

K+S Aktiengesellschaft

# From CapEx to Cash

Capital Markets Day

Merkers - November 12th, 2015

Dr. Burkhard Lohr, CFO



Experience growth.

## Capex Phase

Net debt:  
**€ 2.2 billion<sup>1)</sup>**

Leverage:  
**2.1x<sup>1)</sup>**

CapEx:  
**~ € 1.3bn billion<sup>2)</sup>**

FCF:  
**Negative<sup>2)</sup>**

EBITDA:  
**€ 1.06-1.11 billion<sup>2)</sup>**

- Successful commissioning of Legacy
- Deleverage balance sheet
- Currency management
- Fit for the future

## Cash Phase 2020

Net debt:  
**< € 2.0 billion**

Leverage:  
**1.0-1.5x**

CapEx:  
**Maintenance**

FCF:  
**Positive**

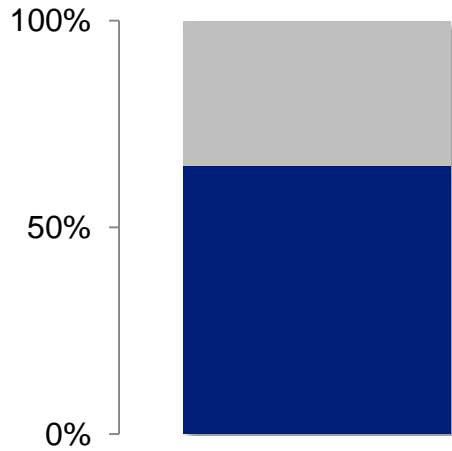
EBITDA:  
**~ € 1.6 billion**

# Legacy Project Status

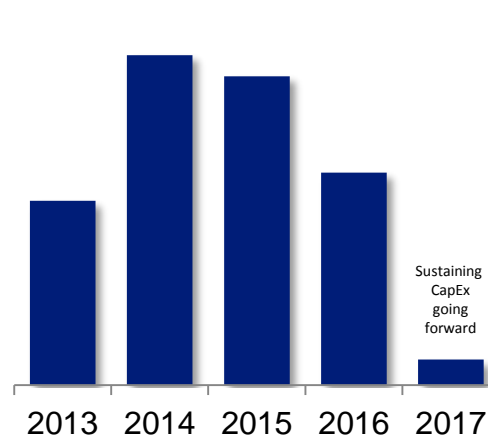
## On Time and Budget



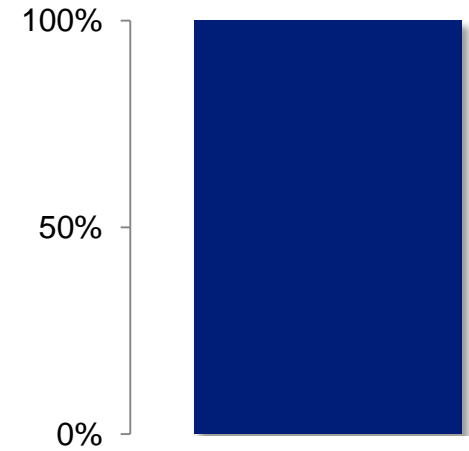
**~ 70% of CapEx spent**



**2014 and 2015 years of main construction and CapEx**



**Main parts awarded to suppliers**



August 2015



September 2015



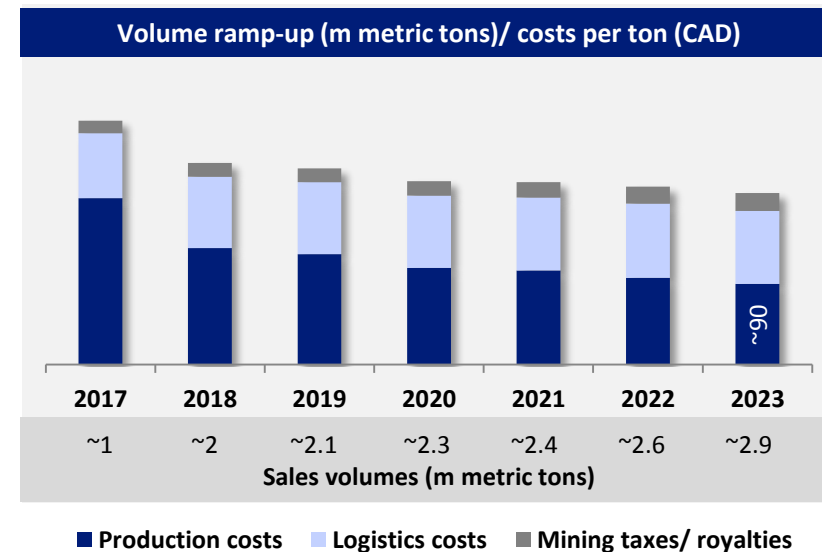
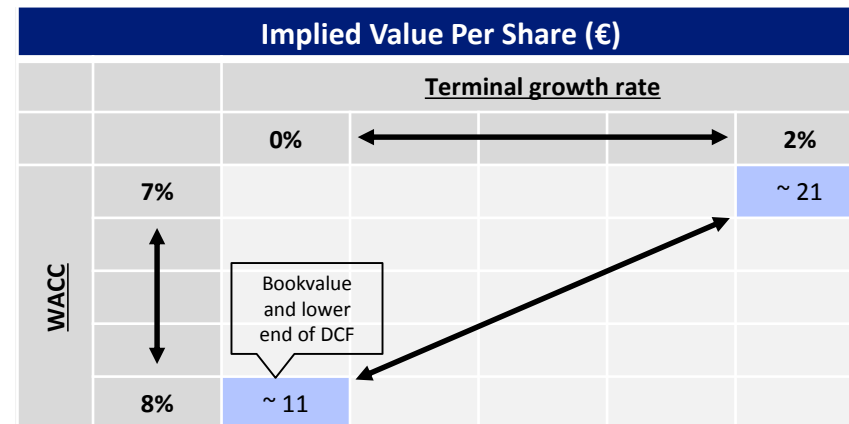
October 2015

# Legacy Project Status

## Legacy Valuation



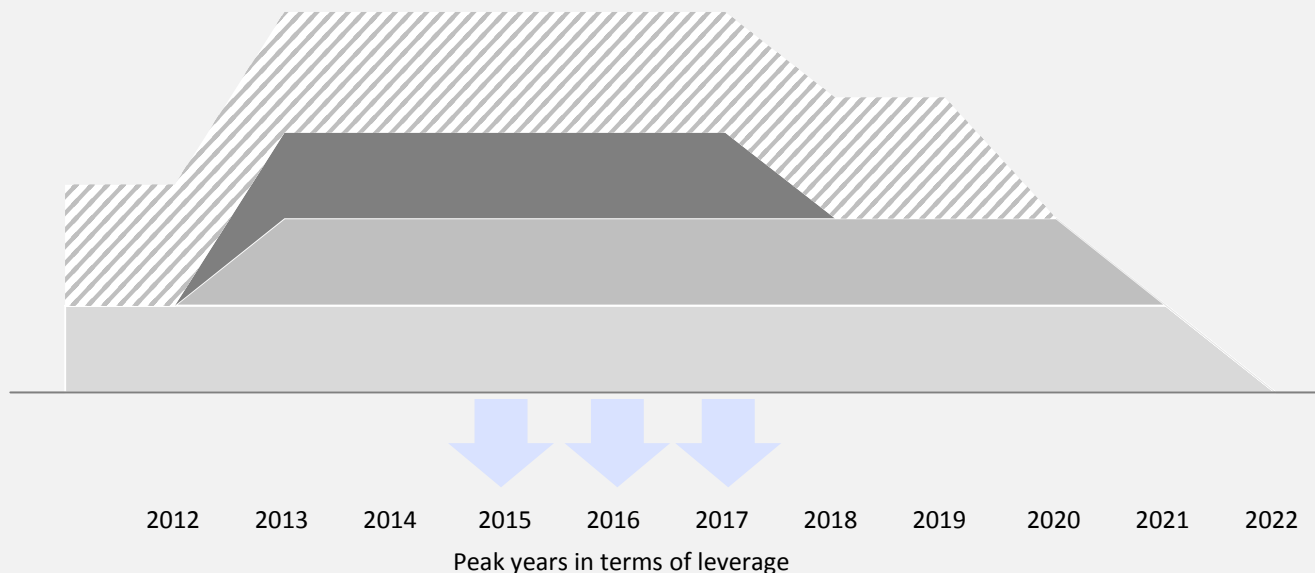
- Conservative price assumptions for Legacy based on MOP gran. Brazil
- Sustaining capex approximately CAD 100 million p.a. from 2018



# Well Financed for Current Situation

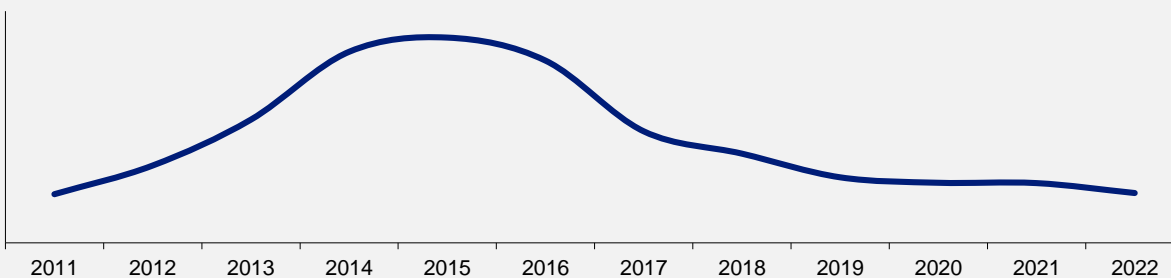
## Financial instruments

- RCF € 1 billion  
(undrawn)
- Bond III € 500 million  
(expn. Dec 2018; coupon: 3.125%)
- Bond II € 500 million  
(expn. Dec 2021; coupon: 4.125%)
- Bond I € 500 million  
(expn. June 2022; coupon: 3.000%)



## Group capex (in €)

- Capex spent of > € 1.0 billion per year from 2014 to 2016 driven by Legacy Project



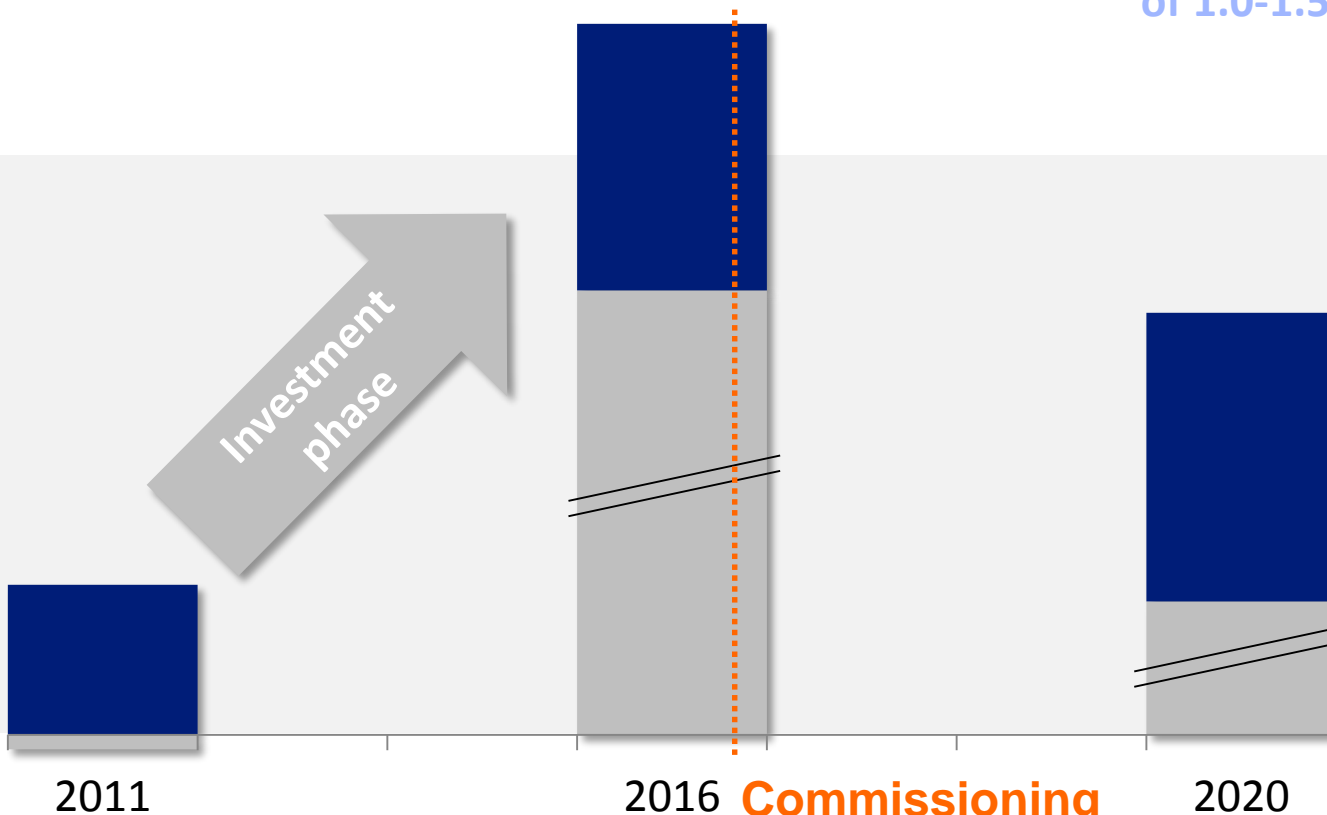
# Balance sheet Net Debt Outlook



Leverage  
at 0.5

Leverage  
peak ~ 3

Leverage  
within target  
of 1.0-1.5

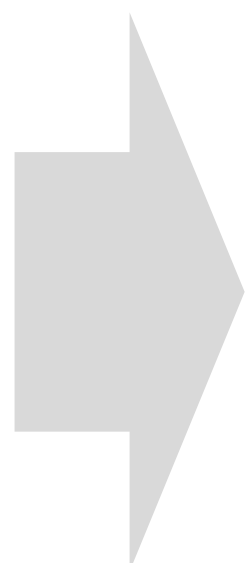
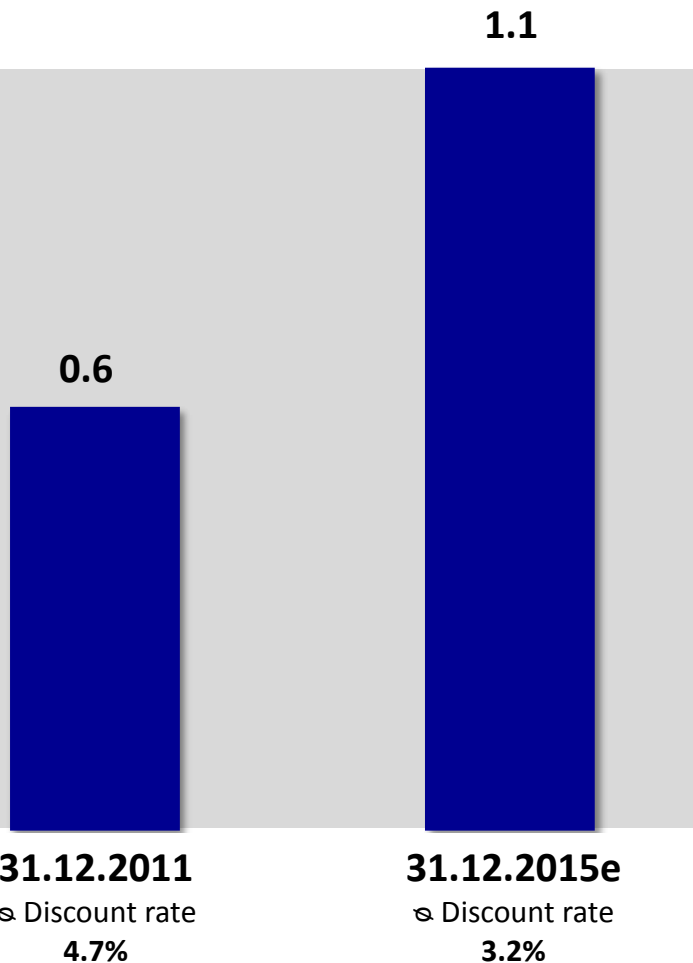


Investment  
phase

Commissioning  
Legacy

■ Net financial liabilities    ■ Provisions

€ billion



Provision increases by  
~ € 0.4 billion only due  
to change in discount rate

Annual cash outflow assuming actual depletion schedules of mines	
2015	~ € 20 million p.a.
2040	~ € 30 million p.a.
2050	~ € 40 million p.a.
2060	~ € 40 million p.a.



- Gross exposure of ~ USD 1 billion in 2015 from Potash business
  - Reduced by Legacy CapEx to be paid in USD
  - **Net exposure in 2015 ~ USD 750 million**
- **Legacy will approximately double USD net exposure vs 2015 once on stream**

### Principles

- Hedging against currency related deterioration towards the planned cash flow and earnings
- FX-derivatives are only used if an underlying transaction exists or is expected with great probability <sup>1)</sup>

### Targets

- Limit risks of exchange rate fluctuations on income and cash flows
- Maintain chance to benefit from favorable market price changes
- Minimize premium payments
- 80% of the exposure shall be hedged



1) corresponds i. a. with the EMIR-regulation for risk mitigation

# Hedging Strategy

## Hedging Example 2015

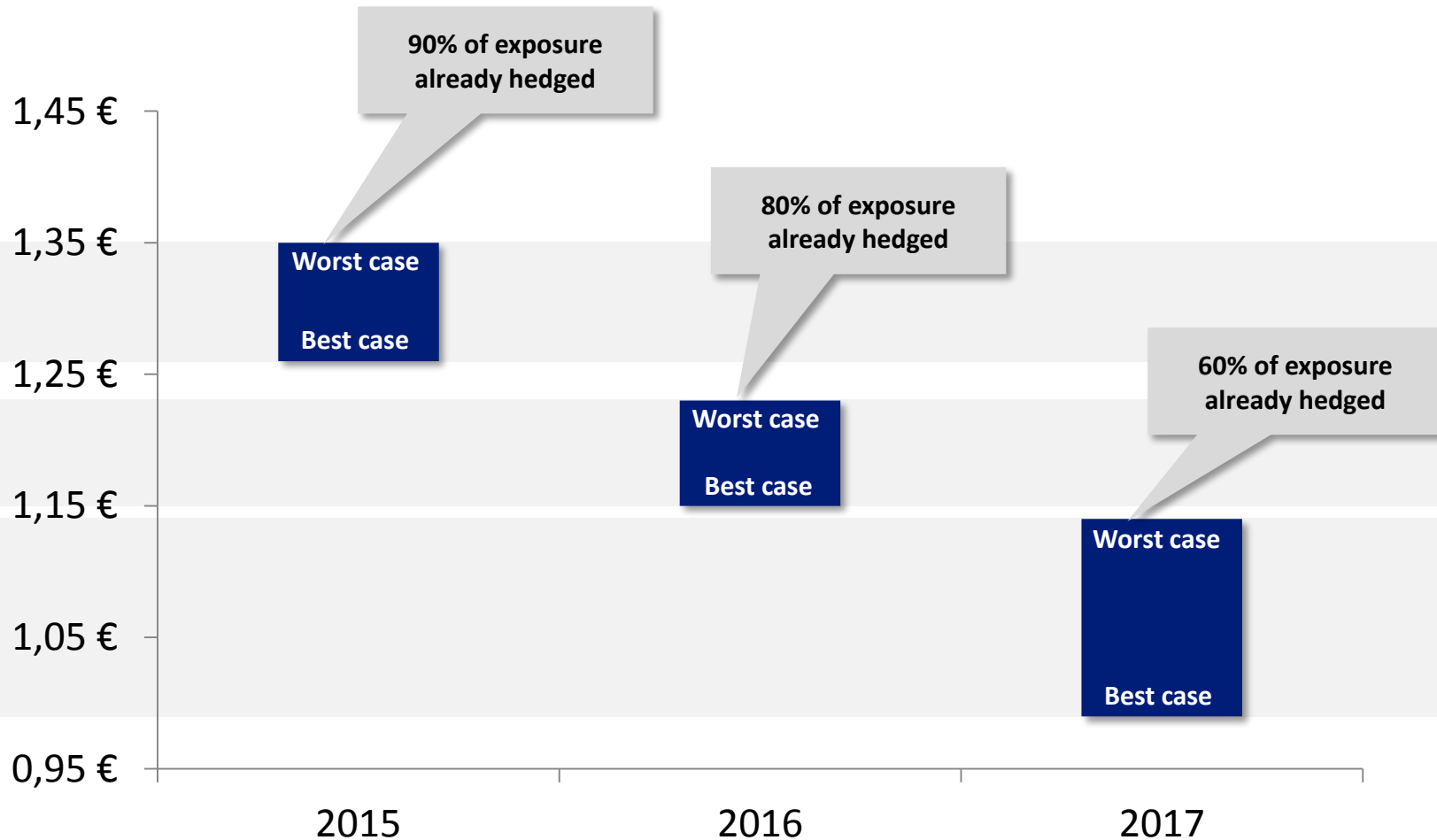


- Hedging executed for 2015 in January to October 2014
- Structure:
  - Purchase of USD Put to limit downside
  - Sale of USD Call to reduce hedging costs
  - Plain vanilla options to fully benefit from USD strength



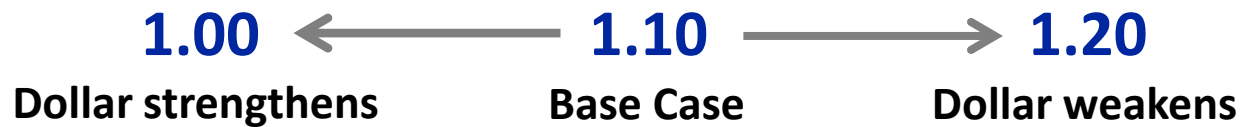
# Hedging Strategy

## Hedging Rates



Continuous hedging already done until 2017 with very favorable exchange rates

- EBIT impact 2016 vs 2015



### Project Goals

- Improve cost and organizational structures to increase efficiency of production and SG&A functions
  - Compensating for future cost increases
- Aspiration to save in the magnitude of **€ 500 million between 2014 and 2016** compared with previous planning for this period



### Achievements

- Target cost savings goals for 2014 exceeded
- Project led to an improved cost discipline within K+S
- In 2015 additional savings expected through increasing share of sustainable savings

Leverage  
peak ~ 3

~ € 500  
million

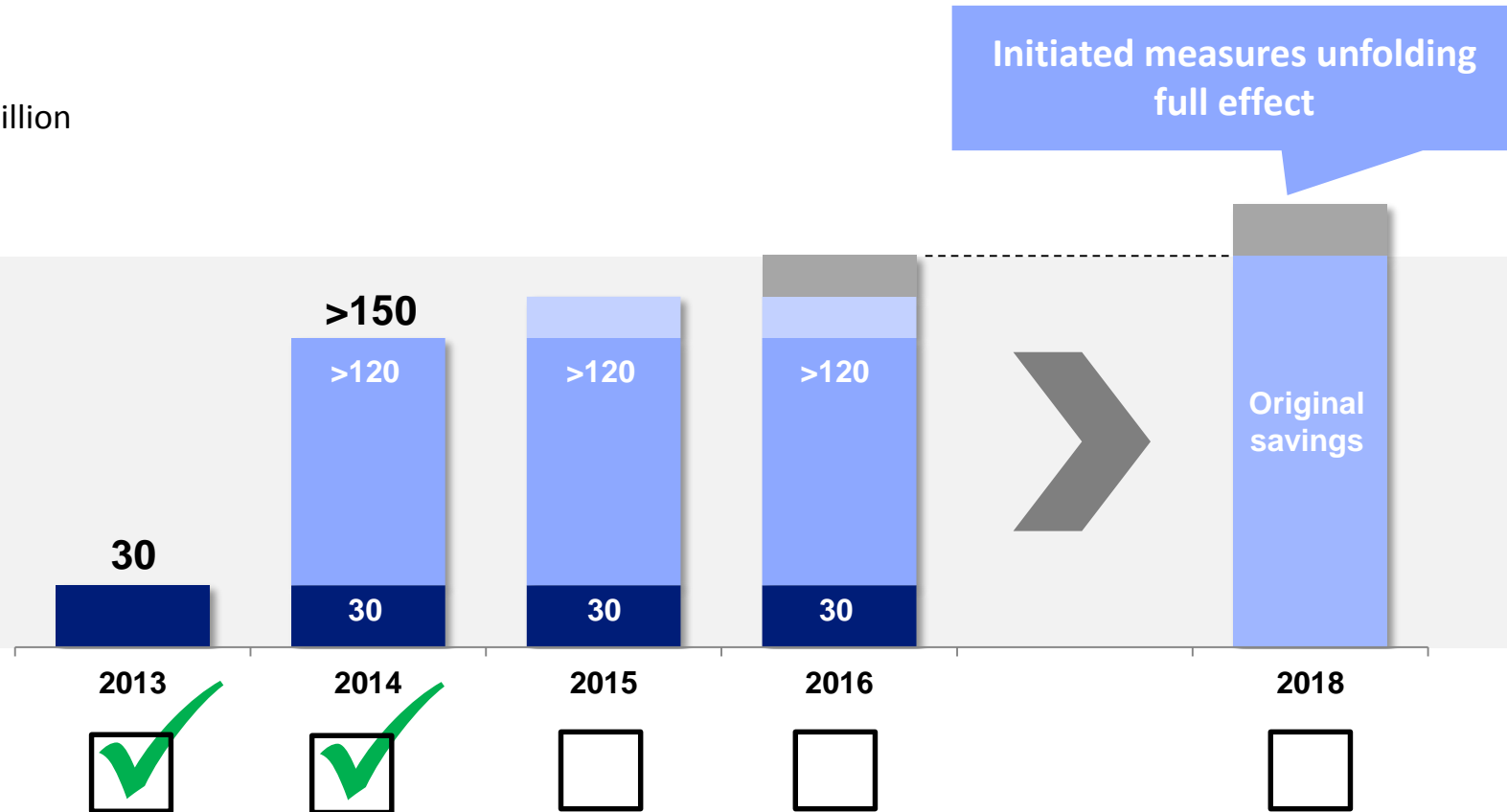
Savings  
due to  
Fit for the  
Future

Net debt

2014-2016

# Cost Discipline Will Remain

€ million



Initiated measures unfolding full effect

Additional savings beyond scope of Fit for the Future resolved

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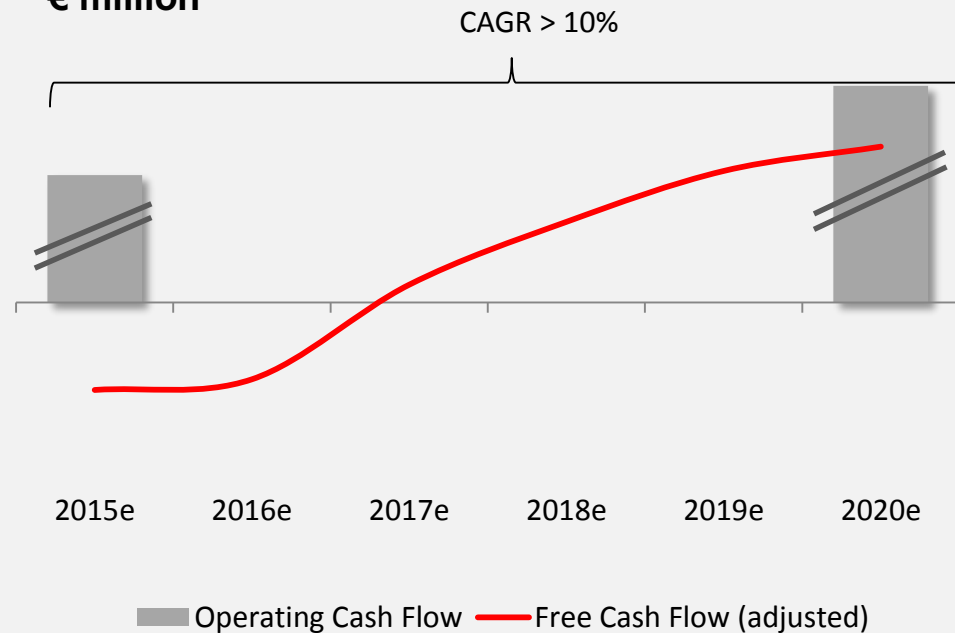
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## Operating and Free Cash Flow

€ million



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### Finance Strategy

#### Goals:

- Secure financing ability of K+S
- Keep rating

### Capital Structure

	Target range	2013	2014	9M 2015
Net debt/ EBITDA	1.0 to 1.5	1.1	1.9	2.1
Net debt/ Equity	max. 100%	31%	42%	54%
Equity ratio	40 to 50%	45%	45%	51%

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# How Will Our Investors Benefit from That?

## Maintain dividend policy

40–50% of net profit

## Maintain rating

Investment grade

## Excess cash

Funding further growth

Share buybacks

Special dividends

# DEEP VALUE

A large yellow underground mining truck is positioned in a dark, rocky tunnel. The truck is facing away from the camera, and its headlights are on, illuminating the path ahead. The tunnel walls are rough and uneven, with some water dripping from the ceiling. The overall atmosphere is dim and industrial.

Q&A session