the impact of the crisis on K+S business
  - **Development of sustainable disposal strategies for saline waste water**

# Acquisition of Morton Salt Rise to World's Largest Salt Producer



million t

**Production capacity**  
(rock salt and brine)



- Opening up new markets (incl. access to less “fluctuating” de-icing salt regions)
- Strengthening of less cyclical segments food grade salt, industrial salt and de-icing salt
- Improved regional balance
- ➔ **Strengthening of salt business under “two-pillar strategy”**  
(Strengthening of the two established Salt and Fertilizers business sectors)
- ➔ **Strengthening of entire K+S Group in Europe and overseas**

Sources: Roskill, K+S

# Key Figures for Q4/2009

## Lower Earnings - Substantial Free Cash Flow



€ million	2009	2008	%
Revenues	1,061.3	955.5	+ 11.1
Operating earnings (EBIT I)	36.5	287.8	(87.3)
Free cash flow before acquisitions	154.2	40.0	+ 285.5

### Highlights Q4/2009

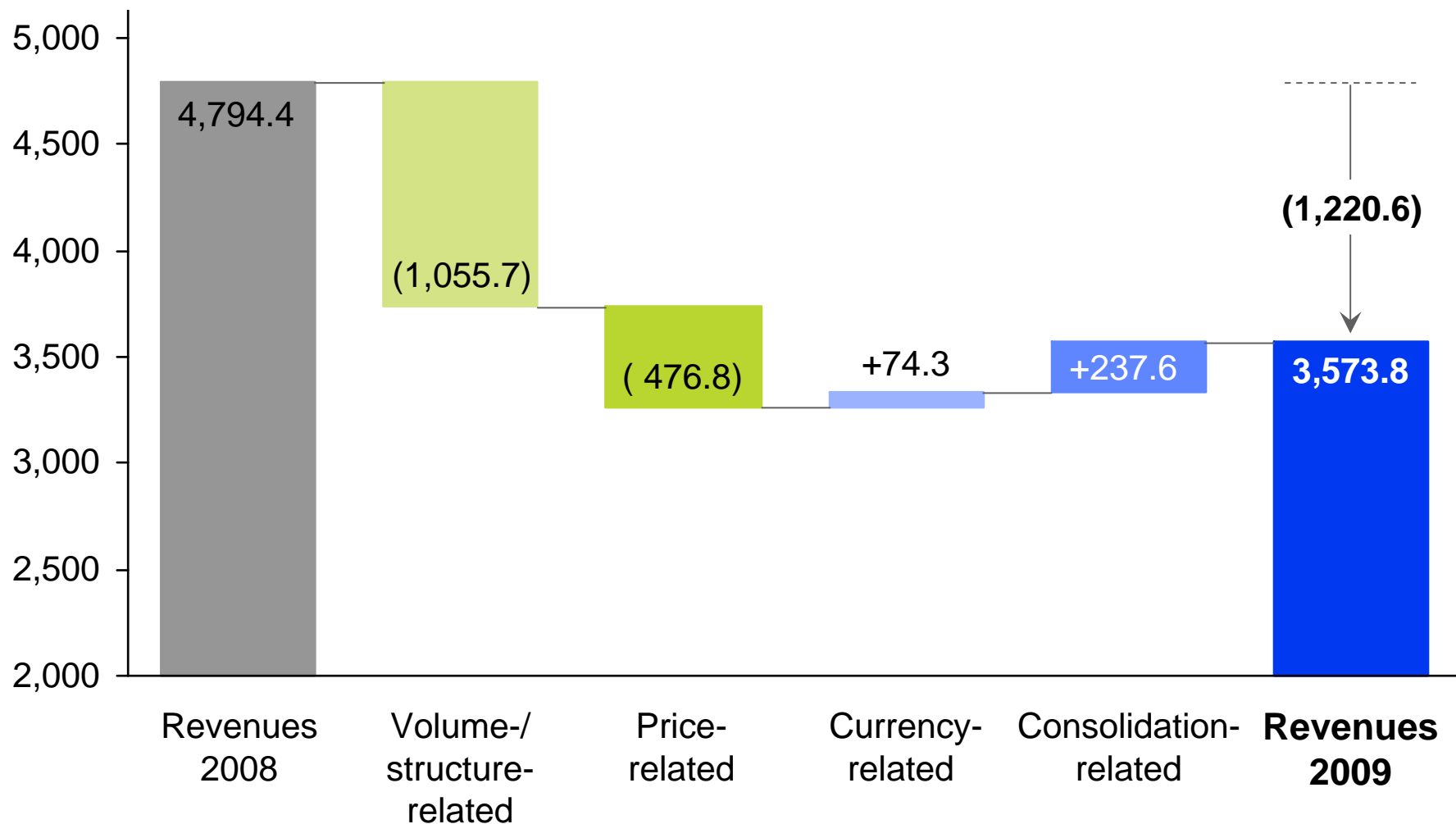
- Start of volume recovery in potash business visible
- Significantly lower prices depress EBIT in Potash and Magnesium Products business segment
- Lower prices and high input costs weigh on EBIT in Nitrogen Fertilizers business segment
- Morton Salt strong operationally - through first-time consolidation effects more moderate overall impact on operating earnings
- Free cash flow benefits from reduced working capital

# Key Factors Impacting Revenues

## Steep Volume and Price Decreases in 2009



€ million



# Costs

## Development of Costs by Type



€ million	2009	2008	+ / -
Personnel expenses	756.4	738.5	+ 17.9
Material costs, goods for trading and external services	1,344.7	1,914.3	(569.6)
Energy costs	210.7	253.1	(42.4)
Freight costs	385.8	437.7	(51.9)

- Please note: first-time inclusion of Morton Salt
- Only limited cost-cutting possible due to high fixed costs
- Personnel expenses rise due to inclusion of Morton Salt and collective wage increase which more than offset savings effects by short-time working
- Decreased energy costs mainly through lower output



# Financial Result as 31 December 2009

## Adverse Extraordinary Effects



€ million	2009	2008	+ / -
Interest and similar income	4.7	5.1	(0.4)
Interest and similar expenses	(44.4)	(26.4)	(18.0)
Interest from provisions	(17.3)	16.7	(34.0)
Net interest income	(57.0)	(4.6)	(52.4)
Other financial result	(58.4)	11.4	(69.8)
<b>Financial result</b>	<b>(115.4)</b>	6.8	(122.2)

- Interest expenses rise due to higher financial liabilities
- Purchase price hedging (€ 59.2 million) weighs on other financial result

# Statement of Cash Flow as of 31 December

## Markedly Positive Free Cash Flow Before Acquisitions

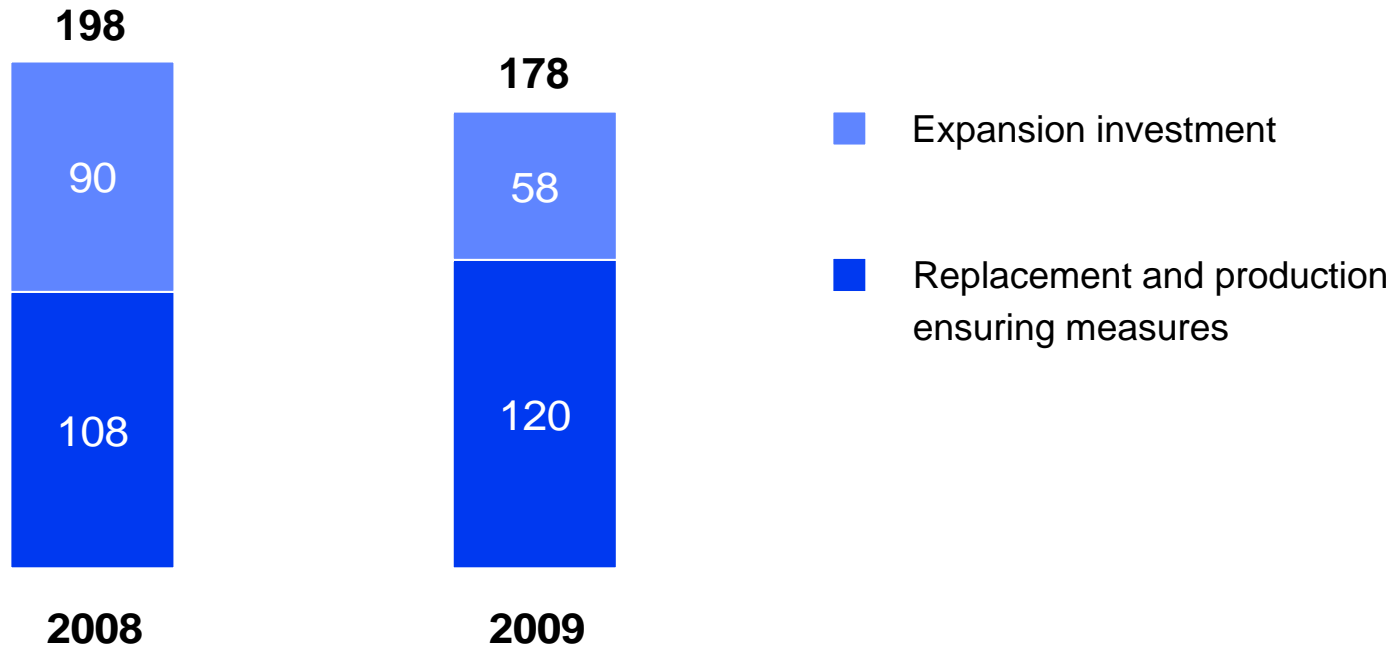


€ million	2009	2008	+ / -
EBIT I	238.0	1,342.7	(1,104.7)
Gross cash flow	323.9	1,177.9	(854.0)
Change in working capital	210.9	(375.2)	+ 586.1
Cash flow from operating activities	534.8	802.7	(267.9)
Cash flow from investing activities	(1,345.9)	(170.2)	(1,175.7)
of which: Acquisition expenses	(1,176.9)	0.0	(1,176.9)
Investment in property, plant and equipment	(168.3)	(160.9)	(7.4)
Free cash flow	(811.1)	632.5	(1,443.6)
Free cash flow before acquisitions	365.8	632.5	(266.7)
Cash flow from financing activities	1,168.1	(318.0)	+1,486.1
Net cash and cash equivalents	520.1	160.6	+ 359.5

# Capital Expenditure Lower Capex Volume Despite Morton Salt Integration



€ million



- At € 178 million, 2009 capital expenditure down about 10% year on year
- Morton Salt included in Q4/2009 with € 22 million
- About two thirds of capital expenditure attributable to replacement and production ensuring measures

# Balance Sheet as 31 December

## Healthy Balance Sheet Structure After Eventful Year



€ million	2009		2008	
	absolute	%	absolute	%
Non-current assets	2,971.4	57	1,533.6	44
Current assets	2,241.1	43	1,940.1	56
<b>Total assets</b>	<b>5,212.5</b>	<b>100</b>	<b>3,473.7</b>	<b>100</b>
Equity	2,094.7	40	1,718.3	49
Non-current debt	2,231.3	43	749.3	22
Current debt	886.5	17	1,006.1	29
<b>Total equity and liabilities</b>	<b>5,212.5</b>	<b>100</b>	<b>3,473.7</b>	<b>100</b>

- Increase in non-current assets through Morton Salt
- Equity strengthened through successful capital increase
- Structure of liabilities improved through bond
- Investment grade rating confirmed

# Net Indebtedness

## Moderate Net Indebtedness



€ million	2009	2008	+ / -
Financial liabilities	1,266.9	266.4	+1,000.5
- Cash and cash equivalents	(529.1)	(167.8)	(361.3)
<b>Net financial debt</b>	<b>737.8</b>	<b>98.6</b>	<b>+ 639.2</b>
Mining provisions	419.2	387.3	+ 31.9
Pension provisions	181.9	93.1	+ 88.8
<b>Net indebtedness</b>	<b>1,338.9</b>	<b>579.0</b>	<b>+ 759.9</b>

- Increase in financial liabilities following Morton acquisition
- Capital increase reduces net financial debt
- Net indebtedness / EBITDA at 2.4x (2008: 0.4x)



# Morton Salt Acquisition: Impact on Balance Sheet



€ million

Intangible assets (of which goodwill: € 442 million)	749	• Financial liabilities	131
Property, plant and equipment	484	• Operating liabilities	78
Inventories	189	• Provisions	280
Trade receivables	132	• Deferred taxes	195
Reimbursement claims	249	Liabilities/provisions Morton	684
Other assets	46	Borrowings for Morton	1,165
<b>Assets</b>	<b>1,849</b>	<b>Equity and liabilities</b>	<b>1,849</b>

# Morton Salt – EBIT I Earnings Effects

## Fundamentally Strong Earnings



€ million

2009

### EBIT I

9.8

- Integration costs
- Revaluation of inventories
- Valuation of backlog of orders as well as PPA depreciation

+ 3.6

+ 22.0

+ 16.6

„Underlying operating earnings“

52.0

# 2009 Financial Key Figures at a Glance

## Returns as of 31 December



	2009	2008	2007
EBIT margin	6.7%	28.0%	8.5%
Return on equity	8.4%	68.6%	16.1%
Return on total investment	6.9%	44.9%	11.0%
ROCE	9.3%	64.0%	15.5%
Cost of capital before taxes	9.9%	10.4%	10.7%
Value Added (€ million)	(16 )	1,125	88

- Cost of capital before taxes almost earned in a very difficult financial year
- All business segments except for Nitrogen Fertilizers have earned their cost of capital
- Without non-recurrent effects from the inventory valuation and integration costs, ROCE exceeds the cost of capital

# Confidence for 2010

## Significantly Higher Earnings Expected



- Recovery of fertilizer demand
- Significant volume increases for potash and magnesium products as well as nitrogen fertilizers
- Lower average fertilizer prices vs. previous year
- Very good de-icing salt business in Q1 – average winter road clearance service business assumed for rest of year
- Inclusion of Morton Salt for whole year
- ➔ **Significant revenue increase expected**
- ➔ **Operating earnings estimated as significantly higher**

# K+S Group

## Forward-Looking Statements

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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 or should certain risks – such as those referred to in the recent Risk Report – materialise, actual developments and events may deviate from current expectations. The Company assumes no obligation to update the statements contained in this presentation, save for the making of such disclosures as are required by the provisions of statute.





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