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Financial Statements
Press Conference K+S AG

Fiscal year 2016

Norbert Steiner
Chairman of the Board of Executive Directors

Dr. Burkhard Lohr
Chief Financial Officer

The spoken word is binding.
Ladies and Gentlemen,

We warmly welcome you to this year’s Financial Statements press conference.

I will first tell you about the basic data for financial year 2016 and then address ongoing projects and initiatives. Then I will address the implementation of our management agenda, in particular our *Legacy* Project, the strengthening of our business in the potash and magnesium products segment with specialties and, finally, the current developments in the saline wastewater disposal.

Dr. Lohr will discuss the strategies of our business units and bring you up to speed with our cost-cutting measures. He will also present our outlook for the current year and speak to our medium-term prospects.

After that, we will be happy to answer your questions.
Regarding the **key figures for 2016:**

The environment for our operating business was anything but favorable. Neither the weather nor the global potash market were on our side. In addition, we were confronted with the considerable effects of the limited and, ultimately, unavailable injection option for the Werra: this alone reduced the K+S Group’s result by nearly € 200 million.

The consequence: in 2016 we were unable to earn our cost of capital, **Group sales** fell to € 3.5 billion and, at 30 cents per share, the proposed **dividend** declined significantly. The **payout ratio** of 44 per cent would nonetheless lie within the payout corridor that we fundamentally seek to achieve – between 40 and 50 per cent of adjusted Group earnings.

Despite the adverse conditions, we managed to generate **operating earnings** of € 229 million. One of the reasons for this is our successfully completed **Fit for the Future** program. We, K+S, have once again demonstrated that we can get through difficult times.
Let’s have a closer look at our two major business units, starting with **Potash and Magnesium Products**: 

As mentioned, we are facing particular challenges here. Due to the limited injection volume and at times, the low Werra water flow, we had to cut production substantially there at our combined plant. The **Hattorf** site alone ceased operation for over 200 days in 2016 and only the **Wintershall** site was able to produce continuously. At the height of the suspensions, more than 1,000 of our miners and employees above ground were on short time-work.

Alongside reduced production, another reason for the approximately 11 per cent decrease in sales volume to around 6.1 million tons, was our customers’ buying restraint in the first half-year: in many places they still had large stocks at their disposal, while the spring application did not begin until relatively late in some regions. Furthermore, many customers initially waited to see how prices, which had increasingly come under pressure especially overseas, would continue to change.

After major potash producers had concluded contracts with Indian and Chinese customers in the middle of the year, demand revived and consequently prices increased...
again. However, in terms of the annual average, the price level was lower than that of the previous year.

Nor were our fertilizer specialties able to escape the declining price trend for plant nutrients containing potash. The decrease in this segment was, however, lower in percentage terms. Despite the tangible earnings decrease in the Potash and Magnesium Products business unit overall, K+S once again benefited from the fact that we are more diversified than the majority of our competitors.

Let me now turn to the **Salt business unit:**

For the first time in the history of K+S, this business unit emerged as the driving force of our Group: the challenges faced by the Potash and Magnesium Products business unit were compensated for last year by a strong salt business. This is impressive evidence of the effectiveness of our two-pillar strategy and of the strength of the K+S Group.
From within the Salt business unit, we profited from our strong product portfolio: it generated over half of its operating earnings with salt, which is not only used for road safety. A development completely in line with the business unit to reduce its dependence on the de-icing salt business – we will return to this subject later.

The business with consumer goods, such as table salts and water treatment salts, continued to develop positively, especially in the premium segment. In North America, demand for e.g. sea and kosher salts once again increased. Our industrial salts and salts for the foodstuffs industry enjoyed almost the same positive sales in most regions, while salts for pharmaceutical applications even experienced growth worldwide.

This was in spite of the fact that in the Salt business unit we had to accept decreases in revenues and operating earnings overall.

This was due to winter road maintenance services that were significantly weaker than in the previous year: both North America and Europe enjoyed a very mild start to 2016, meaning demand for de-icing salt fell and with it the price level for the early stocking-up business in the second and third quarters. While the fourth quarter of 2016 saw more snow than the exceptionally mild same period a year before, here too the sales volume remained below the long-term average: in terms of the year as a whole, we sold approximately 15 per cent less de-icing salt than in the previous year, and the average price of this product segment remained tangibly lower than it had been a year before.

So much for the KPIs for the financial year 2016.
Now to our management agenda.

Behind me you can see a chart that we showed you, in similar form, at our Financial Report Press Conference last year.

The difference is this. Over the past year we have made significant progress in implementing the tasks we set ourselves. We have achieved many partial goals, and are on the verge of already completing one project successfully!
I am referring to **Legacy** - our new potash plant in Canada. This plant gives us every reason to be confident about the future of our company. It will lower our average production costs and ensure we have access to high-grade resources for generations. Anyone who has visited this plant in recent weeks or months will be able to confirm that what we have created in the Canadian prairies in just a few years is simply wonderful!

As you know, production will commence in the second quarter of this year. We will probably see the first ton of saleable product in June. We still expect to have the target production capacity of 2 million tons available by the end of this year, despite the incident at Legacy last summer. Let me remind you: in July 2016, a process vessel came away from its fixing during a routine test and fell to the floor, which caused considerable damage but thankfully no injuries.

As things stand, we do not anticipate any change to the budget of around €3.1 billion planned in 2013. This is, I believe, an extraordinary achievement given the complexity of such a large-scale project!
Except for the area affected by the incident, all construction work has now been largely completed. Six pads – that are groups of each nine caverns – were built, connected to the facility and are ready for production. The tracks for the railroad connection have all been laid and the first 500 rail cars have been produced and handed over. The construction work on the storage and loading facilities at the Port of Vancouver is almost complete.

In short: we are well on our way to offering, from Canada as well, our customers high-grade plant nutrients and, later, potash for a wide variety of applications – products needed throughout the world.

Furthermore, we are also making good progress in those areas in which we differ from our competitors: with the purchase of Huludao Magpower in China and our holding in Al-Biariq in Saudi Arabia we are bolstering our specialty business in a very targeted way. I shall address these two acquisitions in detail.
Demand for magnesium sulfate is growing, particularly in Asia, and with the acquisition of Huludao Magpower we can profit from this. This product is used as a fertilizer for crops such as oil palms, soy beans and sugar cane as well as for industrial applications. In the long term, we envision a market potential of approx. 1 million tons per year in China alone. Our new site in the north-east of China currently produces around 90,000 tons of synthetic magnesium sulfate annually – and that capacity could be doubled to 180,000 tons in the foreseeable future.

By acquiring Al-Biariq we hope to expand our business with fully soluble potassium sulfate. SOP water-soluble – that’s the short name – is used, for instance, as a fertilizer for fruit and vegetables. The application of liquid plant nutrients or those that have been dissolved in water is called fertigation: the fastest growing segment of the fertilizer market. With the volume from the state-of-the-art production site on the Red Sea we can participate in the growth of that market in the Middle East, East Africa and South-East Asia. At present, the annual capacity is about 20,000 tons of SOP. We also intend to double that - by the end of this year.

Ladies and Gentlemen,

In addition to these acquisitions and interests abroad, let there be no doubt that we remain committed to our production sites in Germany and will continue to invest here too. However, in order to make the most of our sales opportunities in certain markets and/or add to our product range, we are pushing ahead with the internationalization of our business. The entire Potash and Magnesium Products business unit stands to benefit from this and therefore it will also help safeguard our jobs in Germany.
If we are to secure production in Germany in the long term, we also have to consider the legal approval conditions; especially environmental regulations under which we are permitted to conduct our business in this country.

It is good that since the start of this year we again have the option of saline wastewater injection at the Werra combined works. This is an important step in the direction of more secure production for our potash production in Germany and also, against the backdrop of the approved application we submitted as far back as April 2015, a long-awaited decision.

But despite the relief: the agency has approved a distinctly lower annual injection volume than we applied for. Strict limits have also been imposed on the permitted volumes that can be injected daily. The permit also includes a number of auxiliary conditions. All of this significantly reduces our flexibility in waste water management at the Werra plant.

Unfortunately, production in 2017 will not be ideal. We have already seen this in the first weeks of this year. The Hattorf site was unable to produce from January 21st to February 14th. However, kainite crystallization with subsequent flotation, or KCF for
short, will bring about significant improvements: the plant is currently under construc-
tion and from 2018 the volume of wastewater will decrease further by about 20 per
cent.

In order to limit the impact of more restrictions on production when the threshold lev-
els in the Werra are low, we continue to work intensively on implementing additional
wastewater disposal measures.

In the Springen mining field, we have already temporarily stacked saline solutions
since last August. November 2016 saw the start of the introduction of tailing pile run-
offs into the disused K+S-mine Bergmannssegen-Hugo. Since this February, we are
also allowed to flood a cavern of the Bernburg underground gas storage facility with
waste water from production. Added to this is the expansion of storage basin capaci-
ties on site, which continues to increase the flexibility of wastewater management
even more.

Furthermore, we are preparing the applications for the necessary expansion of tail-
ings pile capacity – and examining the implementation of long-term solutions. These
include covering the tailings piles, the underground stacking of saline wastewater in larger volumes and the construction of a pipeline to the Upper Weser.

Ladies and Gentlemen,

On the chart behind me you can see a summary of the measures we will be concerned with this year and in subsequent years. All in all, these activities give us certainty that more progress can be achieved in the future, for the good of the company and the environment.

That’s all from me. I will now hand you over to Dr. Lohr.

Many thanks Mr. Steiner.

Ladies and Gentlemen,
I also wish to welcome you here. I would now like to address the strategies of our business units, strategies that are to a considerable extent determined by the goals set out in our management agenda.

Last year we revised the market strategy for our **Potash and Magnesium Products business unit**. The focus is now on expanding the specialties product portfolio. The acquisition in China and investment in Saudi Arabia mentioned by Mr. Steiner are the first steps in the implementation of this initiative. They have strengthened the business unit’s product portfolio, while at the same time opening up new sales regions. We will continue to follow this path in order to generate additional, profitable growth.

But new ideas are always welcome: new business sectors and markets can also be opened up through product differentiation and additions to our portfolio, beyond potassium, sulfur and magnesium. That is the guiding principle of the business unit when the three commercial units, **Fertilizer**, **Industry** and **Health Care & Nutrition** analyze future markets and then further develop their business sector strategies.
Driving forward innovation also plays a key role in the new market strategy. We are convinced that the agricultural sector will be transformed, in many ways including the increasing possibilities offered by digitization. This is an opportunity for our business unit and we, as partners of our customers, want to actively shape that transformation.

The objective is clear: we intend to further boost our international competitiveness and safeguard jobs. We want to increase earnings capacity. To that end, we have published a medium-term EBITDA target for the business unit: € 1.2 billion starting from 2020. A target that we want to and can achieve!

In the **Salt business unit**, we continue to make very good progress in implementing our *Salt 2020* strategy. The business unit is far, far less dependent on the volatile de-icing salt business than it was a few years ago. And it has already made significant progress in growth and efficiency.
Our European subsidiary esco, for example, has optimized its business and plant processes. Furthermore esco is betting on growth in higher-margin segments – for example with pharmaceutical salts.

The focus of our US subsidiary Morton Salt remains on improving the production and distribution network. This is being done by using our logistics locations more efficiently. The management of transport is also being optimized. One example: orders are placed with transport companies and recently we have begun using a service provider which controls the traffic flows - of other major customers too - and thereby generates cost benefits for us.

Furthermore, Morton Salt will restructure its activities with solar evaporation salt, which will result in the closure of one site. This will contribute to a better utilization of existing resources.

Last but not least, our US salt subsidiary is continuing to concentrate on expanding its strong premium brand, Umbrella Girl.

Overall, we have set ourselves the objective of increasing the profitability of this business unit significantly. Furthermore, we want to continue our growth in selected regions and product segments. On this basis, and assuming a “normal winter”, we anticipate an increase in operating earnings to over € 250 million by 2020. This is equivalent to an EBITDA of more than € 400 million.
We successfully brought our *Fit for the Future* program to its conclusion last year:

The aim of that program was to make the cost and organizational structures of the whole K+S Group more efficient and to achieve total cost savings in a magnitude of € 500 million in the years 2014 to 2016. In fact, the savings totaled around € 600 million and thus significantly exceeded our target.

Costs were reduced sustainably in the areas of production materials management, logistics and IT in particular. In our business units, but also at a Group level, we reached an important milestone here: our cost position has improved and our organizational structures are more efficient. This makes the company more robust in the face of global competition and strengthens its future viability.

But we cannot rest: we have planned concrete measures up to the year 2019 with the aim of realizing further savings.
Ladies and Gentlemen,

What are our expectations for the future? Here I would like to present our outlook for 2017 as a whole:

The upside: we are expecting a light tailwind on the market side. Potash prices will likely continue to recover and we foresee rising sales in both business units.

Compared to the previous year, however, the production start of Legacy will have an adverse impact on our result. This is because depreciation and amortization beginning from the start of production will, as anticipated, significantly exceed the first contributions to earnings from potash revenues from Canada.

All in all, we expect the operating earnings EBIT I of the K+S Group to increase tangibly in 2017 as compared with the weak previous year.

From the current perspective, however, the forecast for the Potash and Magnesium Products business unit remains a difficult one: the injection permit that has been issued, in combination with our additional measures, should to some extent relieve the
pressure on us. But: this will not be sufficient for full production when there are extended periods of low water in the Werra. This means that, depending on the water flow of the Werra, our Hattorf site will probably also have to be repeatedly shut down and started up during the course of this year. Unusually dry periods could again have a significant negative impact on our production here in Germany – and greatly reduce its profitability.

Ladies and Gentlemen,

Even if things do not go as we might wish in 2017, in the medium-term we are looking toward the future with optimism.

Our Salt 2020 strategy is, as mentioned before, well on the way to bringing about the target EBITDA of more than € 400 million.
The Potash and Magnesium Products business unit should contribute an EBITDA of €1.2 billion annually from 2020. Legacy will of course play an important part here. From 2018 that location will provide positive contributions to earnings.

Starting from 2018, the new KCF plant will help us to reduce the volume of saline wastewater by 20 per cent. This will significantly reduce the risk of production standstills.

Together, these are the cornerstone’s of K+S Group’s growth. Even if it appears very ambitious given potash prices as they stand: we are convinced that our goal of generating an EBITDA of around €1.6 billion in 2020 is realistic. The motivation within our company to achieve is enormous – and that is another reason why we are sticking by the goal.

Furthermore, in our view, the current weak state of the potash market will not persist: the fundamental, medium and long-term growth trends for our business remain intact.

That is what we wished to tell you about and we will now be pleased to answer your questions!