

FINAL TRANSCRIPT

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PRESENTATION

Operator

Good afternoon ladies and gentlemen and welcome to the publication of the quarterly financial report Q3 2010 conference call. My name is Lisa and I will be your coordinator for today's call.

For the duration of this call, you will be on listen-only. However, at the end of the call you will have the opportunity to ask questions. (Operator Instructions). I will now hand over to your host, Christian Hermann, to begin today's conference.

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Christian Hermann - K+S AG - Head of IR

Thank you. Good afternoon in Europe and good morning to North America and maybe good night to Tokyo, whatever. We welcome you to the -- today's analyst conference call for K+S Group third-quarter results.

In recent weeks and months our sales received an increased interest from the capital market. The three main reasons for -- from our point of view for this. First, the takeover bid of the mining group BHP Billiton for potash crop, which reminded market participants of the long-term attractiveness of the potash market.

Secondly, the surge in wheat and other agricultural commodity prices which led to a recent tightness in potash markets, and the [DAS] announced price increases, and last but not least the continuous and attractive earnings contributions, right from the start of Morton Salt underscored by the well-balanced strategy of potash and salt.

During the next hour, we plan to proceed as usual. Mr. Steiner, our CEO of the K+S Group will comment on the results achieved as well as on the current and future market environment; then executive board members, Mr. Steiner, Mr. Felker, and Mr. Nonnenkamp will be happy to answer your questions.

I'm now pleased to hand over to Mr. Steiner, our CEO.

Norbert Steiner - K+S AG - CEO

Thank you. Ladies and gentlemen, welcome to our Q3 conference call [also] from my side. I'm very pleased to report that after a successful spring season we saw an almost normalized demand for the autumn season too. Furthermore, salt markets were in a good shape in Q3 and contributed well to revenues and earnings. These facts, as you know, legally obliged us to preannounce key figures ad hoc last week.

So let's now take a closer look at the Q3 market trends now and I will flip to slide number two directly. The fertilizer business sector. The third quarter of 2010 was characterized by higher normalizing demand for fertilizers. As said, potash fertilizers ordered in the summer months by the trade sector in the northern hemisphere were used by farmers for autumn fertilizing at the almost normal level again.

A relatively high level of capacity utilization at most potash producers and significantly declining stocks led to price announcements from competitors for the Asian markets of \$420 per tonne for granulated potash. Brazilian market prices were announced between \$410 and \$420 per tonne of granulated potash and in mid-September we announced a price increase by EUR12 to EUR317 per tonne, once again, for granulated potash in Europe, which is therefore very similar to overseas levels.

The positive trend in demand for straight nitrogen and complex fertilizers also persisted and prices rose significantly against the backdrop of higher input costs.

Salt. European tenders for de-icing salt were predominantly concluded by tangibly higher prices after the persistent wintry weather conditions at the start of the year. European production facilities operated at full capacity in the third quarter. In the United States we saw moderate price declines at lower contract volumes due to still relatively high stocks as a result of the previous mild winter in some regions and increased competitive pressure on the East Coast.

The consumption of water softening salts in the area of industrial salt was still lower because of difficult economic environment in North America. As for salt for chemical use, demand in Europe and South America normalized thanks to an economic recovery which was not yet the case in the North American market.

Slide three, the market environment as described led to the following Group results. Overall, third-quarter revenues were up by 52% to EUR1.1 billion. EBIT1 increased more than tenfold although from a low base due to the high contribution of the

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potash and magnesium business segment and the earnings contributions from the salt business segment. The latter benefiting also from consolidation effects.

On the earnings before income taxes level we saw the influence of a weaker financial result in Q3. The financial result amounts to a negative EUR53 million compared to EUR12 million in the same period last year. This was due to higher acquisition related interest expenses as well as a non-cash one-off interest expense of EUR23 million for provisions for mining obligations as a result of a necessary reduction of our discount factors.

Earnings per share developed favorably too and stood at EUR0.21 versus a negative EUR0.01 in the third quarter of 2009. Please note that the average number of shares amounted to 191.4 million shares compared to 165 million shares last year.

Summing up, the first three successful quarters of the reporting year, we achieved revenue growth by 45% going hand-in-hand with a significant increase in EBIT1 to 160% as well as a very positive development of our free cash flow.

Slide number four. Some more detail to look at the changes in K+S Group's revenues during the last quarter. Revenues increased by around EUR360 million. This was mainly caused by positive volume, structure and consolidation effects. Positive exchange rate effects more or less balanced negative price effects.

On the next slide, the segment development in the last quarter. Potash and Magnesium Products revenues rose by 23% to EUR418 million resulting from an increased volume demand. Due to fixed cost equation EBIT1 increased by 47% and amounted to EUR79.4 million. The US dollar which in the third quarter continued to be stronger in comparison with the previous year also had a positive effect on earnings.

Nitrogen Fertilizer revenues rose by 50% to EUR306 million. Operating earnings in this segment reached EUR2.6 million in Q3 after a negative EUR47 million in the same quarter last year. The business segment profited from higher sales volumes as well as from a tangible increase in fertilizer prices in all product groups.

The Salt business once again but the -- how for the last time saw strong consolidation effects revenues were up by EUR184 million of which Morton Salt contributed around EUR160 million.

The third-quarter operating earnings amounted to EUR31.8 million but we will have a closer look at the different sectors on the salt business later in this presentation.

Although not excited on Group level, but to complement the picture, complementary business revenues increased slightly to EUR32 million EBIT1, was unchanged compared to the same period last year.

Now, I would like to turn to the Q3 development and future trends in the Potash and Magnesium business segment, slide number seven. As always the following tables should only be understood as providing a rough indication of how prices have developed. Factors like freight cost, exchange rates, and product mix usually distort this picture.

Year on year, we saw a strong increase in sales volumes. The recovery was even stronger in Europe because sales volumes had dropped more drastically than in overseas markets in the same quarter last year. Average European prices decreased less than the overseas price as a reduction in the potash prices were mitigated by positive product mix effects. Average overseas prices on the other hand declined from MOP prices compared to the previous year as well as negative product mix effects.

Quarter on quarter, European volumes were lower due to seasonal effects in the third quarter. All of these volumes decreased somewhat due to logistical reasons. European average price was favored by price increases whereas the overseas average price noted in US dollar was moderately lower than in Q2. This was mainly due to negative product mix effects. Overall, the average price for our product portfolio noted in euros was about EUR266 per tonne.



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Now, I would like to provide you with more detail about our view on the perspective of the potash business and I would like to turn to slide number eight. As the price development for agriculture products has turned out; not to be driven, only by short-term speculation and farmers began to change from a savings mode into, a yield maximization mode in order to lock in the very attractive product -- profit potential we have accurred our outlook for 2010 as well as the medium-term outlook.

In 2010 global potash sales volumes forecast ranges between 52 million and 53 million tonnes compared to our previous estimate of 50 million tonnes. For 2011, we expect worldwide potash sales volumes to range between 55 million and 60 million tonnes, previously we had 53 million to 57 million tonnes. Please note that our outlook is usually approximately 2 million tonnes higher than those given by competitors as we include SOP and other low-grade potash specialties.

Starting from the described sales volume level in 2011, long-term growth rates are expected at 3% to 5% per annum again. This would result in utilization levels of about 85% annually until 2014. This is again a good level especially if you consider the risk that announced new capacities could be postponed or even cancelled due to technological, geological challenges or due to an inadequate price level. The industry's, production forecast is now fully dependent on the timely fulfillment of brownfield projects.

I would now like to briefly discuss our demand forecast for 2010 and for 2011 by regions. Slide number nine. And our upgraded forecast for 2010 is mainly based on the strong and higher-than-expected volume recovery in Western Europe, North America, and Asia. While these markets had to suffer most last year they are expected to show the strongest recovery. For 2011, we assume demand increases in all, and regions particularly in Western and Central Europe as well as in Asia.

So now it's time to turn to Salt. Slide number 11. In Q3 Salt volumes increased significantly year-on-year due to the consolidation of Morton Salt. Without Morton Salt volumes in de-icing salt would have increased by 14% whereas other crystallized salt volumes would have decreased by 4%. Prices for de-icing salt were higher than in Q3 '09, due to product mix effects within North America and higher prices carrying over from the European winter season.

Furthermore, US dollar euro exchange rate continues to have positive effects. Overall, prices increased by 18% year-on-year. The prices of the remaining product groups improved significantly after the inclusion of Morton Salt. Quarter on quarter, de-icing salt sales -- de-icing salt volumes followed the normal seasonal pattern and were significantly higher than in Q2. Prices for de-icing salt decreased a bit compared to Q2 due to slightly lower pricing in North American markets because of the past mild winter season.

Now, I would like to take a closer look at the historic and recent volume and price development of the Salt business and therefore please turn to slide number 12. This graph highlights that Q2 external growth, namely the acquisitions of Chilean SPL in 2006 and of Morton Salt in 2009, salts -- sales volumes has increased significantly over the past years while keeping the de-icing salt share rather stable at 50% to 60%.

In addition, it shows that the price levels for de-icing salt has been tending upwards over the past years, a trend that might pause in 2010.

With 22 million tones, we have lifted our outlook for the Salt business segment in our expectations for the end of 2010 to the upper end of our original sales volume forecast of 21 million tonnes to 22 million tonnes; 13 million tonnes out of this will be de-icing salt.

In our outlook for 2011, we assume sales volumes of 21 million again based on the long-term average of historical de-icing salt volumes, 12 million out of this might be de-icing salt.

On the next slide, you see that our quarterly sales volumes and prices are certainly affected by the seasonality of the de-icing salt business. Combined Q2 and Q3 de-icing salt sales volume sales sometimes even account for only 10% of the total sales volumes over the year. Prices generally tend to be somewhat lower in the off-season quarters Q2 and Q3.



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The acquisition of Morton Salt has led to a strong volume increase but out of the strong winter in Europe the de-icing salt sales volumes increased in Q1 compared to the previous year. The seasonality has a significant impact on quarterly profit contributions with Q1 and Q4 being helped by higher volume output compared to the benefits of fixed costs equation.

Nevertheless, the EBITDA margin from our Salt business segment is developing very satisfactorily as can be seen on the following slide. That shows that even in a mild winter Morton Salt is capable of achieving an effective EBITDA margin of 23%. This is remarkable as the former salt business of the K+S Group achieved indeed the same EBITDA margin but on the back of above average de-icing salt business.

With Morton Salt, K+S' Salt business is therefore much better positioned to mitigate the former risk of volatile de-icing results.

This brings me now to our updated outlook statements for 2010 and 2011. Slide number 16, 2010. As already forecasted in our financial report for the year 2009, in our Q2 report we expected -- we expect a significant increase in revenues so that the result of between EUR4.8 billion to EUR5 billion after EUR3.6 billion in 2009 and this is realistic from today's perspective.

This is based on a specific sales volume guidance between 6.7 million tonnes and 6.9 million tonnes in the Potash and Magnesium Products segment and the assumption of a stable average price in the fourth quarter. In the Salt business, there should be a consolidation effect of a good EUR600 million of revenues due to the first-time inclusion of Morton Salt for the whole year. The total [circuit] of about 22 million tonnes of salt products should be sold; 13 million tonnes out of this can be allotted to de-icing salt. Assuming the well-known average de-icing salt business in Q4 2010.

This altogether should result in significantly higher operating earnings of between EUR630 million and EUR670 million compared to the fourth cycle at EUR550 million to EUR600 million previously forecasted and EUR238 million last year.

The somewhat weaker financial result in comparison to the previous year due to non-recurring effects and higher acquisition related interest expenses and an overall adjusted group tax rate of 26% to 27%, which also leads to significantly increased earnings adjusted of EUR375 million to EUR405 million or EUR1.95 to EUR2.10 per share.

Finally, some initial indications for 2011. In the Potash and Magnesium Products business segment, we expect to achieve a tangible rise in revenues going ahead with significant growth in operating earnings. This is based on the moderate increase in sales volume to just over 7 million tones, and on the basis international potash prices obtained at the present time a moderate rise in average prices.

With regard to our volume guidance we would like to highlight the following. Since our portfolio comprises a broad variety of specialties with different nutrient composition, maximum production capability depends on the envisaged product mix and formulas.

As we want to further optimize our product portfolio going forward by ceasing production to lower margin products --by ceasing production of lower margin products our mid-term capacity figure will reduce.

This, and for the mining company's usual and gradual decline in all grades will lead to the decrease of our maximum production capacity from approximately 7.8 million tonnes to approximately 7.5 million tonnes.

For the year 2011, our forecast of slightly above 7 million tonnes is further more affected by the following two reasons. First, the recovery of the global potash markets came on the back of significantly higher grain prices earlier, and to a higher degree than expected. Therefore, we are actively seeking to employ new miners in order to reach our maximum production capacity. This process will take time for hiring and training.



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Second, the start of the environmental program at the Werra sites will force us to adjust our existing production processes and will tie up our manpower to some degree. Due to that, we shall see, in addition to our usual two weeks maintenance shutdown period, one further week being necessary at the Werra plants.

This brings me now to next year's outlook for the fertilizer, Nitrogen Fertilizer business segment, which is expected to slightly increase revenues, but tangibly grow operating earnings due to a moderate relief on the cost side. The somewhat lower average sales volume of crystallized salt of about 20 million tonnes, I mentioned it already, should lead to a moderate decrease in revenues in the Salt business segment, based entirely on the higher freight cost as well as personnel expenses, operating earnings will decline tangibly.

Overall, and based on the assumption of continuing attractive [contractual] prices as well as an exchange rate of \$1.40 per euro, the K+S Group should achieve a moderate increase in revenues and significantly higher operating earnings in EBIT1.

Now the forwarding-looking statements page is something that you are used to see, but that we are obliged to show you. So this brings me to the end of my presentation and therefore, first of all, thank you for the interest so far. We, that means Joachim Felker, Jan Peter Nonnenkamp, Christian Hermann and myself are now happy to take your questions, thank you and please start your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). The first question comes from the line of Martin Roediger from Cheuvreux. Please go ahead.

Martin Roediger - Cheuvreux - Analyst

Yes, thanks. This is Martin Roediger from Cheuvreux, three questions. First on the financial result. When you exclude the higher provisions from mining, it looks for me that there is another item which has also burdened the financial result. Can you elaborate on that and -- that financial? What is normal value run rate for financial result?

The second question is on the new mid-term capacity guidance. My understanding is that this is because of the change in product mix towards higher potash content. What is the impact on average selling price and average profitability by that?

And third question is on Iran. My understanding is that you have also business to Iran, but currently a lot of companies in the industry are affected from the ban that no one should export to Iran. Is that also impacting you? Thanks.

Norbert Steiner - K+S AG - CEO

So we would like to answer your questions, number one from Jan Peter Nonnenkamp and the second and the third one will be done by Joachim Felker.

Jan Peter Nonnenkamp - K+S AG - Member of the Executive Board

Okay, first question, you are rightly saying that our financial result is affected by this interest adjustment. That goes through the position of the mining applications. The other position, our balance sheet which you may have your question are the pension provisions.

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And with the pension provisions, we don't have to adjust right now because we are using a corridor approach here and as long as we are inside the corridor here, we don't have to adjust this. And in the next weeks and months as our external activators will make calculations on our pension provisions as well. And the outcome will then be reflected, if there is an outcome, in the fourth quarter and then the year-end statements.

Martin Roediger - *Cheuvreux - Analyst*

Okay.

Jan Peter Nonnenkamp - *K+S AG - Member of the Executive Board*

[Jon]?

Joachim Felker - *K+S AG - Head - Fertilizer Unit*

Yes, those two -- question number two, what is the guidance capacity wise. As Norbert Steiner said already we will change, have some change in the product mix and we have closed a small plant in France that will bring down the total capacity we will have next year.

Product mix means that we will have about 1% increase change in all contents, but we will then strip some other product lines like [Tumuskali] and some powder mixes. So I would say about 250,000 tonnes.

Iran, there is one business we have to additionally over -- I would say indicate. That's an SOP business, which is going to the Iranian state. For the time being, it's silent, there is no demand for the time being. And if we will do it again then, of course, we will follow all the regulation necessary which basically is finding out a proper flag, that means a proper shipping company.

Martin Roediger - *Cheuvreux - Analyst*

And may I come back to this question on financial results. My understanding is that the pension recently got changed and the mining provisions have been a burden of additionally EUR23 million. So when, for example, add that to Q2 financial result, then there is still a gap to the Q3 financial results. Why is that the case?

Christian Hermann - *K+S AG - Head of IR*

Okay, Martin this is Christian speaking. The reason -- the main reason for the financial result this year to be slightly higher than last year is two-fold. Number one, the exceptional item what we have now in Q3 was a interest change that's I think fully understood.

And secondly, we more or less restructured our financing for this year and this means that we have to absorb the fees we paid and this is coming now to the P&L. Normally they would have been distributed over the length of the life time of the original financing and since we now restructured this, we have to show them once and for all this year.

And the reason is also for the restructuring that the new restructuring is lowering our average interest rate not only for the volumes we are taking, we are drawing, but also for the volumes we are not drawing. And that's a reason why we did this year, and that means next year, our financial result will reduce significantly.

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Martin Roediger - *Cheuvreux - Analyst*

Thank you.

Operator

Thank you. Your next question comes from the line of Neil Tyler from JPMorgan. Please go ahead.

Neil Tyler - *JPMorgan - Analyst*

Yes, good afternoon, and a couple of questions please. I just wanted to check on the impact of the adjusted potash production forecast on the cost run rate. I mean at the moment you are running at quarterly cost of between EUR340 and EUR350 million in third quarter in that business. Is there any indication that that will alter significantly?

The second question; just a small point of clarification. When you talk about the maintenance of current prices, are you referring to those prices, the price increases that you yourself have recently announced or you are referring to those that have been announced by competitors elsewhere in the world most recently? Thank you.

Unidentified Company Representative

So Neil, it's -- I think I could very perfectly understand. So first of all, your first question, running cost of the potash production. I don't see that in the next year there will any changes. And the second one then was talking about prices --

Norbert Steiner - *K+S AG - CEO*

One addition, sorry Norbert Steiner here. There will be no changes connected with the reduction, yes --

Unidentified Company Representative

Yes, (multiple speakers).

Norbert Steiner - *K+S AG - CEO*

-- that we have low or lower margin businesses. We have more or less decided not to do that anymore. This is what Joachim mentioned 250,000 tonnes of Tumuskali and the shutdown of a small plant in France which provided about 50,000 tonnes to 60,000 tonnes. So if you don't have -- if you only had lowest margins then we was turning a big wheel without any positive effect. So with view to that, there is no change but a reduction of 300,000 tonnes of output.

Neil Tyler - *JPMorgan - Analyst*

Okay.

Unidentified Company Representative

And your question about future pricing, we think our focus for the time being on the realized prices now which we have now and which we are still (inaudible) in the fourth quarter, when you see the announcement we have had over the last few months, then you will always have to consider that we have about six weeks of order time on the order books, which means that the



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price we have in Germany and in Europe, EUR300, will only be really affected in the fourth quarter. And we are not looking at pricing announcements of our competitors. We will see what we will do when the time comes.

Neil Tyler - JPMorgan - Analyst

Thank you. I wonder if you could just -- I'll ask three of you on what you have heard or particularly from PotashCorp and what your view is on the likely realizable level. When that would appear if we do -- if that is realized, when we see this crisis resting in the market?

Unidentified Company Representative

When you see what PotashCorp has announced especially in the overseas markets, then we will have to see how the realization rates will be, because they have made some announcements already before. And there was quite some reluctance especially from the clients in Brazil.

But we will also have an influence definitely, what do the pricing of the discussions outcome in China. And there are a lot of speculations how much the price increase will be, but there is nothing, no basis yet to really elaborate on that.

Neil Tyler - JPMorgan - Analyst

Okay, thank you very much.

Operator

Thank you. Your next question comes from the line of Jean Watteville from Nomura. Please go ahead.

Jean Watteville - Nomura - Analyst

Yes, hi, good afternoon, Jean Watteville from Nomura. Yes, just again a question about the effect of the change of mix please. I think if I understand correctly from the first question, the average grade of K2O would go up by 1%. So that means we would go from your previous guidance of 0.53 to 0.54.

Is that the only change we should take into account of the mix or there are other elements, because if I do calculate your cutting capacity by almost 4% and that impact would increase sales by 2%.

So that will still be theoretically a 2% negative impact on your potential sales. Any clarification here would be very helpful. Second question on costs, particularly on employees. I think you said that one of the reasons for a progressive ramp up of production is that you need to increase to rehire some employees

But in the same time you have closed or you are trying to close some plants. Can you tell us what the -- what's your budget in terms of number of employees in the potash division next year? And then if I can ask you a third question that would be on COMPO.

I think the results this, in Q3 were -- yes I think you quoted the environment was quite competitive. If you can put a bit of color of what the pricing and margin environment for COMPO and if you could share with us some year-to-date profitability numbers that would be very useful given that you are potentially thinking of the disposing this asset. Thank you very much.

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Christian Hermann - K+S AG - Head of IR

Okay, Jean this is Christian. I'll start with your first question. You are totally right in assessing this product mix effect, number one effect is as Mr. Felker pointed out, we are exactly seeing that if we alter our product mix, the average K2O content of all potash based products will slightly increase from 53% to 54%, that's correct.

But the effect that we see, in particular next year, with regard to the environment and environmental program and with regard to the hiring of new miners is overcompensating that. That means you are right that the total net effect will be negative next year.

Unidentified Company Representative

So I would like to add some remarks on the personnel. And this is something which I assume is also the case when you look to other competitors.

You have seen in the recent weeks that in some areas in the world there was a sudden scarcity that more or less is astonishing given the fact that we are not at 100% safe theoretical capacity utilization. But it means that the people -- that competitors obviously were not able to satisfy the demand that was jumping up from one day to the other in a short period of time.

That goes together with the fact that in the year 2009, there was a lot of -- in our case, short-term work, and in parallel, we had people leaving the Company by retirement, particularly. And since nobody, I think, K+S is not very far away from that what other companies did, was expecting such a year that we have seen so far in 2010.

I think we were very shy in hiring new personnel, above that that was on the payrolls and this is the short-term work. So that there is a negative gap for personnel that needs to be filled up in the year 2010 and 2011.

And therefore this is more of the personnel effect out of that that people and companies cannot come back to the utilization of the capacity so easily and so quickly like it may be expected.

Norbert Steiner - K+S AG - CEO

Felker.

Joachim Felker - K+S AG - Head - Fertilizer Unit

Yes, the last one then is the COMPO question. What we usually have in Q3 in nitrogen and especially in COMPO is of course Q3 is always the lowest turnover month and the lowest quantity month, because there is a -- not a strong demand in for -- especially for public area.

What we also feel is that there is a shortage of funds in quite some -- municipalities. That means public greens and so on, they are little bit deflected and what we also see is that there is still a fierce competition in the distribution chains like Tesco, like [Obis], and what have you. So they give us very, very small margins when we supply them with product.

And that's one of the -- those are the major reasons why you see the result of COMPO is rather dull I would say. And that is also some part of the reason why we are looking to have a new owner for COMPO.

And how the status in this COMPO is that for the time being we are still busy with the [COMPO] but we see that this will take too much time and then we will just go to the market and do our work and find out a new owner for COMPO.

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Jean Watteville - *Nomura - Analyst*

Are you losing money in Q3 on COMPO?

Unidentified Company Representative

No.

Jean Watteville - *Nomura - Analyst*

No, you're still positive?

Unidentified Company Representative

We are positive, but not very much because the business is very small.

Jean Watteville - *Nomura - Analyst*

Okay.

Unidentified Company Representative

Q3 is very small. It will recover in Q4 because then specialties which go to the vegetable farms and stuff like this, this will increase again.

Jean Watteville - *Nomura - Analyst*

And can I just follow up on the employee question. Can you just quantify how many more employees are you recruiting?

Unidentified Company Representative

I will say it will be a three-digit figure.

Jean Watteville - *Nomura - Analyst*

A three-digit figure.

Unidentified Company Representative

A lower three-digit figure.

Jean Watteville - *Nomura - Analyst*

Right, very clear. Thank you very much.

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Norbert Steiner - K+S AG - CEO

Thanks.

Operator

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

Sophie Jourdier - Citi - Analyst

Actually, I've got three questions as well, if I could. First of all just on potash again, I wonder whether you could tell us what you're seeing in the way of demand in Europe at the moment. It seems that Europe is being one of the regions that hasn't picked up to the same extent as demand in other regions.

Just wondering whether you could say what you are seeing and if that's the case, when you would expect that to increase? That's the first question.

Second question just in terms of the mix, you talked about a negative product mix in the overseas market in the third quarter. Just wonder whether you could give a bit more color behind what was driving that and how -- whether that is going to continue into the fourth quarter.

And then finally, just on CapEx. I just wonder whether you could update us on the expectations, the CapEx, for this year but more importantly next year and in 2012, in light of the environmental work you are doing as well. Thanks.

Unidentified Company Representative

Okay, so I'll start with the first one, the business in Europe. So when you -- I think you could see the presentation of Norbert and when you watch page number nine, you see that we show the consumption of sales -- of the sales figure for 2009 was approximately 2.7 million tonnes.

And we estimate that this is coming back to 5.8 million tonnes to 6 million tonnes in 2010, and then it will further recover to 6.3 million tonnes to roughly 7.4 million tonnes. That means we come back to those quantities we have in usually here in Europe and that is what we always told you.

We were suffering most in northern hemisphere especially in Western Europe but also in North America, but we also said that this will be the biggest potential to come back when things go normal gain.

So product mix and why it has also to do with the pricing, why is Q3 so special. What you could see in overseas, we have sold in Q3 less MOP and less SOP which is driving the average prices down, but when you look at quantities, they are quite normal compared to other periods because we were selling (inaudible) which go into the palm oil industry. So that is always what we tell you, have a look at the product mix and then see how average prices are influenced. And the third quarter was --

Norbert Steiner - K+S AG - CEO

Correct. I would like to guide you -- Norbert Steiner again -- to slide or to page number 24 in our Q3 reports. When you find the figure forecast for 2010 which is about EUR200 million and an increase of about EUR100 million to EUR300 million in total for the year 2011.

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Please keep in mind that we have announced already, I would say two years ago, our EUR360 million project to reduce the saline water outflow of our Werra plant. And they are, most likely if the authorization process runs well, and we have also the agreement with our political areas in Hesse and Thuringia then we will have a big bunch of [other states] for that program.

Sophie Jourdier - *Citi - Analyst*

Can I ask a quick --

Norbert Steiner - *K+S AG - CEO*

Three quarters out of that are more or less attributed to investments relating to replacement and this is included there that means that maybe this figure will be below the depreciation in 2011. But this is still a rough estimate. Experience shows that the longer the time goes the smaller the figure gets.

Sophie Jourdier - *Citi - Analyst*

Okay. Thank you. And just -- let me just go back to the -- what you're saying on European demand. I was really wondering what you were saying at the moment, but now you're saying European demand coming back just ahead of next year's season and if not when would you expect that to come by just from -- ?

Unidentified Company Representative

Well, they would have -- look the European farmers when they see the prices for the major crops for the seed crops then they have already reacted as we said before they have had quite a good order in for the autumn application.

We are filling now up the stocks for the spring application, so we think that the numbers we give for the coming year are comparable to what we had before the crisis, so like they fertilized in the year 2007-2008 and we think that the application of potash will come back to a normal standard application.

And when you listen to Norbert says in the beginning, we talk about coming from saving modes to normal fertilization again because now yield is the most important issue at least for the months to come or the seasons to come and it is not saving on fertilizers. That's our reasoning behind the numbers.

Sophie Jourdier - *Citi - Analyst*

Great. Thank you.

Operator

Thank you. Your next question comes from the line of Tony Jones from Redburn. Please go ahead.

Tony Jones - *Redburn - Analyst*

Good afternoon. Thanks for taking my question. I've just got one left actually. On potash you've indicated mine output next year would be a fraction over 7 million tonnes. But can you indicate your expected closing inventory if you've got a feel for it, so I can add that figure back on to next year's total output, please, because that will make a difference clearly in this.

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Unidentified Company Representative

Tony, the question will be a little bit the weather, in the [Hapa] in Hamburg, for example, but we estimate that, well, I would say 650,000 tonnes. So it's on the low side depending a little bit on product mix and whether one or two vessels will go, you see.

One vessel to Brazil is 40,000 tons and if you talk about the total stock of the whole product range of 650 that makes immediately quite a lot. So but it will be on the lower side. It will be quite low when you see what distribution might ask in the fourth quarter.

Norbert Steiner - K+S AG - CEO

But if I -- Norbert Steiner, speaking might add one remark. We will, of course, at the end of 2011, also will have some inventories for the year 2012. Yes, that means that if we assume the demand in 2011 to come and wait like we have forecasted it and we hope it will be, then it will be also something that will be necessary to have in that area of 650,000 tonnes available for the spring time 2012.

So that I cannot swear that we will not go down from 650 to 500 and then go up to 700 or something again. So it will be almost neutral.

Tony Jones - Redburn - Analyst

Okay. And but just so I am clear then you could have a circumstance and I don't know whether this is contractual or whatever but you could have a circumstance where you could add on 200,000 tonnes, 300,000 tonnes, maybe even 400,000 tonnes on to your total forecast output. It is possible.

Norbert Steiner - K+S AG - CEO

Clearly, potentially, theoretically, yes.

Tony Jones - Redburn - Analyst

But unlikely --

Norbert Steiner - K+S AG - CEO

Practically, no.

Tony Jones - Redburn - Analyst

Okay. That's clear. I just wanted to clear that up. But thanks anyway.

Norbert Steiner - K+S AG - CEO

Okay, thanks, Tony.

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Operator

Okay. Thank you. Your next question comes from the line of Andrew Stock from Bank of America-Merrill Lynch. Please go ahead.

Andrew Stock - *Bank of America-Merrill Lynch - Analyst*

Good afternoon. I had two questions. Firstly, can I start with the dividend policy, so you've reiterated that your payout ratio in effect in the press release. Does that include the accrual for -- for the mining obligations? I mean, given that's non-cash, as you have been keen to point out, do we calculate the dividend extra or do we include that?

Secondly, I'm just wondering where you are now with your thinking on brownfield or greenfield expansions given how strong the balance sheet is going to be by the end of this year. What are your thoughts on the use of cash as well? Thanks.

Norbert Steiner - *K+S AG - CEO*

Norbert Steiner speaking. Question number one to the future dividends policy there is one article in all of our financial reports which is unchanged since years and this time on slides on page number 23, 40% to 50% of the adjusted Group earnings forms the basis of the dividend calculation and discussion with the supervisory board.

And this is more or less the basis where we come to that 195 to 205 what we can, and this will be the basis for that, that will -- might be the dividend for 2010 and 2011. No further adjustments?

Andrew Stock - *Bank of America-Merrill Lynch - Analyst*

So there is no adjusted, adjusted number?

Norbert Steiner - *K+S AG - CEO*

Yes, if you want.

Andrew Stock - *Bank of America-Merrill Lynch - Analyst*

Okay. Now it's clear. Thank you.

Norbert Steiner - *K+S AG - CEO*

No and the second question is a classical one of course. We are still working on several options to increase our capacity in potash which are not matured so far that we can talk about that, but we are working on that and of course we are dedicated to do something. And if it might be materializing in 2011 we might have the necessity to take that liquidity and the cash that we have in order to start with that with the acquisition of a license and so on and so forth.

So from this perspective of -- of the 11th of November we would try to reserve the liquidity and the ability to do that and then the rest will come.

Andrew Stock - *Bank of America-Merrill Lynch - Analyst*

Okay. Thank you.

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Operator

Thank you. Your next question comes from the line of Peter Clark from Societe Generale, please go ahead.

Peter Clark - Societe Generale - Analyst

Yes, good afternoon. May I ask a quick question on the free cash flow guidance, which seems to infer there could be an outflow in the final quarter. Obviously I know the CapEx is meant to go up significantly, I was just wondering if there's any other major movements within there perhaps working capital or something?

And then following on from the guidance for salt, obviously I can understand that Europe is going to have a stunning year in 2010 given the beginning of the year and obviously what's happening through the third quarter into the fourth quarter. But North America has been a lot less strong and just wondering in terms of the North American business how you feel that might be on a normalized basis if you went into 2011? Thank you.

Norbert Steiner - K+S AG - CEO

First, I'll start with the latter question, Peter, and with (inaudible) the Salt, we always like, since decades, normalizing the outlook what we would do to the volumes that we sell, particularly in the de-icing salt to that 10 years average that we utilize for that.

So as we had indeed a very excellent year assuming that the fourth quarter will be at least normal in 2010. It was a normal development that we needed to go down by 1 million tonne overall. And we do not have to add something to our guidance as we publicly working on that we will have EUR175 million to EUR190 million EBIT contribution in the Salt business. So there is nothing to be added.

Peter Clark - Societe Generale - Analyst

Okay.

Unidentified Company Representative

Concerning your first question regarding free cash flow no there is no foreseeable special effect in the fourth quarter but remember of course that our investment activities in the first three quarters was only EUR100 million and we forecast EUR200 million for the whole year. So obviously, there will come a big chunk in the fourth quarter.

Peter Clark - Societe Generale - Analyst

Yes, it's just the CapEx, I know, is the big difference.

Unidentified Company Representative

Yes.

Peter Clark - Societe Generale - Analyst

Got it. Thank you.

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Operator

Thank you. Your next question comes from the line of Annett Weber from BHF Bank. Please go ahead.

Annett Weber - EHF Bank - Analyst

Yes, good afternoon. I've got a couple of questions. The first one is probably an easy one. The depreciation in salt declined in Q3 versus the previous quarter. Is there anything specific behind that, and what do we have to model in our spreadsheets going forward?

And the second question relates to the production cost in potash. Are you expecting them in Q4 to exceed the prior year level, given all the comments you made on the general development in the cost base?

And the third question relates to the adjustment in your production capacity that you have guided to for 2011 and 2012. What if average selling prices in the potash market generally were to rise again significantly beyond the levels we are seeing right now? Would you bring back this capacity or would this be gone forever?

Unidentified Company Representative

I'll start with the easy question on the salt. This was the mere effect of the change of the exchange rate.

Annett Weber - EHF Bank - Analyst

Okay.

Unidentified Company Representative

And to come to the third question, before Joachim jumps into to get the second one. First of all, to correct you, if I may. We have given the guidance for 2011, and of course we are trying to get back to normalize to higher capacity utilization degrees in the years afterwards.

These cuts that we have indicated in France and in Germany will most likely be eternal ones, that means that we are from the perspective of today not expecting to have, for example, Tumuskali on board in the future anymore.

Annett Weber - EHF Bank - Analyst

So you're -- just to clarify, then, your production capacity would still be how much in 2012?

Unidentified Company Representative

Three (multiple speakers) --

Annett Weber - EHF Bank - Analyst

Yes, okay.

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Unidentified Company Representative

7.5, as the indication.

Annett Weber - EHF Bank - Analyst

In 2012?

Unidentified Company Representative

No, Annett, this is --

Annett Weber - EHF Bank - Analyst

No, just (multiple speakers).

Unidentified Company Representative

I just want to clarify now. I hope this is clear now. We said that we will come down in the mid-term to 7.5, for the reasons Mr. Steiner described. But we have now for the -- I think for the -- at least for the years where we have this environmental program. We just have structural reasons why we cannot reach the 7.5 million mark.

Annett Weber - EHF Bank - Analyst

Yes.

Unidentified Company Representative

And that's a reason which is starting already in 2011.

Annett Weber - EHF Bank - Analyst

Yes, because of the -- yes, I got it yes-- okay.

Unidentified Company Representative

So, Annett, and the third one -- the last question was the -- or the second question was actually, how will the cost develop?

Annett Weber - EHF Bank - Analyst

Yes.

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Unidentified Company Representative

Probably we will see in the fourth quarter, I think we will see a slight increase in freight costs. All the other elements, I think, are rather stable. But freights costs are picking up, I think, on a worldwide basis.

Annett Weber - *EHF Bank - Analyst*

So that will drive up your cost base?

Unidentified Company Representative

Yes, that will drive it up but it is not --

Annett Weber - *EHF Bank - Analyst*

Year on year?

Unidentified Company Representative

Yes.

Annett Weber - *EHF Bank - Analyst*

Okay, thanks.

Operator

Thank you. Your next question comes from the line of Thomas Swoboda from MainFirst Bank. Please go ahead.

Thomas Swoboda - *MainFirst Bank - Analyst*

Thomas Swoboda from MainFirst. Good afternoon, gentlemen. I have three questions, two on potash and one on salt. Firstly, coming back to your production costs, I would be actually happy if you could give us a guidance in the long term or at least beyond 2011 where you have some one-off effects apparently, where this production costs could go to?

You had exceptionally high production costs in 2009. I think it's around EUR270 per tonne. We are coming back to EUR200 per tonne in 2010, roughly. But before the crisis, at full capacity utilization, you were at EUR155. So given the changes in your cost structure, could you just give us a hint towards what number we should be looking in the mid to long term? That's the first question.

The second question is on the global capacity in potash. If I understand you correctly, you're seeing that -- that not only you are having problems to build up the necessary workforce to maximize your production, and other producers could also have that problem. That would actually mean that the global capacity next year might be lower than the nameplate capacity we are looking for. Do you have any rough guess towards what the global capacity next year could be?

And the third question is on salt. And here I was just looking into the margins of Morton Salt and the margins you had at esco in the past, and it looks like that Morton Salt was always a little bit more profitable. You have seen the good -- slightly higher



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prices from -- in salt in Europe this year. Do you have the feeling that the profitability in Europe might have increased for longer, or is this just temporary due to the supply bottlenecks we saw in the first half of this year? Thank you.

Christian Hermann - *K+S AG - Head of IR*

Okay, I'll start -- this is Christian speaking. I will start with your first question, Thomas, with regard to production costs going forward. You're totally right. If you view the unit costs in 2009, we certainly saw a peak; coming down now in 2010, mainly on the basis of higher output.

In the capital market, I think a number of approximately EUR200 is used as an average for the full-year 2010. So don't punish me if we come out with EUR210 or EUR190. So roughly, EUR200. And given the new volume outlook for next year, which will be slightly beyond 7 million; you see that the volume increase is moderate. That means we do not have so much capability to lower the unit costs even if everything stood stable. And we see that on some cost items, we certainly have to calculate with -- we see a moderate increase.

So I think it was mentioned that we have to hire more people. That is certainly more people means more expenses. But certainly we also have higher tariffs. The latest tariff agreement was roughly 3.5% in addition. So this is certainly adding up to cost. We, I think, see also an average transportation price next year being higher than in 2010. So that means that the unit cost next year compared to this year, I think will be more or less in a stable development. Yes, and honestly, Thomas, I don't dare to give to you now an outlook for 2012.

Thomas Swoboda - *MainFirst Bank - Analyst*

Fair enough.

Unidentified Company Representative

Yes.

Norbert Steiner - *K+S AG - CEO*

So the second and the third question will be answered by me, Norbert Steiner. Of course, we do not have a clear insight in the ability of our competitors to use their theoretical or nameplate capacities, not in this year and also not in the forecast for 2011. But when you look to development in some areas in the virtue, you can only come to the conclusion that there was not an artificial withholding of capacities but an inability to set aside the demands that were coming in.

And therefore, we say, there seems to be practically certain restrictions for the utilization of the capacity since there are maybe not enough workers skilled in order to do the necessary things to cope with the demand. And this relates us to the expectation that we have tabled of 55 million tonnes to 60 million tonnes knowing that the capacity and this assumption, which we show on our slide number 80, which is a graphical slide that you find always in our presentations, that we have higher capacity installed than we expect it will be utilized the next year or the next years to come.

But again, this is only a calculation or a result out of our view on the behavior of our competitors in the international markets. There can only be this as the result (inaudible).

In Salt, the third question, you should not forget that the volatility in the Salt business primarily in the past in Europe has been very high. That we have seen more or less 100% more or less EBIT contribution out of our esco operations in the past. And this

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influences a lot the margins of the business. That means that you, today, are comparing margins in Europe, in esco, on the basis of an excellent start into the year 2010. And you should more or less also be a little bit aware that we should also normalize that.

This is the main reason for -- or one of the main reasons -- for our acquisition of Morton Salt, to reduce volatility in all the regions [without] having higher, let's say, likelihood in more regions of de-icing salt, and having better balanced portfolio with higher margins and higher stability like in table salt and in industrial salt area.

So please do not make the mistake to trace from one exceptional year 2010 in esco's business to the past. And therefore, I would like to repeat as a final remark so that EUR175 to EUR190 should be the persistent, EBIT contribution out of the salt business irrespective from where it comes.

Thomas Swoboda - *MainFirst Bank - Analyst*

Yes, that's clear, thank you. Maybe if I just can sneak in a follow up on the volume guidance on potash. Did I understand you correctly that the upper end of your volume guidance of 60 million tonnes somehow also already includes the availability of the product next year, is what you try to say?

Unidentified Company Representative

I think, Thomas, we have to make clear that 60 million is demand and the capacity that we show in this graph is right now higher, but as Steiner said, this depends on the availability of products.

So the 60 million is our demand scenario, 55 million to 60 million, that's the demand scenario and the question will then be, is the market capable of having this 60 million if we are now optimistic, is this 60 million available in the market next year. That's what we are having to see.

Yes, I see that we have three people announced still waiting for further questions. We are already beyond one hour and in order not to make it too painful for the listeners, I would love to conclude the call after the next three questions. Is that possible? I hope so, yes. Thank you.

Operator

Thank you. Your next question comes from [Bruno Apoges from VerBank], please go ahead.

Bruno Apoges - *VerBank - Analyst*

Hi, can you hear me?

Unidentified Company Representative

Yes, Bruno, we can hear you.

Bruno Apoges - *VerBank - Analyst*

Okay, it was my name. I didn't clearly understand it. Bruno Apoges from VerBank, good afternoon, gentlemen. I (inaudible), basically one question left and it's referring again to potash.



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And we haven't really talked about the trade, how was the situation of the trade. Certainly in anticipation of higher prices, have taken positions. Do you know to what extent -- and also it is sad that some producers have put a stop to any quotes for loading in January.

Do you have the same situation? Do you already discuss prices for January or you rather wait how the situation develops?

Unidentified Company Representative

Hello Bruno.

Bruno Apoges - VerBank - Analyst

Hi.

Unidentified Company Representative

Talking to trades, so I think, we are waiting, in Europe at least we are waiting. We just announced a price increase. We know their order books, we know their stock position, so we are waiting in Europe.

And I think also in the first quarter, we will have to look how overseas markets really grip those prices in cases we have now. And in the end we have to do a lot with what will be the result from China, because if China will have a very strong demand and we have a little bit of a black box there.

As you know, China always has little bit of black box. When they come early, when they have a big demand, I think then this will give a further pricing potential and the push to everybody else. What we also see is that in some, let's say South Asian countries and some clients in Brazil, who have been very reluctant to talk prices that they are much more open.

Now, they feel that some producers have low stock position, and that something is moving in this area. But I cannot see, it's over the whole country portfolio and whole client portfolio, but isolated cases where those guys, perhaps who have been a little bit late ordering have not had -- felt that they can go more into just-in-time planning. Those guys get a little bit nervous and now they are much more open to discuss prices.

Bruno Apoges - VerBank - Analyst

Okay, thank you. If you compare the behavior of the trade maybe with pre-crisis times in terms of ordering, do they order now more or is it based back to normal levels or you -- [you're just] reluctant.

Unidentified Company Representative

No, what they do now, they are more reasonable. At that time, they were just uttering quantity, quantity, quantity. Now what they do, partly they try to have back to back businesses. They are much more carefully taking decisions. That's why it's -- it's not as hectic as it was in 2009. It's normal now. It's normal.

Unidentified Participant

All right, thank you very much.

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Operator

Thank you. And we now have our follow-up question from the line of Jean Watteville. Please go ahead.

Jean Watteville - Nomura - Analyst

Yes, the main question I wanted to ask has just been asked, but just two very small other ones, very simple, hopefully. On cost, you basically said costs are going to be flat, but you are talking about higher number of employees, volumes not pretty much growing and freight costs going up. So what's going down?

And second question on salt. Obviously you had nice price increases in Europe for de-icing. Should we assume that the higher prices will stick for all the winter or there is they could change during the winter? Thank you.

Unidentified Company Representative

Okay, first question, answer -- don't want your question. You are right. In absolute terms, costs go up, but I said that our volume guidance is also increasing compared to the achieved or the expected achieved level this year.

And this is -- I was talking about the flat unit cost, not about flat absolute cost. Absolutely, cost will rise. No doubt.

Unidentified Company Representative

And to turn to the second question in the salt business that we have in Europe and in America, North America, Canada, one has expected the same kind of bidding processes where you have first of all to bid, and if you win the bid, you have the obligation to deliver a certain volume to your client.

That (technical difficulty) this year have been certainly a significantly higher than the years before. The second part of that contract is that you have to ship and deliver to the demand and to the orders of your client a certain additional volume to the same price that you have achieved in the bidding.

Only in case that this demand exceeds is both top of the volume. You are free and you can charge other prices which generally are in a situation of scarcity higher than the prices that you have under contract.

But as nobody knows whether you can deliver the second part or even more than the second part, we cannot make some prognosis for the price development afterwards.

Jean Watteville - Nomura - Analyst

And all the bidding occurred already, so you have good visibility for winter.

Unidentified Company Representative

Yes, yes, I would not swear that everyone has been finalized but 95%, minimum, has been done.

Jean Watteville - Nomura - Analyst

Right, okay, thank you. Thank you very much.

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Unidentified Company Representative

Jean, there is also one -- certainly one reason why the average price we would then show in Q4 and Q1 can differ because it depends certainly where we sell our products.

Jean Watteville - Nomura - Analyst

Of course, of course.

Unidentified Company Representative

(Multiple speakers) by reason.

Jean Watteville - Nomura - Analyst

Yes, of course, thank you.

Operator

Thank you and your final question for today comes from the line of Stephan Kippe from Commerzbank. Please go ahead.

Stephan Kippe - Commerzbank - Analyst

Yes. Thank you very much. Interesting name I have, there.

Unidentified Company Representative

(Multiple speakers.)

Stephan Kippe - Commerzbank - Analyst

Yes, and actually my new colleague, obviously. Just one question with regards to greenfield projects, the more basic question. I remember years ago when we talked about the possibility of greenfield project and there was always this big opportunity of a cooperation with Russian players standing in the room.

Do you -- what we have seen in recent months is a concentration of Russian suppliers. I talked about a merger or a increased cooperation there. And secondly, one other Russian player who is -- who has a stake in K+S also, obviously, going it alone in their greenfield project.

Do you see through this development that this has maybe limited your options for greenfield growth in the long term in potash or is this -- doesn't this have an influence there?

Unidentified Company Representative

When you especially talk about Russians, there is another Russian partner, heavily looking for partnering, for example, [Aquan].

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Stephan Kippe - Commerzbank - Analyst

Okay.

Unidentified Company Representative

They (inaudible) and they are looking for a partner, but they are not finding any. What you definitely -- where you are right is that for the time being I think it's no use to try to talk to Silvinit or to Uralkali, I think they are very busy with themselves.

And [Europem] has made very clear statement. They would like to develop what they have the license if they have partnered with them.

Norbert Steiner - K+S AG - CEO

Of course, let me add one or two sentences. Norbert Steiner speaking, there is an option left, but we have never based our ideas on just one. So if you say there is one left, yes, it limits us.

But it was not the only one and there are other options around the world. And therefore we are continuing to work on this very hard.

Stephan Kippe - Commerzbank - Analyst

Okay, thank you.

Norbert Steiner - K+S AG - CEO

Thank you. I think Christian Herman has cut all additional questions back. Thank you for that or thank you for that.

No, everything has been made quite clear during the conference call and I would like to thank you at the end of that for your participation on our conference call on the Q3 results.

I hope you can understand that we are happy about figures that we have been able to present just a year after the terrible 2009, the dynamic and magnitude of the current recovery is remarkable.

Against the backdrop of high agricultural commodity prices and a normalized demand for farmers, the market environment for 2011 and I think we have discussed this extensively should easily see a further increase in our operating earnings.

Our next publication date is on the 10th of March, 2011. And I would like -- already like to invite you to our press and analyst conferences in Frankfurt, [at the] state. Until then, there will be several conferences, and our capital markets day. We are going to tent and to offer and we hope to see some of you there.

Thank you and good bye for today. Bye-bye.

Operator

Thank you for attending today's conference. You may now replace your handset.

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