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# EDITED TRANSCRIPT

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## PRESENTATION

**Norbert Steiner** - *K+S AG - Chairman of the Board of Executive Directors*

Good afternoon, Central European Time. And am I right that we are transferred to people outside of this room? So welcome, wherever you are listening to our analysts' conference regarding the publication of our fourth-quarter and full-year results 2011.

We will be here to discuss this with you after our presentation, which in part will be done by myself and by Joachim Felker. And afterwards the questions will entirely be answered by Christian Herrmann. We have worked already this morning. Okay. No, we will do that, all the three of us.

The 2011 financial report focuses on the topic The Food Challenge. Behind us, hopefully, you can see the related title pictures. As an example of the trend in many emerging countries, our two photos show satellite perspectives of the Indonesian capital, Jakarta, in 1975 and 2010. During this period, the population of this metropolis more than doubled to approximately 10m people. At the same time, in the course of the rapid urbanization, considerable areas of agricultural land were sealed.

This dynamic and prospering development is welcome. The effects of the resultant and progressing urbanization are, however, as impressive as they are alarming. This is one of the key challenges of our future, and one which we too, as a potash and salt producer, have to face over the long term.

Ladies and gentlemen, what makes up these challenges and which answers can we find to them, which additional challenges the capital market currently poses for us and how we, as a company, want to nonetheless successfully pursue the course we have adopted, will be the subject of the first section of today's report on the financial year 2011.

Then Joachim Felker will then report about the Fertilizer business in more detail, before I will present the results of the Salt business sector. And at the end of the statement, I will show that the Group, K+S Group, enjoys a strong financial position and can look forward towards the future with confidence.



First, the challenges. Since the end of October 2011, 7b people are living on Earth. This number, and in particular the outlook for 2b to 3b additional people expected by 2050, present all of us with a huge challenge which, despite the numerous urgent warnings of the United Nations, to date has not been tackled decisively enough. Namely, the globally adequate supply of food.

Will our planet at all be in a position to feed so many people? From the chart you can see, with cereals serving as an example, that the stocks-to-use ratio has been tending to decline for years. Already today, almost 1b people suffer from malnutrition and chronic hunger, while the inhabitants of developed emerging market countries, and this is half of mankind, are, as they become wealthier, developing expectations of a better diet and increasingly eat meat. Thus, greater amounts of cereals and corn are needed as feed, which also have to be produced.

Important agriculturally relevant resources, like agricultural land or water, are, however, limited. Every year, agricultural land is lost through urbanization, desertification and erosion. By 2050, the globally available land for farming per head will probably decrease by almost 30%.

These figures need not, however, make us afraid, because on this planet we have the potential to provide even 10b people with sufficient food. For example, as the global average yield per hectare for wheat is only about half of what it is for Western Europe, this then highlights the yield potential that are still untapped and the degree to which hunger and food price inflation that threatens people's very existence can be avoided in less developed regions of the world.

Therefore, there has to be a greater focus on agriculture again to be able to produce more products globally. In particular, in emerging market and developing countries, agriculture must become more efficient and produce higher yields, through structural reforms, particularly land reforms, modern agricultural technology, improved seed and plant protection products, but above all, from our perspective, through the greater and balanced use of mineral fertilizers. Most of the emerging market and developing countries are still considerably far from this, and they are still a long way from a balanced application of fertilizers too.

Ladies and gentlemen, in the past year we faced a very different challenge posed by the capital market. European shares were affected by a very difficult stock market environment against the backdrop of the sovereign debt crisis in Europe. It was certainly also partly for this reason that the price of the K+S share fell more sharply than, for example, those of our North American competitors.

Nonetheless, I find it hard to comprehend that at the end of the year the K+S Group was supposed to be worth almost 40% less than just five months before, simply because investors and analysts under the influence of some kind of *deja-vu* feared that in the wake of the financial crisis the price of cereals could plunge, the demand for potash could decline significantly, like in 2009, and that potash prices could collapse as a result.

Ladies and gentlemen, you will notice my continuous use of the subjunctive tense here, because in reality the price of cereals have not plunged, nor are there any indications that farmers will skip the next potash fertilization, nor have potash prices collapsed. In a moment, Mr. Felker, like announced, will go in more detail into the situation of the agricultural and fertilizer markets. So for now I shall just mention that the actual situation is not optimal, but that we are also still far away from despair.

We will therefore, as a potash and salt producer, and in particular against the backdrop of a growing world population, remain on our course, even if the stock markets repeatedly challenge us and make us hold our breath with their focus on quarters, sometimes euphorically, sometimes in a panic.

The strengthening of our two-pillar strategy, that is, the concentration of management resources and financial means on both potash and magnesium products as well as on salt, is sound and will also pay off in the future. Potash and salts are needed. They form the basis for growth and life in countless areas.

The combination of potash and salt makes the K+S Group almost unique in the world, in comparison to our international fertilizer competitors. On the product side, in terms of technology, mining and geology, it offers remarkable synergies and complements the sale side almost perfectly. Thus, the fertilizer business, which is dependent on the economic cycle, is balanced by the relatively crisis-resistant but weather-dependent salt business.



Over the past decade, we have expanded the extent of our raw material reserves, but also our market radius through suitable acquisitions. In the Salt business segment, we have in Europe founded esco, the European Salt Company. In South America we took over Sociedad Punta de Lobos, and in North America recently Morton Salt, and have thus grown to become the world's largest producer of salt.

And in the Potash and Magnesium products business segment too, we have taken a great step forward with the acquisition of the Canadian junior mining company, Potash One. In Saskatchewan, we are currently constructing a new potash plant.

The divestment of COMPO, but also the deliberate decision not to purchase the BASF nitrogen fertilizer facilities in Antwerp, are in line with that two-pillar strategy. And the view to the future of K+S Nitrogen, we are currently examining all options.

Ladies and gentlemen, the fact that we are on the right path is expressed not least by the fact that another very successful financial year lies behind us.

In 2011, the revenues of the K+S Group climbed to almost EUR5.2b, an increase of 11% on the previous year. The operating earnings EBIT I improved disproportionately. They rose by 37% to EUR976m, and thus achieved the second-best figure in the history of our K+S Group. As a consequence of the significantly improved financial result, the adjusted Group earnings after taxes increased even more strongly and, at EUR674m, were 48% above the figure for the previous year.

Please note that these figures refer to our continuous operations, excluding the COMPO business, which is, in accordance with IFRS, disclosed separately as discontinued operations.

On the basis of our long-term dividend policy, the Board of Executive Directors and the Supervisory Board will propose to the Annual General Meeting to pay out a dividend of EUR1.30 per share for the past financial year. This corresponds to an increase of 30%. It results in a total dividend payment of almost EUR250m. A dividend payout rate of 43% is clearly within our payout corridor of 40% to 50% of the adjusted Group earnings that we generally seek to achieve.

A glance at the key figures of the individual business segments shows that the increase in revenues and earnings of the K+S Group was mainly due to the very positive development of the business at Potash, Magnesium Products and Nitrogen Fertilizers.

The Salt business segment generated revenues which almost reached the record level of the previous year, 2010. Operating earnings also once again reached an above average figure, even though they were somewhat lower than those of the exceptional level of the previous year, 2010.

Ladies and Gentlemen, let us now look more closely to the key events and developments which determined the course of the business in our core business sectors in 2011. We will start with fertilizers and therefore Joachim Felker, please.

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

Yes. Good afternoon, ladies and gentlemen. Usually I should have a crystal-clear voice, but today I have not. And since a few days I am suffering heavy from hay fever. And this for me is an indicator that something is wrong with the season, because usually I suffer from hay fever much earlier than this year. And that's already one indicator that this season is again a different season than the season the year before. So thank you, Mr. Steiner, for handing over. And let me try to read out my little paper.

Global demand for agricultural products is consistently rising. Mr. Steiner has already outlined some of the fundamental reasons for this. As supply and agricultural production could only keep up with this to a limited extent, the price levels for agricultural products increased sharply as of mid of 2010, with the prices of wheat, corn, soybeans and palm oil almost approaching the record levels of 2008. In the second half of 2011, the prices fell somewhat from this high level. However, they continue to be very attractive from the viewpoint of farmers.

There are thus significant incentives to expand the availability of agricultural land and also to increase yields. Both require increased fertilizer usage. Particularly in the first nine months of 2011, fertilizer demand was correspondingly high.

In the fourth quarter of 2011, however, the consequences of the debt crisis also then made themselves felt in our industry. With the 2008 and 2009 financial crisis still fresh in their minds, the trade sector demonstrated uncertainty at the end of the year, and for the time being postponed the customary early stocking-up of fertilizers to some extent.

If we turn to the global potash market, the effects of this very recent development are, however, not visible. On the contrary, it is estimated that the global sales volumes reached almost 59m tonnes in 2011 as a whole, despite weakening at the end of the year.

High demand for potash and magnesium products, particularly in the first nine months, resulted in a globally high level of utilization of production capacities. This did not remain without consequences for the international price level. It rose during the course of the year from about \$400 per tonne to over \$500 per tonne.

A very similar picture can be seen in our Potash and Magnesium Products division. With roughly 6.9m tonnes, we sold almost as much as in the previous year and thus again achieved a high level of capacity utilization. As a result of the price increase described above or before, the business segment generated significantly higher revenues and achieved a strong 55% improvement in earnings, which reached about EUR740m. It thus proved possible to more than make up for price- and volume-related cost increases, in particular for personnel, energy and materials.

As always, the table we show you now should only be understood as providing a rough indication of how average prices have developed. Factors like freight costs, exchange rates, product mix usually distort this picture.

Quarter on quarter, sales volumes declined moderately because of cautious early stocking-up activities of wholesalers in Europe already flagged in November. The average price level increased significantly, both in Europe as well as overseas.

On a year on year, sales volume nearly reached last year's level. Higher overseas volumes almost made up for the lower sales volumes in Europe. Average overseas prices increased somewhat more than the European price due to a higher MOP share and because of last year's European MOP price level starting at a higher basis. The overall increase of the average price in euro terms was affected by negative currency effects of approximately 4%.

The next slide, the next picture provides you with a rough indication of the cost structure of the Potash and Magnesium Products division and the development of selected cost items. It shows that energy and material costs were the cost types rising the most during the year 2011. These operating cost increases were balanced by a positive currency result and inventory build-up effects capitalizing some of these costs, so that total costs remained stable and total unit costs only decreased -- increased slightly compared to 2010.

Ladies and gentlemen, our business with nitrogen fertilizers also performed very positively in the past year. The European production facilities were well utilized, and demand for complex and straight fertilizers as well as ammonium sulfate were at a high level in the first nine months.

However, reluctance to purchase at the trading level also made itself felt in the fourth quarter in relation to nitrogen fertilizers, so that sales volumes of our business segment, at a total of 4.4m tonnes in 2011, were slightly below the previous year. However, revenues of this business segment increased by 28% to over EUR1.15b, thanks to significantly higher prices.

The increased average price in comparison to the previous year were more than able to make up for higher costs -- input costs, so that the operating earning after the profit split with BASF could be increased by 60% to almost EUR70m. Thus, 2011 was one of the most successful years in the history of our nitrogen fertilizer business.

So much to the operational business. Now I would like to come to one of the milestones we had in 2011. This is the acquisition of Potash One and the revision of the feasibility study for the Legacy Project.

As this slide shows, the implementation of the Legacy Project will significantly expand the production basis for Potash and Magnesium Products in the long -- in the mid to long term, substantially extend the average mine life, diversify our sales mix regionally and make our production costs more variable.

As presented last November, the Legacy Project will, after a speedy ramp-up curve, expand to reach annual production of 2.86m tonnes by 2023. In a third phase, production of even up to 4m tonnes of potassium chloride will then later be possible. Owing to the planned supply of high-quality industrial products, our specialization strategy will also be consistently pursued.

In future, K+S will probably be the potash producer with the widest product portfolio and the -- and with the Legacy Project also the biggest network. With a return on capital employed of 12%, the Legacy Project is already commercially viable between \$400 and \$450 per tonne for MOP gran, including freight, and is therefore one of the world's most attractive greenfield projects.

This relatively favorable price required to achieve an appropriate return cannot, however, be directly transferred on other greenfield projects. The potash price on the world market will have to price in these realities in order to make the new capacities required over the long term available to a sufficient extent.

On the next slide, you can see a few examples of our works at the site close to Moose Jaw in the Canadian province of Saskatchewan. In 2011, we worked particularly in the areas of water supply, electricity and road construction and undertook first drillings. At present, about 45 employees are working on the construction of the site. At the end of the year there will be already 100, and by 2023, a total of more than 300 jobs of highly qualified employees will be created.

As you know, CapEx totaling CAD3.25b have been approved for project phase 1 and 2. There is -- that is for the creation of a total capacity of 2.86m tonnes of potassium chloride per year. Of these, we will use about CAD230m for further infrastructure measures, engineering work and drilling in 2012. In 2013, further drilling is planned and we will start the construction of the factory, for which about CAD830m have been estimated.

However, I would like to point out that specific payment dates will only be determined after all contracts for planned project phases have been concluded. This may therefore cause significant shifts in the said distribution of CapEx for individual years.

That's so far all from my side, and Mr. Steiner will continue.

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**Norbert Steiner** - K+S AG - *Chairman of the Board of Executive Directors*

Thank you. The Salt business. The beginning of 2011 was characterized by very wintry conditions both in Europe and on the US East Coast. This led to an above-average demand for de-icing salt, both here and there. In the second and third quarters there was still a strong demand for de-icing salt, with the aim of filling stocks for the winter season 2011/2012.

In the fourth quarter, however, and on the other hand, there was extraordinarily mild, both in Europe and in North America, so that the demand for de-icing salt was correspondingly below average after the previous strong early stocking-up business.

2011, the industrial salt market was characterized by a positive development and demand -- in demand, both in Europe and in South America. North America, however, buying restraint continued due to the economic situation in the US, which applied in particular to water softening products.

The demand for salt for chemical use stabilized in Europe at a high level. And the demand for salt for chemical use also developed satisfactorily in North and in South America.

Overall in 2011, our sales volumes of crystallized salt totaled 22.7m tonnes and thus reached the same high level as the year before.

The average prices too were at about the same level as last year, means 2010. In Europe, we were able to establish price increases in all product groups, which could, for example, mostly make up for the lower price level for de-icing salt on the East Coast of the US. The Salt business segment generally generated total revenues of EUR1.7b, which is only 1% below the previous year's figure.

Compared over many years, operating earnings of the business segment achieved an above-average figure once again, even though it was down by 11% to EUR210m, when compared to the extraordinary strong previous year. A changed regional mix as well as a slightly lower price level in

the US East Coast are the most important reasons for the decline. Nonetheless, the earnings for 2011 were favored by an amount of EUR20m to EUR30m due to the de-icing salt business lying tangibly above the long-term average.

Again, this table should only be understood as providing a rough indication of how average prices have developed. Factors like freight costs, exchange rates, regional and product mix usually distort this picture.

Quarter on quarter, de-icing salt sales volumes decreased strongly compared to the record Q4 in 2010. This was due to the rather mild winter weather, once again. While average prices increased tangibly in Europe, they decreased moderately on the East Coast. In total, the average sales price for de-icing salt in Q4 almost reached previous year's level.

The non-de-icing salt product groups saw higher sales volumes, especially in industrial salt. Average prices in these product groups decreased slightly, along with a somewhat different regional product mix and a negative currency effect.

Year on year, and as described above, de-icing salt volumes almost reached last year's level, with the first nine months being stronger and Q4 being weaker than normal. The strong business during the first nine months allowed for higher average prices, particularly in Europe and Canada. While volumes slightly increased for non-de-icing salt sales, a negative currency effect resulted in a slightly lower average price.

All in all, we can be very pleased with the development of our Salt business experienced in the year 2011.

So now, next chapter, a look at the key financial data. The chart on this slide shows that the price-related increase in revenues amounting to more than EUR600m was contrasted by only slightly negative currency and volume effects. Prices could be increased, in particular in the Fertilizer business sector, thanks to higher demand. While the weaker US dollar had a slightly negative impact on all business segments, the sales volumes declined slightly only in the Nitrogen business -- Fertilizer business segment, but remained mostly unchanged at a high level in the other segments.

In line with the earnings development, we were able to improve our margins significantly compared to the previous year, 2010. The rates of return increased consistently. That means capital employed yielded a nice interest from the point of view of our equity contributors and lenders.

With an ROCE of 27.5%, we have more than exceeded the cost of capital and achieved a value-added of approximately EUR670m. We should point out that all business segments contributed to this.

The left graphic on this slide, you can see that we again achieved a strong operating and free cash flow in 2011. As a result, net indebtedness was reduced to about EUR600m at the end of the year. As you know, this comprises provisions for pensions and mining obligations. And without these, we even have a positive net cash position amounting to just under EUR70m at the end of the year. Therefore, all important balance sheet ratios have extraordinarily solid -- have an extraordinarily solid profile.

The gearing at the end of 2011 was under 20% and the equity ratio rose to above 50%. Both ratios exceed our own targets and support our investment grade rating. This fact and the undrawn credit lines offer, also in times of uncertainty, sufficient financing scope for future investment plans, in particular for our Legacy Project.

Finally, I would like to take a look at the prospects for the running year 2012 and 2013. First, the fertilizer market.

The global stocks-to-use ratio of cereals are still low. We have seen that. And agriculture faces the strong challenge to satisfy the future demand for grain. Agricultural prices take these facts into account; they should remain at a high level. The resulting income prospects in the agricultural sector should provide a sufficient incentive to raise yields per hectare through the increased and balanced use of fertilizers.

Nevertheless, and as reported, since the beginning of the fourth quarter of 2011, the fertilizer trade sector has been acting more cautiously in view of the sovereign debt crisis. Furthermore, according to public sources, potash producers that are substantially involved in contract negotiations with China and India do not expect a conclusion of contracts in the near future. Therefore, we assume global potash sales volumes of up to 58m tonnes for the entire year, along the line like we counted it.



As the contractual volumes with China and India only make up a relatively small share of our sales volumes, we assume, from today's perspective, a sales volume level close to the 6.9m tonnes sold in 2011 as probable for the Potash and Magnesium Products business segment. In the event of a weaker demand lasting longer than expected, we would react, et alia, by reducing overtime and vacation provisions.

Next, to the Salt business segment. In the de-icing salt regions we supply, the winter at the beginning of the year, you have seen that here in Europe, was one of the mildest ever; in the United States, for example, the fourth-warmest since the beginning of weather records. Therefore, we expect a significantly lower demand for de-icing salt after the above-average year 2011. At present, we already respond to this, among other things, by extending breaks in production, adjusting working shifts, reducing workforce flex account, overtime, vacation provisions, etc.

On the other hand, the industrial salt business should develop stably in all regions we deliver to. With regard to food grade salt, we also expect a stable development both in North America and in Europe. In Latin America, we expect growth in accordance with the local population development. While the demand for salt for chemical use in Europe should decline moderately due to the economic development, we expect a stable development in Latin America and a slight increase in North America.

What now are the prospects for the K+S Group in 2012 and 2013? The year 2012, which is mostly still ahead of us, should again be a good year for the K+S Group.

The prospects for the development of demand for potash and magnesium fertilizers are still good, in particular in the sales regions that are relevant to us. Therefore, from today's point of view, we regard a sales level close to 6.9m tonnes sold in 2011 as probable. In line with our customary, purely technical forecast policy, which maintains the currently achieved potash price level unchanged for the whole of 2012, we assume an average price level that is moderately higher than that of the previous year.

Therefore, revenues in the Potash and Magnesium Products business segment should increase moderately. In particular due to higher energy costs, however, unit costs are expected to rise tangibly. Against this background, we assume that operating earnings will be able to approach the good earnings of 2011.

In the case of nitrogen fertilizers, we expect slightly increasing revenues, but also higher input costs and therefore stable operating earnings.

In the Salt business, due to the significant decline in sales volumes because of the weak start into the de-icing salt business this year, we assume a moderate decline in revenues and a strong decline in earnings compared to the above-average year 2011.

Overall, we assume stable revenues for the K+S Group in 2012. Operating earnings and the adjusted Group earnings from continued operations should decline moderately. For 2012, on the basis of the earnings expectations described, we see good opportunities for an at least stable dividend, since the Group earnings will not be adversely affected by the effects of the divestment of the COMPO business.

For 2013, prospects are promising. The revenues of the K+S Group should increase slightly compared to 2012. Operating earnings too should rise moderately. This development is supported by a slight increase of sales volumes in the Potash and Magnesium Products business segment, as well as an again normalizing Salt business. Under these assumptions, it should be possible to raise the dividend for 2012.

This final slide is something you are used to, and brings me to the end of my presentation.

Thank you very much so far for your interest and attention. The team on here, Joachim, Christian, myself, are now happy to take your questions. Thank you very much. Raise your hand and tell us your name. Thank you.



## QUESTIONS AND ANSWERS

**Christian Faitz** - *Macquarie - Analyst*

Thank you. Christian Faitz from Macquarie. One question, regarding the situation or your assessment of the situation in China and India. When would you believe -- certain timeframe you would believe they would settle with a contract which should certainly be moving for the potash prices going forward?

And then, second of all, regarding the Salt business and your salt guidance, do you have any feel for inventory levels at the moment which might burden -- obviously that must be in your outlook, your guidance -- which might burden Q4, assuming somewhat normalized Q4 weather conditions this year versus a very weak Q4 last year? Thank you.

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**Norbert Steiner** - *K+S AG - Chairman of the Board of Executive Directors*

Start with the Salt business and Joachim Felker will then turn to our very small business in China and in India and try to give you an answer on the expectations how our big competitors will develop. But to the salt.

When we sit together and try to bring together the figures and also the wording for our outlook and prognosis for the year, we certainly have in mind what we see. And when we need to realize that the inventories in salt, both in Europe, in North America, Midwest and East Coast, are still filled with that what normally should have been on the streets meanwhile, then it is clear that the early procurement business will be lower because they are sitting on the salt still, and that this salt that is in our inventories and also in those of the municipalities, road authorities and so on and so forth will then be used in the normalized fourth quarter first, and then will be refilled by that what we then from our own inventories and running production are able to supply.

So this is all included. There is nothing where we said, oops, in the summer, we have some inventories and they need to be taken into comparison and deliberation and then adjust our outlook. This is it.

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

Yes. The exotic part, China and India. When you look over a certain period of time, then you will see that these two countries are of course interconnected. And usually the one waits the other to move and make a decision and then try to beat the other one in pricing policy, which is very difficult. But when you see the situation this year, there is one difference. And the difference is that the rupee in India is heavily devaluated. That means that the prices, even based on unchanged subsidies, and I'll come to subsidies later, are more expensive for farmers.

Also, traditionally there is a fight between Ministry of Finance and Ministry of Agriculture in India whether to stop subsidies. Basically, some people coming from Berkeley and are advising Mrs. Gandhi. And the other chaps are the older ones who say, well, we have a few hundred million farmers, we need food security and we want to stay -- to have the farmers stay where they are; don't let them move into the cities. This is a constant fight we have.

And I think there is only one thing you can do at present; you have to be patient. But one thing has happened, and it has happened very fast and it was extremely consequent. PCS, as one of the major suppliers in both markets, has announced that they cut capacities. And when you calculate how much they have cut and how low they run at present, they have, let's say, applied a method which does not put them too much under pressure in negotiations.

We have seen an example like this in 2006 already. At that time, the negotiations with China were very difficult and at that time also PCS was cutting capacity, and then pricing was found relatively fast.

For us, these two markets are of minor importance when it comes to quantities. In India we have relatively small quantities. We are a price follower, so we have to wait there. In China our product portfolio has some specialties in there. They are always, how should I say, always exported and we use containers to go there, so it's relatively stable.

But the question is, again, to be patient. And we have to see that the longer it takes, pressure is building up in other markets, Southeast Asia and Brazil, because quantities will have to move. At present, I think the situation for us is quite stable.

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**Lutz Grueten** - Commerzbank - Analyst

Lutz Grueten, Commerzbank. Again on Potash, on European and Brazilian situation here, could you just give us an update on your current trading experience in Q1 on prices and volumes in Europe and in Brazil?

And the second question regarding the CapEx. You're guiding for EUR600m CapEx in total for this year and EUR1b for 2013. Will this be financed out of cash flow or any other plans here? Thank you.

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

Well, situation in Europe, first of all, it's not that there is no business. What we feel is that after the 2008/2009 crisis, distributors are trying to be a little bit more careful in building up stocks and they try to manage working capital. That's what is happening now. And the whole situation is a little bit getting more complicated because of a long delay in seasonality.

So it's not that we are not supplying the market, but the quantities are reduced. In pricing, as we said before, the prices are what we have in our model. There is no change for the time being.

Brazil, it was interesting to see that, first of all, in the last year there were numerous price increases following in a very short period of time, which led to, let's say, a little bit increased imports into Brazil. And when some distributors or some importers found out that there's enough product available then they just stopped importing, which means that at a certain period of time there was perhaps a little bit of too much stock in the country.

But the consumption is increasing because when you see the soya prices, when you see the sugar prices, the ethanol prices, they will go for maximum yield. So it's a matter of time when the stocks have been -- which have been built up by a little bit of speculation have disappeared. I think that's already done. And movement of product is starting. So we are also shipping to Brazil. Not huge quantities, but good quantities.

Price pressure for the time being, as I said many times, forget about the \$580. We never reached the \$550. We are about \$520. And there's pressure on the prices because the longer India and China is not coming, then you have to be -- again, you have to be very stubborn, not react.

When you see our Brazil business 2008/2009, we had in this crisis very stable sales to Brazil. And my figure is -- my estimation is that also this year we will have stable prices. And the reasoning for that is we have, how should I say, a very conservative client portfolio. I don't like rating agencies too much recently, but I would say our clients are more or less AAA. And when the Brazilian market is weak, then our client portfolio is the strongest you have. So we are not suffering that much.

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**Norbert Steiner** - K+S AG - Chairman of the Board of Executive Directors

Second question, a view to the investment. You are right. I can confirm that this will be financed out of cash, cash flow in the next years, whereas in the year 2012 the cash flow should exceed the investment, the free cash flow.



**Lutz Grueten** - Commerzbank - Analyst

In 2012?

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**Norbert Steiner** - K+S AG - Chairman of the Board of Executive Directors

'12 and '13. In 2013 with EUR1b? Most likely not, cash flow exceeding.

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

But you know that at the moment our net financial debt is actually negative. That means we have a net cash position. And we have EUR800m of a syndicated loan undrawn. So for 2012, fully financed by cash flow, on that basis what we have given today, 2013 slightly negative.

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**Lutz Grueten** - Commerzbank - Analyst

Thanks.

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

Martin Roediger, please.

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**Martin Roediger** - Cheuvreux - Analyst

I have three questions for Mr. Felker, and all are for the Potash segment. And maybe two of them are follow-up questions from the previous question.

On South America, you see the current drought there. Is this favorable for the potash fertilizer industry as this supports the crop prices and thus farmers can even more afford to buy potash, or is this drought in South America negative for the industry as farmers in that region suffer from a poor harvest and thus have difficulties to get financing to buy potash? So what is more important, in your view?

And a similar question is for Europe. Here we had this cold winter without protection by snow, so that has damaged winter barley and winter wheat with the seeds in the ground. This supports also crop prices. Do you think this is positive as it enables farmers to even more afford to buy potash, or is it negative as the halves of these crops is lost and those farmers who are affected will not buy potash fertilizers?

The third question is on your business with Iran. As far as I know, you supply SOP to Iran and it's roughly 3% of your sales in the segment. Are you in any way affected from the sanctions against Iran directly or indirectly, because I heard that also there are some difficulties in Iran to get any financing? So is there any impact for your business?

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

Well, a lot of questions, as usual. Iran, forget it. There's no risk. There's no business. In former times we were selling SOP. We gave up the business because of a potential danger of, well, ban or what have you. So we gave up this business already. And we have never sold directly. We always sold to traders, worldwide traders.

The other one, a drought in -- you think whole South of America is in a drought? I would say regionally. But the answer is I could answer with pig cycle and I could answer with chicken or hen, whatever you want. The question is what I harvest today, I have fertilized at the beginning of the last season. Can we agree? So now, if my harvest is influenced by dryness, my yield should go down. The availability of the product in the market should



be shorter, so prices should go up. So what will I do in the next cycle? I will fertilize more, most probably, because the prices are high. Is that enough answer?

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**Martin Roediger** - *Cheuvreux - Analyst*

Sorry, the point is that if these farmers are heavily affected by a poor harvest, some of them can bankrupt so they cannot buy potash next year.

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

You'll have to tell me what farmer you mean. The farmers I have in mind in Brazil, they will not go bankrupt because in some areas there is a dryness, because you talk about real farmers, not Indian kind of farmers. I like both of them; don't misunderstand me. So I see no bankruptcy cases or something like this. And as I said, our clients are AAA, at least I think.

So you will ask again, I know that. But the other question, the third one, was winter in Europe, isn't it, and damaged crops? Well, basically it's the same answer. The question is whether you have a second application or not, and that is your question, whether you give up some of the investments you have made in the season before and you just take a plough and you forget about the whole thing, or you try to save it and try to make still some yield and some money. So if some guys will lose yield, some others will have the availability with their product they collect to fetch higher prices.

It will be difficult for those guys who have presold. But in Europe, basically they sell to co-ops. So the co-ops have a very important job to balance out all these developments. And when I look at the co-ops I have in mind, I think they are capable to do that.

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**Jesko Mayer Wegelin** - *HSBC - Analyst*

Jesko Mayer Wegelin from HSBC. I have two questions. First of all, could you tell us what the year-end inventory in the Potash and also in the Salt segment was? And also, how much cost did you capitalize in both divisions?

And the second question, what is the state of the discussion regarding the two German mines? You were thinking about reopening or applying for this.

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**Norbert Steiner** - *K+S AG - Chairman of the Board of Executive Directors*

I'll start with the latter one, if I may. We are -- we have made a lot of progress in our review and feasibility study with a view to our own plant, Siegfried Giesen. And we have announced here with one year delay, if you have the last financial report in mind, that we want to get to decisions how to proceed by summer this year.

The second one, Rossleben, the mine that belongs to the Federal Republic, is more or less unchanged. There, from my perspective, I am not in any detail quite well informed. It's unchanged since months. So there is no momentum, and therefore also no prognosis possible if and when a decision on that might be reached.

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

Inventory situation at the end of the year in Potash was roughly 1m tonnes, so that's certainly higher than a usual year. And at the end of 2010, we roughly had 800,000 tonnes of inventories. And the cost effect in our balance sheet of that additional inventory in the fourth quarter is roughly EUR15m to EUR20m. Okay?



**Jesko Mayer Wegelin** - HSBC - Analyst

(Inaudible - microphone inaccessible).

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

Say again?

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**Jesko Mayer Wegelin** - HSBC - Analyst

(Inaudible - microphone inaccessible).

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

For Salt? Oh for Salt, I'll tell you later, okay? I don't know out of my head. Certainly there is a significant increase in inventories in the fourth quarter, certainly.

Next question, please. Gunnar Cohrs in the middle.

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**Gunnar Cohrs** - Berenberg Bank - Analyst

Yes. Gunnar Cohrs, Berenberg Bank. Sorry. Just a -- yes, a follow-up on the inventory you just mentioned, Christian. At what kind of level of inventory you would also think about maybe to cut production or even temporarily close down mines? So, assuming obviously demand continues to be weak, is there a threshold where you think like you should now cut production?

And then, second question related to that, obviously there has been now a positive impact due to the buildup of inventories. Is in your guidance for this year or maybe even for next year reflected that you'll sell down also from your inventories, or is it not really reflected in your guidance at all?

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

(Technical difficulty) we certainly said that in the second -- in 2012 our potash cost will rise tangibly, coming from roughly EUR201 per tonne average cost, and the consensus at the moment is going to roughly EUR219, EUR220. And let's put it this way, I think at the moment that's a very good direction, very good feeling. And it certainly includes also effects from changes in inventories.

But at the moment, you know that we are a little bit restrained with regard to production. And when we assume the roughly 6.9m tonnes of sales, there is not a big change in inventories in the year 2012. And as we said also in the report, in 2013 our outlook on the sales volume is slightly higher than in 2012, and this will then come from inventories. Okay?

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

Now, on the aggressive scenario of when are we closing and shutting down capacity, I will answer the following. We are far away from that. It will depend on the product portfolio we have in stock, because the art will be that when you see our business in total we have industrial business, industrial potash; we have magnesium -- rooted magnesium born products, and we have raw materials for NPK producers and then those products which we, I almost said unfortunately, basically talk about here, agriculture.



In production, a lot of these products are interconnected. So you cannot switch off one in order to increase the quantity of the other one. So it's a little bit kind of verbund, BASF would call it. But at present we are far away from that. What we would do as a next step, we would then take selected plants. We'd do some maintenance which usually we plan in summer; we would do that earlier. We would get rid of overtime, things like this. So I cannot tell you a number, but we are not in this position.

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**Gunnar Cohrs** - *Berenberg Bank - Analyst*

Okay. Thank you.

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

Herr Swoboda in the middle.

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**Thomas Swoboda** - *MainFirst Bank - Analyst*

Thomas Swoboda from MainFirst. I have three questions. Firstly, potash on the competitive situation, some few weeks ago we have been hearing competitors of yours out of Europe were a little bit more price aggressive than you were with your price increases that were announced at that point of time. Do you think this is something permanent? We had the change in the antidumping laws some time ago. Is this higher competitive intensity something which we should get used to, or is this something very normal?

The second is on greenfield projects in general. We have heard from BHP, from Mr. Kloppers, that the CapEx decisions will be a little bit more strict at BHP and potash seem to be a little bit lower at the priority agenda. Have you seen potash projects being on the market eventually where these Jensen projects, might that be on sale?

And the third question is on your nitrogen business. Do you expect to have this nitrogen business until 2014, or do you think you will sell it before? Thank you.

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**Norbert Steiner** - *K+S AG - Chairman of the Board of Executive Directors*

With view to greenfield projects around, we have heard that. And we have also read the comments that were taken by the press on Marius Kloppers' remarks on the hierarchy of investment fields. And there is was obviously the case that he said this is not our first priority. However, when we look into the situation at spot, we see that the development is still continuing. Also officially, as far as we know and have noticed, there has not been any final decision to move that ahead.

Anyway, money is rolling out; money is flowing out. They do preparatory business. And therefore, at least up to a decision point of time when the final decision to go or not to go ahead will be taken, they do, I think, a lot of things in order not to leave -- to lose time. And the decision to go ahead with investment for that, let's say, very big challenge when it comes to the final stage of 8m tonnes somewhere down the road close to 2030, then we will see whether it will be for sale or not.

The more they do, most probably the less likely it is that they will find a buyer for that. But this is my personal view. Therefore, one should not assume that they step out as long as they have not said no.

The third question, coming along with nitrogen, I only have to say irrespective of the fact that we have decided not to step in BASF's offering of the Antwerp plant, we love that business. And therefore we will also have a lot of sympathy for it to continue up to the end of 2014 or even later, since some of our contracts have a longer longitude. So this is something which offers us particular and a lot of options, not a lot but several options.



And therefore it is a question what is the best for the K+S Group and also with a bigger eye on it what is the best for the people involved. And along these lines, we will decide how to go and where to go and when to go. Classical answer.

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

Well, my answer is not as classical, I think, but it's a little bit more complicated. I hope I understood your question about oligopolistic structures, I would call it. What has happened in the last year is very simple. One quite big producer disappeared; it's called Silvinit. Okay? It has been eaten up by Uralkali. Out of, let's say, two times 5m tonnes now there is one company who runs 10m tonnes, has a capacity of roughly 10m tonnes in Russia at [Yohar]. And in marketing, the Belarus Potash Company again then puts another roughly 10m tonnes of Belaruskali on top, which then is about one-third, roughly one-third of the world consumption.

Now, it's a very interesting question whether there are some authorities checking whether this is a cartel or what kind of construction is it. I think the Russian and the Belarusian authorities will not deal with this question. But some antitrust offices or monopoly offices have, and they have in the year 2008. It was, for example, in Brazil when the investigations started, but they have been very slow in following up this. And then when Lehman Brothers occurred, the whole thing collapsed anyway and then they stopped investigating it.

When you look at the construction of Canpotex, this is a legalized export cartel from the late '70s, but it has been legalized by North American authorities at that time, in order to promote employment and promote exports of potash. We talk about long time ago.

Internally, in the North American market, there is a fierce competition between these three companies, Agrium, Mosaic and Potash Corp, with different models. Agrium over the last years has invested a lot of money in distribution. And Agrium in potash is relatively small compared to the others; they are roughly 2m tonnes.

In exports, Canpotex is an organization which is running since decades, and so far there have been no antidumping measures against this organization, I must say. So concentration continued; complaints, so far no.

The second question is about potash projects. That's like the question who is a farmer. What is a project in potash? Is a project in potash if Dick, Tom and Harry have \$1m and they go to Saskatchewan, buy some license and start drilling? Is that already a project or is that desperacy? I don't know. When you go to other countries, that is not even possible. When you go to Russia, you have to be a Russian mining company with a license and you have to buy the land, most probably in an auction, which is something new to us.

So the models are totally different. If you go to Kazakhstan or other countries, then it's even getting more complicated because the holdup basically is the country, is the government. And to start a, what you call, project there again needs a lot of flexibility, I would say. The most transparent area is of course Canada, Saskatchewan. There is a lot of potash there. And there are a lot of junior, junior potash companies, but also they look for everything, for gas, for shale gas, whatever. So there are many, but projects there are not too many, handful.

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

(Spoken in German).

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

Oh the -- yes, okay. No, I think when we talk about the price level in EU, 15, EU, 12, which is basically the stronghold where we are. I don't see any additional activities of Russian exports into these areas. The Russian stronghold has always been, for example, Poland, Czech Republic, Slovak Republic, but there we are very low in market penetration. So, no extraordinary activities coming from this area at present.



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

Okay. Now in the front row is Mr. Kjellberg, and then afterwards Mr. Fickus, please. The microphone? Oh, I'm sorry. Harald, please go first. Okay. I'm sorry. I didn't see you.

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**Harald Gruber** - Silvia Quandt Research - Analyst

Harald Gruber, Silvia Quandt Research. Two questions, please. The first is about crop prices. Can you just let us know what's your assumption behind major crop price developments this year, probably also 2013, like corn and soybean?

And the second question is dealing with the inventory theme. When do you think would be a good time, or will be a good time for European farmers to refill the inventories? So this is a question about when do you think planting season will finally start and when do you expect tangible refilling of the inventory.

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

Crystal ball for your first question. I have a lot of fantasy when it comes to the corn prices, and I'll give you some reasons. First of all, over the last few years I've always followed the USDA, and in former times I must say it was quite a good forecast. Now you can see it going up and down like a yo-yo. When there is a little bit of too much rain in parts of Argentina, they adjust their forecast. Then there is a drought in Brazil, they adjust their forecast. So the thing goes up and down.

But I see some structural changes. Until recently, China was a corn exporter. Now they start importing heavily. Most probably it has to do with the internal additional buying power. And there is a discussion in the Chinese government what is better, to import corn, ready product, or to intensify fertilization. This is not a process of one year. It will take longer time. But there I think the policy will go again into more fertilization. Stocks-to-use ratios develop worse and worse and worse, so we can hardly produce enough. On a worldwide level for corn, it has totally different pictures in some areas.

Soya, I see no reason why prices should not be at a comparable level of today. They are very attractive, especially for those countries like basically Brazil, where you have kind of industrial farming. So I see no pressure coming from that side.

Was that only one question or another one?

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

(Inaudible - microphone inaccessible).

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

Oh, EU farmers again. That's one thing I always have problems with. Farmers don't keep stock, okay? Normally. European farmers don't keep stock, normally. Who does it is basically the co-op or the trader. And when they decide tomorrow that they should fertilize, then they go to their trader or to their co-op and then the whole thing starts. But farmers are not keeping it.

Now, your question is how is the situation at traders level, distribution level. I think for two or three days of application it will run, it will be okay, because they have enough for that. But if the application is very strong, then they will immediately rely on us that we will replenish stock of distribution, and that will be a lot of stress.

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**Lars Kjellberg** - *Credit Suisse - Analyst*

Yes. It's Lars Kjellberg, Credit Suisse. On that note specifically, can you have any sense of timing when you expect this to happen? We've been hearing from a lot of fertilizer companies Q4 was weak, Q1 isn't normalizing yet. We are now halfway into March. You're still not really moving product. When do you really expect this to happen and how does that link into your full-year 6.9m tonnes forecast?

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

Well, again, it's not the case that we are not moving product. We are moving product. To some areas normal, to some other areas delayed and at a lower level. That's why we have some stock buildup, as Christian told you. But we have a basic business which is running. What we are talking about, whether in the first quarter we will achieve a result quantity wise like 2010 or 2011. That's what we are talking about.

But the season in Europe in average, again, in average, is two weeks to three weeks late. And in North America, North America basically is again two weeks behind us. It's the same situation. And that is what we are basically talking about. And distributors know; the big distributors know that they run a risk that if the business starts on a huge area, then they have problems because farmers will not travel 100 kilometers or 50 kilometers to pick up fertilizers. They don't have the time and they don't want it. It's a region -- it's extremely regional business.

We tried to find out how long it takes to fertilize in an average farmer, again, average farmer in Germany. What do you think? Three days. That's his season. Then the job is done. And in these three days, his local co-op or local retailer has to have product available. Because he goes for the optimum, good weather, good, how should I say -- the surface of the ground has to be stable enough, otherwise his truck will -- his tractor will go down and he will destroy a lot of area.

So it's a just-in-time business. And luckily, luckily, I hope luckily, it's not in all the federal states at the same and not in Europe at the same time, because that we cannot manage it. It's not possible.

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**Lars Kjellberg** - *Credit Suisse - Analyst*

So it does look good, of course, from a farmer economic perspective.

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

Yes.

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**Lars Kjellberg** - *Credit Suisse - Analyst*

But why aren't the co-op seeing this? They've got to be prepared for this. If it's -- this is what I don't understand fully and I'm sure --

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

Yes. Co-ops, I think what has happened, when you look at 2008 and 2009 there is one basis change. I think co-ops are not getting excited so much with speculation as they did before. That means they will never -- never say never, but they will not build up excessive stocks. They have decided not to do that anymore. Some of them have been heavily hurt in 2008, 2009.

And there are not too many factors that they can work on. On one hand they work on the trade of wheat, of corn, what have you, with their members. And the other income is of course plant protection, fertilizers and so on. And they try to minimize working capital, in a way. That's what we learned. And what the demand is actually that supply chain should cover this, how should I say, development, this kind of trend. There is always a lot of talking about the transparency in the supply chain, but when you ask how much stock is in a market nobody really knows.



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**Lars Kjellberg** - *Credit Suisse - Analyst*

Okay. Let's just assume -- my final question -- a scenario where now the heat is coming; it's very warm across Europe; you get a snap decision snow is going to happen. How would that impact your volume and sales in Q1, Q2?

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

We would come -- if it really goes very strong, then we'd come back to, let's say, 2010 level. If it's delayed again and we talk about postponement into April, May, then season is over and it's too late. But it will not be in all countries, not in all areas, not in all crops, so it's a little bit more complex. So we talk -- I wouldn't say we talk about the icing of the cake, but we talk about one piece of the cake. The other 11 pieces are intact.

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**Lars Kjellberg** - *Credit Suisse - Analyst*

Thank you.

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

Wolfgang Fickus.

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**Wolfgang Fickus** - *WestLB Equity Markets - Analyst*

Yes. Wolfgang Fickus, WestLB Equity Markets, still, I might add. A few questions, actually. First, on the short-term outlook again, it goes into the same direction as my predecessor. If I get you right, the 60% which you roughly, by and large, ship to Europe is -- it's a very stable and no-growth market and that helps you currently, even though the season is delayed. So we are not talking about what we have seen at the competitors, who cut production heavily and see volumes coming down by up to 40% in Q1. That's something which you do not experience. It's good business to Brazil and so-la-la business to Europe, but stability is something which is on the agenda for Q1.

Is that right in terms of volumes for you, roughly? It was the first question, just to get a confirmation of what you've said.

Secondly, on the pricing and the guidance you are giving to us. You do that always on the latest prices, so I suspect you do that on \$520 for Brazil per tonne, roughly. What would be the price in Europe you would base your guidance on?

And then a third question, a general one. I don't understand the different behavior between the US market, which will be a future market for you because there obviously the production cuts are quite harsh and the inventory jumps, and the European market where you do not cut production significantly and your inventory goes up slightly. So can we learn something from that also for 2012 and '13?

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

Of course. Yes, I think you can because the structure of our European business is totally different than the structure of business somewhere else. Think of our mines. We have potash and magnesium. We have that since decades. And what we have developed is a certain product portfolio in Europe for certain crops, for certain applications, where we have very little competition. We talk about oats, we talk about specialties. And you remember our product portfolio is basically steered in Europe according to this.

The second part we have, we have a relatively stable and quantity wise interesting business in chemical industry. Chemical industry is for us not that volatile, so we love to be there.

So when you compare us in Europe to others, always think about the segments we are in. First of all, product portfolio is broader, is different, magnesium component. Secondly, we have chemical products. Thirdly, we are supplier of raw materials, for example to Yara. And I don't know whether you have listened to the last conference call of Yara. They are quite bullish about the NPK segment. We are a very big supplier there.

And thirdly it has to do again with the, how should I say, the capacity in supply chain. When you are a Russian producer, you go by sea to a port and then you have to start distribution, and your reaction time is quite big. Now, we have with our client portfolio, with the clients we have, our product is at the co-ops, at the retailers; it's already distributed. Theirs is basically in the harbors. And when season starts, we can react much faster in replenishing because our mines are in Europe, basically, or they are in Europe at present, and the Russians have lead time by sea freight. So it's difficult to compare, but it's a more stable one.

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**Wolfgang Fickus** - *WestLB Equity Markets - Analyst*

Sorry to interrupt you. What the competitors say goes beyond distribution. They are saying we are going to see very weak first four months and they all hope that demand comes back in the second half, while you're saying our core market is more or less stable. Not talking prices, volume. Brazil is taking good volumes. That doesn't sound as though you base your 6.9m tonnes volume guidance 2012 on second half hope, but --

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

No, no. We base our guidance in quantities according to our product portfolio and regional portfolio. And what you see in PCS, what you see in Mosaic, is a reaction on the Indian and Chinese delayed market or non-decided policy in India. And we are not there. And what you see there is, I always say, a reflect of PCS, which they have done a few times already. When these two markets are not decided yet, then they cut production. And that's what they have done. They have taken out three mines with, I have calculated, almost 2m tonnes, and that's basically what they usually would supply in this time of the year to India or China. So they don't want to put themselves under pressure.

For us, again, our business to China, we take containers. We are supplying in this case SOP a lot, not a lot, we supply SOP, different product portfolio. And our clients are relatively small and they are more or less exclusive in some areas. So when you compare the business of PCS to our business, PCS you talk about ships 30,000, 40,000 tonnes; our business you talk about some containers each three weeks. So our clients do not need this big support. Working capital is very low. They can react very fast. And our freights with containers are extremely low. So we are not afraid of that.

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

Perhaps, Wolfgang, also with your question what is the price level for our guidance. You know that K+S is always basing our guidance on the currently achieved price level and keeps that flat. This is not a prediction. That's an assumption. At the moment, we take for Europe the price level of roughly EUR360, EUR363. This is the old price level, before we announce the price increase. And we are still working on that price increase for Europe.

And that's also a change compared to our guidance we gave in November, because in November we said that the EUR375 is in from the first day of 2012. With regard to Brazil, the price level what you mentioned is more or less what we have in our guidance. Okay?

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**Wolfgang Fickus** - *WestLB Equity Markets - Analyst*

Okay.

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

Next question comes from Michael Schaefer.

**Michael Schaefer** - *Equinet Bank - Analyst*

Just a short cut here. Two questions, if I may. Coming back to -- on your cost outlook you provided, I recognize there was a slight change in wording in energy -- sorry, in personnel costs and freight costs, both moving in opposite directions so I guess the net effect was kind of neutral. I just want to understand why you now forecast only a moderate decrease in freight costs rather than I guess it was a tangible decrease beforehand. So is this a kind of also looking forward into 2013 kind of signal that you expect freight costs to have bottomed and to increase going forward?

And also, on the energy cost side on 2013, so do you expect the significant increase you expect for 2012 to continue in the year to come, i.e. 2013? This would be my first question.

And on the second one, just a follow-up on the logistics challenge, Mr. Felker, you stated. Do you see a situation that if worse comes to worst, so to say, so if we see really a supply or logistical challenge here in a very short timeframe that potash is losing the battle against nitrogen in the upcoming weeks?

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

Well, a battle against nitrogen, that would be a disaster if we would battle nitrogens against potash because in the end it would mean that for most crops the yields would just go down. What we try to do since many, many years is actually that we try to convince farmers in all parts of the world, and that's more difficult of course outside of Europe, in India and in China, that there is a balanced fertilization. That means intelligent combination of these three nutrients.

What can happen in a certain situation is that when a farmer tries to minimize costs, and that is what we have experienced 2008, 2009, after Lehman, I call it, then farmer is declined to save phosphate and potash contrary to nitrogen, because the nutrients have different jobs in the growth of plant. So then he has to make a decision, and he will definitely run the highest risk if he saves heavily on nitrogen. He needs to fertilize nitrogen. He runs a risk when it comes to phosphate and potash in yield, but also in quality of product.

If, for example, he would try to save potash in sugar beet, your yield can still, under good weather conditions, be very good, but the sugar content of the beet will be down. That means that the sugar factory will punish you and you will get a lower price for your produce. So it's not only the risk of having less yield, but it's also a matter of quality, flour industry, French fries, black spots and stuff like this. So it's a difficult decision, but I think farmers are very much aware of this. But again, it's a distribution issue also. It's not only farmers; it's distribution.

Second one was --

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

Cost. We have to pay attention cost for potash and cost for the Group, and I think in the speech of Mr. Steiner we mentioned cost for the Group. I think now your question will refer to cost for potash, potash segment.

Actually, when we compare our outlook cost wise now to the outlook we gave for 2012 in November, there is not a big difference, cost wise. And we still foresee -- and the most important cost to increase, and which is a significant increase, will be energy still for the year 2012. The outlook, actually the basis for our outlook is \$115 per tonne oil price for the year 2012 and \$110 for the year 2013.

Don't forget that six- to nine-month time lags we have for our oil contracts at the moment. That means the energy costs, even though we now have a fluctuation in oil prices, do not affect the year 2012 so much anymore, more or less for the fourth quarter but that's it.

Therefore, still energy cost to rise significantly. Freight cost, as also in November, stable, no increase. And personnel, moderate increase. So here, as I said, no big change. Energy cost, if we take that basis, will rise in '13 compared to '12 further. But we have to see, because we are in the year

2012 in the middle of changing the contracts to more, let's call it, diversified model, to let's think about oil-based gas directly and spot levels. So there will be a mixture most likely soon. But this will have effects not for 2012 anymore, but only for 2013.

Okay? Good.

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**Martin Roediger** - *Cheuvreux - Analyst*

Martin Roediger from Cheuvreux. I have one question for Mr. Steiner, one question for Mr. Felker and one question for Christian Herrmann. Starting with Mr. Steiner, now when Mr. Felker will retire later this year and Mr. Lohr, the new CFO, is on board, the Board of Management still consists of four managers. Do you intend to hire a successor for Mr. Felker, or will you, Mr. Steiner, be responsible for the Potash business in future as you are already responsible for the Salt segment?

To Mr. Felker, on the pricing prospects, you certainly know that right now we have the very important conference -- fertilizer conference in Beijing China, which lasts today and tomorrow. And there is the assumption that maybe there will be a conclusion between the big two export organizations in China eventually at a price of \$470, the same as last time. Would you think that such a deal would be favorable for the potash market, because that means that there will be volumes flowing and then other customers have to fight for volumes?

And a very small question for Christian Herrmann is on the impairment charge of EUR4.6m in the fourth quarter in the segment complementary business. Could you explain the background of that impairment charge, please?

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**Norbert Steiner** - *K+S AG - Chairman of the Board of Executive Directors*

First question, and I was tending to mix the questions or the answers to the question, otherwise -- and the way that you asked them. No, I am pleased about your assumption of how our powers are going on the Board of Directors level. But reality shows that the decision of the hiring of new members of the Board -- of the Executive Board is still in the hands and should stay in the hands of the Supervisory Board.

And I think they are absolutely aware of the fact that this very important field of business like is seen today, with view to the number of questions that are going to other fields and potash and the number of questions are direct -- that are directly connected with potash, that the Supervisory Board will certainly keep in mind that this big field of operations of K+S will get all necessary attention that it needs to get.

And one might doubt a little bit whether this can be done on top of the CEO'ship, the Salt business, investor relations, not to forget. And therefore the likelihood that everything is being piled up on my small shoulders is low, but I am not the decisive factor. Is that okay?

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

Well, Roediger, I think there are a lot of people travelling to Beijing, plenty. Some of them are travelling to the FMB conference. The question is whether those are the right guys travelling there, whether they can make decisions and whether they are prepared to make decisions. I have not in my head the attendance list because in the end, even if I know that certain people would be there it wouldn't help me.

You have fantasy. We have always had fantasies about prices. And I hope you will keep on having fantasies. But I have virtually no idea what price will be concluded. When it comes to quantities, of course, a decision whatsoever would on the quantity part make the whole business more stable. That's the only thing I can say.

I also don't know what is the right price because when you look at the situation in China, nothing basically has changed, with one exception. China has become an importer of corn and other products. That is the only change. How they will react, whether the government has, how should I say, enough time to influence the discussions which are taking place this year, I doubt it, because I think it takes much, much longer. It's more a structural decision.

When I see, on the other hand, the fantasies about bringing up a local production in China, surprisingly, there was a report that in the year 2011 there was only a production of 3.8m tonnes, which is relatively low because we were all thinking, all of us we were thinking there is a capacity of 4m to 4.5m. So in the end, let's wait. Let's read in the news.

We have also people there, by the way.

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**Norbert Steiner** - K+S AG - Chairman of the Board of Executive Directors

But if they -- we ask ourselves whether they are able to get inside. Your question we changed. I do it. We have gotten into some participations in coastal ships a couple of years ago, in order to be able to transport particularly potash -- sorry, products from former COMPO into the Mediterranean area from Germany, from Antwerp, and so on. And this was a decision that we took, that we only had a participation not the entire ships, the ownership of the entire ships.

And we did that since in those days five, six years ago, I don't remember anymore correctly, nobody was willing to build such kind of ships of 5,000, 6,000 tonnes capacity. All were going to huge container ships, with the result that we see right now, and we benefit from them. On the other hand, all the freight rates in the world have collapsed, have come down significantly.

And therefore, comparing the book value of the ship and the future expectation for the earnings comes to the conclusion that we will have a lot of time necessary in order to get back to a profitability of these kind of ships in due course, so we needed to write them off. And we have kept these ships since they are not -- have not been part neither of COMPO nor of nitrogen, and they will on that lower basis be used for third party freight. And then we hope that at one point of time we can maybe, as we don't need them operationally anymore, to a better price than as of today. This is EUR4m. This is the explanation.

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

Okay. I would rather like to conclude this afternoon session, if there are not any urgent questions. We still have time outside to discuss, and Mr. Felker and Mr. Steiner will for some time also stay here. I don't see any more questions and I give the word to Mr. Steiner again.

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**Norbert Steiner** - K+S AG - Chairman of the Board of Executive Directors

So final question, final answer. Thank you very much to come to Frankfurt on that sunny day. That encourages us to believe that the farmers are not sleepy anymore and get out on the fields and use their main fertilizer potash on the fields.

I think you have taken with you that we are not pessimistic. We think, as always, we try to paint a picture that is more realistic than dreamy. And therefore I hope that you have taken with you to the extent that we can answer your questions what you wanted to hear from us.

Once again, thank you very much for coming to the conference. Thank you very much for raising the questions. Thank you very much for the patience with us, and hope to see all of you soon. Thank you very much, and have a nice day.

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