



**K+S Aktiengesellschaft**

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**Frankfurt am Main**

**Presentation of the Interim Report**

**as of 30 September 2002**

**Comments by**

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**Chairman of the Board of Executive Directors  
of K+S Aktiengesellschaft**

**- The spoken word is binding -**

## **Opening slide**

Ladies and Gentlemen,

I would like to welcome you most warmly to this presentation of our interim report as of 30 September 2002. As we normally do, we will brief you in depth about our results as well as current trends in our business.

At the end of this presentation, we will be happy to answer any questions you may have.

### **Fig. 1 – Course of business good as of 30 September 2002**

Today, I will show you that:

1. K+S has continued to perform successfully in terms of its business operations,
2. we will attain our demanding targets for 2002 and
3. the groundwork has been laid for enhancing our competencies.

### **Fig. 2 – Revenues and earnings as of 30 September**

Ladies and Gentlemen,

as of 30 September, our revenues had risen year-on-year by 4 percent to € 1.742 billion. At € 112.6 million, EBIT also exceeded last year's figure by 4 percent.

However, at € 89.5 million, earning after taxes did not attain the level of a year ago, which was in large part due to a weaker financial result.

**Fig. 3 – Financial result / income taxes as of 30 September**

This was in large measure due to the write-downs on securities of € 14.8 million that were necessary as of 30 September as a result of the fall in prices on the stock markets. The write-downs related to shares, special funds with an equities component and own shares. At € 1.3 million, the result from investments showed an improvement of € 0.5 million.

Interest income fell by € 2.2 million to minus € 1.4 million. To reduce risk, we have invested a high proportion of our liquidity in low risk call money that earns relatively little interest. Lower interest income could not completely offset the interest expenses of € 7.5 million included in allocations to provisions for pensions.

Earnings before income taxes fell by € 8.6 million to € 97.7 million. Income taxes amounted to € 8.2 million and were € 2.0 million higher than a year ago, mainly as a result of the trade tax levied on the profit posted by esco GmbH & Co. KG.

**Fig. 4 – Balance sheet key data as of 30 September**

The structure of our balance sheet remains very sound and demonstrates that during the course of this year too, K+S has combined robust earnings capacity with a solid financial basis.

Our fixed assets were somewhat lower than a year ago as a result of reduced capital expenditure. We also saw a slight decline in the line item cash in hand and bank balances, which also includes securities.

Overall, we continue to have considerable liquidity at our disposal, and we would also like to use that liquidity for acquisitions when need be: We carefully assess the opportunities and risks presented by projects of interest to us.

Our equity has risen by € 56.5 million in relation to a year ago. This yields an equity to total assets ratio of 31 percent.

Bank loans and overdrafts on 30 September amounted to € 20.9 million compared to € 30.3 million a year ago. They mainly relate to providing finance to foreign companies, with such finance being treated as a cash contribution. The K+S Group continues to carry virtually no debt.

At € 167.0 million, gross cash flow did not entirely attain last year's high level of € 181.0 million. However, the figure significantly exceeds the capital expenditure of € 77.9 million. We continue to generate an encouragingly high liquidity surplus and financial strength is one of our hallmarks.

#### **Fig. 5 – Earnings per share as of 30 September**

Earnings per share after taxes were 10 percent lower than a year ago, which is in line with the earnings trend, but still attained the high figure of € 2.08.

DVFA earnings also showed a decline of 10 percent to € 1.31 per share. The lower earnings level in relation to earnings after taxes per share is mainly attributable to the inclusion of deferred taxes as well as imputed goodwill amortisation.

#### **Fig. 6 – Cash flow and book value per share as of 30 September**

Gross cash flow per share has declined by 7 percent to € 3.87. By contrast, book value per share has risen by 9 percent, mainly as a result of higher equity, to € 12.95. This figure not only symbolises our strong financial basis but also the healthy condition of our capital structure.

**Fig. 7 – K+S Share outperforms DAX and MDAX**

Over the course of the year, the K+S share has outperformed the DAX and MDAX. In May of this year, we launched our new share repurchase program. On 30 September 2002, we held about 2.8 million of our own shares or 6.3 percent of the share capital of € 115.2 million. The average purchase price paid per share was € 19.28.

**Fig. 8 – K+S Group: A strong umbrella group**

Ladies and Gentlemen,

K+S is a strong umbrella group. The strategic cross-linking of individual business segments enables us to exploit a wide range of synergies. The various business segments make active use of the possibilities that exist for the transfer of know-how. In addition to specialist knowledge, experience in production, logistics and marketing is also exchanged. This kind of knowledge management benefits the entire K+S Group as well as our customers, to whom we offer a range of attractive, premium products and services.

**Fig. 9 – Potash and Magnesium Products: Business as of 30 September**

Let us now turn to the Potash and Magnesium Products business segment as the major area in which we operate.

Over the first nine months of the year, we succeeded in increasing revenues by 2 percent to € 768 million. Higher sales of both potassium chloride and fertilizer specialities brought about this increase. Specialities for industry are still affected by the sluggish business climate.

In the start-up phase, the new plant for the production of Kieserite at the Sigmundshall works has still not reached full capacity. Thus, the increased sales volume could not be

serviced from current production on a variable cost basis but from stocks. However, an improvement in this regard can already be expected in the short term. At € 47 million, EBIT did not attain last year's level of € 51 million.

**Prospects:**

We expect the Potash and Magnesium Products business segment to post slightly higher revenues for 2002 compared to last year. However, as a result of higher costs, earnings will be weaker than those achieved in 2001.

**Fig. 10 – Potash and Magnesium Products: Enhanced Effectiveness**

To achieve a sustained improvement in efficiency, we have come up with -- and in part already implemented -- a number of measures in the important and large Potash and Magnesium Products business segment:

The development of a high quality crude salt deposit at the Werra works opens up further opportunities for us to optimise our production processes. The legal framework that is required in this regard is to be in place before the end of the year. The goal is to begin extraction in 2005.

Measures to tap further earnings potential include the introduction of a new shift system that permits longer machine running times. Given the good results achieved at the Werra works, models for optimising working hours have also been produced for the remaining mines. A number of projects designed to enhance efficiency have also been launched at factory and administrative levels. This will yield further cost savings.

The steps that we take to improve performance and earnings also include the testing of new automation systems. In the future, selected below ground areas will see the operation of loading machines that can be controlled remotely from a central control unit located above ground. The first prototypes are already functioning successfully in one extraction area at the Werra site.

To bolster our presence on the Asian markets, we have streamlined our sales and distribution operations for the business segments Potash and Magnesium Products, COMPO and fertiva, pooling them within K+S Asia Pacific, Singapore.

We have extended our product range to include additional specialities. We have, for example, developed a new potash granular with magnesium that satisfies special requirements, especially those connected with the cultivation of cereal crops in the Champagne region and covering the substantial need for magnesium that exists there.

As you can see, a significant overall number of measures, both at the market level and internally, are contributing to the sustained consolidation of the cost-related and competitive position of the Potash and Magnesium Products business segment.

#### **Fig. 11 – COMPO: Business as of 30 September**

Ladies and Gentlemen,

the COMPO business segment is a continuing success story. As of September, we have seen revenues rise 11 percent year-on-year and amount to € 393 million.

The marked increases in the professional business were once again prompted by the high demand for ENTEC products. The hobby business has achieved good growth thanks to the potting soil brand COMPO SANA in particular.

Compared to 2001, EBIT rose by 41 percent to € 28 million.

We have succeeded in completing the integration of the French company Algoflash: As we already announced, the non-recurrent costs incurred last year will not have to be borne this year.

**Prospects:**

We envisage further increases in revenues and earnings for the COMPO business segment for the year as a whole and beyond. COMPO's growth will once again outstrip the general growth trend in the market.

**Fig. 12 – COMPO: Enhanced effectiveness**

With a view to achieving much greater flexibility in supplying its customers across Europe quickly and competently, COMPO has built a modern logistics centre with room for over 8,500 pallets at Münster/Handorf. There, more than 1,600 COMPO products can be kept in a central high rise store.

A high degree of automation and a new loading area make it possible to handle products faster and in line with needs to a greater extent than hitherto. The project will be officially launched in December, and it will soon become possible to organise a large part of COMPO's logistical operations more efficiently.

Along with an external firm of management consultants, we are currently optimising our marketing and distribution structures, which have become very complex, as well as our control processes. This phase will be completed by the end of the year.

Using brands that are strong internationally, we will expand our positions in all distribution channels and thus enhance market penetration in Europe. In doing so, we are deliberately focusing on the brands COMPO, Algoflash, Gesal and Sem as well as Gardiflor, which are strong in individual regional markets.

**Fig. 13 – COMPO: Securing market advantage through product innovations**

At this point, I would like to acquaint you with some innovative products in the hobby business of the COMPO range.

One such product is COMPO SANA COMPACT potting soil, which has been selling very successfully. This high quality potting soil, which comes in a compact form, has not only secured a qualitative advantage for us in the marketplace. The practical form in which it is packaged makes it easy to transport and the soil can be removed from the package in a convenient way. Our customers' response to the product has been overwhelmingly positive.

Algoflash's leaf fertilizer is another example. A characteristic feature of this ready-for-use liquid fertilizer is the very practical bottle that it comes in. Both products were awarded the prize for innovation at this year's Jarditec gardening exhibition in France.

The speciality Blaukorn ENTEC is another of the innovative products that we have launched this year. Through better nutrient use, it achieves a better effect than the usual blue fertilizers. This was a case of the tried and tested ENTEC know-how from the professional market being transferred to the consumer goods area.

Given the excellent response that ENTEC has met with, COMPO is planning to further expand the professional business product mix to include ENTEC liquid fertilizers.

**Fig. 14 – fertiva: Business as of 30 September**

Despite unfavourable weather conditions and difficult market conditions for nitrogenous fertilizers in Europe, the fertiva business segment was able to post revenues of € 349 million. EBIT for K+S amounts to € 5 million.

Currently, there is strong pressure on prices for straight nitrogen fertilizers in Western Europe, and this is why we have intensified our sales and distribution efforts especially in the attractive overseas markets.

Although weather conditions remained unfavourable during the third quarter, fertiva has achieved high sales for the year to date.

**Prospects:**

Although we expect revenues for 2002 as a whole to be somewhat lower, in terms of earnings, we should nevertheless be able to maintain the contribution of € 5 million towards the K+S Group.

**Fig. 15 – fertiva: Enhanced sulphur competence**

To ensure that cultivated plants receive the best possible supply of important nutrients, we have developed a new product, premago. This fertilizer further enhances our competence in sulphur, which is something that we have already demonstrated with other products. premago contains nitrogen, magnesium and sulphur and thus possesses a composition that prevents deficiencies.

All the nutrients are completely water-soluble and can be absorbed by plants quickly and directly. Thus, premago focuses on ensuring higher quality and higher yields.

**Fig. 16 – Salt: Business as of 30 September**

Ladies and Gentlemen,

After having been registered in June 2002 with retroactive effect from 1 January 2002, the new joint venture esco – european salt company has made a successful start.

The inclusion of the esco Group within our Salt business segment is proportionate to our share of 62 percent. The figures for 2001 relate to our salt business hitherto and are therefore of limited comparative value.

With an enhanced, customer-oriented range of premium rock and evaporated salts, esco is evidencing its competitiveness throughout Europe. The implementation of all the related integration measures has been proceeding according to plan thus far.

The K+S Group's Salt business segment has generated revenues of € 147 million and EBIT of € 20 million – increases of 28 percent and 35 percent respectively.

**Prospects:**

Our salt business will see a marked increase in revenues for 2002 as a whole. EBIT will be affected by non-recurrent costs related to esco integration. We will have to wait and see whether we will attain the same high earnings as last year. We may still see an additional boost from the de-icing salt business, which is dependent on the weather, before the end of the year. In any event, the result will be very satisfactory.

**Fig. 17 – esco – a new dimension on the salt market**

I would now like to provide you with some details about esco:

The K+S Group and the Solvay Group, Brussels, pooled their salt operations in the new company and hold shares in it of 62 percent and 38 percent respectively.

esco has 14 supply sites from which it makes deliveries in Germany, the Netherlands, France, Belgium, Spain and Portugal as well as a production capacity of approximately 8 million tonnes of crystallized salt. This makes esco one of the most capable producers in Europe.

We have chosen to base the esco headquarters at Hanover, because of its good infrastructure. Revenues of approximately € 300 million have been projected for 2002. In total, about 1,300 people work for esco, with about 950 of that number based in Germany.

### **Fig. 18 – esco integration**

Today, we can say that esco has already established itself well on the market. Swift progress is being made on harmonising product ranges. K+S and Solvay products are being gradually provided with new style packaging and a specific market appearance is being moulded. This process will be completed at the beginning of 2003.

The optimisation of sales and distribution, logistics and production are further key elements of the integration process. A study on exploiting logistical synergies is almost ready and its findings will be implemented in stages.

Progress is also being made on connecting to a group-wide, uniform IT platform, which is based on SAP modules, as part of the integration process. Implementation consists of three phases and should be completed in April 2003.

And most importantly: the employees are all lending their full support to the adjustment process and feel very happy working under the new name esco.

**Fig. 19 – Waste Management and Recycling: Business as of 30 September**

I would now like to turn to the Waste Management and Recycling business segment: Revenues as of 30 September amounted to € 44 million and were 8 percent lower than a year ago. At € 7 million, EBIT was also weaker than in 2001.

As a result of the lack of a follow up to major, one-off underground waste disposal projects that ended last year, the disposal business is on a lower level. In the case of waste reutilisation and recycling, however, we achieved the good level of a year ago.

Prices remain under pressure on the German waste management market. Intense competition has resulted from overcapacity in underground waste management. However, the broad range of services that we offer has enabled us to counteract this and even to gain market share.

**Prospects:**

In the case of our waste management and recycling operation, we anticipate a decline in revenues for 2002 and lower EBIT in relation to last year.

**Fig. 20 – Waste Management and Recycling: Enhanced effectiveness**

We have tapped new markets and potential for growth by becoming more active elsewhere in Europe. In addition to expanding our position in Switzerland, we have also received deliveries from Spain and Hungary for the first time.

An analysis of customer satisfaction has confirmed that in addition to our high degree of market competence, our acknowledged high standards with respect to quality and safety form the basis of customer confidence.

We have premium system solutions for demanding waste management and recycling tasks. In addition, we enjoy costs benefits with regard to secure, long-term underground waste disposal as a result of prior work related to potash and rock salt operations. In the fiercely fought over waste management market, a market of interest to us, we will maintain our excellent position in Europe in the future, too.

### **Fig. 21 – Services and Trading: Business as of 30 September**

In the case of our Services and Trading operations, we achieved revenues of € 41 million as of 30 September, representing a year-on-year increase of almost 15 percent. This is in part attributable to the high demand for IT services and the first-time consolidation of biodata ANALYTIK GmbH. In the case of CATSAN® granulation too, we have seen an encouraging year-on-year increase in revenues.

Earnings before interest and taxes rose by 11 percent to € 14 million, mainly as a result of better earnings in the logistics area.

#### **Prospects:**

We expect an increase in revenues for business year 2002 and earnings to be probably slightly lower than a year ago.

### **Fig. 22 – Services and Trading: Enhanced effectiveness**

I would like to provide some information concerning the expansion of the range of logistical services that we offer:

Through the “Baltic Train“ project, we have started cooperating with Seehafen Wismar GmbH and DB Cargo. A new rail link has been established between the ports at Wismar and Hamburg. Some 4,600 container units that were previously transported by lorry now reach Hamburg by rail. This means that we are able to offer an ecological alternative that reduces the strain on the roads.

To optimise the transport of containers to Hamburg from our sites in Eastern Germany, we have established a cooperative venture with other partners in the area of inland waterway transport. This will enable us to reduce costs compared to transport by lorry, which is constantly becoming more expensive as a means of transport because of the eco-tax and the planned toll.

In the IT field, we are working on the implementation of a uniform, group-wide platform. The acquisitions of the past few years have seen new subsidiaries introduce various IT systems into our group and those now need to be harmonised.

### **Fig. 23 – Employees as of 30 September**

Now, I would like to turn to the people within the K+S Group.

As of 30 September 2002, the K+S Group had 10,067 employees working in its consolidated companies worldwide. With the growth of the K+S Group, the number of employees has risen by 310. This is mainly due to the proportionate inclusion of employees of the esco joint venture and the takeover of biodata ANALYTIK GmbH in its entirety.

K+S is providing vocational training to 547 young people in 16 different occupations – ranging from IT specialist to electrician. At 5.4 percent, our ratio of trainees remains high and is significantly above the average for German industry.

### **Fig. 24 – Forecast: K+S will have another successful year**

Although 2002 will have been a difficult year, the K+S Group will be successful once again. The effects of the general economic climate are affecting us in certain areas of particular segments, but we will still see revenues rise by 3 percent to € 2.24 billion. We expect to post slightly higher EBIT than last year.

We anticipate net income of somewhat more than € 100 million, which means that it will be below last year's high figure. With regard to write-downs on securities, we will have

to wait and see what the state of the stock markets is like at the end of the year. In addition, we have to assume a higher tax burden.

At the same time, we expect to maintain a dividend level for 2002 that will be the same as last year. One of the reasons for this is that we will meet the majority of our market and performance targets and even exceed them in part.

In comparison to the competition, our strong market positions and the cross-linking of our business segments continue to provide us with a very good basis on which to build the success of the K+S Group.

Thank you for your attention.