

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **SDF.F - Q3 2009 K+S AG Earnings Conference Call**

**Event Date/Time: Nov. 12. 2009 / 2:00PM GMT**



Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

## CORPORATE PARTICIPANTS

**Christian Herrmann**

*K+S AG - Head - IR*

**Norbert Steiner**

*K+S AG - CEO*

**Joachim Felker**

*K+S AG - Executive Board Member*

## CONFERENCE CALL PARTICIPANTS

**Wesley Brooks**

*Morgan Stanley - Analyst*

**Neil Tyler**

*JPMorgan - Analyst*

**Pascal Spano**

*Credit Suisse - Analyst*

**Peter Clark**

*Societe Generale - Analyst*

**Andreas Heine**

*UniCredit - Analyst*

**Andrew Stott**

*Banc of America - Analyst*

**Martin Roediger**

*Cheuvreux - Analyst*

**Wolfgang Fickus**

*WestLB - Analyst*

**Jean de Watteville**

*Nomura - Analyst*

**Joe Dewhurst**

*UBS - Analyst*

**Sophie Jourdier**

*Citi - Analyst*

**Rim Bennani**

*Exane - Analyst*

**Virginie Boucher-Ferte**

*Deutsche Bank - Analyst*

**Annett Weber**

*BHF-Bank - Analyst*

**Paul D'Amico**

*TD Newcrest - Analyst*

## PRESENTATION

**Operator**

Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

Welcome to the K+S conference call for analysts regarding the publication of the quarterly financial report for Q3 '09. My name is Dave, and I will be your coordinator for today's conference. For the duration of the call you will be on listen-only. However, at the end of the call you will have the opportunity to ask questions.

(Operator Instructions) I'm now handing the call over to Christian Herrmann, Head of Investor Relations at K+S, to begin. Thank you.

---

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

Thank you, Dave. Sorry to wake you up from this nice music you had to listen to. We can now start to the third quarter earnings conference call. Norbert Steiner, CEO of K+S, is going to present to you shortly the third quarter 2009 results. Afterwards, our Executive Board Members, Mr. Steiner, Mr. Felker, and Mr. Nonnenkamp, are happy to answer your questions.

Since we have an updated disclaimer, I'm very happy to read it to you now. Before I hand over to Mr. Steiner, please allow me to mention that this presentation contains facts and forecasts that relate to the future development of 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 this moment in time. Should the assumptions underlying these forecasts prove not to be correct, and should certain risks such as those referred to in the risk -- in the recent Risk Report materialize, actual developments and events may deviate from current expectations. The Company assumes no obligation to update the statements contained in this presentation, save for the making of such disclosures as are required by the provisions of statute.

I'm happy to hand over to Norbert Steiner.

---

**Norbert Steiner** - K+S AG - CEO

Good afternoon to those in Europe and maybe good morning to those overseas.

I'm happy to present you the first quarter results from my side, and welcome to our conference call also from my side and my colleagues. I would like to continue as usual that I indicate slides which I'm commenting on.

As already mentioned in recent conference calls, our business is heavily impacted by continuous reluctance on the part of agriculture, stemming from the ongoing effects of the global recession and, at least so far, unattractive pricing for major crops.

Slide number one, the quarter was still characterized by low demand for potash fertilizers, especially in Europe and North America. In terms of prices, the agreement concluded with India in the middle of July setting a price of \$460 per tonne for standard potassium chloride provided an important orientation point for global markets.

However, purchasing restraint could not be dispelled everywhere because of the conclusion of agreements with China and is still outstanding. In addition, the trade sector has been seeking to keep inventories as low as possible, and to delay early stocking-up which is normally customary at this time.

The good news is stocks have been largely depleted. On the supply side, many producers including K+S, have once again cut their output to prevent further increase in their inventories.

In the case of Nitrogen Fertilizers in Europe, despite further price reductions, there was no significant increase in demand for complex fertilizers. Only straight nitrogen fertilizers saw a continuation of the pickup in demand that started at the end of June.

Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

By contrast, the Western European de-icing salt market was characterized by satisfactory early procurement business. In North America tenders in terms of volume were comparable with the good -- very good same period a year ago. Prices however saw slight decreases with last year's tenders having benefited from supply bottlenecks.

Slide number two, a standard one, and a brief look at the change in K+S Group's revenue during Q3 2009. Revenues decreased by about EUR745 million or 52% year-on-year. As you can see on this slide, negative volume, and in particular negative price effects were the reasons behind this development.

Next slide, the following table number three is only to be understood as providing you a rough indication of how prices have developed. Factors like freight cost, exchange rates, and product mix [distort] this picture. Year-on-year volumes in Europe declined sharply, while overseas volumes remained almost stable, benefiting from good volumes, especially in Brazil.

European and overseas prices were down 32% against the record quarter of last year. At least the quarter-on-quarter comparison shows the recovery in European volumes with prices adjusting to the overseas level. Overseas volumes and prices were almost flat compared to the second quarter. Going forward, we expect a further tangible decline in the average price, especially because of the negative product mix effects.

Slide number four, selected key figures for the third quarter. As explained, revenues fell by 52%, mainly because of negative volume and price effects. Operating earnings reached EUR9 million for the third quarter of 2009, a drastic decline of almost 100%, mainly caused by lower earnings in the Potash and Magnesium Products and Nitrogen Fertilizer business segments.

The latter was also affected by lower inventory valuations which consisted of EUR17 million in Q3. A reduced capital expenditure and lower working capital led to higher free cash flow before acquisitions, compared to earnings in Q3. Financial result was impacted by a one-off effect in connection with the financing of Morton Salt, leading to negative earning per share in Q3. That brings me to the nine-month figures on the next slide.

Other than the Q3 numbers, the nine-month earnings benefited from, to a certain degree, from the weather, very positive costs of the salts business. Nevertheless, revenues declined by 35% because of a different base effect less pronounced in Q3. Remember, Q3 2008 was our record quarter. Operating earnings were down 81% at EUR202 million with a good 45% of this is stemming from salt.

Free cash flow before acquisitions reached EUR182 million, declining by 71%.

At September 30, net debt including pensions and mining provisions amounted to approximately EUR833 million, up EUR202 million compared to last year, but rather flat compared to Q2. Please bear in mind that this net debt figure does not reflect the effects of the Morton Salt acquisition we had at closing on the 1st of October.

Let's put this into perspective with the last two years -- and now I'm on slide number six. With Q3 earnings per shares being negative at EUR0.01, the cumulative figure for the first nine months amounted to EUR0.46. However, excluding the one-off effects of lower inventory valuations in the Nitrogen Fertilizer business segment, and the Morton Salt acquisition financing effect, third quarter EPS would have been EUR0.09 better off.

Taking furthermore the Q1 COMPO restructuring effect and the purchase price hedging effect of Morton Salt in Q2 into account as well, the first nine months EPS would have reached a similar level as in 2007. This is certainly clearly below the record earnings level of 2008 and closer to the 2007 figures, whereas, 2009 results have been achieved on almost half the potash volumes sold in 2007.

Slide number seven, a look at the expected development of prices of agricultural products. US Department of Agriculture, USDA, expects, despite the economic crisis, worldwide demand for grain to be at the highest level ever in the current agricultural year.

Nov. 12, 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

Fortunately, this demand has coincided with the greatest amount of land under cultivation and the second highest yield per hectare in the last 10 years, the latter being linked to very favorable weather conditions in the Northern Hemisphere above all.

A simple continuation of these very high yields per hectare and the historically relatively high amount of land under cultivation could prove to be too optimistic. If one assumes for example for the coming year, an amount of land under cultivation and yield per hectare that corresponds to the average of the last five years, a rate of growth in demand in keeping with the long-term mean, this would mean -- this would result in one of the largest production shortfalls registered in the last 30 years, and thus to a corresponding sharp fall in grain stocks.

This is most likely the background against which future prices for agricultural products have recently been developing positively over the last few weeks, and lie in part significantly above current spot average.

Next slide. As you probably know, we adjusted our sales assumptions for the year 2009 and after at the end of September. As stated before, we do not expect demand for fertilizer -- potash fertilizers to normalize in the fourth quarter in 2009, and have lowered our estimates of the global volume of potash sales for 2009 as a whole to about 30 million tonnes.

With this decrease in demand, potash producers will, as has been seen hitherto, cut back output further in order to better balance the production with weak demands. In 2010, demand should however increase significantly from these very low levels that compare to a sales figure achieved almost 40 years ago. As a result of lower trade sector inventories of straight fertilizers in the meantime, lower soil potash content following two very good harvests, the lower application of fertilizers in autumn 2008 and assuming higher deliveries to China in 2010, we suppose that global potash sales will amount to about 45 million tonnes in 2010 as a whole.

The mentioned lower application of fertilizers since autumn 2008 by now show first signs of quality deterioration, especially with potash-sensitive crops. There are for example [Kennett] reports of lower sugar content in sugar beets as well as black spot problems in potatoes. Not yet a widespread problem, but something that would cause some concern when it comes to the decision of how much fertilizer should be applied next season.

Now, slide number nine, a brief update on the recently closed Morton Salt acquisition. As you most likely know, the Federal Trade Commission, the FTC, declared the transaction on 25th of September after K+S fulfilled the requirement to sell bulk de-icing salt assets in Maine and Connecticut. The impact of the -- on the business generated by these divestitures are rather minor. Closing took then place on the 1st October, and the preliminary purchase price was set at \$1,576 million.

The closing balance sheet under US GAAP for the exact purchase price determination is now being prepared. The opening balance sheet under IFRS is also in preparation, including an assessment of the detailed purchase price allocation. Subsequent adjustments and readjustments are possible under IFRS within 12 months. As already announced, we expect that in the current fourth quarter the first-time inclusion of Morton Salt's operating earnings contribution should exceed the integration costs. But non-recurrent financing and tax outlays will depress net earnings slightly.

From 2010 onwards, a markedly positive impact on net earnings can be expected. Please understand that this is -- that it is, under these circumstances, virtually impossible to provide you as of today with potential goodwill, of specific depreciation changes following the purchase price allocation. However, we will keep you updated as soon as we have a sound basis for doing so.

Our next slide, cost savings and CapEx measures. The fertilizer industry is facing a tough business environment at the moment. This is exacerbated by the fact that the potash industry is a relatively high fixed-cost industry. I'm not a friend of promotionally effective and quantitative cost-saving measures because these numbers always have to be seen in respect to the corresponding bases. Nevertheless, I would like to update you on the recent cost development and please be assured, 2009 and 2010 will be characterized by painful cost-cutting efforts.



Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

Material and freight costs are and will be tangibly down because of the unparalleled reduction of production volumes in the Potash and Magnesium business segment. Utilization rate for 2009 is running at approximately 50%. Due to the usual energy supply clauses, the fall in energy prices at the end of last year has now had an impact on the K+S Group's energy costs for the first time.

A decrease in personnel cost was caused by intensified short-time work in the third quarter, and will be used to a large degree in Q4 as well after exploratory preprocessing measures to ensure future production has been concluded in the first half-year. As a consequence of these developments and on behalf of lower input costs, cost of sales in the first nine months declined by approximately EUR470 million, compared to the same period last year under full occupation.

However, as a result of the relatively high fixed-cost component in the mining industry, the decline in cost was lower than the decrease in revenues. Furthermore, we decided to reduce our 2009 CapEx budget by 15% on average. In addition, we are investigating our cost of research but while paying close attention to not endangering current and future potential -- production potential.

That brings me to the revenue and earnings expectation to 2009, slide 11. As already mentioned in the report on the second quarter, we expect revenues to decline significantly and EBIT I to fall sharply compared with the previous year.

In the Potash and Magnesium business segment, we continue to expect sales volumes to reach about 4 million tonnes of goods to compare to -- to be compared with 7 million tonnes in 2008. On the basis of further declining average potash prices in Q4, 2009 average prices should be tangibly below last year's level. In Nitrogen Fertilizers business segment we see a significant decline in revenues for 2009 as well, attributable to both lower demand for nitrogenous fertilizers as well as to the market tendency for the price level to fall.

In addition the consumer business should be influenced by a lower level of propensity to consume as a result of the financial and economic crisis. The expected significant decrease in revenues, high material costs for the production of complex fertilizers that will still have an impact for the fourth quarter of 2009, and one-off charges of almost EUR50 million will result in an unsightly operating loss for 2009.

By contrast, and because of a very good start for de-icing salts, attributable to excellent weather conditions as well as the first-time inclusion of Morton Salt in the fourth quarter, we expect a strong rise in revenues for the Salt business segment in 2009.

On the costs side, lower freight costs and energy prices can be expected to provide relief this year. Overall, operating earnings will be significantly above the level seen last year. However, the increase will not be able to make up for the negative development of revenues in the fertilizer area.

Our last slide, revenue and earnings expectations for 2010. The first-time inclusion of Morton Salt for the whole year will positively influence revenues in 2010 to a significant degree. In the Fertilizer business sector we expect significantly higher sales volumes, especially for the Potash and Magnesium fertilizers division. However, it is very difficult to forecast future potash prices at the present time.

In the coming year, if the price level currently attainable on world markets is to continue, we could expect a significant rise in revenues in the Fertilizers business sector and thus for the K+S Group too. Such a scenario would also result in an increase in operating earnings. However, a decline in the global market price for potash fertilizers would have a considerable negative impact on the revenues and on the profitability of the K+S Group.

Taking into account the acquisition of Morton Salt on the 1st of October this year, both of our net indebtedness, and in view of the expected development of earnings, the ratio of net indebtedness to EBITDA will increase significantly. We will thus probably



Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

not meet our target levels temporarily. But as we want to preserve our financial flexibility for further growth in the future, as well as retain our investment credit rating, efforts will be undertaken to achieve this target level again as soon as possible.

This brings me to the end of my remarks, and so far I would like to thank you for listening. Now my colleagues, Joachim Felker and Jan Peter Nonnenkamp, as well as Christian Herrmann and myself would be happy to answer your questions. Thank you very much for the time.

---

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

Dave, can you take over, please? Operator? Hello?

---

## QUESTIONS AND ANSWERS

### Operator

Hello, and now we'll go to questions, thank you. (Operator Instructions) You'll be advised when to ask your question. The first question comes from Wesley Brooks from Morgan Stanley. Please go ahead.

---

**Wesley Brooks** - Morgan Stanley - Analyst

Thanks very much guys. I have three questions if I may. Firstly just on the potash volumes in 2010, how important is the Chinese settlement to those forecasts, the 45 million tonnes? And following on from that, how do you see volumes developing in a scenario where, say, China does not settle for another six or nine months?

The second question, just on your last point on the balance sheet, can you just remind us please what the -- your target net-debt-to-EBITDA is, and how you're thinking about that, what you're thinking about doing in terms of the efforts you will be taking?

And then just lastly, at the second quarter you talked about a marked decline in the Potash and Magnesium Products division costs. I calculate that your cash costs in the third quarter declined about 4.5% sequentially from Q2. Does this mean we could see a significantly larger reduction into the fourth quarter, or how should we expect that to progress? Thank you.

---

**Norbert Steiner** - K+S AG - CEO

Norbert Steiner speaking. I'll start with the second question. The ratio is 1 to 1.5; our target ratio, 1 to 1.5. Last question -- the third question pertains to the fact -- mainly we will see that the energy prices will be formulated as mentioned, will have a positive effect in 2003 -- in the fourth quarter, and also as shown in the third quarter. We will also see that the continuation of the short-time work will give us relief.

But from the point where we are standing right now, I would assume that we are more or less quite close in the neighborhood of the third quarter. So it is not very, very remarkable what we will see as -- coming down as a cutback or a relief in the fourth quarter from that.

First question, with respect to China and influence of our -- to our 45 million tonnes will be answered by Joachim Felker.



Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

**Wesley Brooks** - Morgan Stanley - Analyst

Thanks.

---

**Joachim Felker** - K+S AG - Executive Board Member

Hello. The Chinese market, let me try to have a short analysis in what situation we are. When you look back, there are still quite considerable quantities which have been imported under the contract of 2008, being in the stock of Sinochem, and quite a considerable quantity of product from one of their daughter companies, Qinghai Salt Lake.

And on the other hand, there are smaller producers, basically with products, let's say, 54% to 57% K<sub>2</sub>O covering the market. And the market is there. There is one segment crying for product, and that's the NPK segment, which is at present covered at very low prices. But on the other hand, this state-owned importer, and also stock -- on the stock exchange registered company, Sinochem and their daughter companies, they are very reluctant to move the product which they have bought in 2008 because the price at that time was about \$600.

So I think it will take still quite some time to clear up the price situation in China, and to find the new contract which we know from the past was very -- a very huge contract for us covering the whole year.

On the other hand, there is some unclear situation about rail deliveries coming from Russia, which obviously also are putting pressure on prices in China. So my guess would be this year we will not see anything from China.

---

**Norbert Steiner** - K+S AG - CEO

2009.

---

**Joachim Felker** - K+S AG - Executive Board Member

2009. And 2008 will still take some time, traditionally -- 2010, sorry, it will take some time. Traditionally it's after Chinese New Year, and then we might see a new contract. Quantities, very difficult to predict, but I think it will be a smaller contract than 2007 and 2008, for the time being.

---

**Wesley Brooks** - Morgan Stanley - Analyst

Okay, thank you. If I could follow up, just in terms of what you see as the impact on demand outside of China, if they don't -- if we don't see a Chinese settlement until the third quarter of next year, how do you see that?

---

**Joachim Felker** - K+S AG - Executive Board Member

It will have -- the one reaction will be that producers will have to cut -- those producers who are heavily depending on the Chinese market will have to cut production again. And some producers who have a very optimistic viewpoint on quantity development in 2010 might be a little bit disappointed.

---

**Wesley Brooks** - Morgan Stanley - Analyst

Okay, and demand in the regions outside of China?

Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

**Joachim Felker** - K+S AG - Executive Board Member

Demand in the regions outside of China basically in, let's say, Indonesia, Malaysia, and countries like this, normal to strong.

**Wesley Brooks** - Morgan Stanley - Analyst

Excellent, thank you very much.

**Operator**

The next question is from Neil Tyler, from JPMorgan. Please go ahead.

**Neil Tyler** - JPMorgan - Analyst

Yes, good afternoon, and thank you for taking my questions. First of all, I wonder if I could just go back to the guidance statement and reference to the balance sheet. You made the statement that you want to get back within that ratio as quickly as possible, but the comments you were making in reference to those last answers, and also in earnings terms and volume terms don't suggest that you're going to be able to get that back there through an improvement in the EBITDA.

Now, you've mentioned in the past you have all financial -- all financing options available to you. Is this still a ratio that's essentially still just an internal target, or is there something more significant driving that? Because presumably, if it's an internal target, then you don't mind -- as quickly as possible can mean over a matter of years. That's the first question.

Second question, I wonder if you're able to quantify, at least within a range, the impact of the short-time working on your personnel costs.

And the third question, with regard to your straight nitrogen business, are you able at all to try and strip out price and volume trends within that? Obviously, the price is falling harder year-on-year in Q3. So if you are -- Q3 versus Q2, the volume development would be -- will be useful. Thank you.

**Norbert Steiner** - K+S AG - CEO

For the first quarter, I can only, and would like to repeat what I have mentioned publicly a couple of times, yes, it is our own goals which we have set up very -- after a long discussion, internal discussion, and very deliberately. And we have always said that we want to come back to those targets as soon as possible. Of course, that does not mean that it will be done within one day or one month, or so.

On the other hand, I have said also that we know the situation, that we analyze the situation more or less continuously, and have all the instruments in mind that could be helpful to achieve that. This is something which I have said publicly, as I mentioned before. And this is more or less still the situation in which we are, and therefore, I think from my personal side and also within this discussion in this afternoon, there needs to be no further comment on it.

The second issue -- the second question which you raised was going to the personnel. If I look into the situation in 2009, I would say the savings from our short-time working policy is about EUR40 million in the entire year. And please keep in mind and/or remember that we have intentionally started to prepare the infrastructure underground in the first half-year. So this was a less high number of short-time workers that we have seen from the third and from the fourth quarter onwards.



Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

And of course we need to see what the situation is in 2010 will bring. We have said that we anticipate higher quantities, but not full occupation of our capacities. So this will mean that we will certainly need to discuss whether and how far we need to continue with the short-time work next year.

It's rather likely that we will need to do so, but the -- more or less the volume of that needs to be discussed and decided upon more or less on a monthly-to-monthly basis.

Joachim Felker, the third question.

---

**Joachim Felker** - K+S AG - Executive Board Member

Yes, nitrates. Neil, if I understand you correctly you would like to have a comment on straight nitrogen fertilizers, that means nitrates?

---

**Neil Tyler** - JPMorgan - Analyst

That's right.

---

**Joachim Felker** - K+S AG - Executive Board Member

And (multiple speakers) at the same time, okay. Now, I think we can all agree that the driver and the cost driver for nitrogen straight fertilizers is gas price. That is why you can also easily understand why you can follow the big cut we have seen over the last few months because gas prices are coming down drastically. And there was also a very good availability of treated ammonia because chemically treated take up too much of this ammonia.

So the cost drivers became less expensive, prices were cut heavily, and starting second part of this year the demand picked up strongly.

I think at the end of the year in a worldwide basis we will see less nitrogen being sold and being used than in 2008. But the drop will be by far not as hard as it is with potash or with phosphates.

In the next year, I think if the availability of free ammonia and the gas price not drastically going up, I think the nitrogen market will slightly recover and it will come back to normal figures much, much faster than we would see it in the potash area. Is that good enough?

---

**Neil Tyler** - JPMorgan - Analyst

That's very helpful. Thank you very much.

---

**Operator**

Okay. The next question is from Pascal Spano from Credit Suisse. Please go ahead.

---

**Pascal Spano** - Credit Suisse - Analyst

Yes, good afternoon. Coming back to your remarks you made on Q4 about further price declines you expect to be driven by mix changes. Can you probably elaborate on that, where that comes from and what you mean by that?

Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

And then secondly on the remarks you made from Russian exports into China. Do you see the risk that the Indian price settlement of \$460 is probably not the bottom as we're now seeing spot volumes into China falling below that level?

**Joachim Felker** - K+S AG - Executive Board Member

Okay, the price development in the fourth quarter in our Company will be driven by the product mix. Traditionally, in the fourth quarter we will sell more, call it, specialized products for the European market. They are lower in K2O loading content and the average selling price is lower, that's the reason why we expect that the turnover will go down a little bit.

Now, when it comes to your question whether the imports, railway imports into China at present are influencing the Indian price, which is valid until March of 2010, very difficult to project. They are usually -- these railway imports are traditionally, they are very much taking a part from the discussion on the big contracts. They are physically there. We have to count them physically as part of the market. But they are not so strongly influencing the discussions we are waiting for between Belarus Potash Company and Canpotex; there's a separate market.

**Pascal Spano** - Credit Suisse - Analyst

And one follow-up, if I may, on price. Can you remind us of your current FOB price, export price for standard potash that you currently sell at to get the numbers right with what we see from other?

**Joachim Felker** - K+S AG - Executive Board Member

Well, the numbers we publish are of course a mixture. We -- what we publish is a mixture of various delivery conditions. So it's rather difficult. So when you look at our numbers in the quarter we report for overseas sales a big part of it is C&F, so you have to include freight, and it's very difficult to look at it, to determine. So no, I think we cannot give that.

**Pascal Spano** - Credit Suisse - Analyst

Okay. Thank you.

**Operator**

Our next question is from Peter Clark of Societe Generale. Please go ahead.

**Peter Clark** - Societe Generale - Analyst

Yes, good afternoon.

Another angle on the global volume outlook for next year improving. Obviously you're pointing out potentially a 50% improvement from the 30 million tonnes. I was just wondering where K+S would sit in that scenario, obviously given the European exposure, the limited business to India and China. Would you expect obviously to lag that or best be with that, given that you also have some other international exposure aside from India and China?

And then secondly on the Salt business, the de-icing business, you mentioned that the -- that early procurement had gone well in terms of demand, a slight price deflation hit towards the tail end of Q3. Just wondering moving into Q4, just some feel if there is any real change in the pattern that you saw and reported in Q3. Thank you.

Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

**Norbert Steiner** - K+S AG - CEO

We'll start with the latter question, the salt. I think the Salt business is generally bid projects. That means that the state authorities, the road authorities issue a tender and you have to bid, and therefore mostly everything has been done up to the end of September, that means up to the end of the third quarter.

So what we report price-wise is more or less fixed for the fourth quarter and also price-wise fixed as long as the contracts reach for the first quarter, that means for the entire winter season. And therefore from that perspective the [fringe] has been fixed already.

What we need to see is whether our assumptions, with respect to the wintry seasons that we have in mind, that means the 10 years' average, for the fourth quarter and the first quarter and next year more or less will materialize. That means that we will have a volume that we more or less have taken into consideration when we make up our plans and also our outlook.

So what we have to see is that last year, particularly in United States, the bidding prices were very much influenced by very high transportation costs. And if you then look into the situation right now in 2009 and the biddings for the next winter season, prices for transportation were lower. This is the main reason why prices came down, but this has not necessarily to do something with the margin out of that business.

Second question or first question better to say, Joachim Felker.

**Joachim Felker** - K+S AG - Executive Board Member

Okay, Pascal, so trying to comment on the situation, we mentioned that we expect this year the market to be roughly 30 million tonnes of product, and I talk about potash products, and then the expectation that by the year 2010 it will go up to 45 million tonnes.

The reason for this first of all is, as we discussed before, there is certainly an expectation that some quantity will go to China. The other reason is that we see that on a worldwide basis the distribution networks are empty, but we see at the same time also that there is a reluctance to go into pre-stocking. So the fourth quarter is relatively weak, but we think that the demand will pick up in most parts of the world very close to the application period.

When you look at the expectation we have we are a little bit more conservative than some others, but I think there is good reason to believe that this growth, 30 million tonnes to 45 million tonnes, will take place. In our -- that is -- in percentage it's quite big. We have dropped big, but we can come back also big I think.

In our case, consider please whenever you make any calculations in spreadsheets or whatever tools you are applying, the 4 million tonnes we are communicating to the market are still including some components of magnesia and sulfur so always please consider that you have to deduct some quantities and not always take the 60-day MOP products and make the calculation.

So we are specialists in some areas with good market participation. But it's not an MOP-60 product. So you can deduct an average over the last 10% to 12% roughly. Yes.

**Norbert Steiner** - K+S AG - CEO

(Multiple speakers).

Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

**Joachim Felker** - K+S AG - Executive Board Member

And our market share in this consideration will be between 10% and 12% worldwide.

**Peter Clark** - Societe Generale - Analyst

So you think you can participate in that bounce in the relevant product?

**Joachim Felker** - K+S AG - Executive Board Member

I think we can participate a little better in this bounce in Europe because Europe has been very negative in the application of some potash products, and already for two seasons that is. So I think there is -- a rebound is possible.

**Peter Clark** - Societe Generale - Analyst

Thank you.

**Operator**

The next question is from Andreas Heine of UniCredit. Please go ahead.

**Andreas Heine** - UniCredit - Analyst

Good afternoon, thank you for taking my question. The first is on the dividend policy. You have elaborated on the EPS that you usually do not adjust for restructuring, not for the devaluation of the derivatives you had, and usually also not for the 50 million which comes in the fourth quarter from Morton Salt. If you take all this and does not adjust it then the EPS will be pretty low. What does that mean then for the dividends? So it is basically nothing what you want to pay this year or will you adjust for your dividend thoughts on these special items in this year? And that's the first thing.

And the second question is on this sequential progression in the Nitrogen Fertilizer business. Q3 was once again very much affected by basically the buying of raw materials to high prices and selling it now for lower prices. Is most of that over, so will you -- close to breakeven in the fourth quarter? Is there still a big chunk to come in the fourth quarter and is that then at least over and can we look for profitable business in that area in 2010?

And last but not least, do you have already a first feeling how the de-icing business started at Morton Salt in the fourth quarter? These are my questions.

**Norbert Steiner** - K+S AG - CEO

The first question, Andreas, with respect to the dividends, the main purpose of showing you a little bit the extraordinary issues is more or less to make the operation results and the operation of earnings per share a little bit better comparable to the year 2007 which was not hit by so many extraordinary items.

But at the very end of the day, all these extraordinary items more or less are reflected in the P&L. We do not -- we did not intend to more or less give a hint that from now on every extraordinary item will be excluded from P&L with respect to the, let's say, timing of the basis for the dividends.

Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

And therefore the finalized P&L will show the basis for the dividend. And there we have a dividend policy that we have more or less followed over the last years that generally of course we would like to continue with the payout ratio of about 40% to 50% of the net adjusted income -- of the adjusted net income, pardon me. And this is certainly the basis for the discussions within the Board of Executive Directors for the proposal to the Supervisory Board, and they will then, together with us, decide whether this policy purely will be reflected by the dividend or whether other items and ideas need to be taken into consideration.

The third question and the second goes then again to Joachim Felker.

Morton Salt. We have seen so far that Morton's bidding volumes were already more or less in the same magnitude than they have seen it in the past with some reductions due to the effect that the winter 2000 -- now, obviously 2008-2009 was higher than normal.

So the road authorities always try to have normal volumes under contract, and therefore this is just more or less a natural law that volumes are adjusted to that normal inflation. But with view to that or assuming that this normality has taken part -- taken place in the bidding process for the de-icing salt business also for Morton Salt, we are more or less on the levels that you have seen in the past. And therefore we have no reason to think that the deviation of that also applied to 10 years' average in Morton Salt can be the case. So we are so far very happy about the outcome of the bidding process. However, winter must come.

Second question to Joachim Felker.

---

**Joachim Felker** - K+S AG - Executive Board Member

Yes, the NPK market, I would like to split my answer in two. First of all the industry in total and the market in total, then our situation. I think that the NPK demand at present at this year, second half of this year, and also still in the fourth quarter of this year is low.

Most of the producers have already made capacity adjustments, reduced. Some of those guys still have expensive raw materials in stock. The trait, so the next step in the value chain, the trait is partly sitting on quantities, but most of these inventories have been depreciated.

Now, in our case, I feel that the fourth quarter quantity-wise will be slow. We have already this month depreciated some of our raw materials and stock, but I think we can not yet say that the situation is under control in the fourth quarter.

When I look in 2010 I again see that the old NPK segment worldwide still has to recover. We will not come back to a normal situation in 2010. Also in the meantime nutrient prices are much, much lower than in 2009, but still farmers will be very prudent to apply NPKs. On the other hand bulk blends, I think they are in a more favorable situation than in the years before. Okay?

---

**Andreas Heine** - UniCredit - Analyst

Thanks.

---

**Norbert Steiner** - K+S AG - CEO

Thank you, Andreas.

---

**Operator**

Okay. The next question is from Andrew Stott from Banc of America. Please go ahead.

Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

**Andrew Stott** - *Banc of America - Analyst*

Good afternoon. Yes, I just wondered really if you could provide any guidance at this stage for personnel costs for next year. I see in your commentary you're already seeing a better benefit in Q3.

And the second question was, is it possible to quantify the price reductions you were referring to in salts? And also, can I just double-check, you said that it hasn't impacted margins; it's purely a cost-related move? Thank you.

**Norbert Steiner** - *K+S AG - CEO*

To start with the second question, yes, you are correct. And therefore as long as the margin more or less stays intact, I am not more or less discussing whether the price theoretical example will be \$50 or \$60 as long -- not in percentage, but in absolute terms the margins stays the same, the markets, and our more or less expectation earning-wise is absolutely intact.

**Andrew Stott** - *Banc of America - Analyst*

Okay.

**Norbert Steiner** - *K+S AG - CEO*

The second, or the first question, that is to say personnel costs in 2010, I think we have mentioned already -- and you are referring certainly to Potash and Magnesium. We have referred already to the fact that, number one, we expect higher volumes of products to be done. On the other hand we expect not that we will be at 100% capacity utilization.

And therefore more or less this is not a [linear] effect that we say if we have 75% or 60% capacity utilization. We are also coming down to 75% or 60% of personnel -- cost of personnel. And therefore it is depending very much like how much production will be taking place next year under the assumptions that it will not be full capacity utilization.

However, I mentioned that we will most likely continue the effects of short-time work, and of course also the fact that we have some variable cost items in the salaries of our people will more or less fluctuate whether the results, EBIT contribution will be higher or lower. But it is impossible to say right now this is the figure for the cost of personnel in 2010, not knowing about the volume of occupation that we will see at the end.

**Andrew Stott** - *Banc of America - Analyst*

Okay, fair enough. Just -- sorry, just one quick follow-up. The guidance, the 4 million tonnes for the full year in the revision suggests a sequential decline in Q4. Why would you expect to see a sequential decline given Brazil is seemingly still improving?

**Joachim Felker** - *K+S AG - Executive Board Member*

Well, we don't see a decline quantity-wise in Q4. In average all the Qs are, let's say, roughly 1 million tonnes. We are slightly over 3 million tonnes now and we keep our expectation to be slightly over 4 million tonnes at the end of the year. So there is no quantity [effect still in place].

But you are right. It depends on weather conditions at the end and harvests, and so on. So 100,000 tonnes on and off, very good (multiple speakers).

Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

**Andrew Stott** - *Banc of America - Analyst*

Okay, so 4 million is an approximation.

**Joachim Felker** - *K+S AG - Executive Board Member*

So basically it's the same, yes.

**Andrew Stott** - *Banc of America - Analyst*

Okay, thanks.

**Norbert Steiner** - *K+S AG - CEO*

Was there still something open for Morton? I think I covered the questions with respect to the --

**Andrew Stott** - *Banc of America - Analyst*

Yes, yes, that's done. Thank you.

**Norbert Steiner** - *K+S AG - CEO*

Okay.

**Operator**

And the next question is from Martin Roediger from Cheuvreux. Please go ahead.

**Martin Roediger** - *Cheuvreux - Analyst*

Yes, thanks for my -- taking my question. On Morton Salt, do you already know right now what will be the amortization charges of fullyear and quarterly and how do you deal with that?

Second, on Rossleben, can you give us an update about your intention here to get the license for this potash mine?

And thirdly, potash, I understand -- I'm trying to -- there is one question, clarification, you mentioned earlier in an interview that K+S wants to increase its volumes in the potash segment from 4 million tonnes in 2009 to 5.5 million tonnes to 6 million tonnes in 2010. Do you mean production volumes or selling volumes, because you have 1 million tonnes in your inventories?

**Norbert Steiner** - *K+S AG - CEO*

The second question was going to Rossleben. I think the process is still going on. We assume meanwhile that the decision from the authorities will not be taken anymore in 2009. And therefore I think nothing new can be presented to you right now. So we need to see. There are two competing projects, two competing aspects and parties, and we will see next year, 2010, what is going to happen there.

Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

With respect to the amortization rate of Morton, this is something which I tried to explain to you already in my first comments. We have just won -- five weeks ago acquired the company, and they had more or less to report in US GAAP. We now need to see to transfer that into IFRS and we are still in the process of more or less finding the right terms for the opening balance sheet. And it also needs some time before we can have a good view on the purchase price allocation that we need to do.

Of course, this is something which will have a significant figure -- that must be the case if you have a purchase price in the neighborhood of \$1.7 billion, \$1.8 billion. And therefore the P&L will be more or less burdened by that PPA. So the figure that we will at the very end produce and show to the public will from the operational side only be significantly higher than the figure that we will show at the very end in the P&L.

But please forgive me, we are just in the process of bringing all these factors together and therefore it is premature to speculate. I never speculate, as you know.

And now I have talked so long about this item, I forgot your third question. So once again, Martin.

---

**Martin Roediger** - *Cheuvreux - Analyst*

It was on outlook for 2010 in terms of your own volume assumption for 2010.

---

**Norbert Steiner** - *K+S AG - CEO*

It was done in a very early stage of this year when all the people looking for the most likely outcome of 2009 were still of the opinion that it would be an outcome of 40 million tonnes, and the outcome for 2010 would also be higher than the 45 million tonnes that we have right now here.

So this is something which always needs to be taken in the correct time frame. And therefore now our figure is 5.5 million tonnes as the sales volume. And of course as we do not intend -- nobody wants to -- intends to increase the inventories even higher. That means that we need to adjust our production to that target.

---

**Martin Roediger** - *Cheuvreux - Analyst*

Thank you.

---

**Operator**

The next question is from Wolfgang Fickus from WestLB. Please go ahead with your question.

---

**Wolfgang Fickus** - *WestLB - Analyst*

Yes, good afternoon, and thank you for taking the questions. I have three questions. The first question is on your potash price outlook in 2010. We know and you say that accordingly in your outlook statements that your earnings level and your EBITDA level will crucially depend on your 2010 potash price.

Now, can we assume that if the potash price continues to decline you presumably will continue to have difficulties to get into your net-debt-to-EBITDA ratio so that we would see rather likely a capital increase? In other words, would you try to get back to the net-debt-to-EBITDA level via rights issue in that case?

Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

And the second question related to the potash prices, you seem to be very firm about your 45 million tonnes of potash in 2010, which is great to give us some guidance, but we all know that the volume you will sell in 2010 will crucially depend on the price. Yet, on the price you don't give us an assumption. So how does that go along with each other? So those would be the two questions actually on potash.

---

**Norbert Steiner** - K+S AG - CEO

The first question -- well, one of the question on potash, you tried to more or less to smuggle in the question that was covered by a question on potash, but intentionally you had a complete different aim. And therefore as I detected what you wanted to have, I can only repeat what I said previously, period.

The second question to the 45 million tonnes, expectation is something which is always based, it's always an assumption. And this is more or less the best guess that we have from all the data available for the time being. And therefore nobody can give you any guarantee whether it's 50 -- 45 million tonnes, sorry, or 42 million tonnes, or 47 million tonnes or something like that.

And therefore it is something which this prognosis should be taken afterwards. But as you want to have some guidance before we intend to do so, and we dare to do it, 54 million tonnes -- or 45 million tonnes, sorry, is something on the table which we think is realistic after the destocking effect has taken place. Joachim mentioned that already, and it is -- that is a good -- quite good portion from China imports will come on top of that.

---

**Wolfgang Fickus** - WestLB - Analyst

Okay, let's say -- and it assumes that we more or less don't see very significant moves in the potash price. It can go up or down by 10%, but it doesn't -- it's --

---

**Norbert Steiner** - K+S AG - CEO

Don't put always assumption on the table. I always have to say, this is just your assumption, and we have made nothing, no statement on that.

---

**Wolfgang Fickus** - WestLB - Analyst

Okay, fair enough. No, I just understood that you said the 45 million tonnes --

---

**Norbert Steiner** - K+S AG - CEO

No, no, no, no. I referred to volumes and nothing else. And I also know that a non-answer on an assumption from people that put the question on the table is also an answer. Therefore I'm quite tricked on that.

---

**Wolfgang Fickus** - WestLB - Analyst

Okay, fine. I accept. And again, it's great to have guidance and that's good.

---

**Norbert Steiner** - K+S AG - CEO

Of course, guidance is always helpful but we would also have to -- like to have guidance from time to time. But the market does not give us any guidance, and therefore we need to see and make the best of it.

Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

**Wolfgang Fickus** - *WestLB - Analyst*

That's fine. Okay, I'll just [trade the questions]. And the third one is the last one, it's -- we heard from those smaller players in Canada like Potash One or Athabasca Potash who have those exploration rights. Nobody knows how much potash is in the soil, with which quality, but there seem to have some Chinese and Indian buying interest.

So if China and India decided to buy those exploration rights which there may be 2 million tonnes to 4 million tonnes of potash just in the medium term, so that's not a 2010 or 2011 question, or 2012. Would that be -- would that change the dynamics for you in the potash markets? Do you see that there would be potentially an oversupply in the medium term, or do you think that demand will really continue to be strong and that the additional volume will be absorbed?

**Joachim Felker** - *K+S AG - Executive Board Member*

When we come back to normal growth rates like we have estimated them before the financial crisis, we said that potash consumption worldwide would grow by 2% to 2.5%, and at the same time we said that would mean one mine each one or two years of 1 million tonnes to 2 million tonnes.

**Wolfgang Fickus** - *WestLB - Analyst*

Okay.

**Joachim Felker** - *K+S AG - Executive Board Member*

Is that question answered? Or would you like to -- (multiple speakers).

**Wolfgang Fickus** - *WestLB - Analyst*

Perfect. That's perfect. Thank you.

**Operator**

Okay, the next question is from Jean de Watteville from Nomura. Please go ahead with your question.

**Jean de Watteville** - *Nomura - Analyst*

Yes, hi good afternoon, Jean de Watteville from Nomura. Couple of questions; first of all it's on the overseas markets. In the second quarter you're coming with relatively good volumes, and I was wondering if you could comment a little bit on market share on the main overseas markets that are relevant for you. Do you believe you'll gain share or not? And can you just describe, given the weak volume and environment growth in the market, whether the -- which market you see the most strong competitive pressure?

The second question is on your pricing strategy in Europe. Could you stand where -- could you say where you stand right now? And on the assumption that there will be no big Chinese contract, do you expect to keep that price flat or how will that work?

And the -- actually the third question I have is on acquisitions, once you have financial flexibility, of course. Can you just go back on what are your thoughts in terms of acquisitions in the nitrogen fertilizer sectors, whether they are -- it's completely out of the agenda or you could look again to have some -- acquire some production assets? Thank you.



Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

**Joachim Felker** - K+S AG - Executive Board Member

Okay. When you see our performance overseas and you -- certainly, you'll realize that when you look at the world market, our performance was quite stable. The reason for this is that we have good sales into Brazil and we have good sales into China. Brazil, when you compare to our performance the year before, the quantities dropped, but the market dropped more than our sales and the reason for this is that we have always sold only to selected clients through a very narrow customer portfolio. And these clients were, how I should say, performing quite well also in the financial crisis. So our clients were the reason why we have been performing very well in Brazil.

China, you know that we are not so much depending on the imports via the, let's say, state-owned import channels. We have a known company there since many, many years, we have a small client portfolio. And we can supply them with container loads. So we have a very high frequency to go into China. And that's very much helped us. And part of the products we are selling there are [ultimately] standard products as well as special products.

Europe, the situation in Europe is quite normal at present. There is a lot of talking but they have no quantities. So we are talking not very much because we know that we have to wait very close to the application of the product and then only trade will react, because very few of them will now go into pre-stocking. Everybody is waiting.

Acquisition, should I do that?

**Norbert Steiner** - K+S AG - CEO

There is one addition I would like to add to that, what Joachim mentioned already, with respect to Europe. You have seen that Europe in the past has always been a follower market. The prices were not [made up] in Europe, but rather in South Asia and North America.

So as you'll furthermore know that the prices more or less are very much, or the price developments in certain regions are very much also looking for other regions in the world more or less to come to a homogenous level. You can always take into account that a significant development in one of the regions in the world outside of Europe will have an effect on Europe. But nobody for the time being can give you any precise guidance on that.

The third question was nitrogen acquisition. We have said that we have a two-pillar strategy, fertilizers and salt, and that we now have made a big -- and for the development of the Company and the K+S Group, very important steps forward for the future development of the Group.

I've mentioned furthermore in the past that from today's perspective the integration of Morton Salt is now the key issue in the Salt business. And therefore any considerations with respect to further acquisitions in the Salt business needs to be postponed to significant future times. However, this is something that is clear so far.

And with respect to the fertilizer market, I have more or less more -- made a more precise statement that we are rather looking to get capacity excess in the potash business rather than in the nitrogen business.

**Jean de Watteville** - Nomura - Analyst

Very clear. Thank you very much.

Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

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

Perhaps before we go ahead -- I'm sorry, this is Christian speaking. Last time we had a very lengthy conference call of almost two hours. I got some feedback afterwards that this was too long. And I agree with that, to be honest. And let's try -- I have six or seven people still waiting in line for new questions. Some of them asked some questions already. Please let me just try to -- if you could just get this done in the next 15 minutes, if possible. Thank you.

**Operator**

Okay. The next question is from Joe Dewhurst from UBS. Please go ahead.

**Joe Dewhurst** - UBS - Analyst

Hi, good afternoon. And thanks for taking my questions. Just very quickly, on the complex fertilizers and the high cost issues with the raw materials, if you are still able to give an indication how long that could potentially continue for. And then the other thing is just the -- you mentioned the interesting fact on seeing low yields on from that -- sugar in Latin America, from low potash nutrient levels. I was just wondering if you've seen any other evidence of low potash impacts on crops. Thank you very much.

**Joachim Felker** - K+S AG - Executive Board Member

NPK, how long will it take? Q4, hopefully.

**Joe Dewhurst** - UBS - Analyst

Okay.

**Joachim Felker** - K+S AG - Executive Board Member

And the other one, the quality effect, first of all, it's scattered. But it's very important to specialists. When you are from McCain and you are responsible to have French fries, you have your quality control, and if the guy is bringing you potatoes with not enough starch and with black spots you just refrain them. Or the producers or the farmer has to find another application or another sales outlet for his produce. And that's the risk some of these guys are running at present.

**Joe Dewhurst** - UBS - Analyst

Okay. Thank you very much.

**Operator**

Next question is from Sophie Jourdiere from Citi. Please go ahead.

**Sophie Jourdiere** - Citi - Analyst

Yes. I'm -- actually just a few questions for you. I wonder whether you could give us a guidance on CapEx for the next year. Second, just what you think the tax rate is going to be with the Morton Salt acquisition.

Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

And third, sorry to come back to it, but your comments on getting the debt back to -- within your ratio of 1 to 1.5, it just seems the EBITDA visibility is going to remain uncertain possibly for the next six months or so. So I'm just trying to understand the rationale of bringing that -- taking actions to bring that ratio down, when the visibility is -- on a key part of that matrix remains so low. Thanks.

---

**Norbert Steiner** - K+S AG - CEO

The last question, what we have mentioned already with respect to our target is more or less to do what we can by our own hands, and therefore more or less to be very sensible and very restrictive on each cost item. This is what we have in our own hands.

And this has done -- has been started to be done in the second half of the year because now you know that up to, let's say, the beginning or middle of June, we were significantly more optimistic for the course of the year. So we have had a half year with cutting back of costs of maintenance, with cutting back of costs of investment, with cutting or, let's say, utilizing the instrument of short-time work, and so on and so forth.

We therefore will continue that despite all our assumptions that we should get into a better capacity utilization rate. And with respect to that, as I mentioned, the -- more or less the efforts to control and to bring down CapEx, we envisage that this will also continue in the next year.

Please keep in mind that we have issued a bundle of measures to more or less improve the situation for the environmental purposes in our [Velar] mine. And we have also publicly stated that this bundle of measures will occupy about EUR350 million in the next five to six years to come, at least when it has been approved by the authorities that we may build all these devices. And this will be shown in our CapEx figures for 2010 for the first time. And therefore one should expect a CapEx figure in the neighborhood of EUR250 million.

With respect to the tax, in the United States you know that the tax rate in the United States is a little bit up compared to our average tax rate that we have utilized in the K+S Group so far. We need to also take into consideration that we have not only US-based operations but also one in the Bahamas and bigger ones, volume in Canada. So I think this will be something that will have a mixed, let's say, and also a limited impact overall. And of course we -- like we have done in the past in our SPL acquisition, we try more or less absolutely within in the legal framework to optimize our tax structure by acquisition models and so forth. But therefore I would say it should be in the neighborhood of 28% still in the future. Well, did I miss something?

---

**Sophie Jourdi** - Citi - Analyst

Well, can I -- if I understood what --?

---

**Norbert Steiner** - K+S AG - CEO

Yes. The third question was concerning a question which now has been put on the table, if I'm not calculating wrongly, for the third time.

We have our own goals. We have said several times, all times in every meeting that we want to come back to the fulfillment of this target ratios as soon as possible, and we need of course to take into account what the market says with respect to that, if the market alone is not more or less strong enough, I mentioned and can only repeat that we have the instruments so far on the table.



Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

We have communicated that we cannot and we do not rule out a capital increase as a measure to retain our investment grade rating as well as to preserve our financial flexibility for further growth. And more or less also to save a good and strong balance sheet.

---

**Sophie Jourdiere** - *Citi - Analyst*

Sure.

---

**Norbert Steiner** - *K+S AG - CEO*

And this is all I can and will say on that.

---

**Sophie Jourdiere** - *Citi - Analyst*

Not to go on and on, but the commentary that you then suggest an urgency around it in terms of the speed, and I was just wondering whether I had misunderstood that, and whether it would make sense to get visibility on EBITDA first.

---

**Norbert Steiner** - *K+S AG - CEO*

I always try to hold my voice very neutral, and therefore you should not speculate on the sound of my voice.

---

**Sophie Jourdiere** - *Citi - Analyst*

Okay, thank you.

---

**Operator**

And the next question from Rim Bennani, from Exane. Please go ahead.

---

**Rim Bennani** - *Exane - Analyst*

Good afternoon. I have two quick questions I hope. The first one, you've been discussing the fact that inventories of distributors and traders are emptying or empty today. Do you have any visibility or any take on consumption or orders at farmer's levels at the -- as the poll season has started potentially in Europe?

And as well my second question was on Brazil. There is speculation that they could be back as of Q4. What are you seeing actually in Brazil and in terms of some return to consumption earlier than expected? And is this actually into the 4 million tonnes or not. Thank you very much.

---

**Joachim Felker** - *K+S AG - Executive Board Member*

Well, as I said in some other conference calls, our clients usually is direct -- is straight. And we know quite well the situation in straight. We know from our main clients there that only in the nitrogen area, that is basically the nitrous and in urea, farmers have orders and food stocks in their own farmyards. But this is very limited because usually it's a functional trait to store and very close to the application area farmers only will seek our products.

Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

As I also said before, traders at present, the distributors at present are not willing to go into big quantities because they are all still in the area of managing working capital and stuff like this. So the most important thing will be to be ready and to be able to supply the quantity when application is near. And that is also when the final price will be fixed or will be announced in Europe.

Your question to Brazil was, I think that's the discussions we see locally, that there would be a small -- a demand of 1 million tonnes to 2 million tonnes [in the region] which usually is not happening. There is speculation that in the December some orders could come because the pipelines also in Brazil are already quite empty. I have not seen anything yet. We have a number of inquiries from Brazil for shipments, but nothing concrete yet. I could not see that there is an extraordinary pattern for us.

---

**Rim Bennani** - *Exane - Analyst*

Thanks very much.

---

**Operator**

We now have a question from Virginie Boucher-Ferte from Deutsche Bank in London. Please go ahead.

---

**Virginie Boucher-Ferte** - *Deutsche Bank - Analyst*

Thank you very much. Two quick follow-up questions on Europe. This first one is I've heard that some customers in Europe have apparently been willing to buy with some sort of price protection agreements. Do you confirm that? And if so, what has been your reaction?

And secondly the new law in France apparently which is significantly reducing the credit terms across all industries, and I was just wondering if this new law could affect the prevailing pattern in both nitrogen and potash in the country or simply be equal. Thanks.

---

**Joachim Felker** - *K+S AG - Executive Board Member*

So when it comes to credits terms, I have not heard that there are any changes in the pattern of giving credit and especially not in France. But when it comes especially to the French market over an experience of -- I should say the case in (inaudible) how there has been always some years when, especially in France, if it's close to the [debt clause] and it is argued that there is something like this. But as I said earlier at present there is talking only, there is no physical (technical difficulty).

So it's pure speculation, and actually it's no reason to discuss it because we are not participating. If people ask us to (inaudible) we say no, come back when the -- it's application period and then we make a real price, that's much more helpful than just talking prices.

---

**Operator**

Okay. The next question is from Wesley Brooks, from Morgan Stanley.

---

**Wesley Brooks** - *Morgan Stanley - Analyst*

Hi, thanks, it is Wes Brooks again. Just thinking about your 2010 volumes, the 5.5 million tonnes, would you expect your European percentage -- historically Europe has been about 60% of your potash sales. This year it's year-to-date down, closer to 40%. Would you expect that to get back up to 60%?

Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

**Joachim Felker** - K+S AG - Executive Board Member

No, while we expect that the European market will recover, not anything about market shift. We see that there is low, very low little consumptions of products over the whole year, and even two periods or two seasons, and we just think that these quantities will come back. We are not talking about market share (multiple speakers).

**Wesley Brooks** - Morgan Stanley - Analyst

Now, I'm thinking more the percentage of your potassium/magnesium products' geographic exposure.

**Joachim Felker** - K+S AG - Executive Board Member

It will bounce back -- so I misunderstood your question, yes, it will bounce back. When you look at the end of 2010 the portion we will have sold in Europe will be higher percentage-wise than in 2009.

**Wesley Brooks** - Morgan Stanley - Analyst

Okay, because I'm just thinking if we were to say get back to 60% that would mean about 3.3 million tonnes to Europe which would effectively mean a double --

**Norbert Steiner** - K+S AG - CEO

Good. (Multiple speakers).

**Wesley Brooks** - Morgan Stanley - Analyst

Okay. Well, thank you.

**Norbert Steiner** - K+S AG - CEO

We are still awake here.

**Operator**

The next questions from Annett Weber from BHF-Bank. Please go ahead.

**Annett Weber** - BHF-Bank - Analyst

Yes, good afternoon, I've got two questions. The first one relates to your inventories in the balance sheet, and can you disclose what the potash inventory in volumes terms is, because the overall euro million number hasn't really declined that much versus Q2?

And secondly, coming back on the inventory situation in China, you mentioned the -- just verbally or -- the inventory situation there. Can you give us an estimate of what you see there at the distributor's level?

Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

**Joachim Felker** - K+S AG - Executive Board Member

The first one is easy, EUR1 million for us --

**Annett Weber** - BHF-Bank - Analyst

So --

**Joachim Felker** - K+S AG - Executive Board Member

When you see the market and when -- usually we would like to have 500,000 to 600,000 tonnes, and then usually -- also the market is complaining that we cannot supply in the application period. So this time we will be able to supply.

When it comes back to China, can you ask me a simpler question?

**Annett Weber** - BHF-Bank - Analyst

Unfortunately not.

**Joachim Felker** - K+S AG - Executive Board Member

One simple reason, I have a list only of small SOP producers in China. They are four dealers there. I have no idea how much stock they have. We have, I think, roughly 125,000 -- 125 NPK producers. I have no idea how much stock they have. What I know is that in some parts of China it's getting damn cold now. I know that some producers who are basing their production on brine, they cannot produce. And I know that some segments in the Chinese markets are now asking for products, and especially the NPK industry. But how much stuff they keep, I don't know.

We have a certain idea of how much is still there from the [imported] product from the contract 2008, because Sinochem is telling us numbers. Whether they are true, I don't know. So very difficult to answer. So this year -- that's why I say this year I see nothing happening there.

**Annett Weber** - BHF-Bank - Analyst

Okay.

**Operator**

And I have a question from Neil Tyler, from JPMorgan. Please go ahead.

**Neil Tyler** - JPMorgan - Analyst

Yes, hello again. I'm sorry to keep you on the phone for so long. Just going back to your Chinese business you were describing earlier, you mentioned that that's basically containers of special products. Have you been required by your customers to replace those or substitute those with MOP in recent quarters?

And I wonder if you are able to provide any color on sequential pricing, how you price that, what the reference point is? And how that pricing has developed over the past two or three quarters? Thank you.

Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

**Joachim Felker** - K+S AG - Executive Board Member

Pricing is developing according to market conditions. And I will not make any outlook. And I come back to our business model there. We have two ways of entering into China with products. One is via our own network, own company with distribution -- with distributors which we are taking care of since many, many years, and with container loads.

And the other one is the, let's say, the national-owned import line, like Sinochem and companies like this. We have had good sales in China in the first half of this year. Second half of this year is a little bit lower.

**Neil Tyler** - JPMorgan - Analyst

Okay. And the product mix hasn't changed a great deal in the own business?

**Joachim Felker** - K+S AG - Executive Board Member

It has, it has. There is some products. There is not only MOP, but there are also other products.

**Neil Tyler** - JPMorgan - Analyst

Okay, thank you.

**Operator**

And I have with a first question, Paul D'Amico from TD Newcrest. Please go ahead.

**Paul D'Amico** - TD Newcrest - Analyst

Hi, I'll be quick, guys. Thanks for taking my call. On the China question, if I can just come at it at a different angle, on the 45-million-tonne projected amount of demand globally for 2010, could you break that down just in terms of -- and I appreciate that you don't want to make an estimate on inventories there, but can you break it down in terms of consumption that you expect for China? And just how much import demand you're going to tie to that? That'd be my first question.

Second question is on telling specifically for exiting 2010 what kind of operating rate would you expect to exit, not the average for the year, just what to exit?

**Joachim Felker** - K+S AG - Executive Board Member

So the first question, no, I think I can only tell you that my personal guess is that we will not see in 2010 imports into China comparable to 2007, which was a very strong year. I think they will be low. As I said before, I cannot give you a concrete figure on how much inventory they have. And I can also -- even in some areas I cannot even tell you whether the potash goes into agricultural applications or whether it goes into chemical applications, even this in some areas is a black hole.

So on China, I'm very sorry. I can only tell you I expect they will start importing again, not like in 2009, not any imports. And I can only look into a crystal ball when it comes to China.

And the second question was --?



Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

**Norbert Steiner** - K+S AG - CEO

Utilization rate would be -- assuming that what we had in mind, about two-thirds (multiple speakers) 70%.

**Joachim Felker** - K+S AG - Executive Board Member

Anyway I'll -- well, our guess of 45 million tonnes is right. And I think we have 72% -- between 70%, 75%, a little bit more than 75% utilization.

**Paul D'Amico** - TD Newcrest - Analyst

Okay, and just if I can just take on one last one. On the freight costs, given that we're talking about a 50% increase from a low point of global demand for potash in 2009 versus 2010, you -- the India contract of \$460, if you were to back in the freight cost change you foresee with respect to that kind of increase in demand, either on a dollar basis or on a percentage basis, what kind of freight costs would you be giving?

**Joachim Felker** - K+S AG - Executive Board Member

Shipping from where?

**Paul D'Amico** - TD Newcrest - Analyst

Using your, like, port at Hamburg to Chennai or whatnot as an example, like I'm just trying to get a gauge, it's not one-for-one, or is it?

**Joachim Felker** - K+S AG - Executive Board Member

To China or to India?

**Paul D'Amico** - TD Newcrest - Analyst

I'm using India as the proxy right now, just because of the freight cost that exists right now, in terms of the \$460 per tonne contract that was struck in mid-July.

**Joachim Felker** - K+S AG - Executive Board Member

\$45 I would say. China is cheap. China is cheaper. About \$40 to \$45 I would say at present, depends on ship size, which harbor to go, and so on. Not easy to say.

**Paul D'Amico** - TD Newcrest - Analyst

So that's the projection for 2010?

Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

**Joachim Felker** - K+S AG - Executive Board Member

Yes.

**Paul D'Amico** - TD Newcrest - Analyst

Okay. And the most current estimate of freight cost or what?

**Joachim Felker** - K+S AG - Executive Board Member

Not much difference. It's almost stable in the outlook.

**Paul D'Amico** - TD Newcrest - Analyst

Okay, thank you.

**Operator**

And the final question is from Annett Weber from BHF-Bank. Please go ahead.

**Annett Weber** - BHF-Bank - Analyst

Yes.

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

Okay. Annette, this is now really the last question, we're about to finish the call.

**Annett Weber** - BHF-Bank - Analyst

Yes, I've only got one follow-up question on the -- you mentioned in your speech that there would be some painful cost cuts necessary, is that anything restructuring like that seems to be expected here, or are you referring to the continuation of the short-term work in 2010?

**Norbert Steiner** - K+S AG - CEO

This morning I had a telephone interview with a broadcasting system where I was questioned about the impact of the short-time work. And I mentioned a little bit that it is always painful to have a company running that has to occupy workers with a lot of short-time work. And this is more or less the sense behind that we have a very difficult situation that's more or less -- it's not quite easy for the workforce to be more or less stranded over such a long period of time. And seeing that also in the next time to come this will continue.

**Annett Weber** - BHF-Bank - Analyst

All right.



Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

---

**Norbert Steiner** - *K+S AG - CEO*

But this is something which I have in mind because we are still doing business with people.

---

**Annett Weber** - *BHF-Bank - Analyst*

Yes, okay. And I just wanted to make sure after the way it flashed up on Reuters. So right, thank you.

---

**Norbert Steiner** - *K+S AG - CEO*

They always tend more or less to make the business just as a figure business, but [we know that] this business is still done by people.

---

**Annett Weber** - *BHF-Bank - Analyst*

Okay, thanks.

---

**Norbert Steiner** - *K+S AG - CEO*

Well, this was the last question because Christian was very strict on that. I admire him because he is obviously more strict than we are. If that is the case, I would like to thank you very much. There was from time to time some laughter from our side, and maybe also some smile on your face when it comes to question and answers.

But this is something which more or less is attributable to the fact that we have partners in the financial sector, and analysts in the financial sector that know us quite well. And we hope that we know you as well quite well that we can dare to behave like we behaved.

Therefore, if I have hurt somebody with my questions, or my answers, I would like to apologize for that. But it is a situation in which we are right now which is a challenge for everybody with any Company and also within the financial sector.

Thank you very much for your participation, and your attention, and hope to see you soon. Thank you, and bye-bye.

---

**Operator**

Thank you for joining today's conference call. You may now replace your handsets.

---

Nov. 12. 2009 / 2:00PM, SDF.F - Q3 2009 K+S AG Earnings Conference Call

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2009, Thomson Reuters. All Rights Reserved.

