K+S Aktiengesellschaft

Annual Report Press Conference
on 11 March, 2004
in Frankfurt am Main

Speech by Norbert Steiner,
Member of the Board of Executive Directors

– The spoken word applies –
Ladies and gentlemen,

Following Dr. Bethke's comments on the course of business for the K+S Group and its individual business segments, I would now like to provide you with some details concerning the financial position of the K+S Group as indicated.

The consolidated financial statements for 2003 have been prepared in accordance with the rules contained in the German Commercial Code (HGB). We made significant progress last year in preparing for the changeover of group accounting to IFRS. However, a series of IFRS rules are being revised at present, and some of them are of considerable significance for our financial statements – hedge accounting in accordance with IAS 39 being an example I could cite. Against this backdrop, we have decided to still apply HGB for 2004 and to report according to IFRS as of 2005, and then fully I hope.

Slide 2 Earnings Overview as of 31 December

Dr. Bethke has already showed you this slide in a similar form. It is not going to be discussed once again now, but is to serve as point of departure for describing certain specific features of our profit and loss account.

Slide 3 Changes in Revenues as of 31 December

As was already stated, we were able to increase sales last year and implement satisfying price increases in some segments. This is reflected in just under € 45 million (sales) respectively more than € 39 million (prices) in revenues for the group. It should be emphasised that the purely price-related impact on revenues was higher than the € 39.2 million indicated here. As delivery terms changed in part, revenues nevertheless decreased as a result of pricing factors. This billing-related reduction in revenues resulted in a corresponding reduction in freight costs.
Positive volume and price effects overall more than made up for the currency-related decline of € 54.5 million and consequently, revenues as of 31 December 2003 were € 29.3 million up year-on-year.

A distinction needs to be made with respect to those effects attributable to exchange rates: Almost one half of the decline was connected with fertiva, which saw a mirror-image type reduction in terms of procurement costs resulting from ammonia, which was significantly more expensive overall but traded in the US dollar. To lesser extent, the COMPO overseas business was also affected and in that case too, compensatory effects were in evidence in terms of costs.

A good one half of the decrease relates to the Potash and Magnesium Products business segment. This is the area where exchange rates, especially for the US dollar, have the greatest impact on earnings. You are aware that we have been very active in this area for a long time – but the days of the strong dollar are over, at least in the medium term. That is why a different set of instruments has to be employed, and I will comment on that in greater details now.

**Slide 4 Currency Management US Dollar (Potash/Magnesium)**

We have been hedging future potash revenues denominated in US dollars since the end of 2000. At the time, we hedged the US dollar for a period of about two to three years in advance. In 2003 too, US dollar revenues were in part hedged on very favourable rates by means of forward transactions going back to 2001.

After the fixed rate instruments expired, we employed both range options and classic options transactions as, in our estimation, adequate measures. As a result of these forms of hedging, the rates at which our US dollar revenues were booked this year were far more favourable than the respective spot rates. We achieved an average exchange rate of USD 0.98 per euro. Thus, although we were unable to prevent the decline in potash business revenues resulting from exchange rate factors, we were able to limit it significantly. The same will apply to the next few years.
The purpose of foreign currency management in the context of our medium-term planning time-frames is to achieve hedging rates when the dollar is weak that are significantly more attractive than the spot or forward rates, while only incurring low premium charges.

To achieve this, the US dollar revenues that are expected to be generated by the potash business for 2004, 2005 and, in part, for 2006 have been hedged using so-called “range options.” This involves combining the purchase of a put option with the sale of a call option. In this way, it is essentially possible to maintain cost-neutral structures for the time being.

For the period 2004 to 2006, we have concluded average hedging rates of USD 1.04 to USD 1.05 per euro using this instrument. However, this very advantageous arrangement requires the US dollar to remain within a certain range: If the rate reaches certain upper or lower limits – so-called knock-outs – our options will expire. At present, our upper knock-outs range from USD 1.34 to USD 1.39 per euro depending on the term, while the lower knock-outs range from USD 1.04 to USD 1.14 per euro. The bank’s option, by contrast, remains valid if the lower knock-out is reached. In the event of the euro being weak respectively the US dollar being strong, we will not participate in exchange rates below the hedging level of about USD 1.05 per euro.

It is obvious that we follow US dollar trends on an ongoing basis. The instruments we have employed also enable us to change the parameters if need be. In particular, it possible to adjust the ranges within which the options are valid to exchange rate trends. To secure the ranges, we have, in part against the payment of premiums, executed more than 300 transactions. In this way, we have been able to retain our hedging arrangements despite substantial exchange rate fluctuations.

Now for some information concerning the financial result as well as income taxes.
The financial result for 2003 amounted to € - 4.1 million and thus represented a significant improvement of € 14.8 million on the previous year.

After having to accept significant write-downs on our securities last year, as did most investors, things thankfully picked up again in 2003. Some of last year's losses were made up by price gains, thus requiring appropriate write-ups. In addition, we also realised gains from the sale of securities. Both these factors contributed more than € 9 million to earnings, but in accordance with HGB rules, this is not disclosed in the financial result but included under “other operating income” and thus in EBIT.

Interest income for 2003 fell by € 0.5 million to € 11.4 million. The continued decline in interest rates was a factor in this regard. In addition, since the middle of 2003, we have held a large part of our financial assets in the form of cash investments that are available at short notice but earn low levels of interest. These funds were and are designated to at least partially cover financial needs in connection with acquisitions.

Accrued interest expenses for pension provisions in 2003 were somewhat lower than in 2002, but nevertheless still account for the greater part of interest expenses. Other interest expenses increased by € 1.4 million to € 5.6 million in relation to 2002. The conversion of our Brasilian COMPO company's financing to credits denominated in the local currency had a particular impact in this regard. In this way, we will be able to avoid the currency losses that we had to bear in past years.
Slide 7 Income Taxes as of 31 December

Income taxes increased slightly by € 0.2 million to € 10.3 million in 2003. Foreign income taxes rose above all. This mainly affected the foreign COMPO and esco companies.

The domestic trade tax affects esco GmbH & Co. KG as well as COMPO GmbH & Co. KG. Being organized as 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. No domestic corporation tax liability arose in 2003 as existing loss carryforwards could be used.

As you know, our tax position will change as of 2004 because of the introduction of the so-called minimum tax. As a result, existing tax loss carryforwards relating to corporation and trade tax can only be set off against current profits up to a maximum amount of 60%. This means that our domestic profits would attract income taxes of about 16% despite the existence of loss carryforwards. At the same time, the loss carryforwards will be valid over a longer period of time.

The 2003 deferred taxes result from consolidation, as group earnings are temporarily lower than the aggregate of taxable earnings for the individual company.

Slide 8 Proposed Dividend

Despite the drop in net income, we want – as Dr. Bethke already indicated – to pay a dividend of € 1 to our shareholders once again. As we currently hold no shares of our own, the proposed dividend of € 1 means that the total dividend payment will be € 42.5 million compared to € 41.5 million a year ago. This means that the proportion of group net income distributed will rise from 40% last year to 42% this year. We are, of course, pleased that the price of our K+S share is high, even if this puts pressure on the dividend yield. Nevertheless, at 4.6% it was still well above average as of the balance sheet date. Even the yield of just under 4% based on the current share price is still twice
as high as the average DAX and MDAX yield. The K+S share remains an investment providing high returns, even after the significant gains posted over the past few months.

Slide 9 DVFA Earnings as of 31 December

Earnings per share also play a role in assessing the earnings position. In Germany, DVFA earnings are widely used in this context in addition to net income.

In reconciling net income for the purpose of computing DVFA earnings for 2003, considerable adjustments were required once again. 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. A further important adjustment concerns goodwill depreciation, also an imputed figure. Special depreciation for tax purposes was no longer recognized at the group level in 2003, so that in contrast to previous years, no further adjustments were necessary.

This effect in particular meant that at € 37.2 million, the adjustments were somewhat higher than a year ago although net income was lower. DVFA earnings therefore dropped to € 64.1 million and amounted to € 1.53 per share. Net income per share therefore scarcely changed and amounted to € 2.42.

Slide 10 Cash Flow Statement as of 31 December

While at € 209.1 million, gross cash flow almost attained the level of a year ago, cash flow provided by operating activities showed a tangible improvement. Cash flow provided by operating activities amounted to € 251.7 million, which is still more € 69.3 million than a year ago. The main reason for this was a significant reduction in the tying up of working capital, which is in part attributable to a lower increase in receivables. Customers in Brazil in particular preferred not to take advantage of the payment terms offered by us.

As cash flow used in investing activities was lower than a year ago as a result of our
more restrictive approach and amounted to € 124.3 million, free cash flow rose by € 80.9 million to € 127.4 million. Cash flow used in financing activities for 2003 was affected by dividend payments as well as the cancellation of repurchased own shares. Other changes essentially related to write-ups and write-downs on securities included in cash and cash equivalents.

In total, cash and cash equivalents rose by € 47.5 million to € 215.4 million for 2003. The figure is the balance of liquid assets totalling € 234.8 million and bank loans of € 19.4 million.

*Slide 11 Balance Sheet as of 31 December*

There was no fundamental change in the basic structure of the K+S balance sheet as of 31 December 2003. However, there were some specific features that require comment.

First, it is striking that fixed assets rose by € 51.1 million to € 735.8 million. This was mainly due to a valuation adjustment: As of 1 January 2003 and as required by the German Act on the Further Reform of the Laws on Stock Corporations and Accounting in relation to Transparency and the Provision of Information (*TransPuG*), the book values of fixed assets had to be adjusted by reversing the purely tax-related valuation effects arising from the application of special depreciation charges in the past. The resulting recovery of value was not booked against earnings. However, depreciation charges will now increase by about € 2 million per year. As a result of applying the measure, fixed assets as of 31 December were € 44.8 million higher, which impacted in full on total assets.

The valuation adjustment is also the main reason why equity rose. In addition, there was also the impact of the balance for net income and capital outflows connected with the dividend payment as well as with the cancellation of own shares. The ratio of equity to total assets therefore rose from 31% to 32%.

With respect to liabilities, provisions rose by € 47.2 million to € 753.2 million. The
valuation adjustment also had an impact in this regard, as it triggered the recognition of deferred tax liabilities of about € 20 million. In addition, the carrying values for mining provisions had to be adjusted above all as a result of ongoing reviews of underlying risks and obligations. Bank loans and overdrafts are only of secondary importance on our balance sheet. They are of substantial importance for the South American COMPO companies, which -- as has already been mentioned -- mainly obtain finance in local currencies to avoid currency risks.

**Slide 12 Return on Equity**

At 17.3%, our return on equity is still on a good level. The decrease can only be explained in terms of the slight decline in net income to a very limited extent. The main reason was, to a far greater extent, the adjustment required under TransPuG, which results in an increase in equity. Without these effects, the return on equity would have amounted to 18.3% and approximated the level of a year ago.

**Slide 13 Return on Total Investment**

The same applies to the return on total investment. Its decline was also mainly due to the aforementioned valuation adjustment. Without this effect, the return on total investment would have amounted to 7.5% instead of 7.2%.

**Slide 14 ROCE by Business Segments**

ROCE is much more independent of influences related to the balance sheet date. Net assets are treated as the capital, i.e. only short-term provisions are deducted in addition to operating liabilities. As the computation process is based on EBIT, we have neither included financial assets or liquid funds in net assets.

In this case too, valuation adjustment required by TransPuG had a negative impact, and ROCE would have otherwise amounted to 13.3%. As a result of the drop in EBIT, K+S Group ROCE fell to 12.7% in total. The ROCE attained for 2003 undoubtedly remains
good overall and is above our cost of capital. However, the levels of return for individual business segments differ considerably.

As a result of considerably lower earnings, the Potash and Magnesium Products business segment posted a return of just 5.2% for 2003, a level that we are naturally not satisfied with and, in particular, falls short of our required return of at least 8%. To achieve a significant improvement in this regard, we launched the various elements for improving earnings described by Dr. Bethke. Once these measures take full effect, we should achieve satisfactory in the potash field as of 2005.

The COMPO business segment was also forced to post a declining ROCE. As a result of lower earnings and capital base increase at the same time, ROCE fell from 13.5% to 10.3%. By contrast, the return for the Salt business segment was very satisfying, and at 28.4%, it exceeded what was already a very good result for 2002. This was, of course, also due to the very good de-icing salt business, but even without that effect, esco provides us with a balanced product portfolio offering a stable, high level.

ROCE for the Waste Management and Recycling business segment fell to 17.7% as a result of declining earnings, but is still above average. In the case of the return for this segment, it should be borne in mind that very little capital is tied up, because underground cavities created by the Potash and Magnesium Products and Salt business segments are used. We have not provided a ROCE figure for fertiva, because it would not be very meaningful given the earnings agreement with BASF that you are familiar with. The same applies to the Trading and Services segment as well as for the reconciliation.

Slide 15 Price of K+S Share in 2003 Compared to DAX and MDAX

The price of the K+S share rose by 25% to € 21.76 over the course of 2003. Adding the dividend payment made in 2003, the performance of the share amounted to 31%. Although the trend was very positive overall, the share did not achieve the higher increases posted by the DAX and MDAX. In making this comparison, it should, of
course, be noted that the K+S share had significantly outperformed the market as a whole over the past few years and was affected to a much lesser extent by past stock market losses than both the DAX and the MDAX.

**Slide 16  Price of K+S Share in 2004 Compared to DAX and MDAX**

The K+S share has developed very positively since the beginning of the year, gaining about 20% and clearly outperforming the MDAX and, in particular, the DAX. We see this as proof of the confidence that the capital market has in our corporate policy and strategy. At the same time, we are confident that such confidence is warranted given the figures presented today and the outlook for the near future. That is also why we believe in associating the theme “experience growth” with our K+S.

**Slide 17  Final**