

FINAL TRANSCRIPT

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SDF.F - Q2 2008 K+S AG Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the K+S H1 results conference call on the 13th of August 2008. (Operator Instructions) I will now hand the conference over to Mr. Norbert Steiner. Please go ahead, sir.

Norbert Steiner - K+S AG - CEO

Thank you very much. Good afternoon, ladies and gentlemen, or good morning to those coming from the other part of the world. I'm happy to be with you to discuss with you later on a little bit the Q2 figures and now would like to start with a little bit longer as usual introduction.

I'm joined here by Mr. Joachim Felker, my colleague and member of the board of executive directors, being responsible for the fertilizer units. At the moment, raw material markets are very nervous. Oil, metals and soft commodities came down at high speed. We can follow the logic for the global slowdown, wait on demand growth for oil and metals. However, we have difficulty seeing how one good harvest should solve the previous shortage in soft commodities built up over more than indicates.

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In addition, half economic crisis have demonstrated that people do not tend to change their dietary presence tangibly during a recession. Therefore we believe that the theory of cheap food is just too good to be true. But before we come to our outlook, let me highlight first some information of the Q2 results that were the best in our history so far.

[To check economics] around the globe, farmers have strong reason to increase crop yields and crop quality. And against the background of international potash fertilizer manufacturers, producing close or even [extra] installed capacity, potash prices have strengthened significantly since the beginning of this year.

In Europe, we started the year with prices of 20% MOP at EUR290 and lifted the prices several times to meanwhile EUR600. In Asia and Brazil, the year started below \$400 and will reach \$1,000 per ton at the end of the year, not only for timely spot deliveries, but in general. COMPO and fertiva benefited from strong fertilizer demand and very attractive prices, while input costs for raw materials have risen tangibly, too.

[The salts] -- the mild weather conditions at the beginning of the year in Western Europe and in North America left our customers on high stock levels. On the other hand, the other segments -- industrial salts and salts for chemical transformation performed relatively well, despite the fact that it was not possible to pass higher energy costs entirely to customers.

Energy prices and raw material costs [from] ammonia and phosphate rose significantly during the quarter. Freight costs, however, were even slightly lower because of reduced overseas shipments. The weaker U.S. dollar dampened only slightly and positive price effects.

Let's continue by taking a look at the change of K+S Group's revenues within the second quarter. Revenues increased by EUR406 million or 52% year on year. As you can see on that slide, the increase was largely due to price effects in the fertilizer business, which clearly overcompensated for slightly negative volume and currency effects. The group's consolidation scope changed only marginally.

The average U.S. dollar exchange rate at \$1.56 per euro during the second quarter of this year compared to \$1.35 in Q2 2007. The currency effect on revenues amounted to minus EUR33 million or approximately 4%.

The following table should only be understood as a rough indication how prices have developed. Factors like freight costs, exchange rate, product mix can distort the picture. Year on year as well as Q2 compared with Q1, European and overseas average prices increased tangibly to a level of approximately \$500 or EUR300 respectively. This was attributable to higher prices with all sub-segments. In euro terms, however, the weaker U.S. dollar exchange rate against the euro mitigated the strong rise in overseas U.S. dollar prices. Because of several six-month contracts that expired in Europe at the end of the second quarter, it is foreseeable that Q3 average prices would show another tangible jump.

A short look at some selected key figures of the second quarter. As explained, revenues rose by 52% to EUR1.2 billion. Operating earnings more than quadrupled because of a significantly higher earnings contribution of three fertilizer units. Earnings per share reached EUR1.40 and that even quintupled. Besides the strong operating performance, the lower tax rate, as a result of the German corporate tax reform, constituted as well.

Current expenditure in Q2 rose mainly because of the existence of the cargo ship for [SBL] resulting in the free cash flow of EUR180 million. This is an increase of approximately EUR130 million compared to last year. Net debt amounted to EUR900 million and was thus up 22% compared to last year. Q2's free cash flow was used to pay out EUR80 million for dividends and EUR190 million to pay down debt.

This brings me to the half year figures and here are also just some highlights. Revenues rose by almost 40%. Operating earnings more than tripled. Free cash flow more than quadrupled. Earnings per share after first six months are already twice as high as demand of the 2007 full year earnings per share.

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Putting the last quarterly figures into perspective, it is quite obvious that K+S is on track with Q2 EPS by itself, exceeding last year's full year earnings per share -- what brings me therefore to our current market view and outlook. Most farmers and we as well regard fertilization and farming as a long-term business. However, we acknowledge that investors are currently concerned about the affordability of fertilizers. We take this seriously, no doubt.

Therefore, we would like to underline three effects with the following example. A) Taking into consideration total costs, not just variable costs, the European's promise profit margin at current wheat prices is very attractive. Furthermore, it significantly exceeds the profit margin of past years in relative and absolute terms. B) [Current] costs at EUR600 represent only 4% of total farm costs. C) The two hypothetical scenarios demonstrate that a potential crop yields reduction of just 10% to 15% weighs much more on the farmer's profitability than even doubling of potash costs.

Therefore, the farmer's incentive is to do the utmost to enhance or at least preserve this soil fertility by applying an adequate amount of all three nutrients in order to achieve optimum yields. For the sake of completeness, this example is based on very conservative assumptions. Profit margins of winter wheat are generally [results] compared to those earned with corn or soybeans. Subsidy payments are not included. Low use of cheap organic fertilizer -- eight tons per hectare is only an average yield in Europe.

With the next slide, slide number eight, we want to underline the beneficial impact that functional and sustainable potash fertilization has on crop yields. Again, we deliberately refrained from [surety]. A) We have chosen winter wheat again as one of the least responsive crops to potash fertilization. B) The soil being used in this long-term field study is silt loam, one of the best soils to keep water and nutrients and C) prior to starting the study, the soil showed an above average potash nutrient content.

The results show that negative influencing factors on crop yields like [those] or inadequate temperatures can be mitigated by an adequate potash fertilization. This is the volatility of crop yields tends to decrease. But more important, the consistent potash fertilization generates a significant additional crop yield, taking the marginal costs into perspective and attractive proceeds-potash cost ratio of one to three can be achieved. This ratio tends to grow with the improvement in cultivation that is better fit. But the exploitation of that potential depends on the balanced supply of nutrients.

To sum it up, yes, farmers can theoretically skip a season, but why should they? They earn a reasonable amount of money at current prices, the potash share of total cost is [flexible] and the risk of losing crop yields will affect the farmer's P&L to a much greater extent.

This brings me now to the question was food inflation just a bad dream? Unfortunately not. From our point of view, this topic will prevail for a much longer time than just a few quarters. Why? The charts incorporate with the latest estimates on world grains and world corn. Prior to yesterday's publication, such commodity prices came down significantly on mild weather, better-than-expected crop yield and a correlation with other raw materials like oil.

The USDA then confirms its benign expectation, stating almost ideal weather conditions boosting crop yields. I quote, if realized this, corn yields would be the second highest on record behind 2004. You would expect that such a bumper crop should ease pressure on historical low stocks yields ratios. Wrong. The chart shows grain with a flat stocks use ratio and the one for corn is still negatively sloped.

When this year's harvest will then have been gathered, people will discover that despite the bumper crop, the problem of food security has not been resolved. Risk premiums will soon emerge and the first weather forecast shows an unfavorable outlook. And what is going to happen if we do not experience another bumper crop?

Before now explaining our outlook for 2008, we would like to address latest concerns about future capacity expansions. This chart includes all capacity announcement. You know that and official data gathered by the International Fertilizer Association, IFA, means potash cost additions to capacity are fully reflected. Because of the long lead times to build up new capacities, we would be very surprised to see higher-than-described capacity levels over the next five years to come. On the other hand, the

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chart includes still potential question marks like the Rio Tinto project in Argentina in 2011. It remains to be seen and this site will de facto to 2.4 million tons from 2011 onwards as it is still incorporated in this [crop].

With the estimated growth rates of 3% to 5% per annum, the market will continue to experience scarcity over the next couple of years. Higher prices will be necessary to justify new capacities and produce as well as shown in 2006, prioritized prices over volumes. With global producers potash inventory levels at historical lows, a fictitious, temporary oversupply would even come in handy to lift inventory levels to appropriate levels.

2008 perspective. The tight supply in demand levels on global potash market test results has some significantly higher average prices resulting in a price effect of at least 90% compared to last year. For COMPO, we expect a strong increase in revenues, especially in the professional segment, clearly overcompensating significant increases in raw material costs.

And as well as fertiva, a slight [format] continues fertilizers at all-time highs. Despite a slow start for de-icing salt due to weather conditions, we anticipate a moderate increase in revenues during the year as a whole. The cost side will be impacted this year by higher energy and freight costs as well as lower currency results. Operating earnings should therefore be significantly lower.

The most important business segment this year is the potash and [segment]. Therefore, I want to highlight the development of the [prospective] cost items for 2008. We expect energy costs to rise strongly by approximately EUR45 million. Business costs should rise by about EUR30 million and materials are roughly EUR20 million to EUR25 million. Records should reach approximately EUR260 million. That means EUR10 million roughly more. All together, operating costs should rise by approximately EUR160 million in 2008 compared to 2007. The currency effect expect to affect EBIT by EUR40 million this year and volumes are expected to drop by 45% of -- because of [stocking] of inventories that took place last year.

In a nutshell, we expect revenues to reach EUR5.3 billion to EUR5.5 billion after EUR3.3 billion last year. Price effect should clearly overcompensate volume and currency effects. For the same reason, operating earnings will achieve quintuple. This means they should reach EUR1.4 million to EUR1.6 million after EUR2.86 million last year. This would translate into an adjusted earnings per share between EUR6 and EUR6.65 per share, after EUR1.06 per share were achieved in 2007.

Next on our dividend policy of paying out at least 40% of our adjusted net income, a potential dividend payment would be at least EUR2.40. At today's share price, this corresponds to a dividend yield of 3.4% already at the minimum. And a few weeks ago, I would not have even dared to believe that K+S will become somewhat of a valued stock so soon again.

This is now the end of my longer-than-usual remarks and I would like to thank you for listening. Now Mr. Felker and myself are happy to get your answers and we will try to answer them perfectly. Thank you very much.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Sophie Jourdier from Citi. Please go ahead, madam.

Sophie Jourdier - Citigroup - Analyst

Afternoon. Thanks very much for taking the question. A couple of things. First of all, I apologize that the line was rather bad. I wonder whether you could just go over your expectations for operating costs. The breakdown you gave in your outlook that between the various different items just one more time. And second, just in your chart number seven on the various different scenarios you have for the profit dynamics of winter wheat, just a couple of clarifications. Could you just give the assumptions

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you've given for nitrogen fertilizer prices because obviously that's the largest cost for the farmer. Thanks very much. That's all for now.

Norbert Steiner - K+S AG - CEO

Did I understand because the line was very, very bad that you asked once again for the different cost items in your first part of the question?

Sophie Jourdier - Citigroup - Analyst

That's right. You gave some guidance on energy costs, et cetera and I missed those because the line was rather poor.

Norbert Steiner - K+S AG - CEO

Yes, I can then repeat the figures that I have. We expect energy costs to be at least or in the neighborhood of plus EUR45 million. That would then end in the neighborhood of EUR160 million plus EUR44 million. That means in the neighborhood of EUR200 million, if I'm not mistaken.

Then we had, at the second point, the personal cost -- EUR30 million more and we have reported EUR435 million last year. The third issue was freight costs. We have reported EUR250 million in 2007 and that would be then in the neighborhood of EUR260 million. So that means that all in all, taking into account also other cost items, depreciation and so on, we have talked always about EUR140 million until the middle of the year, so now we are going to increase this additional cost to entirely EUR160 million.

Is that more or less answering your ...

Sophie Jourdier - Citigroup - Analyst

Yes. Perfect. Thank you very much.

Norbert Steiner - K+S AG - CEO

Yes. Joachim Felker will then try to explain a little bit on the slide number seven and you were questioning the, more or less, the value of the nitrogen fertilizers that we have incorporated there.

Joachim Felker - K+S AG - Member, Board of Directors

What we have done in the -- what we mentioned in this current column, what we have done, we have incorporated the MOP price of EUR600 and the current nitrogen price we have in the market now. And the other scenarios, we had only changed MOP prices. So when you go to scenario one, we have changed the MOP price to EUR1,200. And then the participation of MOP of potash within the total nutrient mixture will go up from 4.1% to 7.8% of the total fertilization cost.

And then you can see that, consequently, when you take the wheat prices as a constant number also, the profit for a farmer would go down from EUR290 to EUR211. The nitrogen costs in total are basically [CAN], the single straight fertilizer, which is about EUR980 per ton in end. So in product, it's about 27% of this. Is that too detailed or ...

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Sophie Jourdier - Citigroup - Analyst

No, that's great. Thank you. Thank you very much.

Joachim Felker - K+S AG - Member, Board of Directors

At around -- we have to take in the CAN price with about EUR250 per ton.

Sophie Jourdier - Citigroup - Analyst

EUR250 per ton. Thank you.

Joachim Felker - K+S AG - Member, Board of Directors

Which is very conservative.

Norbert Steiner - K+S AG - CEO

Okay. Next question, please.

Operator

The next question comes from Matthias Pfeifenberger from Deutsche Bank Frankfurt. Please go ahead.

Matthias Pfeifenberger - Deutsche Bank - Analyst

Good afternoon. Matthias here from Deutsche Bank Frankfurt. Just quickly, I guess, Mr. Steiner, you mentioned already in an interview that there would be scope for potentially being a big better than the current increased guidance and I know -- I don't want to ask for too much, but just maybe you can clarify again in this quarter. And also, with regard to your expansion project. Is there preference from potash to nitrogen? Is one of them more important for you in terms of expansion and maybe those two and I'll follow up with another one. Thanks.

Norbert Steiner - K+S AG - CEO

To start with the first question, there was obviously kind of a misunderstanding in that article which you are referring to. We had an interview the day before we issued our ad hoc information, ad hoc announcement. And the journalists tried to incorporate the latest information that I gave -- that we gave afterwards. So when we discussed at that -- we have 1.1 out in the market and there is certainly room for more.

And the [cross board] into connection of with 1.4 to 1.6 afterwards. So we try and therefore we maintained also the 1.4 to 1.6 right now, to make an announcement right now, a statement right now which is realistic. And therefore I have seen that interview afterwards as well, so I was a little bit angry as it was presented in the way, but that can happen. No, our statement, as of today is 1.4 to 1.6. And we did our utmost not to more or less be forced to give another ad hoc announcement later on or so. So this is late of impact.

The second question going to the expansion plan. We have always said that potash, more or less, is something which we like most. But you have certainly understood during our announcements and statements and conferences that we are looking for

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increased opportunities. That means we have to -- and this is just building a period of five to six years from now on. Therefore materializing what we could add to our capacity in 2014 or later.

And therefore we are also looking for alternatives. We said that now we find that we have gathered also expertise in [end] and this is the reason why we also have a look at that second nutrient. And generally, I only want to repeat here that we are looking for activities to grow within our established field of operation. That means fertilizer generally K and perhaps a little P and salt. And this will more or less be our field where we should move ahead.

Matthias Pfeifenberger - Deutsche Bank - Analyst

Okay. Just a few follow-ups, if I may, with regard to the guidance. Am I correct in saying that you have not included a step to \$1,000 or, let's say, EUR650 for K+S in the current guidance? And one more follow-up, maybe, for Mr. Felker. Do you share the view that part of the weakness we see in grain prices is due to the current harvest season where availability of grains is boosted and a risk premium for a potential shortfall in harvest is taken away and that prices, let's say, for wheat and corn could maybe start to increase from August, September and October?

Norbert Steiner - K+S AG - CEO

First part of the question, we have certainly not included more or less the maximum of \$1,050 or even more. That is, meanwhile, reported from the markets. But we have tried to, more or less, build up our 1.4 to 1.6 on the latest insights that we had in the day when we issued our ad hoc announcement. So a couple of days ago. And since then, I was, unfortunately, I was out of the office, but I think that has not happened too much. So it's still a very realistic view on that.

Joachim Felker - K+S AG - Member, Board of Directors

When it comes to the harvest, I think what we have just recently announced from the American [USAD] is that there will be a bumper crop. Now the first question is it's not yet harvested, so it's not yet [analysis]. And you know how sensitive all the people in the trade are. So if there is a flat, that heavy rainfall for a certain period, I think speculation will comprise it with that immediately. And I can see quite a number of factors also that the prices will go up and [we see] for the troubled situation in Argentina which prevented the farmers to really go into business because they have so much trouble with their own government. So I think it can go both ways. It can stabilize, but I can also imagine that it will go up.

Matthias Pfeifenberger - Deutsche Bank - Analyst

Okay. Thank you.

Operator

The next question comes from Andreas Heine from UniCredit. Please go ahead.

Andreas Heine - UniCredit - Analyst

Good afternoon, gentlemen. I have basically two questions. The first is on your payout ratio. You said this range, 40%, 50%. Looking on that you have now a complete different net earnings levels than in the years before, that would leave you still this year with EUR500 million to EUR600 million additional cash on your balance sheet and next year it maybe even is EUR800 million, EUR900 million whatsoever. Do you think that it is possible to increase this cash payout ratio substantially, given that your balance sheet will have no debt after this -- if you keep this pay ratio already at the beginning of 2009?

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And secondly, [Yara] commented in the Q2 results about demand containment in phosphate and potash. Do you see anything like this or could you go in opposition to this statement? And last but not least also adding onto this issue, what would be the indicator of what you look at to get a feeling how the end demand at farmers' level is on fertilizers or will you get this only with a very long delay if all the inventories at the wholesalers are sold and they do not order anymore? Thank you.

Norbert Steiner - K+S AG - CEO

Hi there. Norbert Steiner. I try to answer the first two questions and then I must thank you because we are looking at each other's faces and you must repeat the third question, please. But the first question should be answered immediately. Number one, cash. Certainly, we will not become a cash-generating unit again. This is something which we have deeply in mind and I can only say, number one, I talked about potential dividend out of our actual forecast, which will certainly need a lot of more money at dividend volume, as a dividend payment compared to that what we have seen in the past.

And it ends up at -- to EUR40 per share right now. We have divided the [older] share by four. So as you can see, it is more than quadrupling the amount that we need for the payment. And number two, we are still looking to spend that money for investments. And only in the case that we will not be quick enough or that we do not find enough, let's say, sustainable controlled growth opportunities and we would seek to discuss with our supervisory board other measure to more or less reduce the cash. And you know what I mean. That would be a share repurchase. But this is not right now on our table.

The second question was going to the statement of Yara. I always hate to comment on the development and the statements of our party -- partially competitors like Yara. I can only say we would never have [spent that] with respect to nitrogen and they are wrong. Period.

Andreas Heine - UniCredit - Analyst

And then ...

Norbert Steiner - K+S AG - CEO

And the third question, please repeat that for us. We didn't ...

Andreas Heine - UniCredit - Analyst

As you basically said to Brazil to the [Harva] and also to other areas, not directly to the farmer, it might take quite some time to the point where you get the feeling whether the real end demand is already changing, so slowing down or even declining. So what are the indicators that you use to get a feeling what the end farmer does as you probably do not have contact to them in specific margins like U.S. or Brazil [over].

Norbert Steiner - K+S AG - CEO

You're right. In the U.S., we have not because we are only [exploring facilities] to the U.S., but we certainly have in Brazil, for example. We see that distribution level is still demanding more products. And we also know from them because many of them are fully indicated. When you look at [boomer], who is the biggest importer of potash into Brazil, they are indicated -- they are integrated. They buy the end product and they trade end product. So they know exactly what's happening in the market. And they are still demanding for more product.

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So I think there is -- of course, in Europe now there is the harvest of grain and harvest of grains competing with sales is not the time to sell fertilizers. At present it's very quiet. But in the overseas markets we don't see that the farmer, the final user is [using] from, taking product from distribution. It's just normal.

Andreas Heine - *UniCredit - Analyst*

And can you ...

Norbert Steiner - *K+S AG - CEO*

No indication.

Andreas Heine - *UniCredit - Analyst*

Can you conclude that this is an inventory buildup because everyone believes the prices are going up further. And if you buy it early and sell it later, then you get a windfall ...

Norbert Steiner - *K+S AG - CEO*

I think distribution is just because it's trying to sell -- some of them will try to sell as late as possible because they're still -- prices -- the market prices are still going up. And there will be a lot of guys celebration when they have purchased early and so late because the price development in the meantime gives them a lot of opportunity to make a lot of cash.

Andreas Heine - *UniCredit - Analyst*

But that will hint in the direction that there's an inventory buildup and that the increase ...

Norbert Steiner - *K+S AG - CEO*

No, there is no inventory buildup. There cannot be an inventory buildup because in the way to stock price, there's a limit to it.

Andreas Heine - *UniCredit - Analyst*

Okay.

Norbert Steiner - *K+S AG - CEO*

So we know that the bottleneck, on the opposite, the bottleneck actually is storing capacity for fertilizer. There is no buildup.

Andreas Heine - *UniCredit - Analyst*

Okay. Thank you.

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Norbert Steiner - K+S AG - CEO

On the opposite, when you see announcements made by the Chinese, we know that the Chinese market is -- will be undersupplied and receive about three million kinds of products. And a lot of people speculate that this will fire up price policy in the first quarter of 2009. So just the opposite.

Andreas Heine - UniCredit - Analyst

Thanks a lot.

Operator

The next question comes from Nik Oliver from Merrill Lynch. Please go ahead.

Nik Oliver - Merrill Lynch - Analyst

Hi, there. It's Nik from Merrill. Just two questions. Earlier in the summer, you saw some [SOP] sales in non-European markets actually being invoiced in euros. Really, just because the market was so tight you could push through a euro and denominated price. Is that something you hope to extend and going forward across more of those international SOP sales and hence minimizing your currency exposure?

And secondly, talking about, in your statement this morning, that there's been -- you don't expect any demand reduction and despite the correction and recent grain prices, do you have a feel of what price farmers are working with going forward? And say, for corn, are they looking at corn going back to close to \$6.00 per bushel? Are they thinking it will stabilize around about \$5.00 when they're agreeing these new potash prices? Do you have a feel of what they're expecting? Thank you.

Norbert Steiner - K+S AG - CEO

First question, this is an attempt to indeed change from U.S. dollar invoices to euro invoices, but we can only do that in regions and on volumes and on products where we can see that our customer does not have too many alternatives to avoid. [He mentions] that he has not alternative. But the volumes that are connected to that are small and therefore I would not say that there is a general trend to minimize our U.S. dollar exposure. On the other hand, please keep in mind that still on that basis of more than EUR1 billion or so, we have still hatched our dollar exposure for 2008 on the level of [151]. So, of course, this is something different to the situation next -- last year. But we are happy with that. And we are not able to churn, more or less, the entire potash market to euro market.

Second question?

Joachim Felker - K+S AG - Member, Board of Directors

Yes, I think you were asking for the kind of breakeven point. The corn price, the fertilizer price and then end product of, let's say, bread, for example. I -- a very difficult question, I would say. The participation of corn or of wheat in bread and the end product goes 2% to 3%, something like this. It's very, very low, as a matter of fact. Corn prices, when you look at through bushels, \$5.00. If, when you compare it to the beginning of 2007, still double of what we have at that time. So I don't see that there will be a direct effect that we cannot increase prices or keep our prices at those prices we have for corn, soft commodities in total.

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Nik Oliver - *Merrill Lynch - Analyst*

Okay.

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

Okay.

Nik Oliver - *Merrill Lynch - Analyst*

Thank you.

Norbert Steiner - *K+S AG - CEO*

Once again, one additional remark. This is my deepest conviction that the development of the product of potash is mainly attributable to the scarcity of the product. We will see that the farmers are very -- mostly very intelligent and good act along their main interest. They have increased their margins. They have increased or wants to increase more or less the yield ratio [perhaps]. And then they apply if they are more or less educated the [end] balance fertilization concept to which all the three merchants belong to.

And the margins that they have been able to rise are, of course, there also driven by the soft commodity prices. But this was something which we tried to analyze and more or less explain a little bit more in depth in my speech at the beginning of our meeting right now is that it is always essential and helpful to apply potash in the normal and, let's say, in the volumes that the plans require. So keep in mind, please, the [entity] of the market, the effect on the market.

Next question, please.

Operator

The next question comes from [Thomas Svoboda] from [Mainfast] Bank. Please go ahead.

Thomas Svoboda - *Mainfast Bank - Analyst*

Good afternoon, gentlemen. Thank you for taking my question. Thomas Svoboda here from Mainfast Bank. I have two questions, please. The first one -- my first question is on the -- on your export quantities in the second quarter. If I read it correctly, the prices in the overseas markets have been higher than the prices in Europe. However, your volumes to the export markets decreased by 22%. Is there any explanation for that?

My second question is on the underlying demand growth of 4% for potassium you are using for your long-term assumptions. There is a lot of worries about these -- the demand growth in the financial market and there is different numbers around. Could you please give us some more details on how you derive the 4%? Thank you.

Norbert Steiner - *K+S AG - CEO*

I will start -- Norbert Steiner. I start with the second question. What we use is, as far I understood all our analysis, we use mathematics. And if we go back, we have seen that, in former times, 3% growth is something which was established on the level of lower population, of a lower figure for the population worldwide. And when the development of these middle classes

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have not been there, then the extent -- to the extent that they are here right now and one might think about, in different ways. Also we have still to keep in mind the effects of the utilization of [green] materials for the production of biofuel.

So it is our conviction and as seen recently also growth rate of 3%. I will not deny that for the growth expectation in the future. Nobody from our side that you know we are able to have the insight into the future and only can look into the crystal ball. We think we should utilize the figure that has been the most relevant one in the past and as these drivers are even more growing than decreasing, we think that 4% is something that, to our understanding and our conviction will be the right one for the next year to come.

On the other hand, please to into our presentation right now and if you would apply on 3% growth right, which we [think is] not the appropriate one anymore [once again], you will come to the conclusion that also the potential overcapacity as we will see in 2013 in our latest year will not be so significant that one could say there is real overcapacity that booked it according to prices. So I cannot look into the minds and into the efficient and more or less outlook making process of our companies. We think 4% is correct.

Joachim Felker - K+S AG - Member, Board of Directors

Okay. For the pricing difference. Now first of all, we said that in Europe we have had some bigger contracts for industrial applications, basically fertilizing industry, which had only expired end of this quarter. That is one issue. And fertilizer industry, the products for the fertilizer industry are non-granulated. That means standard products. And export is basically a granulated product which goes to Brazil and other countries. And then within -- in Europe we have some lower [MGO] and lower potash content product.

So the product mix in Europe, when you calculate it into nutrients, it's a little bit lower on average than what we export to overseas markets. That's what the difference is. When you look at the lead product to prices, it's very, very -- the prices are very, very close. And another one is that in Europe we have some business which is on an FOB basis. And while overseas business is on [VF], so within this price there is also the freight incorporated. Does that answer your question?

Thomas Svoboda - Mainfast Bank - Analyst

Maybe just a quick follow-up. Do I understand you correctly that there was no incentive to sell more to the overseas market because the lead product was more or less the same products?

Norbert Steiner - K+S AG - CEO

Let's say, the one issue we look at is the cost of transport and then the specific product portfolio we have at -- from our mind. And as I said before, we have some quantities with lower content of potash and this one we sell around our chimney, let's say. Around our castle. That means part of Western Europe. And that's why we have differences in prices when you build up averages over the whole quantities.

Thomas Svoboda - Mainfast Bank - Analyst

Okay. Thank you.

Operator

The next question comes from Martin Roediger from Cheuvreux. Please go ahead.

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Norbert Steiner - K+S AG - CEO

Hello? Mr. Roediger, where are you? Not there? Hello? Are you still there? Are you still listening? Can somebody answer? I did not hear anything anymore. Is the line still intact?

Operator

My apologies. The next question comes from Laurent Favre from UBS. Please go ahead.

Laurent Favre - UBS - Analyst

Yes, good afternoon. Actually, I've got two questions. The first question on COMPO. If I'm right, margins in Q2 actually improved on Q1 even though at the time of the Q1 [conference] you said that there would be more costs at [two] and maybe actually a bit of a problem on these price increases. I think the prices have been pretty benign during Q2 and when your price has jumped by \$250 between the end of Q2 and today. I'm just wondering if you could give us a bit of a guidance on the potential margins that we should expect.

And then second question on ...

Operator

Could you stop? We cannot hear you very good. Could you go nearer to the phone or anything?

Laurent Favre - UBS - Analyst

Yes. Can you hear me now?

Operator

Yes, that's better. Much better.

Laurent Favre - UBS - Analyst

First question is on COMPO. And one year prices that have a chance of about \$250 in the past month. I was wondering if you could give us a guidance on the potential margins within COMPO for the rest of the year or if you think that price increases can offset raw material prices increases.

And then the second question is on potash. I understand your comments that farmers are still making a healthy margin at the current prices. But your farmer's economics analysis is following the similar analysis from your competitors by two months ago. And since then, future price, especially for '09, have come down sharply. And I'm just wondering if you are starting to see just a bit of nervousness on the farmer's side. If you can -- I'm not thinking about demand [destruction], but can you just indicate if you've got the impression that farmers are more nervous and how we should -- well, who can start [in that], really.

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Joachim Felker - K+S AG - Member, Board of Directors

Okay. Let me start with COMPO. It's true that the ammonia prices are -- have increased over the last three to four weeks quite heavily. Also the oil prices have gone down. When you look at the COMPO costs, the only products which are affected by this increase are the [MPKs] and the nitrogen load of these products are relatively low. What we expect because there's a very good demand for MPKs and the products like MPKs, we expect that we can part on the increases by the biggest percentage possible. So we see no, as I said, margin screens for the time being.

Norbert Steiner - K+S AG - CEO

In the country, what we have always tried to bring to the market, let's say, two years ago or earlier, was that the business model of COMPO more or less comprised policies to go into the market with high prices and absorb more or less all cost volatilities before. Meanwhile, they are significantly quicker maintaining price increases into the market and this is something which you also take from our figures right now and what we expect to take place also in the second half of the year.

So if we look into the margin and look what we have done in the first half year, if I'm not mistaken, we have entirely 13.5% right now and we have shown 5.1% during the entire year 2007. So this is more than the doubling of the margin that we have taken from the COMPO business and I think having in mind where we were coming from more or less this is from the professional side of potash as far as COMPO, another part of the success story. So we will not be more open on our expectation on margins, but I think COMPO is the European business. Mainly the majority of the earnings are taken generally in the first half year. So all in all, from the professional line of COMPO, we can be more [effective].

Laurent Favre - UBS - Analyst

Great. Thank you.

Operator

The next question comes ...

Laurent Favre - UBS - Analyst

There was a second question.

Operator

Oh, my apologies.

Norbert Steiner - K+S AG - CEO

The second question, please. The line is still very, very bad. I think neither one of us has really understood. And this is not as you unclear that what you are saying, but the clarity of the voice is very bad here. So please, once again, go on.

Laurent Favre - UBS - Analyst

It's a very simple question. I'm just asking if you are -- I'm not talking about [demand destruction], but can you talk about how farmers are sitting right now today and you're reporting about the amount on your competitors. So all the comments that you

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could make on the nervousness of farmers, given the current full price in the commodities. I think that could be very helpful for all of us.

Norbert Steiner - K+S AG - CEO

I think what we have seen right in the past is that the farmers are very happy about the expectations with respect to harvest. So not and what I do is that they will materialize that because if I look through our window, I can see that many fields are not yet brought in. Assuming that, they have produced a good margin. They have gathered liquidity. They have seen the impact of balance fertilization of utilizing the nutrients that the plants need. And therefore I think as they also see that the soft use ratio generally also in Europe with respect to [other] big soft commodities will not increase dramatically.

They have all modest basis to get back into the next season with all -- with all necessary means and liquidity in the pockets and therefore I think they are confident about their expectations also for the year 2009. And if we look to the development of class, they more or less stay quite the same. If they were not of the opinion, they should be significantly less optimistic. So I cannot see any, let's see, dark weather and storms rising up.

Laurent Favre - UBS - Analyst

Thank you.

Operator

The next question comes from Martin Roediger from Cheuvreux. Please go ahead.

Martin Roediger - Cheuvreux - Analyst

Hello. This is Martin Roediger from Cheuvreux. Can you hear me right now?

Norbert Steiner - K+S AG - CEO

Yes. Of course.

Martin Roediger - Cheuvreux - Analyst

Okay. Sorry.

Norbert Steiner - K+S AG - CEO

We didn't hear you.

Martin Roediger - Cheuvreux - Analyst

I was disconnected for some time. So maybe the other question was already asked during that time. I have some questions on slide seven and once question on slide ten. I'll start with slide seven. This is probably based for Europe. In the current situation you show on the left side is probably for 2007 or is it for the first half of 2008? Maybe you can clarify that.

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Do you have also the calculation usage of potash fertilizers per hectare over farmer in the application for corn and soybean? That would be also quite helpful. Of course, soybean is not so much -- or corn is not so much a big crop in Europe, but maybe you have that figure as well. Then a question -- do you see any impact if farmers switch over planting from corn to soybean or wheat? Is it any concern for you? And finally, for this slide also, is there any crop price in your mind for corn and soybean and wheat where you see that you should become concerned or is there no limit for the foreseeable time right now?

Concerning page ten, I have the impression that this does not include the new capacity announced by potash corporation of 2.7 million tons for the end of 2012. Is that correct?

Joachim Felker - K+S AG - Member, Board of Directors

It's in there.

Martin Roediger - Cheuvreux - Analyst

It's in there.

Joachim Felker - K+S AG - Member, Board of Directors

Yes.

Martin Roediger - Cheuvreux - Analyst

Okay.

Joachim Felker - K+S AG - Member, Board of Directors

It's in 2013 and what is also in there, if you look for that one is net industry in COMPO. All the projects announced by producers and collected by [EFA] are in there.

Martin Roediger - Cheuvreux - Analyst

Okay.

Joachim Felker - K+S AG - Member, Board of Directors

Shall we go to page seven and try to answer your 15 or 20 questions you have asked?

Martin Roediger - Cheuvreux - Analyst

Yes.

Joachim Felker - K+S AG - Member, Board of Directors

So what we have done here -- we have taken winter wheat as one product which is not as sensible to potash as the others. That means we have taken not, as Mr. Steiner said, we have not picked a cherry, but we have taken even a product which is, well,

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not too favorable for our calculation. That's the first one we should perhaps say. Another thing is that soybean. I -- we have not made calculations for soybean, but we know only that when I look at the soybean price we have now, they are double as high as one-and-a-half years ago. And soybean farmers are very comfortable with what they have done.

And then you asked a question what happens if somebody changed from soybean to wheat, which is happening, for example, between, let's say, corn and soybean when you look at the U.S. and Argentina, for example. There was a change when they announced all these ethanol plants. They planted less soybean. Then they asked the -- or the Argentinians saw a big chance, but unfortunately Mr. [Kirchner] then stepped in. So we have some trouble there at the end.

But for -- from our point of view, we like most products, most crops the same -- soybean, wheat, sugarcane, it's all products which use quite a high amount of potash. So we don't feel any change there if they change crops.

Martin Roediger - *Cheuvreux - Analyst*

So it makes no difference if a farmer uses ...

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

No, and in some countries or let's say a farmer usually, over the years, is changing the -- annually the crops he is using. He will not use soybean for ten years in a row. He will change the crops in between. He will change to another fruit or something like that.

Norbert Steiner - *K+S AG - CEO*

And as this stuff has happened simultaneously. That's one year we just only have wheat. And the second year we just only have soybean. You will see more a mixture of all these developments and tendencies. Therefore, it is more or less included in the demand and the application of the, more or less, of the three nutrients all together. Okay?

Martin Roediger - *Cheuvreux - Analyst*

Okay.

Norbert Steiner - *K+S AG - CEO*

Thank you. Next question, please.

Operator

The next question comes from Saul Rans from Dresdner Kleinwort. Please go ahead.

Saul Rans - *Dresdner Kleinwort - Analyst*

Yes. Good afternoon, gentlemen. Saul Rans from Dresdner Kleinwort. I'm -- there was two topics I wanted to ask about if I may. The first one, on your operating costs in the potash division, you gave us the prediction for the increase in the main cost items this year. I mean, if we look at the first half, then the increase, the rate in the first half of increase seems to be clearly lower than what you're expecting for the full year, at least according to my estimate.

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So perhaps you could tell us, first of all, maybe for a couple of the main items like energy and staff costs, could you remind us about the timing of when such cost increases come in through the years? So for example, when does your staff wage increase come in and how should we relate your energy cost to the development of the oil price and so on because you really have a delay of a couple of quarters there. And also in the second quarter, do you have benefit from any one time income or any major reversals of provisions and so on within the potash division in the second quarter? That would be my first question.

Norbert Steiner - K+S AG - CEO

Your first question, Saul -- Norbert Steiner, again. The -- we have not benefited from that too much in the second quarter. The cost items which we more or less have already commanded on and announced to be our anticipated cost inflation over 2007 was, at the beginning of the year, in the neighborhood of 140 for the potash section and now we have increased that to 160.

We have seen, as the agreement with the union has been done in February already, that there is not a big additional impact. When we set aside for the moment that also the variable payment items have risen to some extent in connection with the increased success that K+S will most likely have in 2008. So also energy is something which has increased, due to the fact that we have seen that a sharp increase in oil prices. And this has an impact on K+S with that delay of generally six months. So the price increases in the first -- or better to say in the second quarter will have an increase and therefore we have said that the volume of cost inflation connected with the oil price was more or less something higher than we have expected it in the announcement and communication that we did before.

However, the good side of the coin is that with respect to 2009, we can already see that the dropping of the oil price would have a beneficiary effect for the first half year 2009 to come. So if the ups and downs, but if you compare these issues -- and this is more or less -- these are more or less the two effects -- mainly the energy sector that has changed with respect to coming up from 140 to 160. The others, more or less, are in different material costs a little bit higher. Personnel costs have been already included and also depreciation can be calculated quite early. It will not be significantly different. The main issue from 140 to 160 is what I mentioned.

Saul Rans - Dresdner Kleinwort - Analyst

Okay. Thank you. May I just ask one other brief question? You say in the past been running on an order backlog for Europe for potash is something like six weeks and a bit longer -- let's say eight weeks for international sales. Is that still good for the second half? Is that the kind of backlog you're running on?

Norbert Steiner - K+S AG - CEO

Still the same.

Saul Rans - Dresdner Kleinwort - Analyst

Yes. Okay. Thank you very much.

Operator

The next question comes from [Tim Delco] from [Orange] Capital. Please go ahead.

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Tim Delco - *Orange Capital - Analyst*

Yes, hi. This is Tim Delco. I would like to ask a question concerning sort of the political environment that the fertilizer industry has been sort of been navigating recently. One is in Russia. We have seen real [call freezing] potash prices. There's discussions that the nitrogen producers there will be asked to lower the prices because they have lower input costs, et cetera. In Brazil, we've heard some comments about nationalizing potash and whatnot. I mean, generally, there seems to be a bit of a backlash. How do you -- I mean, how do you guys feel about that? Do you see any push backs yourself? Do you -- are you concerned and how should we feel as shareholders about this sort of environment? Is that just business as usual? How would you characterize that?

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

I think in all market economies there will be a very simple offer and demand. And what you mentioned in Russia, it's the situation of [euro calling]. First of all, we talk about rather quantities. If I remember correctly, they are selling around 100,000 tons of potash to the local market and there there is a kind of price fix by the [SFA in literally]. The antitrust office. So that's a very special situation. The Brazilian situation, Mr. [Lula] at the beginning of some demonstrations, had a speech where he was thinking about nationalizing the fertilizer industry, but I think that's quite some weeks ago and Mr. Lula has certainly changed his mind in the meantime.

Norbert Steiner - *K+S AG - CEO*

If it would ever been of his opinion. Now we further agree, we're not afraid of that.

Tim Delco - *Orange Capital - Analyst*

There's no -- okay. I see.

Operator

The next question comes from Wolfgang Fickus from WestLB. Please go ahead.

Wolfgang Fickus - *WestLB Equity Markets - Analyst*

Yes, good afternoon. Thank you for taking the questions [from us]. This is a hypothetical question and it's probably the same question on slide seven of your presentation. Now starting with the assumption that the worldwide markets are tied and this will prevail because you cannot fill the empty cupboard in a year, but given the fact that the prices have moved quite drastically corrected, now if you took the scenario that from the current level, given that the winter wheat has also seen prices well ahead of EUR270 only three months ago, I guess, that it drop substantially then.

Obviously, this would wipe out any profit for the farmer. So is there any risk that the farmer might, only on a short term view, take the decision not to plant anything because it would be better for his profitability and potentially for his liquidity. So is the risk of a small as we take it in Germany, [schweinitzerklaus].

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

Should I try to answer this? You're certainly correct when you look at it. EUR200 -- you mentioned EUR270. In our calculation, we use EUR180, which is an average price, which is already rather conservative. The next thing -- the next thing is that I think farmers have experienced -- have enough experience and they know the soft commodity markets well enough and make very

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reasonable decisions what to do. And when you look at what we have calculated here with today's prices of EUR600, there is a profit of EUR259. That is the situation farmers have not enjoyed for such a long time and I think they will not run any risk not to harvest, not to have any yields because they know exactly when not using potash and other fertilizers for a year, the next year the yield will, certainly will go down and they will not run the risk to do that.

Norbert Steiner - K+S AG - CEO

It is still the question as we have not undersupply presently, but [to] stop the use ratios I have commented on that on a very, very low level. And what happens if next year in some regions in the world the wheat are lower than expected or if the wheat in certain areas in the world are lower than expected right now. So I think this is something which you identified correctly as higher hypothetical and I can only underline what Joachim said -- how much are intelligent.

Wolfgang Fickus - WestLB Equity Markets - Analyst

Thanks for taking the question.

Joachim Felker - K+S AG - Member, Board of Directors

And perhaps another remark when you have more time and go through the picture. We have made this picture without any subsidies. So we have just taken the input factors, which come from the industry and we've taken the market. No involvement of the government of the state. So no subsidies which will make the picture, of course, much more favorable for the farmer again.

Wolfgang Fickus - WestLB Equity Markets - Analyst

Okay. But the point I really just wanted to make is when I highlight that the cash price, the future price has been in the excess of EUR250 per ton in Europe for wheat -- I don't know whether it's winter wheat, actually -- then the point is that the [future] pricing, obviously, potash is scarce, but it follows, to a certain extent, the profitability of the farmer. And the prices have already come down from EUR250 to EUR180. After a very significant price rise, obviously, historically. So we're still at very, very, very nice rates.

I just really wanted to know whether there has been any historic evidence maybe that farmers, on a very short-minded kind of view, with extremely volatile prices, just drive down production irrespective of long-term trends which highlight that the market ties stocks to use ratios, et cetera. That's really it. Because when the price comes down from EUR250, EUR270 and it can also -- to EUR180, then why shouldn't it come down to EUR140 which still gives the farmer quite decent profitability. But this is just thinking because obviously the whole market is a little bit interrupted by, well, that's what I wanted to highlight. I mean, in the end, this scarcity in the market, the low stocks to use ratios will prevail 2009, 2010. That's fine. And that's actually -- I accept that. But just -- it's an erratic situation currently.

Norbert Steiner - K+S AG - CEO

Nobody can look into the mind of every and each farmer. But if we go back on the three years ago or so, we see that the demand that we had for potash was more or less a third percentage point behind that what we had as of today. And also the production was 12 percentage points back as of today. That means the rate of the utilization of the capacity, that means the demands was more or less in the same way increasing like we have predicted that into the future.

And that yield, that generally also in those days the farmers in Europe or in many other countries were applying the necessary volume of fertilizer in the same way like they did as of today also on [never] which were significantly, you have mentioned that.

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No [other case] levels. And therefore there is still a lot of room to more or less to absorb some push backs in the soft commodity prices, but the farmers think in longer terms generally except with also on the bigger level and on what is partly industrialized level. Therefore, I'm personally not much concerned about that.

Wolfgang Fickus - *WestLB Equity Markets - Analyst*

Okay. Thank you very much.

Norbert Steiner - *K+S AG - CEO*

You're welcome.

Operator

There appears to be no further questions. Please continue with any further points you wish to raise.

Norbert Steiner - *K+S AG - CEO*

If that is not the case, we thank you very much for participating in today's telephone conference. I hope we have given you all the information that you wanted to have, at least as far as we could. And therefore thank you once again. We hope to see you quite soon and all the best to you or if there are any additional questions. No. Thank you very much. Bye-bye.

Operator

This concludes the K+S H1 results conference call on the 13th of August 2008. Thank you for participating. You may now disconnect.

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