

# WORLD TELEVISION

K+S Group

Presentation of 2015 Results - 10th March 2016

**K+S GROUP**

**Norbert Steiner, Chief Executive Officer**

**Dr. Burkhard Lohr, Chief Financial Officer**

**QUESTIONS FROM**

**Christian Faitz, Kepler Cheuvreux**

**Joel Jackson, BMO**

**Yonah Weisz, HSBC**

**Sophie Jourdier, Liberum**

**Stephanie Butler, Bank of America Merrill Lynch**

**Jean-François Meymandi, Morgan Stanley**

**Thomas Wrigglesworth, Citi**

**Lutz Grüten, Commerzbank**

**Markus Mayer, Baader Helvea**

**Peter McKay, Exane BNP Paribas**

**Oliver Schwarz, Warburg Research**

***Presentation***

**Norbert Steiner, Chief Executive Officer**

Good afternoon, ladies and gentlemen in Europe, good morning to the US and Canada. Welcome to our presentation of the full year numbers for 2015.

We have changed the format to a conference call rather than a physical event to make it more convenient and efficient for everyone. As mentioned, our CFO, Burkhard Lohr, will lead as well as the Head of Finance and Accounting, Jörg Bettenhausen, and Thorsten Boeckers and Martin Heistermann from Investor Relations.

We are currently facing a tough market and violent in many respects. Overall, there has been a major decline in broader commodities markets, leading to very volatile prices and subsequent uncertainty. However, unlike hard commodities, we do not see a structural imbalance in agriculture and continue to see strong demand for soft commodities.

Of course, ample harvests and therefore decreasing prices in the last two years have led to lower farmer income. Potash prices were also under pressure. The macroeconomic situation in emerging markets made it difficult for farmers to secure loans, especially in Latin America. There is some improvement with regard to the situation, but the absence of contracts with major countries like China, and fierce competition in all of these markets have contributed to price declines between fertilizer seasons. In addition, our salt business unit has suffered from the mild winter on both sides of the Atlantic.

But on a positive note, we still strongly believe in the attractiveness of the markets we are active in. Despite temporary setbacks, the underlying trends are intact. Because we are used to it, and because K+S has the right set-up, we have become pretty good at managing these cycles.

And, ladies and gentlemen, we have also seen the first tentative signs of a recovery in the potash market. Of course, these are only early indications, but they make me more optimistic than a few weeks ago.

2015 was overall a solid year. The EBIT improved significantly versus the previous year and met our guidance. The mild winter in the last quarter is the reason why we only achieved the lower end of the €780 to €830m euro range. Our shareholders will benefit as we will propose a dividend of €1.15 to the AGM. This will be an increase of 28%. Nevertheless, difficult times are ahead of us, but as I said, we will do our utmost to weather these.

Our management agenda, introduced to you at our Capital Markets Day last November, provides a clear framework, so let's have a closer look at current developments with regard to this.

Please go directly to slide 5. Here is our task list for 2016 and the coming years. As you know, one of our top priorities for this year is successful commissioning of the Legacy site in summer and holding the first ton of potash in our hands by the end of the year. Legacy will bring K+S to the next level in terms of cost competitiveness and growth

potential. Together with our production in Germany, our strong footprint in Europe and our unrivalled salt business, K+S will be well positioned.

Let's go through it items by item, starting on slide number 6.

I was personally on the Legacy site just a few weeks ago, and also Burkhard Lohr recently visited the premises. Both of us were impressed by the progress we are making. Significant parts of the production facilities and storage warehouses are finished, as are administration and maintenance buildings. We have commissioned four pads on the wellfield to develop caverns and made good progress on the planned Port Moody harbour facility near Vancouver, which will be the most modern potash handling facility in the world once it's ready.

Clearly, there are still many moving parts of the Legacy project. However, the team is confident and very committed to keeping it on time and on budget. 80% of the total CAD4.1bn has been invested. This means that 2016 will be the last year with elevated capex before we see revenues.

Our goal of celebrating some kind of commissioning event in summer this year, and producing the first ton of potash by the end of 2016, is still in place and we are on track to achieving it.

Slide 7. Another item on our agenda is managing our environmental footprint, which is a major issue, especially in Germany. We have achieved a great deal with regard to the reduction of saline waste water by investing about €400m. As you know, this was only the first step. We have committed to an additional investment of around €400m according to the Four-Phase-Plan. This includes the already started construction of the Kainite Crystallization Flotation Facility to further reduce salt water, ready to use from 2017 on significantly.

On top of that, covering stock piles and building a temporary pipeline are additional measures to improve water quality of the rivers Werra and Weser. We stick to this plan, despite there is currently plenty of noise around that issue. The successful implementation of those measures could make the deep or deeper injections redundant by 2021. As we are not yet there, it is crucial to secure a permit until then, as soon as possible.

As you are aware, we have been granted a transitional permit until the end of 2016. This permit includes limited daily and monthly volumes and in total volume it's below what we would need for a full year. Maintenance of production is therefore an everyday challenge and means a lot of hard work for our colleagues at the Werra plant.

To date we have not experienced major interruptions as the water flow of the Werra River was and is sufficient to discharge excess liquid residues. However, as we are approaching spring, with less rainfall, there may be a need to at least partially suspend production. We expect this issue to be solved by summer and will keep you posted.

Please turn to slide no. 8. Our costs are under control. Fit for the Future exceeded the goal for 2015 and is also on track for the current year. By now more than two thirds of

the target savings have been realised. In the potash and magnesium business unit we are interested in using an IT support system for central production management and commissioned new hydrostatic machines to slow operating costs in our mines.

In our salt business we have reduced costs for packaging materials - only examples.

We will not stop there. Fit for the Future officially ends this year, but the accelerated effects of the initiated measures will be felt over the next years, and as we respond to uncertain market conditions, we are also striving for incremental cost savings in 2017 and '18.

Now please turn to slide no. 9. We are also making good progress with our Salt 2020 strategy. Let me provide you with some examples.

In respect of growth: K+S Chile advanced its copper leaching business in spite of significant decline in copper prices. Our solutions will help producers to reduce costs in the leaching process.

Morton Salt successfully continues marketing of premium products supported strongly by the tremendous brand equity in the Umbrella Girl in the US and Windsor in Canada.

In respect of efficiency: Esco introduced new processes and organisational structures to become more flexible in order to better react to volatile weather patterns. Morton completed two thirds of its core programme, which aims to improve operational efficiency significantly.

We are on track to reaching our 2020 goal, the sustainable EBIT contribution of more than €250m per year. As we achieved an EBIT of €266m in 2015, you may say that we can check this box, but please don't forget that a €250m goal is normal life for winter de-icing effects. In other words this is based on long term average volume and pricing data. 2015 in reality benefited from two consecutive winters, last year and the year before.

All in all, we continue to execute our strategies and teaching initiatives in the salt but we are on track to meet our 2020 financial goals.

Ladies and gentlemen, this is it for my part of the presentation. Before I will hand over to Burkhard Lohr, let me make a remark with regard to the current news flow on the investigation conducted by the prosecutors of Meiningen. The company remains convinced that it lawfully obtained the permits granted for the injection of saline wastewater into the Gerstungen underground for the year 1999 to 2007. The continuing audit by the external law firm conducted on behalf of the company in recent months has revealed that no evidence of criminal conduct is present. Against this background, the company sees no need to implement any precautionary financial measures, for example in the form of provisions.

It remains to be said that in case of an indictment, the court responsible will decide in interim proceedings whether there are sufficient reasons to admit the accusation and

conduct a trial. The company will not comment further on these proceedings and neither will I.

Now, Dr Lohr, the line is open for your comments on the Q4 numbers and our outlook.

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**Financial Review**

**Dr. Burkhard Lohr, Chief Financial Officer**

Thank you, Mr Steiner. Ladies and gentlemen, once again welcome. I will start with the key developments in the P&L on slide 11. We saw a pleasing EBIT development in the first quarter of 2015, thanks to higher volumes in potash, better salt pricing and currency effects. Those effects were partially offset by a mild winter, which hampered the EBIT in salt.

What probably catches your eye here is the financial result which turned out to be positive for the quarter. The two main reasons were higher interest rates on mining provisions and the capitalisation of interest costs for Legacy.

**GAP IN RECORDING**

Sorry, we had some technical problems here; I'm not sure whether you could listen to my comment to Slide number 11. That's why I start once again.

I think it's important to highlight that we saw a pleasing EBIT development in the first quarter of 2015, thanks to higher volumes in potash, better salt pricing and the favourable currency development. And I also said that those effects were partially offset by a mild winter, which hampered the EBIT in salt.

What probably catches your eye on that slide is the financial result which turned out to be positive for the quarter. The two main reasons were higher interest rates on mining provisions and the capitalisation of interest costs for Legacy. The tax rate was mainly lower than last year due to less profit in North America because of the mild winter and Q4/14 included deferred tax liabilities due to a tax reform in Chile.

But finally we move on to slide 12. The cash conversion of our business has remained strong. We continue to invest heavily in the Legacy project, however, our free cash flow was once again negative and our net debt increased accordingly.

Besides Legacy, environmental capex is also ramping up. Nevertheless, 2015 clearly marked the capex peak.

Now move to slide 13, please. Potash and magnesium market are showing overall rather low activity at this point. Customers are mainly using inventories. In addition, overseas markets are awaiting direction for major contract arrangements.

Underlying pricing in Europe is quite stable. Our average selling price in that region declined, mainly for reasons related to product mix. We were able to sell good volumes in the fourth quarter, especially in overseas markets. SOP continues to generate a good premium versus MOP. However, we have certainly seen the pricing peak here.

Now slide 14, please. As I mentioned on the slide before, year-end volumes were quite good. Together with a strong US dollar, this led to an increase in EBIT. The year over year increase in opex was driven by Legacy. Despite positive currency effects, the average selling price was on par with the fourth quarter of 2014, due to more sales in

overseas and product mix. Costs per ton improved both year over year and quarter over quarter. Higher sales volumes and our savings efforts greatly contributed to this.

Please turn to slide 15. The salt business faced headwind from significantly lower de-icing volumes due to the mild winter in the last quarter of 2015. We were once again able to leverage our diversified product portfolio. Food grade salt as well as salt for chemical and industrial applications showed stable volume development. We are experiencing higher average prices there, mainly thanks to our premium products.

Slide 17. On the last two slides you will refer to our guidance. First of all, here are our main assumptions for 2016. We expect global potash sales volumes at the level of last year, which was around 64 million tons. Please keep in mind that our calculation includes 4 million tons of SOP and other specialties. K+S sales volumes are expected to come in slightly below 2015; this is partially due to possible temporary interruption at our Werra plant because of limited ability to discharge liquid residues. This may also be due to prevailing market conditions.

Due to the current market environment, we expect a significantly lower average selling price. Given the mild Q4 and below average Q1, our salt business may face lower demand for de-icing salt. We don't expect non-de-icing volumes to offset this. Having said that, we expect an overall significant decline of the EBIT I in 2016. Both business units should be significantly below 2015 for the reasons mentioned above.

As you know, we are not disclosing a concrete number or range at this point in time, but are showing an indication of the main contributing factors.

Let me conclude with our mid-term guidance on slide 18. The Legacy project, Salt 2020 and Fit for the Future are crucial for growth of K+S in the coming years. Of course our mid-term aspiration appears ambitious in an environment with declining soft commodity prices and increasing supply. Nevertheless, and despite the current turmoil in the potash markets, we strongly believe that the mid-term and long term fundamentals of our business remain intact. We also strongly believe that the current decline in potash prices, especially in overseas markets, is not sustainable. We will continue to aim for achieving an EBITDA of around €1.6bn by 2020.

Ladies and gentlemen, thank you for your attention. This concludes our presentation and the line is now open for your questions.

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**Questions and Answers**

**Operator**

The first question comes from the line of Christian Faitz from Kepler Cheuvreux.

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**Christian Faitz, Kepler Cheuvreux**

Yes, hello, gentlemen. Just two questions from myself, please. First of all, in salt, I notice that your capex was notably up Q4, specifically at €61m. In your Annual Report you allude to some projects both in Europe as well as in the US. Can you please elucidate on these and were these all projects in Q4 or is there more to come in 2016 in terms of capex?

And then, second, in potash. Can you please share with us your observations of how the application season in Europe has started so far? Yara last week reported about very wet

conditions across Europe, preventing farmers from doing their early fertilizer toppings. Do you share this view? Thanks.

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**Norbert Steiner, Chief Executive Officer**

Norbert Steiner speaking. I'll start with question number 2. If you look around, at least in Germany, but also in many other areas and countries of Europe, you'll see that there is also a lot of liquidity and wetness on the fields. And from that perspective it does not surprise me that Yara comments on that in a way that is visible. I would say that today, on 10th March, we have experienced such situations also in times of long winters, and from before that background, I am not really anxious and desperate to see the situation as it is. There is still time that the normal application may take place, and we think this is something that is going to happen in Europe.

So no panic from our side. It is also in the long term view, which I have over 20 years, it is not really late; it is in the average as it is today. So we are not afraid of that, and we think that the farmers still have a lot of time to apply fertilizers. Even when it comes to April or so, the spring season is still achievable.

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**Dr. Burkhard Lohr, Chief Financial Officer**

Now, Mr. Faitz, to your first question. It's a matter of fact that we always see the main focus of the capital volume in the fourth quarter. There's a lot of measures incorporated here in this number, both in North America and in Europe.

Just to give you a flavour, we secured our production at the Borth site in Europe which was one capex focus in Europe and a lot of core measures have been started that means, for example, that we have measures to open up a deep mining level at the rock salt site at Weeks Island. But there are more examples besides that. The fact is Q4 is kind of a focus, highest level. You should not take this as a run rate for the next quarters to come.

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**Operator**

The next question comes from the line of Joel Jackson from BMO.

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**Joel Jackson, BMO**

Hi, good afternoon. Could you tell us - you know, we've seen some sales in Brazil for potash, for MOP down at 2.10, 2.20 a ton, if people are making money at these prices? And are you willing to take little or no profit on offshore sales and run full out if you continue to make good money on specialties, European sales and salt? Thanks.

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**Dr. Burkhard Lohr, Chief Financial Officer**

We generally, you know, do not comment on exact prices, and from that perspective I need to disappoint you that I don't comment on the 2.20 you mentioned. We are doing the business in the way that we - as you know we focus on several areas - Europe, but of course all of these, Brazil. And at the very end we want to have an optimum of return and maybe also financial effectiveness. From that perspective, we decide as the case may be to focus more on Europe, to focus more on Brazil. And this has always been the mixture of our pricing and sales policy in the past and we'll continue to do that.

Nevertheless, we try to increase the volume of our so-called specialties, and due to that we still focus on SOP and Kieserite and, particularly in Europe, Korn-Kali, etc., etc.

But I think this is too far going to tell you exactly the figures that we use and what it means with a view to our overall P&L which is still on a level which we find appropriate in the time being.

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**Joel Jackson, BMO**

Okay, thank you for that. And maybe a little more generally though, pursuing some of the issues with wastewater disposal, some of the current potash prices, I mean, would K+S be considering here to maybe pull some tons out of the offshore market, reduce some production here, focus more on Europe and where your net backs are? And would this decision be easier in 2017 as Legacy starts to ramp up volume?

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**Norbert Steiner, Chief Executive Officer**

First of all, we are compared to those big suppliers that you see in the world and which you are referring to, we are rather small when it comes to the MOPs, the sales volumes, etc. We have seen in the last year a couple of issues where we were not able to produce fully, but we are not talking about that very loudly at the present. For example, in summer time we had very low water levels in the Werra and the water temperature was too hot that we needed to stop our production for quite a while. We have lost production or we were not able to produce for three weeks in December - at least fully - at our plant in the Werra due to the fact that the situation occurred that we did not have the deeper injection permit just in time. And as we have mentioned that we do not see and do not know whether maybe from April onwards, as the permit might not be there in time, we will have a situation where we cannot produce fully. It might happen that also in these times we need to cut back production due to that fact.

And as this is something that then automatically reduces the output from the K+S operations, we see first of all what does it mean for the overall market, what does it mean as a contribution to the situation in the overall markets. Therefore, we will not go out with the ritual announcements to say we are cutting back production.

Maybe the production will be cut by external forces and it's also something that contributes to the part. But this is something that you say from today's perspective and let's look a little bit further into the market situation and then we have always reacted properly in the past.

Once again, your question pertains primarily to 99% to the MOP market where we are not a dominant player.

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**Operator**

The next question comes from the line of Yonah Weisz from HSBC.

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**Yonah Weisz, HSBC**

Yes, hi, good afternoon. I've a couple of questions on potash and a couple on your balance sheet.

If we start on the potash or particularly the specialty products - the pricing per ton of your specialty fertilizer products, excluding SOP, seems not to have moved too much

during 2015 compared to the other types of specialty fertilizers in the market - SOP MPK, nitrates, and so on and so forth. So I'm wondering if you could give some more detail about what drove your specialty business, excluding SOP, during 2015? And what demand and pricing again for your specialty products, excluding SOP, looks for in 2016?

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**Norbert Steiner, Chief Executive Officer**

It is obvious that prices of our specialties in part at least are following to some extent also the price of potash, with the exemption of SOP in the last years. And we ever made a secret of the fact that there is also a good chunk of specialties that do not contain potash at all, that have a lower price than potash.

With a view to that, we are always trying to improve the output and also the pricing on that, but as I've said before with a view to pricing exactly, we never release at once any let's say trends and data on what we might see there. So it is something which is available to us due to the fact of our rock salt and the raw material in the ground, and we make the best use of it.

But so far we have concentrated on the - let's say the production of SOPs and this of course is eating up also single specialty fertilizers and as we have seen, the most important return on sales out of the combination in the SOP. So it's very abstract figures, but the number of specialties that we have for pharmaceutical purposes, for let's say also human consumption for industrial purpose is so big that the price developments there are also very much dependent on the situation of the respective markets.

This is, let's say, the burden which we share, intentionally, and which we like to share, due to the fact that we are not just talking about one or two products- MOP gran and MOP standard, and therefore it is a very broad range what we need to contemplate. But as long as we have it done in the way we did it, it's positive and it will continue to be positive.

Please remember that we always have also pointed out to the fact that these kind of products have never seen - at least when you look back in the last ten years - this high volatility price of MOP, and therefore we cherish very much this stability. And it might lead to the fact that, in case MOP prices are increasing significantly, developing on the level that they have reached stay where they are. But they're also not dropping that way. And this is something that you can take from also charts that we use in the financial markets.

So this is our way to deal with our rock salt, with the products that are coming out of that, but it is something that needs to be seen in parts coupled, but also in parts decoupled development and pricing compared to MOP.

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**Yonah Weisz, HSBC**

Okay. And I guess a follow-up on that - in the past on these phone calls on results you have mentioned that you have around 800,000 tons capacity of SOP, and it would be I think difficult for you to increase that. But just a moment ago in response to a different answer, you suggested that you may be able to increase volumes of specialties. I'm wondering - are you still at 800,000 tons or how does that work?

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**Norbert Steiner, Chief Executive Officer**

I talk about our general strategy in potash when I say we want to enhance the number and the volumes or the percentage of our so-called specialties. 800,000 tons around

that is doable, but I need to be a little bit more technical, as it depends on which site we produce the SOP. The one site needs a certain different, let's say, combination percentage with MOP and magnesium sulphate than the other, therefore it is also something that varies a little bit. But 800,000 plus, that's what we have right now in our hands, and this is what we will continue to do. There is no real chance - and this is still true - to extend the SOP production capacity in Germany significantly with the layout of the plants that we have.

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**Yonah Weisz, HSBC**

Okay, thank you. Two quick balance sheet questions, if I may. First of all, given the varying exchange rates over the past couple of years, what would you say would be in the end the value of Legacy, in euros, on your balance sheet or on your books - once it's complete? And what about depreciation? What would you expect to see in 2017, 2018 the first operating years for Legacy?

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**Norbert Steiner, Chief Executive Officer**

Yes. I guess when you were talking about the value of Legacy, you talk about the book value. The value will be roughly €3bn. And we wouldn't like to give you a precise number for '17 and '18. I think we are already very transparent with our forecasts, but to give you the precise numbers, it's a bit too early.

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**Yonah Weisz, HSBC**

Okay, fair enough. And the last thing, if I may. On your balance sheet for the end of 2015 you have extremely low cash levels. I'm wondering if you could just share the process or the amount and so on and so forth that you're going to be borrowing to finance the last portion of Legacy? And would you say what is the minimum cash balance generally that you need to keep on hand to run the whole entire company?

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**Norbert Steiner, Chief Executive Officer**

I wouldn't call it extremely low cash at the end of '15. We still have a cash portion, and that means that our syndicated loan of €1bn was totally undrawn at the end of '15. So we have significant headroom. That's the one part of the answer. The other part - taking into account the current market conditions, especially when it comes to debt, it might be useful to actually manage our debt instruments, and maybe not fully draw the credit facility. And that's what we, as I said, actively are working on currently.

But we are not in a hurry. There's no pressure. We are in a very good financial position, and as I said, fully undrawn credit facility. But maybe, again, there's a more clever way to deal the last capex portion of Legacy, without fully making use of our credit facility.

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**Operator**

The next question comes from the line of Sophie Jourdier from Liberum.

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**Sophie Jourdier, Liberum**

Thank you. I've got three questions, I think. First question. Can you just explain the 16% I think it was volume rise in potash in the fourth quarter in the overseas market?

It just seems a bit out of whack with what other competitors we're seeing in the fourth quarter when demand is relatively weak. And I think you had quite a strong fourth quarter in the overseas market last year as well. So just explain what was driving that demand growth in the fourth quarter in potash.

And perhaps I'll come back to the second and third questions.

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**Norbert Steiner, Chief Executive Officer**

First of all, it has always been our policy and it will continue to be our policy always in the future that we will not be the ones that are price leaders in areas beyond Europe. We have said - prices are being developed by others in Brazil, in China, in India, and when there is demand, and when there is especially demand that is approaching us, we are able to sell what we have done in the fourth quarter. So what comes out from time to time is that we have achieved these figures only by undercutting prices; this is not the case. I can assure you that from that perspective, we have obviously been approached by customers in Brazil that wanted to have the volumes from our, from resources from K+S, and then we are business people. When we have the volumes available, we sell. This is the quite simple answer to your question.

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**Sophie Jourdier, Liberum**

Right, so I was also wanting to understand which regions it was. I mean, was it Brazil which was particularly driving that or was it south east -

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**Norbert Steiner, Chief Executive Officer**

Yeah.

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**Sophie Jourdier, Liberum**

Yeah, okay, thank you. And then the second and third questions really, just numerical questions. Could you just clarify what exactly the Legacy opex cost was in 2015 and what you expect it to be in 2016? And also, I guess given the surprise on the financial result in the fourth quarter, it would be helpful, if possible, if you could give us some indication on the financial result into next year as well. Thanks.

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**Dr. Burkhard Lohr, Chief Financial Officer**

Okay, opex in '15 was slightly below 70m, and it will be between 110 and 120m euros next year.

Financial results this year. In 2016 - this year - I'm still in '15 partially [laughter]. So financial results that was not a surprise to us. We had three effects. First of all, we have paid back a €750m bond in late '14, so the interest expenses were lower if you compare Q4 '14 and Q4 '15. Secondly, we had a positive impact by the development of the interest rate that we use for our non-current provisions, especially mining provisions. And thirdly we have capitalised a Legacy interest cost, following IRS 23. And these three effects led to what you call a surprise.

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**Sophie Jourdier, Liberum**

Thank you. And just - could you give us any guidance into 2016?

**Dr. Burkhard Lohr, Chief Financial Officer**

Yeah, I think I make it easy. You could expect a run rate of €60m for '16. A financial result of -€60m for the full year.

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**Sophie Jourdier, Liberum**

Thank you. That's great. Thank you very much.

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**Operator**

The next question comes from the line of Stephanie Butler from Bank of America Merrill Lynch.

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**Stephanie Butler, Bank of America Merrill Lynch**

Yes, good afternoon. Thank you very much for taking the question. I have a couple mainly on the guidance for 2015, especially on the capex where you guided for a moderate decline year on year in 2016. Can you perhaps give us a sense of what moderate actually means and then share with us how the capex is split between your European Operations Legacy and salt? And then secondly, on the guidance for salt - just to clarify, you're assuming lower volumes in de-icing, but can I just check what your implicit assumption is on pricing? Is that flat year on year in 2016 and, if that's the case, why is that so? Thanks.

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**Norbert Steiner, Chief Executive Officer**

The part of the question pertaining to salt. It's in part quite easy to develop and to explain. As we have not been able to sell the anticipated volumes of de-icing salt in the first quarter so far, there might be something coming up as we had lower temperatures, minus temperatures. For example, they still use of de-icing salt and this winter is not completely over yet; we see a quite normal tendency.

The first is that those suppliers that have the need to maybe fully, consecutively run their plants as they are - not doing the conventional mining, but make it from crystallisation devices - they need to run these plants. And if they are not able to sell the part order of that in the de-icing salt business, it is being pushed into other areas like industrial salt or salt for the chemical transformation.

And this creates pressure on prices. This is something which is normal in the de-icing business. And secondly, you will also see that the early procurement in summer is suffering from the fact that the volumes that generally would have gone on the streets are there. And this means, when you have lower demand, there is a tendency to lower prices. And therefore we will not indicate because the biddings are not yet out, we will not indicate how this running, in what price it is running. The direction is clear and we will do the utmost to make use of our options that we have from the contracts, maybe contracts let's say shifts from one year to the other year, which is possible. And we will see what the outcome is, but there are ripple effects out of the warmer winter which are normal - volume wise and price wise.

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**Dr. Burkhard Lohr, Chief Financial Officer**

Now your question about the opex development in '16 - capex development in '16. You know that this early in the year we only give a qualitative guidance, not a quantitative, and I'm not able to make the wording moderate decline more precise. But I would like to give you a flavour of where it stands. From the biggest portion is still Legacy, then we have capex in the salt business which is a bit higher than it was in 2015, and we have roughly 120m that we're going to invest into the environmental issues that we have here in Germany. I hope that gives you a flavour and mostly answers your question.

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**Stephanie Butler, Bank of America**

Yes, it does, thank you. Just one final question, if I may. Earlier on the call you said that on SOP we've probably reached the pricing peak. Can you perhaps give us just a little bit more colour on what that means? Are prices currently stable or are you seeing overall decline in SOP prices overall?

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**Dr. Burkhard Lohr, Chief Financial Officer**

Maybe I explained myself in a way that you could misunderstand. I did not say anything about peak prices. It is still for us very attractive for us to invest into the production of SOP. As we have seen in the recent months there were some tendencies, particularly in Asia, where SOP prices were dropping a little bit, but overall from our perspective they are rather stable in those areas in which we concentrate.

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**Stephanie Butler, Bank of America**

Okay, thank you very much.

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**Operator**

The next question comes from the line of Jean-François Meymandi from Morgan Stanley.

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**Jean-François Meymandi, Morgan Stanley**

Hi, good afternoon. Two questions very quick. The first one - three actually, sorry. The first one is of you have to stop production in Germany, how much does it cost you per day, week and in terms of opex? And also to know if your building stock inventory ahead of that to remedy this, and where, how much inventory would you have available?

The second one quickly on the depreciation in potash, can you clarify for me '16, '17 just on a quick thing there? And yeah, that will be it for now actually, thank you.

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**Norbert Steiner, Chief Executive Officer**

The first question once again, on dependencies. When we need to stop our production, we need to see that we will not have the variable cost which will be offset from the entire cost set. If we would be forced to stop production for a while, we would be run or we would use the short term work pattern that means that salaries of the work force are in part paid by the social security systems. But nevertheless, the cost of the production that is remaining will increase. But to be very open, I don't have the figure in mind, and I of course very much feel that these times in which we will not be able to produce potash will not be too long.

So what I can say is that not all of our plants are connected with that problem and that the time in December last year when we were not able to fully run our plant resulted in a reduction of profitability in the very low two digits area. This might give you a certain emphasis - cost and fails, this is everything.

And we are not building up inventories for the particular reason that we will have to stop. We are right now in a situation that are inventories are pretty well filled due to the fact that the spring season has not yet started, but with a view to that, we are running normal and still we cross fingers and hope that we will not be touched too much by the situation that we need to stop production due to the fact that allowances are not there or the water level in the Werra river is too low.

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**Dr. Burkhard Lohr, Chief Financial Officer**

To your second question, depreciation potash '16, '17, again I cannot give you precise numbers, but the following is I think a good indication. Legacy is driving the change of depreciation in the potash business in '16 and '17. As you know we are expecting the first ton of potash at the end of this year, that is when the depreciation starts. So the '16 portion should be a small portion compared to a full year depreciation for Legacy in '17. So there will be a significant step up in depreciation in the potash business in 2017.

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**Jean-François Meymandi, Morgan Stanley**

Okay, and then last one on the opex from Legacy, do you capitalise some or you expend everything?

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**Dr. Burkhard Lohr, Chief Financial Officer**

Some portions are capitalised and some other portions are not capitalised at all.

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**Jean-François Meymandi, Morgan Stanley**

Is it a 50-50?

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**Dr. Burkhard Lohr, Chief Financial Officer**

No, it's not 50-50. The bigger portion will not be capitalised.

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**Operator**

The next question comes from the line of Thomas Wrigglesworth from Citi.

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**Thomas Wrigglesworth, Citi**

Thank you very much. First question, if I may. Looking at your - sorry a bit of a detailed one on the cash flow statement. I was surprised to see in a falling commodity price environment, a draw from inventories of €107m, and also a draw from higher receivables. Could you just help me understand what the driver of that is? Is all of that increase inventory salts that you would have expected to have sold coming forwards and/or what are the other factors driving that? That's my first question, thanks.

**Dr. Burkhard Lohr, Chief Financial Officer**

That's an easy one. Yes, it's entirely salts due to the mild winter in the fourth quarter.

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**Thomas Wrigglesworth, Citi**

And so going forwards, you know, that will just go into other businesses? There's no risk that that has to get written down at a certain point if it doesn't get sold in the first quarter or - how is that going to unravel in 2016?

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**Dr. Burkhard Lohr, Chief Financial Officer**

No, no, no, we're not seeing any risk as you describe. That's normal. It is not the first mild winter that we have been facing, and by the way our inventories are still slightly below the long-term average level. So we are not having an extraordinary high level of inventories or business.

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**Thomas Wrigglesworth, Citi**

Very good, okay thanks very much, Dr. Lohr. Just a second question, if I may, just following on from Stephanie's question with regards to the SOP price. What factors give you confidence that you can see the SOP premium being sustained through the course of 2016? Could you just remind us, you know, what are the end markers there that are causing this premium and, you know, in the light of lower priced alternatives, you know, how you can defend that premium going forwards? Thank you.

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**Norbert Steiner, Chief Executive Officer**

I think it is always the first decision, or the first point that needs to be contemplated is the question of - what is the purpose and what is the advantage of using SOP versus other let's say fertilizers or nutrients?

And so far we are faced with an environment that is very open and willing to supervise SOP all the time. This is not the common agriculture - corn or something like that; it is wine, it is apples, it is fruit, etc., and there we cannot see that any significant price drop has occurred, and with a view to that we expect that SOP demand will continue to be high in 2016.

What we have seen - this is the second remark on that - is that of course this high premium is attracting the one or the other participant in the market to have a bigger share of that. I do not want to talk about the behaviour of competition, but we see that at least the level in which we are, should under the assumption that sales volumes in 2016, will be on the high level since the demand is still on the high level, should be quite defensible in the area in which it is.

Now I do not say that we are - we will be able to further increase it, but from my gut feeling I would also not expect that we would not be able to defend the area - there are ups and downs always in a certain range, but the range in which we are is something that we think should be okay, at least in the foreseeable time in the year 2016.

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**Operator**

The next question comes from the line of Lutz Grüten from Commerzbank.

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**Lutz Grüten, Commerzbank**

Yeah, thank you. Just two housekeeping items left. One is on the opex. The guided range for 2016 of 110, 120m - is it fair to assume that the phasing will be fairly split over the four quarters or will you use one quarter most pronounced? That's the first question.

And the second question is on the tax rate on the full year, given the one-off items we had in 2014 and special effects in 2015. What's your best guess on the tax rating for 2016?

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**Dr. Burkhard Lohr, Chief Financial Officer**

Thank you, Mr Grüten. First of all, you are correct. This opex development will not be a linear function. As the ramp-up of the volumes will not be linear, so we will have a step-up function quarter by quarter. And for the full year we will end up with the 110 - 120m euros opex for Legacy.

And you can expect a tax rate of roughly 28% for 2016.

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**Operator**

The next question comes from the line of Markus Mayer from Baader Helvea.

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**Markus Mayer, Baader Helvea**

Good afternoon, gentlemen. Three questions. First of all, what is your best guess when the Chinese and the Indian contract might be signed? [Laughter]

And secondly - at least I can try - secondly, can you give guidance - maybe you already recently have said more - given more flavour what moderate or significant can mean for a slight decline in the sales level. Maybe a reiteration of this kind of guidance would be helpful.

And then lastly on your Capital Markets Day in November, you elaborated how the forex hedging could work in 2016 and what kind of tailwind this would give you on these currency levels. Maybe you can remind us what you now expect for this year, coming from this hedging strategy?

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**Norbert Steiner, Chief Executive Officer**

Yes, the first question is - once again, you heard my smiling through the telephone. It's quite easy. We are not - we don't yet belong to those people that make their discussions and negotiations. You hear assumptions from time to time that deviate. When I take into consideration what is obviously true in China, that the people expect so far obviously quite high inventories in the harbours would have disappeared in April, then it might be, but it's speculation. It's just speculation. It might be that we see negotiations in that area, maybe in that timeframe and maybe later. But you never know. We have always been sitting there in the path and expecting China to come in March, and they were there on New Year's Eve already. We have said, they will be early and then they have forestalled it due to political reasoning.

So this is only in so far predictable that some imports need to be done in China and some new prices need to be agreed upon.

And India likewise too have seen that they have reduced the subsidies, that they have let's say put a ban on the sales into the country from those - all those that are in. It does not seem to be the case that they will be early, and early means the new budget year starting on April 1st. Also there we need to be patient; this is at least my feeling. And there is no sign that any of the contracts is to be expected before the Chinese one. So we would like to see the outcome all of that, because it is always also for the financial market some kind of basis for the models that you use. But we need to sit there and be patient and hope it's as soon as possible.

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**Dr. Burkhard Lohr, Chief Financial Officer**

To your following two questions, sorry we will not give you a more precise indication of what we mean with our guidance. [Laughter]

Good news - I will update you on the effects of the potential currency developments. Our colour structure makes our business model quite robust when it comes to these effects. Our assumption is one tenth of the US dollar. If this will be the case for the rest of the year, we gain an amount slightly below €30m compared to 2015 of course. And if we would see parity in the average for the full year, we would gain €70m. And even if the dollar weakens to 1.20, we would have no negative impact from that. So it would be close to zero the impact.

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**Operator**

The next question comes from the line of Peter McKay from Exane BNP Paribas.

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**Peter McKay, Exane BNP Paribas**

Good afternoon, everybody. I've got three questions left. First, I wonder - apologies, I may have missed it. But could you talk us through what the tentative signs of recovery are that you're seeing in the potash market, please.

Secondly - I'm not sure whether you're willing to talk about this - but I wonder if you have a few words about Andreas Radmacher's departure and whether that triggers any difference in the way you're approaching the PMP business at all?

And finally, we touched on some of the PMP cost effects, some of which you've discussed - Legacy opex; some of which you've not discussed - the depreciation effect. But could you talk - I mean, do you expect any impact on freight costs from lower oil prices? From changes in variable comp - 'cos I think last year there was an increase in bonus accumulations. So how do you see that developing in 2016 versus '15?

And I think there was also some oddities around hedging costs and things like that in the PMP cost line. Could you just give us some guidance on that '16 versus '15, please?

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**Norbert Steiner, Chief Executive Officer**

Yes, I give my colleague a little bit of time to put all these figures together that are connected with the answers to your questions, and therefore I try to answer the first

questions with a view to the tentative signs from at least our German language background, with very careful words.

We thought we should share that with you, and as you know that we are generally a company that tends to be very prudent when it comes to outlooks, etc., etc. It means that we have seen let's say positive price developments in Brazil. This does not mean that prices are jumping \$100 up or so, but it seems to me that they have bottomed out on the way back to slightly increase. We see some kind of good stability at least in Europe, and all this together makes us confident that these words that we have used are well based. But once again, they are still extremely cautious and we need to see whether this trend will be maintained. But we believe there are chances that this happens.

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**Peter McKay, Exane BNP Paribas**

So you are seeing some very small price improvements in Europe at the moment?

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**Norbert Steiner, Chief Executive Officer**

I talked about Brazil. I talked about stability in Europe. But, once again, one question - one early question raised - it is very wet in Europe and we are still ahead of the spring season here. We are selling some material like Korn-Kali into the market, which is very much desired from the customers. It's a special European product. And this is running very well. But the test of these tentative signs will be done in the next four weeks, but we have considered that it is a language that deserves to be included in our report on the results of 2015.

I'm sorry I was already expecting Burkhard Lohr to take this. No, what you have seen is the press release that was agreed upon between the Supervisory Board who is dealing with the matter, of members of the Board of Executive Directors and Andreas Radmacher himself. And this is the language that they have agreed upon. I have no intention to deviate from that. When you have seen furthermore that we expressed our gratitude to these activities, I think this is also something that stands for itself and I do not need to add something else. So this has nothing to do with any development in markets or so.

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**Dr. Burkhard Lohr, Chief Financial Officer**

You also asked for the development of some cost items. First of all, freight and energy costs have taken a very favourable development over the course of the last couple of years, and we expect a further slight decrease in '16 for both cost items - maybe between 3 and 5% further decrease of freight costs and energy costs.

SDI is of course a very little part of the payments, and as we expect significantly lower earnings and cash flow, this will lead in significantly lower SDI costs as well.

And last, but not least, you asked for the hedge impact that is always due to the volatility of the US dollar. We have seen, comparing '15 to '14, roughly 20 cents from the US dollar. This had a very positive impact on the bottom line, but in the pure hedging costs line it was negative. If we would stay on the assumed 110, we wouldn't see such a big number again. So all four cost items should have a positive development for us in the course of 2016.

**Operator**

The next question comes from the line of Oliver Schwarz from Warburg Research.

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**Oliver Schwarz, Warburg Research**

Good afternoon, gentlemen. Only two small questions remaining. First of all, I'll come back to the expected capex for salt. I read in your Annual Report that you are looking for a significant increase in investment in 2016. That didn't really fit with what you told Christian Faltz at the beginning of this call. If you could please clarify what kind of investments we are to expect and if there is a major top up in some regard, what's the reason behind it. That would be my first question.

And secondly, observation from my side. I heard at least that barter trades in Brazil have increased due to the liquidity constraints of the farmers there - so basically trading grain for potash and other fertilizers, especially with the North American producers. And they seem to match that via a third party. Would that keep you out of the loop, or would you be willing to agree to barter trades to stay competitive with the North American and most likely with the Russian or Belarusian producers as well? Thank you.

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**Norbert Steiner, Chief Executive Officer**

Second question. Answer - I have now been with K+S since 23 years or so, and I cannot remember any barter business that we did with a view to Brazil in a bigger sense and a bigger volume. And from that perspective I expect that we will be competitive in Brazil, also without engagement in barter trades.

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**Dr. Burkhard Lohr, Chief Financial Officer**

And to your capex question, yes, you are right. Percentage-wise we are talking about a significant increase. Due to the reasons that I mentioned, we have all bundled in Salt 2020 some activities. I gave two examples earlier. Score is another topic incorporated here. But the total number is compared to our capex budget really minor. They are coming from under €120m in '15, and a significant increase would be 20 or 30 million euros more. But again, compared to our total budget, it is a minor increase.

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**Oliver Schwarz, Warburg Research**

Perfect. Very helpful. Thank you.

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**Operator**

Thank you. This was the last question. I want to hand back to Mr Norbert Steiner for the conclusion of the call. Please go ahead.

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**Norbert Steiner, Chief Executive Officer**

Okay, thank you very much for your participation and your colourful questions and the answers to put more life on that what you see. As always we are very early in the year, and you know our policy that we start very roughly and then we are even more precise when it comes - a little bit more precise when it comes to the release of our first quarter figures in the context of our AGM in May, and always at end November even better and even more concrete.

So I think this has been a challenging year in 2015 in many respects for the K+S Group, for the overall markets both in potash and magnesium products as well as in salt. And a positive start into the year is significantly, volume-wise in de-icing salt below, and price-wise below in the potash business. And therefore it should be a good chance that we improve the situation in the course of the year. This is at least our desire to do the utmost to contribute to that and let's see how it happens. We do the best to deliver good value to our shareholders.

Thank you very much for your questions and hope to see you soon. Goodbye.

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