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EDITED TRANSCRIPT

SDF.DE - Q3 2014 K+S AG Earnings Conference Call

EVENT DATE/TIME: NOVEMBER 13, 2014 / 1:00PM GMT



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PRESENTATION

Operator

Welcome to the K+S conference call regarding the publication of the quarterly financial report Q3, 2014 hosted by Dr. Burkhard Lohr, CFO. (Operator Instructions).

I am now handing the call over to Dr. Burkhard Lohr to begin. Please go ahead, sir.

Burkhard Lohr - K+S AG - CFO

Ladies and gentlemen, welcome to our Q3 conference call. We will guide you through a couple of slides in order to highlight what was important from our point of view, and then we will open the lines for questions.

Now, let's start with the main developments on slide 2. Overall, the EBIT 1 came in 16% above last year's Q3. This was mainly an effect of positive pricing trends in the potash business, as well as the strong salt results. Tight cost control across the entire Group also contributed to this number.

At the end of the quarter, we have achieved about 70% target cost savings, according to our Fit for the Future program. The result also contained, as indicated in the Q2 conference call, a last installment of EUR6 million insurance gain, of which EUR4 million is distributed in potash and magnesium products. The remainder is spread evenly over salt and complementary activities. This brings the total amount to EUR36 million in the first nine months.

Now please turn to slide 3. I will elaborate on the single divisions in a second. The only number I would like to highlight on this slide is the tax rate.

As you can see, it came in at 31%. This was mainly due to the fact that, this year, the portion of pre-tax profit from our potash business, which is taxable in Germany at a higher rate than foreign profits, was higher than last year. In addition, a tax reform in Chile led to a non-recurring increase in deferred taxes in the quarter. For the full year 2014, the tax rate for the Group should be around 27%.

Please go to slide 4. The cash generation on the operating level has remained strong. Our free cash flow is slightly negative, which is a result of the increased investment into the legacy project.

We also wanted to highlight the financing cash flow, which is in some EUR500 million lower than in the first nine months of 2013. We paid back a new EUR750 million Eurobond, issued in 2009, with a 5% coupon by the end of September. Our net debt increased along with the higher CapEx. Please also keep in mind the adjustment of interest rates on mining provisions reflected in Q2 this year.

Now please turn to slide 5. Coming to our potash and magnesium business now, the progress on pricing in the market continue and further materialized in our average selling price. Q3 this year is almost on par with the same period last year. This is the result of a robust European market with increasing prices. We made similar progress in our key overseas markets.

In addition, demand for our broad portfolio of specialties, and this is not only SOP, also remained at healthy levels and we were even able to increase prices further for some products, for example, corn [Kali].

Now please turn to slide 6. Alongside the market development, the good performance of the business unit potash and magnesium products was driven by high cost discipline. As expected, costs per tonne were above the average of the first six months; however, we made further progress in comparison to Q3 last year.

In addition to lower material energy costs, we have also achieved structural savings on the logistics side. For example, we are now bundling more shipments for overseas deliveries of industrial potash at our terminal in Hamburg. This reduces lease costs for storage facilities at other ports and complexity in the network. And as you can see, excluding the increase in OpEx for the legacy project, the progress is becoming even more visible.

Now please turn to slide 7. Our legacy project is on track. The slide shows that we are making good progress in many respects. The remaining amounts not invested or covered by concluded supplier contract has been substantially reduced. By the end of the third quarter, we have spent about 40% of the total budget of CAD4.1 billion. Another about 30% are backed by contracts signed with suppliers.

So all in all, we can say that we are on track to commission the site in summer 2016, and that we will stick to the CapEx budget as communicated.

Now please turn to slide 8 to talk about the salt business. We have experienced the first early fills by customers in the US for the new season, which had a positive impact on both top line and bottom line. Also, our [Fit] program showed positive impact to the earnings.

Let me give you two examples about what we are working on. Our colleagues from [marketing] have redesigned the packaging material of various products, without reducing strength and resistance of the bags.

Another example would be our empremAr shipping line. We have reduced the number of vessels and used market capacity instead. This makes us more flexible to react to changing dynamics and make use of more attractive offers and reduce fixed costs.

The year-over-year average selling price for deicing products is stable. Improving prices in North America were not yet fully included throughout the quarter. In addition, we experienced an offsetting effect from the regional mix in Europe.

Most of the tenders for the upcoming season are now complete, and have confirmed that we are making progress across most regions in North America. While we see stable prices in Canada, the East Coast will experience moderate increases and the Mid-West will see [tendedly] higher prices. In Europe, where the last winter was mild, prices are under pressure and will offset part of the progress in North America.

Ladies and gentlemen, let's conclude with our guidance for the full year 2014 on slide 9.

We have upgraded our expectations for the full-year EBIT 1 to a range of EUR580 million to EUR640 million. While K+S sales volumes in potash and magnesium products should come in at the levels of the previous year, recent demand should have a positive effect on global sales volumes.

We are now also more positive regarding our average selling prices for the business unit. In addition, our colleagues are doing their utmost to keep costs under control.

The biggest [ruling] factor to reach either end of the range is our salt business. We have, as always, factored in long-term average volumes to forecast the remainder of the year. But it clearly depends on actual demand in the various regions, whether or not we will see an average winter or one of the other extremes.

We work on the CapEx; the number for 2014 remains the same. And despite the fact that we have not yet provided an outlook for 2015, I think it should come as no surprise that, in the next two years, we expect numbers well above EUR1 billion per annum, as we approach the main construction phase of our legacy project.

Thank you for your attention. Operator, please open the line for questions. One remark; we would like to answer question by question instead of answering a bunch of questions. I think that was a quite good approach in our last call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Ben Isaacson, Scotiabank.

Ben Isaacson - Scotiabank GBM - Analyst

We're six weeks away now from 2015 and there's quite a big debate as to how potash demand is going to shape up next year. I was hoping you could just give some color as to what you're seeing in the standard, granular and SOP markets going into 2015?

Burkhard Lohr - K+S AG - CFO

Thank you for your question. Good morning to you as well. First of all, I need to mention that you know we come up with a guidance for 2015 in March next year, because visibility at this time for the next year is difficult, so I only can talk about trends.

We had a very strong year in 2014. The expectation, including our specialties, is that we could see a demand of a total 62 million tonnes. We are cautious in our view into 2015, but we believe that the number will be slightly below that, so we will not see a sharp decrease. And that most probably will come from the standard products, while the SOP demand should be on the level that we have seen in this year.

Ben Isaacson - Scotiabank GBM - Analyst

Okay, thank you. And then my final question is on the dividend policy. I presume, given the CapEx outlook for legacy, you don't anticipate any changes over the next year? Is that fair?

Burkhard Lohr - *K+S AG - CFO*

I would like to answer the question the following. We have had a dividend cut in this year. The payout for 2013 was only 11%, and we see that as an exception. We have always said that this was a contribution to fully finance legacy. It is fully financed, so there is no reason not to come back to the old dividend policy, which is a payout ratio between 40% and 50%.

Ben Isaacson - *Scotiabank GBM - Analyst*

Okay. Thank you.

Operator

Joel Jackson, BMO Capital Markets.

Joel Jackson - *BMO Capital Markets - Analyst*

Your last answer will lead into my first question talking about legacy being fully financed. In your release, you talk about legacy of the CAD4.1 billion CapEx estimate, that 40% is paid, 30% is locked in. What I wanted to ask was, there's another 30% there; maybe you could talk about what could be the pushes and pulls on that remaining CapEx that isn't locked in? And when you would have better sense of if there's any inflation there?

Burkhard Lohr - *K+S AG - CFO*

There is a remaining portion which is not locked in yet, but the biggest part of that is under negotiations already. So we are partially [signing] offers on the table and I think it's fair to say that we are not foreseeing a further significant procurement risk.

We are now, of course, in heavy execution and a project like that is always having execution risks, but here we are very positive as well. But one thing for sure, we should not concern about the not locked in portions of the CAD4.1 billion, because it will be locked in pretty soon.

Joel Jackson - *BMO Capital Markets - Analyst*

Okay. My second question would be, looking at the potash, magnesium segment, your specialties and industrial products, can you talk about how pricing is fairing there? Have prices been roughly flat across this year as MOP has, of course, fallen late last year, and came back this year? Thank you.

Thorsten Boeckers - *K+S AG - Head of IR*

Hi, Joel, this is Thorsten here. When we differentiate between these three sub-segments, I would say that we have seen a good price development in our specialties units which consist not only of SOP, but also of [corn Kali] and other specialties. So we have seen a good increase there in the average selling price.

On the other hand, we have seen on the industrial potash side a decline in pricing, which has to do with the time lag in prices reacting to the decline of MOP versus the first half of last year, which has to do with longer running contracts than the more spot-related business in SOP and the MOP business.

And then when we go on the MOP side, we see, as we I think have highlighted in the speech, that in Europe we have rather seen stable pricing. We are now in the low season and haven't seen a lot of pre-buying yet because the farmers are waiting of where the weather is going for the next season.

Dr. Lohr elaborated also on Brazil and South East Asia. In South East Asia, we have seen a bit of an easing of the competitive situation, and in Brazil we are seeing prices going rather up.

Joel Jackson - *BMO Capital Markets - Analyst*

My final question, just a follow-up on that on the industrial, some longer running contracts, so can you talk about, in 2015, would we see a bit of a pricing pressure as some of the industrial prices come off, or maybe help us figure out how those contracts duration work? Thanks.

Thorsten Boeckers - *K+S AG - Head of IR*

I think with now being a year after what we called internally the Black Tuesday, we should have seen the bottom in pricing also in industrial.

Joel Jackson - *BMO Capital Markets - Analyst*

Thank you.

Operator

Lutz Grueten, Commerzbank.

Lutz Grueten - *Commerzbank Corporates & Mkts - Analyst*

The first one is related to your unit cost per tonne. In the slides, you pointed out that there's a seasonal uptick, there was a seasonal uptick in the third quarter. Does it mean that the final quarter will be down again, so sequentially down?

And the second question is related to the insurance payments you have received right now of EUR36 million so far. Am I right that there will be nothing left for the final quarter, so the EUR36 million that's the number we should look at? Thank you.

Burkhard Lohr - *K+S AG - CFO*

Yes, concerning the cost per tonne, if you focus on the page that I explained you could see the EUR212 per tonne in the third quarter, and you could see also the last 12 months' number. And that should be pretty much the number that you can expect for the entire year. So you can do your math for the first quarter by yourself, but I think that it's clear if we give you that information that we expect the same for 2014 that we see here for the last 12 months.

And concerning your question to the insurance, the earnings effect is completely done with the EUR36 million. But in the third quarter only EUR20 million of it has been paid, so the rest is already paid, but that was an issue of the fourth quarter. So that is additional EUR16 million positive cash flow which is then the final effect of the insurance settlement related to the Unterbreizbach accident.

Lutz Grueten - *Commerzbank Corporates & Mkts - Analyst*

That's helpful. Thank you very much.



Operator

Ben Scarlett, JPMorgan.

Ben Scarlett - JPMorgan - Analyst

I'll just do one question at a time. The first one, sort of slightly simplistic, your EBIT guidance range EUR580 million to EUR640 million is pretty big, I guess what's the reason for that really, what are the moving parts in Q4? Because you're either implying quite a dramatic decline if you take the lower end of that range, or quite a kind of normalized result if you take the upper end of the range. So maybe just the moving parts on your guidance range, given that you can see into December now, I guess?

Burkhard Lohr - K+S AG - CFO

Yes, I think the range in total is not much bigger than it had been in the years before at this time; we try to take everything into account which is possible. As I said in my speech, the biggest driver surely is the weather conditions that we might expect in North America and in Europe.

If we calculate both extremes, extreme positive weather, or extreme mild winter, it could make up for a big portion of this range. And, of course, there are some scenarios thinkable in the potash business as well. But to give you a flavor, there are no funnies we are expecting for the fourth quarter. We should see normal, good development in that last quarter of 2014.

Ben Scarlett - JPMorgan - Analyst

Okay, great. And the second one just on FX because, obviously, it's potentially quite a big tailwind for you next year, and then bigger the year after, could you remind us where you are in terms of hedging? And then maybe to be cheeky, could you give us a euro/dollar rate if spot persists now for next year, net of hedging?

Burkhard Lohr - K+S AG - CFO

Okay, no problem. So as usual at this time of year, we roughly have hedged 80% of the net position. Net position means US dollar sales, I'm talking US dollars now, US dollar sales and minus US dollar costs. We have some costs even on the legacy project, so this number is higher than usual. So 80% are hedged and our worst case locked in number is [\$1.37], so obviously the US is developing, from our perspective, in the right direction.

But when we talk about hedging, we should talk about the Canadian dollar as well because there's a huge cost position Canadian dollar for the legacy project which does not run through the P&L, but is important for the total amount of CapEx that we have to spend. Fortunately, we have hedged a good portion of that in the time when the euro was strong and we gained from this significantly now.

You cannot, as indicated, not see that in the P&L, but it will help to have the lower euro CapEx number on the legacy project. Does that answer your question?

Ben Scarlett - JPMorgan - Analyst

Yes, pretty much. Thank you, that's everything.

Operator

Jeremy Redenius, Sanford Bernstein.

Jeremy Redenius - *Sanford C. Bernstein & Co., LLC - Analyst*

I have a question going back to the costs in the potash segment. Just looking ahead to 2015, I imagine you're facing more cost inflation, increasing costs of legacy that you have for the future. So on balance, would you expect costs in millions of euro to be down from 2014 into 2015, or is it going to be tough to stay ahead of the inflation in that business? Thanks very much.

Burkhard Lohr - *K+S AG - CFO*

You're welcome. First of all, we have achieved, in terms of cost per tonne compared 2014 to 2013, more than we have indicated earlier, because [Fit savings] should help us to keep the cost per tonne flat. So compensate all inflation and especially the increasing OpEx number for legacy.

So we will end up with a number this year which is below the 2013 number, but for 2015, we are not expecting the same trend. So the target is to gain Fit savings to keep the number on the 2014 level. So we cannot talk about a euro up or down, but the trend should be that.

Jeremy Redenius - *Sanford C. Bernstein & Co., LLC - Analyst*

2015 and 2014 should have similar unit costs, did I hear you correctly?

Burkhard Lohr - *K+S AG - CFO*

Unit cost.

Operator

Sophie Jourdier, Liberum.

Sophie Jourdier - *Liberum - Analyst*

I've got three questions. But taking one at a time, first of all, on the [demand in the] potash division, in Europe just in the fourth quarter what you're seeing at the moment. I mean sometimes, in Europe, we see distributors buy ahead of the following season; other years we see the distributors wait until next year.

I just wondered what you're seeing this year; should we expect the fourth quarter to see the stocking ahead of the year, or do you think that will wait until we get into next year? That's the first question.

Burkhard Lohr - *K+S AG - CFO*

Yes, as we are already in the middle of the fourth quarter, we have seen some developments, which is totally normal for the European business. That is not high season here, other than, for example, Brazil, but this is a totally normal development in this fourth quarter and comparable to what we've seen in the years before.

Sophie Jourdier - *Liberum - Analyst*

Right, sorry, there has been a bit of variety in the years before, is that sort of, therefore, flattish on the third quarter? I mean, last year it was quite significantly higher in the fourth quarter versus the third quarter.

Burkhard Lohr - K+S AG - CFO

It should be rather flattish, yes.

Sophie Jourdier - Liberum - Analyst

Okay, thank you. And then the second question, we had ICL report their results yesterday, you probably saw them, and they were talking about Brazilian potash demand falling off quite sharply in the fourth quarter. I just wondered whether you were seeing that as well; it's obviously an important market for you too. Thank you.

Burkhard Lohr - K+S AG - CFO

Yes, that is the development that we have expected and not only here. I think that was the general expectation after these strong demand in the first nine months of this year. So that's, let's call it, a seasonal shift, but it's not the start of a new trend. We are very positive on the Brazilian market.

Sophie Jourdier - Liberum - Analyst

Okay, thank you. And then just a final short question; you said you managed to push up the price of corn Kali. I wonder whether you could give us some sort of indication as to, I don't know, the percentage increase or some sort of quantification of that price increase. Thanks.

Burkhard Lohr - K+S AG - CFO

Sorry, I cannot give you a detailed number to one single product. But we are quite happy with the development, and that indicates that the next couple of months will be positive here, in the European market as well. Hopefully, you are understanding.

Sophie Jourdier - Liberum - Analyst

Okay. Thanks very much.

Burkhard Lohr - K+S AG - CFO

But there is still one answer open, I'm afraid, the last --

Thorsten Boeckers - K+S AG - Head of IR

Yes, Jeremy, your cost per tonne question. We didn't want to kick you out, but we were just discussing here, on mute.

Burkhard Lohr - K+S AG - CFO

So as we have seen a more positive development in [per tonne] as we assumed. We are a bit more positive on the development as well, for 2015, so our view is that the number should be slightly below the 2013 number.

Jeremy Redenius - Sanford C. Bernstein & Co., LLC - Analyst

For 2015?

Burkhard Lohr - K+S AG - CFO

The 2015 number should be slightly below the 2013, although the original approach was to keep 2013 flat for the three Fit years.

Jeremy Redenius - Sanford C. Bernstein & Co., LLC - Analyst

Great, okay. Thank you very much; it's very clear.

Thorsten Boeckers - K+S AG - Head of IR

Sorry for the confusion.

Jeremy Redenius - Sanford C. Bernstein & Co., LLC - Analyst

No problem.

Operator

Andreas Heine, Barclays.

Andreas Heine - Barclays - Analyst

First question is on the pricing in Brazil. We have seen a price of [380]. Is that only for small volume, or is that the real price? That's the first question.

Burkhard Lohr - K+S AG - CFO

That is the real price, and even for higher volumes, this price has been achieved.

Andreas Heine - Barclays - Analyst

Okay, first question. And then the second one, I'd like to understand a little bit more on the salt earnings you have seen in the third quarter, and what it means for the fourth quarter.

You earned EUR25 million on basically flat sales, and that probably because you have lower cost base in the US. Is that anything eating up in the third quarter, what you usually have in Q4? Or will be Q4 around the normal salt earnings from what you see right now?

Thorsten Boeckers - K+S AG - Head of IR

Andreas, it's Thorsten here. We will see a progress on pricing in North America, and we highlighted that in the speech, that we see more or less stable prices in Canada, moderate increases on the East Coast and tangible increases in the Mid West. On the other hand then, this is a result of the mild winter here in Europe, we see price pressure here, and also currently, in the regional mix.

So we are selling currently, a bit more in the northern part of Europe, where prices are a bit below of other regions. It needs to be seen if this continues in the fourth quarter or not. But you know our guidance is always based on the volumes of an average winter, and we are not factoring in any expectations for higher volumes, given any snow in Minnesota now or so.

So we should see -- yes, we're not going to give a price guidance for the average price now. But the current expectation is based on an average winter and it could get better if the volumes are better than average, and the prices are go up a bit.

Andreas Heine - Barclays - Analyst

My question was more referring to, is this refill you see in North America something which is now unusually strong, and that you then have lower volume in the fourth quarter? Or is that not the thinking behind it? So is it basically what you usually get in Q4 something what you have now seen in Q3?

Burkhard Lohr - K+S AG - CFO

Yes, we believe that the -- this is Burkhard now. The inventories are still not on a normal level, so there is no indication that we should see a weaker fourth quarter. Again, always under the assumption of a normal winter.

Andreas Heine - Barclays - Analyst

Okay. Last question is on the outlook. I'd like to understand what I have to read into the outlook in general. Looking on what is reasonable to assume for the potash division in the fourth quarter, with your guidance of stable volumes, and what we see in the market, with prices moving up.

And if you look what you just said on salt, I would never, ever come to the lower end and even exceed the higher end. Could you give a little bit more flavor how you derive to your outlook?

Burkhard Lohr - K+S AG - CFO

Yes, of course. We are accounting some scenarios that you might not have, on your sheet. But anyway, I think we have indicated in the past, quite often, that with guidance, we like to be a bit more cautious.

As I said earlier, we are not expecting any funnies in the fourth quarter, so if you end up with a higher range that is not totally wrong. But we are moving with this EUR580 million to EUR640 million in the potential range, but which, granted, could be higher as well.

Andreas Heine - Barclays - Analyst

Thanks.

Operator

Patrick Lambert, Nomura Bank.

Patrick Lambert - Nomura - Analyst

I think most of the questions I had were answered. But I still have one on depreciation [per se], which came lower than what I was expecting at EUR53 million. Could you comment a bit? I think on discussing early this morning was you had changed your way of capitalizing legacy; can you comment a little bit and guide us also on, going forward, how we should forecast G&A? Thanks.

Burkhard Lohr - *K+S AG - CFO*

Yes, that's a bit tricky, but I try to explain. To give you one example, we have opened our camp, which is important for the entire project. So the camp is finished and we started depreciation on the camp.

On the other hand, as this is an input factor if you wish, for the entire project, we have to recognize this situation for the entire project again. And we have started adjusting this effect in the third quarter, although there were some slight effect in the second quarter, as well, but only a small number.

And that's the reason for the decrease in depreciation. But you should not see these effects in the forthcoming quarters, because they are adjusted quarter by quarter. But if you compare the second to the third quarter, you have that effect.

Patrick Lambert - *Nomura - Analyst*

So going forward, would you base it on EUR53 million, and adjust for the CapEx spend and extra, or is that the way to answer it?

Burkhard Lohr - *K+S AG - CFO*

The depreciation will then be driven via normal business. We have our investment at [Werra] site as you know; that leads to depreciation. But the legacy effects that I just explained are adjusted and will be adjusted in future, so normal depreciation development should be seen.

Patrick Lambert - *Nomura - Analyst*

Okay.

Operator

Andrew Benson, Citi.

Andrew Benson - *Citi - Analyst*

On the call, on yesterday's meeting with ICL, they attributed the price strength in potash partly to shortages of granular MOP. I was wondering what your view would be as to whether that you think that's a fairly accurate rationale for the price improvement.

And also, how long, or to the extent to which tightness or shortages of granular are likely to persist over the medium term. That's question one.

Thorsten Boeckers - *K+S AG - Head of IR*

Yes, Andrew, it's not a secret that we have seen, in the course of the year, very strong demand from regions usually demanding granular potash. And we also heard from a couple of suppliers that their granulation capacity is rather tight.

So this is certainly one impact. On the other hand, the demand was pretty strong as well, and it's not only granular. As we said earlier, also in the standard markets, we are now seeing the prices going slightly up. We're not going to quote any price that our competitors are quoting, but it's not only an effect of the tight capacity in granular, it's also demand.

Andrew Benson - *Citi - Analyst*

Okay. And if you do see somewhat weaker volumes, next year, do you expect to be able to hold or even increase further, current pricing?

Thorsten Boeckers - *K+S AG - Head of IR*

Can you repeat the question please?

Andrew Benson - *Citi - Analyst*

You've anticipated, possibly, a slight reduction in demand next year. In that environment, do you believe you can at least sustain the current pricing?

Burkhard Lohr - *K+S AG - CFO*

Yes, I try to indicate that 2014 was a very, very strong year, if you compare it to 2013, and even to the years before. And I indicated that we see a slight decrease it should not have a major effect on pricing.

Andrew Benson - *Citi - Analyst*

Okay. And lastly, you talked about some one-off factors in the tax rate, can you just confirm or give guidance on the midterm tax outlook? Thanks.

Burkhard Lohr - *K+S AG - CFO*

Yes, the third quarter was driven by a special item. We have a tax reform in Chile that is not effective in the short term. It will be effective in 2018, when I remember correctly. But we have to recalculate our deferred taxes, and that is a one-off effect in the third quarter; that's why we ended up with 31%. But the normalized tax rate still is between 27% and 28%. That should be true for this year and for the near future as well.

Andrew Benson - *Citi - Analyst*

Right. Thank you very much.

Operator

Christian Faitz, Kepler Cheuvreux.

Christian Faitz - *Kepler Cheuvreux - Analyst*

I have one question left, please. Looking at salt, Europe was weak, which was quite understandable in Q3. Do you have any assessment how long it would take in somewhat normal winter conditions, for the municipalities to work down their inventories? Thank you.

Burkhard Lohr - *K+S AG - CFO*

Yes, fortunately, that can happen quite quickly, if we have two or three good winter, but most of the stocks are on the streets. So things can change quite quickly and that's what we're hoping for.

Christian Faitz - *Kepler Cheuvreux - Analyst*

Great, thanks.

Operator

Andrew Stott, Bank of America.

Andrew Stott - *BofA Merrill Lynch - Analyst*

You might have answered these, or part answered these, already, but I just wanted to check I'm right. So when we think about cost per tonne for next year, I had in my notes from the Q2 call that you should have round about a EUR20 million increment on OpEx for legacy. Is that still what you're thinking broadly? So going back to your overall cost per tonne guidance of flat.

And then secondly, did you say what European salt pricing was doing? You said under pressure, but did you quantify it?

Burkhard Lohr - *K+S AG - CFO*

First answer, you are correct, we have no adjustments in our legacy numbers, not on the CapEx and not on the OpEx, so we see plus EUR20 million for next year. And that is incorporated in what we have indicated for the cost per tonne for 2015.

And second question, we did not quantify. We just said prices under pressure.

Andrew Stott - *BofA Merrill Lynch - Analyst*

Would you like to quantify it?

Burkhard Lohr - *K+S AG - CFO*

Later. (laughter)

Andrew Stott - *BofA Merrill Lynch - Analyst*

All right. Can I just come back on the cost per tonne? And I know you answered this, but I wanted to clarify. In the end, it was flat 2015 on 2014 on a per tonne basis? That's right, correct?

Burkhard Lohr - *K+S AG - CFO*

No, good that you asked again, because we were a bit imprecise with our answer. It gives me the opportunity to answer this correctly again. We always, when we started Fit, we said we want to keep the 2013 numbers flat, and now we have achieved more. We expect the 2015 number to be below 2013, and the 2013 number was EUR214 per tonne.

Andrew Stott - *BofA Merrill Lynch - Analyst*

Okay. So that's the guidance, somewhere below that number?



Burkhard Lohr - K+S AG - CFO

Yes, exactly, we should always refer to 2013 when we started Fit.

Andrew Stott - BofA Merrill Lynch - Analyst

Okay. Thank you.

Operator

Oliver Schwarz, Warburg Research.

Oliver Schwarz - Warburg Research GmbH - Analyst

Two questions. Firstly, I would like you to remind me about your production capacity in 2015 as the Werra projects have been drawing to a close. And so I would assume you being able to produce more potash in 2015 than you were able to in 2014. Could you give us a ballpark number for the, let's say, max capacity in end potash volumes of K+S, please?

Burkhard Lohr - K+S AG - CFO

First of all, this is not new; it has always been part of the plan. The investment into the environment in the Werra valley will be finished in the course of next year, so it will affect our potential capacity. And another effect we have not big opportunities, but some opportunities to adjust our product mix.

As the SOP price has developed, as it developed, we have shifted our product mix towards the SOP. And that, in total, means slightly lower total capacity, because we need MOP and Kieserite for that. So it depends, when I answer now, it depends, of course, on these just mentioned effects. But we expect potential sales volume of EUR7 million plus x.

Oliver Schwarz - Warburg Research GmbH - Analyst

Okay. Thank you.

Burkhard Lohr - K+S AG - CFO

It should not be a very big number.

Oliver Schwarz - Warburg Research GmbH - Analyst

Okay. Thank you so much. And secondly, coming back to Patrick's question on your depreciation; I'm still trying to get my head around those numbers, if you could please help me out? Just looking on the potash and magnesium segment, it seems that you had almost EUR23 million of depreciation and amortization in Q4, 2014, compared to EUR27.8 million in Q3, 2013, so let's say EUR5 million less year on year.

I heard you saying that this is connected with the capitalization of costs related to legacy, and we would see, let's say, normal depreciation starting Q4 and going onwards. But if the legacy depreciation is capitalized, why did underlying existing facilities depreciation go down year on year? And is this a trend that I could, let's say, prolong also into Q4 and 2015 looking for a lower depreciation number here, or simply my math incorrect?

Burkhard Lohr - K+S AG - CFO

No, the depreciation result adjusted from any legacy effects are not going down. You should not assume a decrease in volume. As I said, there is another noteworthy CapEx program in the Werra valley. That is not one big project; it's the sum of several projects. And as soon as they are finished and that's happening now and it's happening in the course of 2015, depreciation is starting. So the trend is up. We have seen this strange development of a negative comparison quarter 2 and 3 and that's what I've explained.

Oliver Schwarz - Warburg Research GmbH - Analyst

Okay. Thank you; it was very helpful.

Operator

Joe Dewhurst, UBS.

Joe Dewhurst - UBS - Analyst

I've got three questions. The first one, just on the energy saving benefit this year because of lower gas prices, what the delta was that came through to your EBIT from lower gas prices?

And also then on that, with your assumption on the cost per tonne, are you assuming that the lower gas price benefit from this year then completely reverse for your cost per tonne guidance that you gave for next year?

Burkhard Lohr - K+S AG - CFO

Yes, we have again achieved savings on energy cost and that is the biggest portion in our achievement in the cost per tonne, but we really don't give a precise number on that. I hope for your understanding, but the trend is ongoing positive.

Joe Dewhurst - UBS - Analyst

Can we assume that you'll be following any spots -- you're moving to a spot gas, so your gas portion is moving two spots into next year?

Burkhard Lohr - K+S AG - CFO

Yes, fortunately we have a very flexible contract and we can always refer to the current development on the market, whether we take -- we have three portions. The oil linked portion which looks pretty well at the moment as well, or the spot portion, or the originally linked portion. When we signed the contract we have linked one-third in terms of volume and price, and that gives us the flexibility to use the lowest price. And that is the reason why we have seen, two years in a row, decreasing energy prices. It depends on the market conditions whether we buy at spot or we buy the oil linked portion.

Joe Dewhurst - UBS - Analyst

Then also the corn Kali, but I suppose it's the magnesium sulfate element, what's the driver for that? Is it just purely sulfate prices or is it just being valued more by farmers, the positive price progression that you're getting there?



Burkhard Lohr - K+S AG - CFO

I'm not 100% sure, did you ask for the drivers of the SOP price or did I --?

Joe Dewhurst - UBS - Analyst

No, no for the magnesium sulfate, so for corn Kali magnesium sulfates mixture that you have?

Thorsten Boeckers - K+S AG - Head of IR

And you want to know what the driver is behind the increase or --?

Joe Dewhurst - UBS - Analyst

Yes, exactly, is it because the farmers view it as a more valuable product, or is it linked to sulfur prices or --?

Thorsten Boeckers - K+S AG - Head of IR

No, this product is less linked to the input price of sulfate or MOP; it's rather higher value product for the farmers mainly buying it in Germany, so it's value based.

Joe Dewhurst - UBS - Analyst

And I guess, just finally, so as we look into next year from a CapEx point of view, what we should think for the Group?

Burkhard Lohr - K+S AG - CFO

Yes, we've indicated that the CapEx required from the legacy project are around \$1 billion each in 2014, 2015 and even 2016. So the [2015] number will be quite in the range of this year's number.

Joe Dewhurst - UBS - Analyst

Okay. Thank you very much.

Operator

Denis Piffaretti, JPMorgan.

Denis Piffaretti - JPMorgan - Analyst

Just a question on your rating; you've been downgraded by S&P earlier this year to a negative outlook and I think, if I recall correctly in the comment, they were saying that basically they could revise your output to stable if they saw improvement in the industry. Given I feel your comments are rather constructive on the industry, I was wondering if you had any thoughts on that or if you had any discussions with the rating agencies.

Burkhard Lohr - *K+S AG - CFO*

Yes, thank you for your question. But first, I have to correct you, there was no downgrade this year. Last year there was already the negative outlook that has not changed since the Black Tuesday.

I cannot, of course, not give an official view of S&P, but I know their assumptions and we are seeing things are developing more positive. It's, for me, only a matter of time, whether this negative outlook is going to disappear.

Denis Piffaretti - *JPMorgan - Analyst*

Thank you very much.

Operator

Patrick Lambert, Nomura.

Patrick Lambert - *Nomura - Analyst*

Two follow-on questions, please. Can you comment a little bit on the SOP premium -- your view on the SOP premium? You've done that at Q2. You were saying, I think, it would go up at least in the first half of 2015. Could you revise that at this stage? That's the first question. Thanks.

Burkhard Lohr - *K+S AG - CFO*

Yes, that has been under discussion for quite a while. Everybody is expecting that the premiums are going down. It hasn't happened so far and we believe that we will see the premiums on that high level at least for the first two quarters in 2015 and, yes, that's our view on that.

If the premiums should shrink, that does not necessarily mean that the SOP price is going down; it might also be a further positive development of the MOP price. But currently, and at least for the next couple of months, we are very positive on that product.

Patrick Lambert - *Nomura - Analyst*

So no change on outlook; it's exactly the same as you had in Q2?

Burkhard Lohr - *K+S AG - CFO*

Yes.

Patrick Lambert - *Nomura - Analyst*

The second question regards Russia ban. I think there's quite a few news on compensation incentives, subsidies for European farmers being discussed. Is that something that you have seen so far in demand, farmers being on the waiting because of those incentives being put in place or negotiated? Or at the moment, it's more anyway the winter trend? Basically, is there more nervousness about next years in terms of profitability of farmers in Europe, mostly on fruit and vegetables and dairy, I think?



Thorsten Boeckers - K+S AG - Head of IR

We haven't really seen a negative effect at all from this, Patrick, and we need to see how this situation develops and how we go into the New Year. But currently, the behaviors of the farmers is rather related on where is the weather going instead of what is demand and related to the ban from Russia.

Patrick Lambert - Nomura - Analyst

I guess it's because of -- it's winter crops anyway. Thank you.

Operator

Rajesh Singla, Societe Generale.

Rajesh Singla - Societe Generale - Analyst

Sorry for asking the question on unit cost again for 2015. When you are saying that the unit cost in 2015 will be lower than 2013, I was wondering like what will drive the cost up, as compared to 2014 levels, given lower inflationary environment in Europe as well as lower energy cost?

Burkhard Lohr - K+S AG - CFO

Yes. One portion was already mentioned in this year -- in this call, sorry, the additional EUR20 million of legacy is at least one effect, and depreciation development has been discussed intensively as well here.

So, again, if we end up with 2015 number below 2013, that is, again, better than originally assumed. But we should not be too bullish to expect that we can keep the 2014 numbers, although we have these items I just mentioned even in 2015.

Rajesh Singla - Societe Generale - Analyst

Okay, fine. Thank you.

Operator

Oliver Schwarz, Warburg Research.

Oliver Schwarz - Warburg Research GmbH - Analyst

Just to come back to that unit cost topic, the last time, hopefully, I think, what you just said, would it basically mean that cash costs would be lower year on year, because depreciation is expected to increase year on year, right? So what you would see is rather lower cash costs, or is that incorrect thinking?

Burkhard Lohr - K+S AG - CFO

First of all, you're talking about the comparison 2015 to 2013, right?



Oliver Schwarz - Warburg Research GmbH - Analyst

Right.

Burkhard Lohr - K+S AG - CFO

Yes, generally you're right, but don't forget the OpEx legacy cash cost, of course, as well. It will not be significant -- the trend is correct that you have indicated.

Oliver Schwarz - Warburg Research GmbH - Analyst

Okay. Thank you so much.

Operator

We have no further questions coming through, so I will now hand back over to Dr. Burkhard Lohr for the conclusion of the call.

Burkhard Lohr - K+S AG - CFO

Thank you. Ladies and gentlemen, let's summarize. The markets in potash remain positive; our legacy project continues to make good progress; we are keeping our costs under control with our Fit for the Future program; and we are ready for the, hopefully, harsh upcoming winter season. So I think we indicated that we are optimistic with regards to the rest of this year.

Thank you very much for joining us today.

Operator

Thank you. That will conclude today's conference. Thank you for your participation and have a pleasant day.

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