

FINAL TRANSCRIPT

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SDF.F - Q3 2008 K+S AG Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, welcome to the K+S Q third results conference call on November 12. Throughout today's recorded presentation, all participants will be in a listen only mode. After the presentation, there will be an opportunity to ask questions. (Operator Instructions).

I will now hand the conference over to Christian Herrmann, Head of Investor Relations. Please go ahead sir.

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

Good afternoon together. We appreciate your interest in today's call of the Q3 results of K+S. Before we start -- and by the way I'm joined by Mr. Norbert Steiner, our CEO and also by Mr. Joachim Felker, a Member of the Board. And he's responsible for the fertilizer division. Before we start, let me just do one necessary disclaimer which is becoming more and more necessary nowadays.

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This presentation contains facts and forecasts that relate to the future development of the K+S Group and its companies. The forecasts are estimates that we have made on the basis of all the information available to us at the moment of time. If the assumptions underlying these forecasts prove not to be correct, actual events may deviate from those expected at the present time.

I'm now happy to hand over to Norbert Steiner.

Norbert Steiner - K+S - CEO

Thank you very much. Good afternoon ladies and gentlemen. Also from my side a very warm welcome.

The recent set of results showed the best quarter ever in our history as we reached in almost every key figure record numbers. On the other hand, things are currently clearly impacted by the financial crisis and the sudden and steep drop in grain price.

But before I will commence on our recent results and our outlook, let me give you first some information about the new K+S water protection package. For subsequent years the European Union is heading for an improvement in European waters in its Water Framework Directives, of course including the Werra and the Weser rivers. Our permits for injection and charge expire by the end -- by the year 2012.

The objectives of our package are to improve the quality of waters, measured in chloride and hardness, by halving the volume of saline water in the Hessian-Thuringian potash district from approximately 14m cubic meters to 7m cubic meters per year until 2015 at the latest.

The main points of the package of measures are switching the wet extraction of Kieserite to the dry ESTA process at the Hattorf site. At the same site, the construction of a cooling system for saline waters. The further technical development of Kieserite mining at the Wintershall site. The construction of a system for the evaporation of magnesium chloride solution in connection with a new gas and steam power plant at the Unterbreizbach site. And last but not least, expansion of the saline water control at the Hessian-Thuringian potash locations, that is, through the integration of the recovery of injected saline waters.

A capital expenditure of EUR360m is planned to be invested stepwise starting in 2010, with the highest amount placed in 2011, 2012. With it, we do a lot to balance economic, ecologic and social aspect to safeguard both production and jobs for the future.

Now let's turn to our freshly published Q3 results. The upward trend for potash fertilizers continued through the third quarter reflecting that the growth, especially in the potash industry, could just manage to meet the growth demand.

In Europe we started the year 2008 with prices for granular MOP at EUR290, and lifted the price level several times to meanwhile EUR615.

In Asia and Brazil, the year started below \$400 and more than doubled in the meantime.

COMPO and fertiva benefited from strong fertilizer demand at very attractive prices. But then the costs for raw materials have risen tangibly too.

With regard to salt, while the mild weather conditions at the beginning of the year, particularly in Western Europe, left our customers with high stock levels. Contrary to that, current tenders in North America were affected by supply bottlenecks after two consecutive heavy winters in the Midwest.

Top line growth for industrial salt and salt for chemical transformation performed very well. But it was still not possible to pass higher energy costs entirely to our mainly European customers.

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With regards to recently falling energy prices, they did not yet impact on the K+S Group's energy bill due to installed time lags of six to nine months in our energy supplies clauses.

With a Q3 average of approximately \$1.51 per euro, and compared to last year, we saw an almost 10% weaker US dollar rate which dampened slightly the positive price effect.

A look at this change of K+S Group's revenues within the third quarter shows the following effect. Revenues increased by EUR714m, or 98% year on year. As you can see on that slide, the increase was entirely due to price effects which more than offset moderate currency and volume related revenue declines. Lower sales volumes in potash and magnesium products, as well as in COMPO, were mitigated by higher salt volumes.

With an average euro dollar exchange rate, I mentioned it already, at \$1.51 during the third quarter, and compared to \$1.37 in Q3 '07, the currency effects of the revenues amounted to minus EUR70m, or approximately 2.3%.

The following table should only be understood as a rough indication how prices have developed. Factors like trade costs, exchange rates, product mix can distort the picture.

Year on year, as well as Q3 compared with Q2, European and overseas average prices increased significantly to a level of approximately EUR454 -- EUR455, or \$670 respectively. This was attributable to higher prices in all sub segments.

With regards to the q on q development, European prices rose stronger than overseas prices, which is owed to catch up effect. As we have six month contracts for MOP standard during the first half year of the year, we needed to wait for July 1 to introduce prices as a price for Q3 that reflect the meanwhile much higher overseas prices.

Volumes in Q3 are usually the lowest on account of seasonal factors.

Now a short look at some selected key figures of the third quarter. As explained, revenues rose by 98% to EUR1.44b [sic see presentation].

Operating earnings was six times greater than a year before. In addition to the positive business developments for COMPO, fertiva and salt, this was mainly attributable to significant earnings increases in the potash and magnesium products business segment.

Earnings per share reached EUR2.17 and was up more than seven -- that was up more than seven times on the same period last year. And it was twice as high as our last full year's earnings per share.

Capital expenditures at EUR48.4m in Q3 was on about the same level as a year ago. The main share of our capital expenditure is attributable to the potash and magnesium products business segment, investment in the replacement and expansion of underground infrastructure, measures to expand the capacity for industrial products at the Zielitz site and projects involving further energy savings continued to be the focus here.

Net debt amounted to about EUR634m and was thus down 24% compared to last year. By the end of the year we expect to have redeemed our financial debt except long term pension and mining application. In addition, we have secured so far undrawn credit facilities of more than EUR1b a month ago at attractive rates.

The free cash flow of EUR307m was used to pay down a short term debt.

This brings me to the nine months figures. And here as well just some highlights. Revenues rose by almost 57%. Operating earnings more than quadrupled. Free cash flow reached almost EUR600m in nine months. And earnings per share almost quintupled.

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How does that compare with the past two years? Well putting the latest quarterly figures into that perspective, it is quite obvious that K+S is on track with Q3 earnings per share by itself doubling last year's full earnings per share as mentioned already.

Is this speed of growth sustainable or does it call for a necessary pause? Here are some arguments. Following the prolonged and latterly almost euphoric upward movement, commodity exchanges have experienced significant profit taking, liquidation and deleveraging from the middle of July onwards, causing also major reductions in the prices of all the major agricultural products.

In anticipation of global recession, it tells us that capital markets either expect people to reduce their diets or that we face abundance in cereals, corn and soybeans. Is it really this what we see? We have a different view, because we neither expect people to change their diet significantly, nor do we see global stockpiles of surplus agricultural products repeatable and there has even been only a few months ago that people discussed intensively about the food crisis. All forgotten since the financial crisis ranks first.

Therefore, I would like to move away from panic scenarios, because the world will definitely not come to that end.

These charts incorporate USDA's latest estimates on world grain and world corn, with '08, '09 grains on a flat or slightly upward slope, stocks to use ratio, and the one for corn being negatively sloped. These ratios are striking since this year's global production reached record levels thanks to well above average yields following almost ideal weather conditions.

What happens now if farmers start belt tightening? There will be suboptimal farm yield especially as there is no substitute for mineral fertilizers. Any reduction in fertilization, in particular following this year's record harvest with high nutrient depletion, would lead to even more dire levels of stocks to use ratios.

Although the application of fertilizers is to some extent deferrable it is not escapable. And a deferral makes the necessity to fertilize just more acute. Moreover stronger than expected demand could result of the recently announced Chinese economic stimulus package that next to higher farm subsidies for the next time would allow farmers to leave orchards for land use rights, a crucial step to pave the way for a higher commercialization and productivity in farming. In addition, Chinese Communist Party plans to extend more credit and investment into the countryside for a stronger rural demand.

How has all this affected potash market? This updated chart includes all capacity announcement and just recently gathered official data by the International Fertilizer Association, the IFA.

I'll focus first on base volume. We've lowered our global industry sales estimate from 61m to 59m tonnes in 2008. The financial crisis and lower crop prices take their toll in farmers' sentiment, resulting in tangibly lower fertilizer demand during Q4. Numerous manufacturers of complex fertilizers have cut back their production and therefore reduced their demand for potash and others.

Moreover, in anticipation of rising potash prices, our customers have strongly increased their fertilizer purchases during the first nine months. At present you see an inventory management phase. European farmers are not in a hurry, since their warehouses are often still filled with crops and the new application season does not start before February or March next year.

If we see risk, the risk that our customers destocking phase, can last on for the first quarter 2009, we have reduced our lower demand scenario to zero growth.

For the full year 2009 it will not see negative growth because of the anticipated higher demand in China and the recovery of global fertilizer demand during the course of the year. To react on temporarily muted demand we have cut back production until at least the end of the year 2008 and produce 400,000 tonnes less potassium chloride, establishing a basis for a price before volume policy.

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This has to be put into perspective with other producers voluntarily and involuntarily cutting production as well so that this year's production figures should more or less match closing demand.

With an at least flat growth estimate for 2009, the 3% to 5% per annum from 2010 onwards, the market will continue to experience scarcity over the next couple of years, especially if the announced capacity situation has changed significantly in these weeks.

Uralkali, which are down one of its production lines for repair in early 2010 brings the Company's maximum output down for that year by 1.2m tonnes and Rio Tinto's 2.4m tonnes. The El Colorado project in Argentina is postponed by at least two years to 2013.

It's becoming even clearer that the growth in capacity in the potash industry over the medium to long term will at best only be able to keep up with its growth in demand, but it expects still potash to remain in short supply in the future, too. And bear in mind that attractive prices are necessary to justify new capacity.

How does this now affect our outlook for 2008? Because of the current weakness in fertilizer projected on account of the global financial crisis, we expect revenues to reach the lower end of the range. That is just under EUR5.3b. But FX clearly over compensates volume and currency effect. For the same reasons, we now expect operating earnings EBIT I for the whole year to be at the lower end of the range. That is about EUR1.4b.

The recent development of the US dollar rising like a phoenix from the ashes will positively contribute. Our outlook is based on an average euro/dollar rate of 1.30 during the fourth quarter, a reduced sales volume in the potash segment of 7.2m tonnes for the entire year and an average deicing salt winter, current bond to adjusted earnings per share of about EUR6 per share. And with a dividend policy of paying out at least 40% of our adjusted net income, the potential dividend payment could be around EUR2.40, corresponding at today's share price of about EUR32 to a dividend yield of about 7.5%.

Now how do we see 2009? Since the large -- since we are largely determined by the European fertilizer business and against the backdrop that the new spring season only starts in three months, any guidance on fertilizer applications and intensity on fertilizer in agro commodity pricing and on spillover effects from the financial crisis is rather difficult if not possible. However we can.

We see revenues to increase further in 2009. This estimate is based on attractive average prices in the potash and magnesium product business segment and an expected normalization of the deicing salt business next year. We also see an opportunity for further growth in operating earnings, which should also positively affect adjusted Group earnings after taxes.

The scenario of the greater than expected reduction in sales volumes and consequently results can become realistic. If the substantially reduced grain prices do not recover over the coming months, the sales will adequately reflect the shortage in the supply of food and feed. However, as already pointed out, this scenario would cause the future grain supply to be noticeably below demand, which has been relatively stable, even in times of crisis and would then again greatly boost the price of agricultural products.

Throwing a glance at the peers and our share price performance, it becomes obvious that fertilizer shares around the globe have suffered significantly over the past months. They have been banded together with commodity prices which tumbled on the back of the global economic crisis.

A PE of just over 5 reflects rather the current risk aversion of investors than the underlying basic fundamentals. Furthermore, our current valuation is lower than the estimated reinvestment volume without any license payments and infrastructure investment. In addition, financing costs and a five to six year construction phase are factored out completely. And last, but not least, the other business segments like COMPO, fertiva and salt will come on top. While a strong share price rise during the first half of the year might be considered afterwards as exuberated, the recent downfall appears to us as overdone as well.

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This brings me to the end of my remarks and I thank you for listening. Now our team, Joachim, Christian and myself are happy to answer your questions if you have any. Thank you very much.

QUESTIONS AND ANSWERS

Operator

The first question comes from Martin Rodiger. Please state your company name, followed by your question.

Martin Rodiger - Cheuvreux - Analyst

Hello. This is Martin Rodiger from Cheuvreux. I have two questions. First is on outlook. Second on the financial crisis. On outlook, you say that -- for the year 2009 you say that when grain prices do not recover significantly, this could lead to a greater than expected reduction in volumes and results. Which expectations do you refer to? Is it your own expectations or it's a consensus? And is there any magnitude of impact you can provide on this? And on the financial crisis, do you see that some of your customers have already some problems to finance their working capital because they have problems to get credit from banks?

Norbert Steiner - K+S - CEO

I'll start with the second part of the question. Norbert Steiner speaking. It is a mixed picture that we see when we look to the agricultural markets worldwide. Here in Germany or in Western Europe, we see that the farmers themselves are more or less not touched too much by the crisis because they used to cooperate with the saving banks and the cooperated banks, which have not shown any weakness so far.

Our partners, our customers, big cooperatives, big saving agencies more or less are in a different position. And they try, certainly, to reduce the working capital in order not to be forced to finance too much. And this is more or less something why they have also filled up their warehouses with fertilizers very early, expecting that the prices would rise furthermore. They now need to be put into the market and therefore, it is something which is in the situation as it is of today since the new spring season, the new seeding season has not yet started. So they are in some troubles, as we see. Not too big ones. But this is only the picture which we need to get from Germany, particularly, and Europe.

Brazil is different. And I would not be too astonished if the Brazilian government again tries to support the agriculture as they have done in the past already once or going back even more times. So the Brazilian economy is very much based on a very well running economic agricultural sector since you know they are independent of imports, necessities for energy with their own gas and oil reserves and production, and also with the own production of green energy. So I think this is different. But I think there is a certain optimism possible that this situation is not too bad.

With respect to the 2009 outlook, we have dared a lot, as we have given you this guidance, what we have placed in our Q3 report already. And this shows, at best, what we say. The prices are down and we -- the volumes are down and we have also seen that the prices for agricultural products are down. And this should recover, not too lately. But the Q1 in which we will see the application of fertilizers in the field will show where we are going to. For the time being, being far away from January or February or March 2009, we cannot go further beyond that what we have said.

Martin Rodiger - Cheuvreux - Analyst

Thank you.

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Operator

The next question comes from Justin [Fanomess]. Please state your company name followed by your question.

Christian Herrmann - K+S - Head of IR

Hello? Hello? Operator, can you help please?

Operator

The next question comes from Laurent Favre. Please state your company name, followed by your question.

Laurent Favre - UBS - Analyst

Good afternoon. This is UBS in London. I've got three questions really. First, regarding '09, could you give us some sort of guidance on cost inflation for next year?

Second question, on the dividend policy. You just provided us with the guidance for net debt for end of '08 and that's above zero. I was just wondering why are you aiming at the low end of the payout ratio of about 14% given the strong balance sheet?

And then the third question, Mr. Steiner, you just commented on the share price and the trend and the valuation of shares. I was just wondering, could you tell us if members of the Management Board are buying shares today?

Norbert Steiner - K+S - CEO

The cost inflation for 2009 more or less is that we see that we will benefit from the backdrop of the energy prices significantly. I mentioned during my speech that we will have that backdrop -- that backlog of six to nine months. And this will more or less benefit in 2009. So we should be aware of energy costs that will rise, but not as significant as we have seen, let's say, in the beginning or in the middle of the year 2008.

Furthermore, we have also done some hedging on that which should guarantee that the second half of 2009 we will be protected against rise of the energy costs which never can be excluded. So the depreciation will increase slightly. Of course, we anticipate again the increase of personnel cost. We know that about 10,000 of our 12,000 employees are working for us in Germany. We have there an outlook of about 5% to 7%, but this will certainly be something which needs to be placed in the environment of wage increases.

And the discussions and negotiations that took -- take place recently or presently in the metal industry will give a first signal of also where our industry will mostly likely or probably end on. What we see as well is that we anticipate the increase of material costs. However, nobody really knows what we will see during the year 2009 since copper prices have come down. Steel prices have come down, so this should also be beneficiary for us.

Therefore, everything is in a big movement right now. It goes up and it goes down. And any precise prediction or prognosis for 2009 also with respect to cost inflation is very, very, very difficult. So generally, we should have more. The likelihood of increases is the highest one when it comes to the personnel costs and the energy costs, which we can quite nicely foresee with our backlog of six to nine months. But I would not dare, as of the time being, be more precise on that.

The dividend policy, the second part of your question, has been established already years ago. And we would like to continue with that. I think behind your question is showing up something like what are you doing with your cash, what you would have

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in the pocket at the end of the year. We have seen that many companies in Europe and around the world have initiated share buyback programs during the course of the last month. But I think most all of them have meanwhile stopped it because of the fact that they have to spend a lot of money to buy back the shares, which they need majorly for the conduct of the business and for the growth of the business.

And we are still on our path to grow our business. And when it comes to the question how can we finance that, the situation in which we will be at the end of the year is, let's say, supportive because the abstract ability to finance or to get bank loans is significantly bigger than the figures that we hear from the financial markets where banks are willing to grant us money. Therefore, the liquidity situation and also our bank loans that we have agreed upon months ago is quite nice to make us -- bring us in the position or to maintain us in the position to grow.

Laurent Favre - UBS - Analyst

So maybe just as a follow up for that one, does it mean that in any case you would be trying to maintain or increase the dividend in 2009 based on all the comments that you made on operating earnings being up '09 on '08?

Norbert Steiner - K+S - CEO

We will decide the situation of the dividend for 2009 in spring 2010. And this is a decision which has to be done between the Board of Directors and our Supervisory Board. What we'd like to do is to continue with our dividend policy which is, I think, well established and also very attractive for our shareholders.

But what we cannot predict right now and which I will also not do is how will we end up at the year 2010 -- 2009, excuse me. And what will then be the cash situation in which we will be then. So let's wait. Let's go into the year 2009. Let's wait and see whether we can follow our path to grow the business. And then we will see at the end of the year where we will be and then we will decide on the dividend 2009. But 40% at least as payout ratio is the data which I would not like to change.

Last, but not least, your question whether the Board of Directors is actually buying shares. We have more or less a policy that generally we have two time windows in which we are able to buy shares. The first one is in the first two weeks after our annual shareholder meeting in May. And the second one opens as of today. So it might be that we buy. However, there is no decision making process amongst us that we say to each other let's invest also. This is an individual decision. And if you would see at the end of the next two weeks that nothing happens, this is not a signal at all.

Laurent Favre - UBS - Analyst

Fair enough. Thank you.

Operator

The next question comes from Christian Faltz. Please state your company name, followed by your question.

Christian Faltz - Oppenheim - Analyst

Hello. Christian Faltz from Oppenheim. Thanks for letting me have the question. First of all, can you please explain why your inventory is up by some 60% in the first nine months while it was only up some 40% in the six months? And the same goes for your receivables, which are also partly up compared to the six months. Is this only due to pricing or is there also physical inventory building up?

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And then with regards to inventory, if my math is correct, rather than putting some 400,000 tonnes out of production in Q4, I think it's going to be more like 600,000 or even more, stretching from the production volume you are forecasting by year end 2008. In any case, just a simple question with regards to that. Are you currently producing and storing the tonnages in the ground or have you stopped a good part of your mining activities and busy your employees elsewhere? Thanks.

Unidentified Company Representative

No, no. It would be a little bit difficult to produce the material underground, bring it to the surface, process it to the finished product and then bring it down again. So --

Christian Faitz - Oppenheim - Analyst

No, no, of course. But I mean, are you currently mining?

Unidentified Company Representative

We are producing on reduced speed, so to say.

Christian Faitz - Oppenheim - Analyst

Okay.

Unidentified Company Representative

And we will extend our policies over Christmas and at the New Year. In the last years, we have always forced our workforce to work on Christmas and nobody which was in the production area has ever had the chance to have a nice Christmas or New Year's Eve with the family. So what we do is that we do repairments, overhauls which we urgently need to do. And therefore, we are not too sad about this extension of free time that we will see in the next weeks to come. But we -- at the present time, we are producing.

Christian Faitz - Oppenheim - Analyst

But in essence, just to get that right, you are producing 1m tonnes less than last year. Is that correct?

Unidentified Company Representative

No.

Christian Faitz - Oppenheim - Analyst

For the full year.

Unidentified Company Representative

No. Last year, you compared 8.2 with (multiple speakers) --

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Christian Faitz - *Oppenheim - Analyst*

7.2

Unidentified Company Representative

-- have written down in our Q3 report.

Christian Faitz - *Oppenheim - Analyst*

Okay.

Unidentified Company Representative

And 8.2 was more responsive by the fact that in the year -- now I need to cut back to 2006 -- we were able to build up inventories which we were able to sell in 2007.

Christian Faitz - *Oppenheim - Analyst*

Okay.

Unidentified Company Representative

And the actual production in the year 2007 was below 8m tonnes. And we will now be selling 7.2m tonnes. And we built up inventories. So therefore you cannot judge. 7.2 and 8.2 is less 1m. It would be -- had it been 600,000 less, then we would have said that it is 600,000 tonnes less.

Norbert Steiner - *K+S - CEO*

And Christian, your question with regards to inventories, yes, inventories were up in the third quarter. The main driver here is COMPO. It's not so much volume related. It's more price related because the raw material cost to produce COMPO professional products and perhaps also a fertiva product now in the third quarter have risen strongly with regards to ammonia and other input costs. And therefore also the basis how to value these inventories has risen significantly in the third quarter. So this is the main reason for the rise in inventories in the third quarter.

For potash, we have only a rise of roughly 45m to 50m compared to June 30. And here the primary reason was not so much higher finished goods, but unfinished goods and also raw materials to process and to produce potash because you would like to be more flexible with regards to tools and machinery and input material that we need to produce potash. We have seen that the time to order these products has increased significantly and we did not want to run the risk that we had to wait for these products.

Christian Faitz - *Oppenheim - Analyst*

Okay. So if ammonia prices stay where they are at the moment, which is heavily below Q3, we will see a steep inventory reduction again towards the end of the year.

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Norbert Steiner - K+S - CEO

No, no, no. No, no, no. The thing is, they haven't -- buildup in inventories at COMPO, for example, has to be evaluated as a production cost. So we have to see if COMPO now in the fourth quarter, and I think this is normally the case because it's a seasonal business, is building up further inventory in the fourth quarter. And for this additional portion, you're right. This will be at lower input cost, hopefully. On the other hand, there's no risk what we see right now that the existing inventory at higher ammonia cost has to be taken down because the selling prices right now are significantly higher than the production costs.

Christian Faitz - Oppenheim - Analyst

Okay, thanks.

Norbert Steiner - K+S - CEO

Okay.

Operator

The next question comes from Neil Tyler. Please state your company name, followed by your question, sir.

Neil Tyler - JP Morgan - Analyst

Yes, good afternoon. It's JP Morgan in London. A couple of questions. Specifically on your -- on the project that you announced today, regarding the reduction of the saltwater disposal, could you give us, if possible, in addition to the CapEx that you've -- guidance you've provided, any additional one off operating costs -- cash costs in your provisions, when you'll be taking those, that sort of thing? Any of those that have been taken year to date, and if not, how you would see those phasing?

And then secondly, more generally, looking further out, I wonder if you would share your thoughts on the situation with your competitor or peer, [Eurocarly] at the moment, discussions as to whether there might be a more significant merger of potash producers in Russia and what -- how you might think that might either positively or negatively influence the industry? Thank you.

Norbert Steiner - K+S - CEO

First question, going to the 360m package, we have not yet calculated too intensively the operating costs afterwards. It is hopefully a good guess that we did as we needed to explain and to describe the machinery, the devices that we need in the reduction of saline water from 14m to 7m cubic meter per year.

So we are far away to have thought that through and evaluated that properly. This needs to be done right now. This is a good guess. We think that it's realistic. We can only judge on the running cost of the operation once we have done this very thorough analysis of that. So what we need to do is -- or what we thought would be very helpful and, not to say necessary for the future production of K+S is to show to the public, to show to the political area, also to show to the environmentalists that we are ready and willing to do something in a big step forward. But the final evaluation of all that needs to be done still. And also one can see that the reduction of saline content within the saline water is something which of course gives us a little additional material that we can sell. But this is something which we will see later on in 2012, 2013 or so. So it's very undecided yet.

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Unidentified Company Representative

Neil, maybe just to add, up to date and up to now there is no provisioning necessary for this additional CapEx project. The CapEx phase will look as no additional burden in the year 2009 for this 360m package. It will start in 2010 earliest and it will gradually increase until the year 2011 and 2012, so peaking in 2012 and then being expiring by 2015.

Neil Tyler - *JP Morgan - Analyst*

Thank you very much.

Unidentified Company Representative

Second question concerning [Eurocarly]. Of course the whole industry knows the origin of the discussion, which is the loss of the mine and the problems with the railways. But I think it's very premature now to speculate about mergers being conducted of potash producers in Russia. I think we have to wait until the Commission which has been put into force by one of the Deputy Ministers in Russia will start the review of the last procedure. And that will only take place in December. So I think we better don't speculate much but just say what will happen. Thank you.

Neil Tyler - *JP Morgan - Analyst*

Okay, thank you.

Operator

The next question comes from Nik Oliver. Please state your company name, followed by your question.

Nik Oliver - *Merrill Lynch - Analyst*

Hi. It's Nick from Merrill Lynch. Just two questions remaining. Firstly, looking globally at potash inventories, there have been various conflicting comments about the level of inventories. I was wondering if you could give your thoughts on inventories looking at Brazil and China and also Europe. Just a rough feel of where you see inventories at the year end.

And secondly, you commented that you're sticking to your price before volume strategy. If we were to see a situation next year whereby grain prices do not recover and then volume demand stays weak, would you still stick to that strategy and see further volume softness or would you consider an easing in prices and particularly to help the farmers who are more credit constrained? Thank you.

Norbert Steiner - *K+S - CEO*

Okay, so I will answer that. First question you divided into China. Tough situation in China after the Chinese have not imported their average consumption, which is about 8m tonnes over the last year. And they have even dropped in by about, I would say, over half. I think that the stock situation of potash within China is on a very, very low end. And it's just a matter of discussion between the big suppliers of potash and the government when imports will start again. And of course, the key point of this discussion will be to fix the price for the next season or for the next year.

So again, these discussions are at the very, very early stage. And I think also there we have to wait. Perhaps a small indication of what direction prices could take is the decision which has been made in Malaysia when it came to the [filler] tender and when it comes to new contracts being produced for Japan. For China we have to wait.

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Brazil, it's a different situation. Most of the Brazilian importers have been, of course, trying to get as much potash as possible over the last nine months. Now some of the harbors are very much congested. And a lot of product is lying there in the warehouses and waiting for farmers to decide whether they go into the planting season or not. So I think there, again, we have to wait. But in this case, I think it will be only a matter of a few weeks. And the asset before the Brazilian government will also be very supportive to the agriculture again, like they have done in the past. So there it's a matter of waiting and time. But the imports in Brazil over the last nine months have been very, very strong. So in average, they are doing fine I think.

Europe, in Europe, of course, financial crisis is a question. The decision farmers have to make when do I sell the harvest I have still in stocks and when do I have replenish my stocks? But actually there is no necessity to do it because our season only starts in February or March. So there again, everybody is in waiting position. And that is also one of the major reasons why we have decided to reduce our production. Does that answer your question?

Nik Oliver - Merrill Lynch - Analyst

Yes. No, definitely. Thanks.

Operator

Your next question comes from Sophie Jourdier. Please state your question, followed by your company name.

Sophie Jourdier - Citigroup - Analyst

Hi. This is Sophie Jourdier, Citigroup. I have just got one further question on the outlook. I know we're still a way away from the European season starting. But just, if crop prices were to stay where they are today and potash prices were to stay relatively high levels, just could you just share your thoughts about European potash application rates next year, just the potential for just resting there.

Second question, could you just clarify the CapEx outlook for the next few years, in light of the new skin production? Especially for 2009, what CapEx we're looking for and 2010 in total?

And then finally, just on freight costs. Freight rates have come down an enormous amount. Just wondered whether you could quantify the effect that will have on your results, going into next year. Thanks.

Unidentified Company Representative

Okay, then. Let's start with the European market and the season -- the next year's season. We know that over the last three, four years, the national application services already warned the farmers that the level of potash in the soil is on a very, very low level. And already over the last years, the application of potash was not optimal.

Now with the very strong harvest we have had this year, the extraction of potash was very, very strong and now it's a matter of deciding how much potash will I supply? Now potash is not so much the driver of quantity harvest, but it's also quality harvest. And the decision in the matter of fact for the farmer is, do I go for quality product and then fetch a good price and I sell my produce or do I run the risk not to do it? But I think that the first quarter next year will be affected by the financial crisis. That's why we say we are very cautious with it. And we'll just wait for decisions. We'll be done in a few months' time only. So the next one was CapEx?

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Unidentified Company Representative

CapEx, yes. Roughly, for 2009 it will be in the neighborhood of 200. And what we should see has been touched already several times. This is our package for the benefit of the environmental era when it comes to the years afterwards. We should see that this EUR360m package more or less builds in 2010, 2011, 2012 for some remaining parts in the years afterwards will also influence significantly our ability and willingness to invest besides that. We cannot only -- we cannot simply say a package of let's say EUR100m out of these EUR360m comes on top.

So the volume of investment of CapEx will be increased in 2010, 2011, 2012. But I would not say on top of all that, EUR150 to EUR180 to EUR200 comes as the part of that EUR360m. It will be moderate and we will do the utmost in order to have a very solid movement and development of our CapEx development.

Freight, we have quite often said that our main traffic -- sea ship traffic over the oceans are twofold, number one into South America when it comes to our potash and fertilizer business where we have a contract that is -- has been on attractive levels and will continue to stay on attractive levels until it will be expiring at the end of 2009. Hence the development of rates which we have seen recently, should it continue and there are certain elements that give us a certain optimism that rates will be on the low level within the next 12 months to come, we will have a good basis for the negotiations to continue with a contract after 2009.

On the other hand, to Southeast Asia, we have always utilized mainly containers where we had attractive rates already. And seeing the development of the container shipments, we can only say that it will be continuing.

And last, but not least, since we have a lot of sea ship travel prepared or connected with our soil production in Chile, we have a mixture of long term coop contract of freightment and spot shipments. And with respect to the spot situation, which has come down significantly, we should be aware of a lower burden for the sea ship transportation. But one should not mix up that the Baltic Dry Index is all the truth around the world. This is an indication of what happens. But if you then look into specific areas in the world where there is still tightness, you have to face significantly higher rates. So I think it is beneficiary for us, but we cannot materialize that in figures.

Sophie Jourdier - Citigroup - Analyst

Great. Thank you very much.

Operator

The next question comes from Andreas Heine. Please state your company name, followed by your question.

Andreas Heine - UniCredit - Analyst

Andreas Heine, UniCredit. I'd like to address one question regarding the receiveables, which are quite high right now. Can you be secure that you can cover all these because maybe some of the wholesalers have also financial problems if the prices of, not potash, but the other fertilizer are coming down and they have to write them off? So what is the time schedule that you can collect them and what is the regional split of that?

And if it comes to the inventory rundown, most of your market is in Europe. And here you said that especially NPK producers have reduced their production and probably have high inventories. In Europe, these NPKs -- the NPK producer is the main problem or is it the wholesale organizations?

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And last, but not least, following on with the freight rate, I guess also a large portion of what has to do with freight rates is on the ground in Europe. Has that changed? So the train traffic or trucks, are you seeing here any relief from the lower energy costs or surcharge or whatever you had to pay during this year? Thanks.

Norbert Steiner - K+S - CEO

Andreas, I'll start with your first question. With respect, you are right. We are not only using sea ships for our transportation. But I have mentioned -- certainly mentioned quite often that the main traffic is done by the Federal Republic Railway System Deutsche Bahn, where we have concluded a contract, I think back -- I think in February two years ago or so -- two or three years ago, which has a long lifetime still to come, which has been on very attractive rates and where we see that this more or less will continue to be very attractive for us and also for the Deutsche Bahn.

So we do not fear that, from this perspective, a lot of things are coming to us. What we are not -- what we cannot exclude but also this is mainly connected with the development of the oil price or the diesel price is how the charges for our truck traffic is affected by the development. And if you then look to your own experience when you come to the gas station, you have seen that price for diesel has come down significantly by 20% or so. And if that continues, we should be not negatively affected by that. So the entire situation, truck, train, sea ship, also to some extent barges, should be very moderate next year.

Unidentified Company Representative

And with regards to your question of -- to receivables, we -- yes, you are right. We have roughly EUR1.1b outstanding receivables by the end of September. This has certainly increased in line with the higher prices for fertilizer. And we have shorter payment terms in Germany and Europe, compared to overseas. That's normal. So in Germany you can find up to 30 days, in Europe up to 90 days in an overseas, sometimes after half a year.

Of the outstanding portfolio, we generally use default risk guarantees and export guarantees. Of this portfolio, of the EUR1.1b, only roughly 5% to 6% is unsecured. And certainly we have taken also some provisioning for that already in the third quarter. So we feel very comfortable with the current receivable portfolio.

Going ahead into the future, yes, it's becoming a bit more stressful to get enough credit lines from the export guarantee companies. There are some news and there are some new rumors that also Germany likes to help exporters here by increasing the volumes of these credit guarantees, so we have to see. But of the -- for the existing portfolio, we are very well covered.

Norbert Steiner - K+S - CEO

Okay. The last question I think was the behavior of NPK producers. NPK producers are affected by the same way straight fertilizer producers or potash producers by the financial crisis, by the behavior of the trade. That is one thing. And I think that is the more, I should say, more weighing argument for it. But the other thing is that NPK producers, there are two kinds of it. Some of them, they are stand-alone. They can make decisions for themselves. And then some others are sharing their ammonia plants. That's one of the decisive factors, sharing their ammonia plants with other activities.

So when you take, for example, BSF in Antwerp, they are sharing their ammonia plant with some other activities in BSF, (inaudible) business, melamine business, things like this. And when the chemical industry is feeling that business is weakening, then immediately they will reduce the ammonia activities. And then following other NPK activities will be less. So they are a little bit more flexible to reduce capacities in NPKs. And that is what they have done because they also see that some buying decisions are postponed because of the stock situation. So it's a mixture, I think. Is that good enough?

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Andreas Heine - *UniCredit - Analyst*

I wanted more to stress the fact that it is more driven -- the inventory decline in [Eurabella], it is more driven by these large buyers, the NPK producers, rather than (multiple speakers).

Unidentified Company Representative

The bigger sector is from wholesalers.

Andreas Heine - *UniCredit - Analyst*

Bigger is from wholesalers. Okay. Thanks.

Operator

The next question comes from Saul Rans. Please state your company name, followed by your question.

Saul Rans - *Dresdner Kleinwort - Analyst*

Yes, good afternoon. Saul Rans from Dresdner Kleinwort. I have two questions, please. The first one, I just wonder if you could update us or remind us about the type of price level that you see for new orders at the moment in the international markets in Brazil or Southeast Asia.

And the second question is regarding your comment about your expectation for the total world market volume in 2008 where you suggest that you think the market will be more or less stable. But if we bear in mind that China is down 3m tonnes and you're going to be selling a 1m tons less than last year, where normally I would assume there's a read across for the total market volume in your main markets like Europe and Brazil, can you tell us who is the producers and the buying regions who are seeing so much growth that the overall market this year could be stable because I would have assumed it would be down? Thank you.

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

Okay. Start first with the statement that 2008 and 2007 will be more or less the same. And then the outlook is on a positive side when it comes to quantities. You are correct. You are picking the right example. It's China. China has at present imported approximately 4m tonnes less than the year before, in 2007. And the question is how long can they wait to import again? And when they import again, that will add up to the fertilizer demand worldwide.

When you see India, India, it's a government subsidized issue. It's a food security issue. And the Indian government definitely will continue. We had very strong monsoon rains. There is a good possibility for them to secure -- to have good food security. And also the government, there are some elections coming up. It's very interested to have a good, let's say, position against the farmer -- farming society.

North America, I think that there will be a normal business, perhaps the icing on the cake, which comes from the discussion about the ethanol plants. That will be a little bit more reality. But the demand is there because the 120 ethanol investments are coming.

So I think there's a good reason that we say 2009 and 2008 will be more or less comparable. Also there is a small -- weaker, perhaps, first Q. But in the end, Q3 and Q4, there is a very good situation because of the stock to use ratio and other factors are still stable and very, very strong. Then we will face a strong business again. What was the other question?

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Christian Herrmann - K+S - Head of IR

The current price for new business.

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

The current price for new business is on -- we have not reduced any prices. We do less business in volume, but we do the same prices. So our policy, price before quantity, is very strong.

Saul Rans - Dresdner Kleinwort - Analyst

And sorry, can you give us an indication of what those prices are, currently?

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

The prices in Europe are 615, roughly, depending sometimes on carriers, whether it's train or whether it's ship. And in overseas markets, it's about \$850 to \$900.

Saul Rans - Dresdner Kleinwort - Analyst

Okay. And may I just come back to you on the first question as well? Perhaps I explained -- I put the question poorly. My question is rather about 2008 world volume versus 2007 because obviously we see kind of a let's say, demand shock at the moment in the industry. And we're looking at 2009, but surely the case is that the demand shock is partly already behind us in 2008. Because if China is down, Europe is down, Brazil is down, where is up? I know that some markets like India are up and so on. But surely the market in the current year, 2008, is already going to be down.

Unidentified Company Representative

But Saul, Mr. Felker wanted to explain that yes, you're right. Right now in the fourth quarter we see a reduction of Q4 compared to Q4. But don't forget that the first nine months saw a very strong increase in volumes. In gross market, not China, there you are right. But in Brazil, Brazil was 20% ahead in the nine -- in the first nine months. India, Mr. Felker explained. Europe in the first eight months -- in the first six months was ahead roughly 8%. So yes we are coming down now in the fourth quarter, but for the year 2008 we will still see a flat development compared to '07.

Saul Rans - Dresdner Kleinwort - Analyst

Okay. But if you sell 1m tons less this year, does that mean your market share is down?

Unidentified Company Representative

You have to compare roughly 7.2m divided by 59m tonnes and 7.2m includes the whole portfolio, so we have to deduct then the magnesium and potash based products. So we have to see where we are ending at the end of the year.

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Norbert Steiner - K+S - CEO

It is nice -- Norbert Steiner here. It is nice to have a certain market share. But market share symbolizes for the point where you are the most strong players around the world or whether you are amongst the smaller ones. And so far, staying much far below 10% -- beyond 10%, 11 something, whatever it means, is nothing where we care for primarily.

What we like to do is to balance production and price. And not to lose, let's say, price efficiency just to maintain a certain level of market share. So first of all is to be sufficient, to be successful. That means to maintain an established price level, also supporting that by a reduction of production capacity utilization. And then if that turns out to be something which lets us lose 1 point -- 0.1% or 0.2% of market share, who cares?

Saul Rans - Dresdner Kleinwort - Analyst

Okay. Thanks very much.

Operator

(Operator Instructions). The next questions come from Matthias Pfeifbergerr. Please state your company name, followed by your question.

Matthias Pfeifbergerr - Deutsche Bank - Analyst

Yes, good afternoon. Matthias Pfeifbergerr here from Deutsche Bank. Just two questions on the farm side. First of all, can you remind us what the profit level would be in Europe for farmers? Does that compare with the 2006, 2007? We're seeing cost projections from USDA so these farmers in the US seem to be quite profitable still at corn 04. And maybe assuming average years, what's the situation in Europe? And combined with that, can you remind us what -- how long it takes until you see a yield impact from lower fertilization? Is it going to be in the first year or in the second year?

And the second question, really, on prices. You mentioned [Felder] in Japan. Actually both of those businesses, [Felder] was on equally high levels and Japan actually moved up in the price by I guess \$200. Would that be a good indication for Q1? Or maybe combined with that question, do you see any likelihood that China would just roll their contracts on the same price, let's say 650, given that they have benefited from a discount to global market prices for the last couple of months? Is that possible at all.

Unidentified Company Representative

I think -- okay, start with the second question. When you see that in the present situation, because we only talked a few weeks ago -- in the case of Japan, only a few days ago. Still in the present situation it was possible to increase prices in Japan by \$200.

Matthias Pfeifbergerr - Deutsche Bank - Analyst

Yes, exactly.

Unidentified Company Representative

In the [Felder] decision we are at the very high price level. We are at the price level we have concluded -- producers have concluded at prices levels which we always think is the aim to be in the fourth quarter this year. So this goal has been achieved.

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The second one, comparing the situation of farmers in Europe, now we take -- we try to do something which is very difficult. We take the average farmer in Europe. I think the average farmer in Europe has enjoyed, over the first seven, eight months this year a very good business compared to 2006 and at that time has had a very good liquidity.

Now with grain prices basically falling, there are some of them that have sold part of their harvest already at the peak and some of them that have been speculating. And they are a little bit caught now in the trap of what have I done? Why have I not sold my produce two months ago? And are prices coming back or are prices to remain on the low level? And that's the decision they have to do and we cannot help them there.

But in average, I think there's one effect of liquidity still is good with them. And what also is, at least on the farmers' level is definitely true because they have longstanding relations to their (inaudible) and things like this. And their financing, their requirement I think is still very, very possible. So there I'm not too pessimistic.

Matthias Pfeifbergerr - Deutsche Bank - Analyst

Okay. And maybe on China. Can you -- is there a likelihood that they would roll all the contracts?

Unidentified Company Representative

China, I can give you only one excursion. In 2006 we have been in the same situation as now. China is one of the big importers worldwide. It's state managed. And at that time, discussions for pricing in China dragged a long time and the Chinese were not prepared to accept the ideas of the producers when it came to pricing policies. And the conditions there of the producers was not accepted. So the producers just cut their production. And China the next year came back and accepted, in 2007, the new price.

Unidentified Company Representative

Always.

Unidentified Company Representative

Always. So it's a matter of how to structure the new negotiations and how long China can afford not to import potash.

Matthias Pfeifbergerr - Deutsche Bank - Analyst

Okay. And just an add on to the first one, can you confirm that farmers are profitable in Europe at the corn 04 on average? And then maybe not even keeping in mind that some of the other nutrients have fallen in price, that oil is down, which would leave them even better off.

Unidentified Company Representative

The main product in Europe is not corn.

Matthias Pfeifbergerr - Deutsche Bank - Analyst

Yes, exactly.

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Unidentified Company Representative

(Multiple speakers) in particular at the very beginning. And we always try -- we are always questioned in a very abstract way. Joachim mentioned that. We are trying to more or less compose the European farmer, which does certainly not exist. What we have seen in the past is something which is a different answer to your question, is that despite the fact that a negative margin, when you take into account full cost has more or less suffered, the farmer said, what is my aim? My aim -- and their aim has always been to produce as much as possible, to have the optimum yield. Yes

So we should not look only to those farmers that have a part time job and have one hectare under their plow and say we are refraining from buying potash at that high prices. The average European farmer is different. It's more or less commercialized, not to say industrialized. And they look where are the stock to use ratio. How can I produce in order to grow with the growing demand for agricultural products? And then you have the answer. So I can only repeat what I said. Even in times where there was a negative margin, if you compare earnings -- potential of earnings with full cost, they did. Why should they alter their behavior?

Matthias Pfeifbergerr - Deutsche Bank - Analyst

Yes and the last one was on the yield reduction. When do farmers, on average, see an impact, let's say if they cut 10%, 20% of fertilizer application?

Unidentified Company Representative

This is certainly depending on -- sorry, this is again also not possible to give just a simple answer. We would love to give you a simple answer, but it's not possible. You have to see the soil content. You have to see what kind of plant you would like to grow. And then you would have to do -- have to say okay, what is my soil fertility? And Mr. Steiner in his initial remarks certainly said, the application of fertilizer is, to some extent, deferrable but it's not escapable. And any deferral makes a necessity to fertilize just for a few.

So if you fertilize, let's say, 20% less, it depends on the soil fertility in what you have today. Some farmers maybe can get around for a year or maybe even two. And some farmers don't. So if you know, for example, the Brazilian soil in Matto Grosse is very poor, and it cannot contain nutrients for very long. So they will feel it definitely right away, while there are maybe some German farmers in the North Eastern part who may potentially skip it. But in the end they have to get -- they have to fertilize then next year even more in order to get back to the initial soil fertility.

Matthias Pfeifbergerr - Deutsche Bank - Analyst

Yes, very clear. Thank you.

Operator

The next question comes from Gunnar Cohrs. Please state your question, announcing your company name and location.

Gunnar Cohrs - Berenberg Bank - Analyst

Yes. Good afternoon, gentlemen. It's Gunnar Cohrs, Berenberg Bank. Just one, actually, question that's more or less already my colleague before asked that question. It is just concerning, I struggle to understand why Japan is going to accept \$900 per tonne given that you and also others have already announced that they're going to cut production, that demand is falling. And basic

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economics gives me that when the demand is falling, also prices are going down. So at the end could there be also a cartel issue, given that your industry is already pretty much consolidated? Thank you.

Unidentified Company Representative

Thank you. (Inaudible).

Unidentified Company Representative

No. You know that we have a good source of knowledge about the behavior and the development of markets, which you certainly read by yourself, Fertilizer Week, Fertilizer Bulletin and all these journals. And what the people see around the world is that you cannot get the material cheaper, that it is still scarce despite the fact the NPK industry has reduced the intake right now. But in these regions, and I think Japan, from my personal perspective, a little bit far away from the potash business by geography.

From my perspective, the seller tender is the most important one because this is something which is going into a situation and in a region which is agriculturally very, very, well established. Japan is a small country of agricultural production to my understanding. So that the seller tender is still on the level of \$1,000 fees that the suppliers and the participants of that tender said we sell only to that price.

Gunnar Cohrs - Berenberg Bank - Analyst

Okay. I fully understand. I don't want to imply anything of course. But what is also -- if you look at the price chart, for example, of potash and if you see, for example, in Russia when we had also there an overseas cartel among the Russian producers, the price steeply went up. I don't know if it is just a function of supply/demand or it had also to do with the further consolidation of the industry. And finally, what are some -- usually the volume Japan asks for, for full year approximately?

Unidentified Company Representative

500,000 tonnes, I hear. I didn't know the figure.

Gunnar Cohrs - Berenberg Bank - Analyst

All right. So it's pretty minor.

Unidentified Company Representative

Once again, of course, if you are in a market which is much consolidated, which is an oligolistic structure that we have in potash, certainly, it is easier to oversee than more or less the behavior in particular markets. But on the other hand, the nitrogen market -- nitrogen fertilizer market is absolutely fragmented. And you have seen during the year, more or less the same trend toward higher prices, towards scarcity, despite the fact that we have, hypothetically, overcapacity there. And it is a question of demand and supply situation.

And since we concentrate, and every major producer concentrates on particular regions in the world, nobody more or less does exotic things as long as he is able to maintain best balance between capacity utilization and price levels. So once again, I would like to remind you to 2006 Chinese, gambling and yes, you see the balance always sees the attempt of the producers to optimize the situation. And this is also still going on.

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Unidentified Company Representative

And I think it also becomes obvious that the current market when we see it -- when we look at grain prices, from the view of insiders in this agricultural business, no one really believes that these grain prices right now are mirroring the fundamental situation. So we really believe that this is a temporary issue. So why should the potash producers right now reduce pricing and have tough times later on to increase it again, when they have a strong feeling that this is a temporary issue?

Gunnar Cohrs - Berenberg Bank - Analyst

Okay. Thank you very much.

Operator

(Operator Instructions). Sir, there appear to be no further questions.

Unidentified Company Representative

Okay. Thank you very much (multiple speakers).

Operator

Please continue with any other points you wish to raise.

Norbert Steiner - K+S - CEO

No. Thank you very much to all participants that have followed us. Thank you very much also for your questions. We are, as you mentioned, as you have seen, we are on the track to have the most successful year at the K+S history. We have maintained our guidance, of course, lowering to the lower end. We have given you some indications that we are optimistic for 2009. So crossed fingers that everything comes through. We will do our best to materialize that. Our next meeting situation will be on March 12 next year where we will be discussing our entire year 2008 figures. Thank you very much and all the best for you.

Unidentified Company Representative

Bye bye.

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