K+S Aktiengesellschaft

Analyst´s Conference
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Speech by Norbert Steiner,

Member of the Board of Executive Directors

- What counts is the spoken word -

Ladies and Gentlemen,

Following Dr. Bethke's presentation on the course of business for the K+S Group and its individual business segments, I would now like to provide you with an overview of the financial position of the K+S Group based on certain key figures.

The consolidated financial statements of the K+S Group for 2002 have been prepared in accordance with the rules contained in the German Commercial Code. As you know, listed companies will be required to prepare their consolidated financial statements in accordance with IAS as of 2005. We have started making preparations for the changeover in group accounting so that we can prepare and publish IAS consolidated financial statements in a timely manner.

The companies included in our consolidated financial statements also changed in 2002. As Dr. Bethke already explained, the pooling of our salt activities with those of the Solvay Group resulted in the establishment of the esco joint venture with effect from 1 January 2002. As you have already seen, this has substantially changed the salt business itself, although the impact on the structure of our figures has not been substantial: our salt business, which was previously included in its entirety, has been replaced by a 62% share in esco. The only true extension of the scope of consolidation resulted from the acquisition of biodata Analytik GmbH, which is active in the analytical business.

Allow me to turn to the financial statements for 2002 and the earnings position of the K+S Group first.

Slide 2 Overview of earnings as of 31 December

Dr. Bethke has already spoken to you about the increase in revenues and improvement in EBIT. I would now like to look at some of the special features of our earnings to enable you to acquire a better understanding of the figures.

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Slide 3 Changes in revenues as of 31 December

Acquisitions only had a slight effect on the increase in revenues of € 79.1 million. The inclusion of biodata Analytik GmbH for the first time yielded an additional € 1.8 million as the result of an acquisition.

Volume factors caused our revenues to grow by € 139.7 million. We achieved increases in almost all business segments but in Potash and Magnesium Products, Salt, COMPO and fertiva in particular. By contrast, the volume declines in Waste Management and Recycling were only slight.

The price-related drop in revenues of € 54.2 million was primarily attributable to the fertiva business. However, as you can see from the good contribution to earnings, purchase costs also fell accordingly, with the result that price-related drops did not have much of an impact. In addition, we also had to accept reductions in sub-segments of Potash and Magnesium Products. By contrast, we managed to achieve improvements in revenues in the COMPO business as a result of price factors.

Currency factors caused our revenues to fall by € 8.2 million. Once again, this mainly impacted on the fertiva business segment, which was affected by the lower exchange rate for the US dollar in relation to the preceding year. By contrast, the Potash and Magnesium Products business segment only saw a slight reduction in revenues as a result of currency exchange rate factors. This was an area in which we were able to benefit from the actions taken in previous years to hedge the US dollar exchange rate. As we were able to record revenues at the relatively more favourable hedged exchange rates, our potash business was largely immune to the decline in the exchange rate for the US dollar.

At present, our US dollar receipts will remain hedged until the end of March 2004, which, with an average terms of credit of six months, means that our US dollar revenues will benefit from the hedging transactions until autumn of this year.

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As Dr. Bethke already spoke to you about the key factors affecting EBIT, I would now like to provide you with some information about the financial result as well as income taxes.

Slide 4 Financial result

The financial result for 2002 fell by € 19.4 million to minus € 18.9 million.

Write-downs on securities totalling € 17.7 million were the main reason for this marked decline. Like other investors, we too could not escape the effects of the bear market. The write-downs primarily related to our two remaining mixed special funds but EUR 5.5 million were connected with the own shares held by us. We placed a limit on those investments exposed to share price risks by having an equity component of approximately 30% in our special funds and already reduced risks by the termination of two special funds during the course of 2001. Thus, any need for higher impairment charges was probably avoided, although the situation is unsatisfactory.

Interest income fell by € 3.0 million to € 11.9 million in 2002. This can in part be explained by lower liquid funds. In addition, falling interest rates resulted in the interest earned being lower on average.

Interest expenses barely changed in relation to 2001 and mainly related to the effects of accrued interest expenses for pension provisions.

Slide 5 Income taxes as of 31 December

At € 10.1 million, income taxes reduced earnings by € 7.3 million more than in 2002.

A major part of this increase was attributable to the domestic trade tax. These tax burdens are due to with the first time proportionate inclusion of esco GmbH & Co. KG and the higher earnings achieved by COMPO GmbH & Co. KG. Being organized as

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partnerships, the two firms cannot be treated as belonging to the K+S Aktiengesellschaft tax group for trade tax purposes and therefore cannot benefit from the available loss carryforwards.

Foreign income taxes also rose. This also related to the first time proportionate inclusion of esco GmbH & Co. KG and the higher earnings achieved by foreign COMPO companies.

The deferred taxes in 2001 resulted from consolidation, which caused group earnings to be lower than the aggregate of taxable earnings at the individual company level. As a result of the capitalization of deferred taxes, the tax expenses shown in the individual company financial statements were reconciled to the group earnings. These differences were in part reversed in 2002, resulting in a charge for the release of capitalized deferred taxes. This effect was mainly due to the elimination of intragroup profits as positions arising from the intragroup supply of goods and services were cancelled out as of the balance sheet date for 2002.

Slide 6 Impact of changes in taxation

Despite the charges that I have mentioned, our level of taxation is still relatively low as we can set off a large part of our profits against the available loss carryforwards. This position appeared to be in considerable jeopardy in the autumn of last year because of the plans of the SPD/Greens coalition. What was wrongly termed the “Law on the Elimination of Tax Advantages” threatened to

- limit the time over which loss carryforwards could be used,
- change the provisions regarding shell company purchases – which play an important role in the case of mergers,
- the introduction of a minimum level of corporate income tax and trade tax and
- the abolition of tax groups for trade tax purposes.

Of course, the individual impact of these ideas on our company and its share was examined. At the time, we called for the consideration of these issues to be postponed

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until the completion of the legislative process and, as we can see, rightly so: At the present time, the proposed law only provides for a minimum level of taxation and, given the statements made by the CDU/CSU and FDP, its introduction is highly questionable. Should a minimum level of taxation be introduced, the loss carryforwards will be kept twice as long. Thus, all that would remain would be a disadvantage in terms of interest.

Slide 7 Proposed dividend

To return to the present: Despite the decline in net income, we want to pay our shareholders a dividend on the same level as before for this year. Given the current holdings of own shares, a proposed dividend of € 1 will mean that the total distribution will be € 41.5 million. The distribution level in relation to group net income will therefore increase to 40 % from 37 % a year ago.

Slide 8 Return on equity

At 18.6 %, our return on equity did not attain last year's very good figure of 22.9 %. As already explained, net income was lower than in 2001 whereas equity rose, because earnings were higher than the dividend payment made in 2002. In the case of the return quotient, we have included the negative balance from capital consolidation to neutralize the effects from successive allocation to equity.

Slide 9 Total return on investment

As a result of the higher balance sheet total as well as the lower pre-tax earnings, the total return on investment fell to 7.7 %. By means of our policy of only investing interest-earning liquidity in acquisitions that provide a higher operating return, we are seeking to improve our total return on investment.

Slide 10 ROCE by business segment

On the basis of the allocation of assets and capital performed in segment reporting, we

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have computed the return on capital employed (ROCE) for the business segments. As the calculation is based on EBIT, we have neither included financial assets or liquid funds in net assets. Capital has been reduced by operating liabilities and short-term provisions but not by long-term provisions.

As a result of the increase in EBIT, we were able to increase the ROCE for the K+S Group as a whole, despite the higher capital base, to 14.7 %. This figure is significantly higher than our cost of capital and is very respectable for a company with extensive assets. This is, of course, an adjusted value for the individual business segment returns computed on the basis of the EBIT and total net assets of the K+S Group.

The levels of return for individual business segments differ considerably.

Because of lower earnings in 2002, the Potash and Magnesium Products business segment achieved a return of 9.0 %, which was significantly lower than for the previous year, but still higher than our cost of capital. The COMPO segment achieved a tangible increase in its ROCE, with higher earnings producing a higher return of 13.5 % compared to 9.6 % for the preceding year. The Salt business segment once again produced a very satisfactory return of 28.1 %, which exceeded what was already a very good figure for 2001. The high level of return for this segment is also due to the very good results for the de-icing salt business, although with esco, we are on the road to achieving a balanced product portfolio with stable return at a high level.

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The ROCE for the Waste Management and Recycling business segment fell to 31.1 % as a result of the trend in earnings, although the figure remains above average. In the case of the return for this segment, it should be borne in mind that very little capital is involved, because underground cavities created by the Potash and Magnesium Products and Salt business segments are used. We have not shown a ROCE figure for fertiva, because it would not be very meaningful given the earnings agreement with BASF. The same applies to the Trading and Services segment as well as for the reconciliation.

Slide 11 Cash flow statement as of 31 December

At € 216.9 million, gross cash flow almost attained last year's good level. At € 182.4 million, cash flow from operating activities was lower than gross cash flow because of the increase in funds tied up in working capital at the end of the year. This is a typical seasonal occurrence, with the level of cash flow from operating activities being dependent on numerous, including coincidental effects, as of the balance sheet date.

As we had no major acqusitions in 2002, and we also reduced the volume of our investments, the outflows from investing activities of € 135.9 million were € 82 million lower than in 2001. Thus, the free cash flow that remained amounted to € 46.5 million. Taking into account the outflow from financing activities as well as other changes -- the write-down on securities in an amount that, we hope, will be a one-off event – cash funds fell by € 26.6 million to a total of € 167.9 million as of 31 December 2002. This figure represents the difference between cash and cash equivalents of € 215.6 million and borrowings of € 47.7 million.

Slide 12 Balance sheet data as of 31 December

A look at the key items on the balance sheet shows that the K+S Group continues to have a very sound balance sheet structure. While fixed assets have only risen moderately, working capital has mainly increased on the asset side as a result of the increase in receivables. On the liabilities side, we have seen an increase in equity above all, because -- as has already been explained -- earnings for the year were higher than

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the dividend payment. The ratio of equity to total assets has therefore risen from 29% to 31%. With respect to bank loans and overdrafts, this item mainly relates to short-term borrowings as a result of balance sheet date factors. This was a deliberate move on our part because the interest charged on the sums borrowed is lower than that earned on our balances. As has already been explained, we still have considerable net liquidity given our cash and cash equivalents position.

Slide 13 – K+S Share prices compared to DAX and MDAX

The price of the K+S share fell by 21 % to € 17.35 over the course of 2002. You can imagine that we are dissatisfied with that. However, we have to acknowledge that the pull of the general trend on the stock markets was so strong that our share could not completely detach itself from the extremely weak performance of the stock markets. However, a comparison with DAX and MDAX shows that our share has fared much better than the market as a whole. The trend continued throughout the year. Thus, high earnings, a healthy balance sheet structure and, of course, an attractive return in terms of dividend payments can bolster the K+S share even during times when the situation on the markets is difficult.

Maintaining constant contact with players in the capital market – as we are doing today, for example -- is important to us in order to maintain or even increase the interest in the K+S share that has grown over the past few years. In this connection, it is very significant that, in the light of restructuring of the segments of the German stock exchange that will take place at the end of March, our share has been admitted to the prime standard segment and will remain in the top half of the MDAX, which has been reduced to 50 shares.

Slide 14 DVFA earnings as of 31 December

Valuation levels undoubtedly play a role in determining whether the price of a share is reasonable. One criterion in this regard is earnings per share, for which of course -- as you know -- various definitions exist. DVFA earnings continue to be widely used in Germany.

In reconciling net income for the purpose of computing DVFA earnings for 2002, K+S had to make considerable adjustments once again, albeit not to the same extent as in 2001. The largest item comprises deferred, better said imputed taxes charged on earnings to place K+S in the position it would be in if there were no loss carryforwards. As a result of the higher effective tax burden, this item was lower in 2002 than in 2001. Further important adjustments included imputed goodwill amortization as well as the elimination of special depreciation and the release of special reserves.

As such adjustments totalled € 34.4 million and were therefore significantly lower than for 2001, our DVFA earnings for 2002 of € 69.4 million were almost on the same level as for 2001 although net income was lower. DVFA earnings per share even remained unchanged at € 1.62 as a result of the lower number of shares. By contrast, net income per share fell to € 2.43, which, in my opinion, is still entirely respectable.

Slide 15 Enterprise Value as of 31 December

Whether a particular share is overvalued or undervalued is frequently determined using enterprise value multiples. Proceeding from market value, we followed the common convention of including provisions for pensions as debt on which interest is charged. Less of net liquidity, this gives an enterprise value of € 788.1 million as of 31 December 2002. This figure is lower than that for 2001 because of the lower market capitalization.

The EBITDA and EBIT multiples have fallen to 3.3 and 5.9 respectively compared to the preceding year as a result of the lower market capitalization. As our own figures have barely changed – as you can see – and some have even improved, it is clear that the decline in the multiples is primarily due to the poor state of the market as a whole and does not derive from fundamental corporate data.

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We have made active use of our authorization to repurchase own shares and currently hold about 3.5 million of our own shares, which represents approximately 7.7% of our share capital.

A renewal of the authorization to purchase own shares is (also) planned for the upcoming Annual General Meeting. We want to continue to make active use of the repurchasing of shares as an instrument in order to be able to continue with our policies in the future too and, not at least of all, in the interest of our shareholders.

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