K+S Aktiengesellschaft

Analysts' Conference

on 15 November 2004

in Frankfurt

Speech by Norbert Steiner,

Member of the Board of Executive Directors

– The spoken word applies –

Ladies and Gentlemen,

Following this report on how business has been developing for the K+S Group and the individual business segments, I would now like to comment on the financial situation of the K+S Group. Simply for the sake of clarity, I would like to state once again that in contrast to last year, the figures presented now include the 38% stake in our salt subsidiary esco acquired as of 1 January 2004, which explains the changes in part; I will go into it each time. I would like to point out, too, that the consolidated financial statements for this year have been prepared for the last time in accordance with German Commercial Code accounting principles. We will be reporting in accordance with IFRS as of 2005. In the second half of my address, I will elaborate on some key effects of this changeover.

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Revenues and Earnings as of 30 September

€ million

	2004	2003	Δ
Revenues	**1,938.2**	**1,736.6**	**+ 201.6**
Earnings before interest, taxes and depreciation (EBITDA)	**217.5**	**179.0**	**+ 38.5**
Earnings before interest and taxes (EBIT)	**132.1**	**96.6**	**+ 35.5**
Financial result	- 3.7	- 3.8	+ 0.1
Earnings before income taxes (EBT)	**128.4**	**92.8**	**+ 35.6**
Income taxes	16.7	9.7	+ 7.0
Earnings after taxes	**111.7**	**83.1**	**+ 28.6**

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Dr. Bethke has already illustrated the very positive way in which K+S Group revenues and earnings have developed. I would now like to describe some particular features.

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Changes in Revenues as of 30 September 2004

€ million

Revenues as of 30 September 2003 (62% esco):	**1,736.6**
Revenues as of 30 September 2004 (100% esco):	**1,938.2**
Change:	**+ 201.6**
• consolidation related:	+ 96.4
• price related:	+ 108.5
• volume/structural related:	+ 46.8
• currency related:	- 50.1

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Firstly we can see – also in comparison with the third quarter of last year – that the significant increase in revenues is partly attributable to the acquisition of the remaining 38% of esco as of 1 January 2004, giving a consolidation-related increase of about € 96 million.

In addition, the improvements resulting from prices and sales produced an increase in revenues of € 109 million (prices) and € 47 million (sales) respectively.

These three factors more than made up for the currency-related declines, leading to an increase in revenues of € 201.6 million. The currency-related declines of about € 50 million are mainly due to the US dollar development and require - as always - a differentiated view.

Part of these effects is concerning the fertiva business segment and, to a lesser extent, COMPO too. This is an area where we are benefiting from the weaker US dollar in terms of costs when purchasing ammonia, which means that as a result we have something of a "natural hedge".

The Potash and Magnesium Products business segment, which at about € 40 million accounts for the greatest part of the currency-related revenue effects, lacks a comparable form of compensation in terms of costs. However, we were able to counteract by raising prices in US dollar. Nevertheless, the trend in the US dollar is a key success factor not only for our potash business but for the K+S Group as a whole.

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USD currency management - potash/magnesium

- 3 years in advance, based on net positions with a safety margin
- 2004 sales hedged by means of „range options";
  average hedge: USD/€ 1.04, incl. premium cost USD/€ 1.09
- revenues for 2005 - 2007 also hedged by means of „range options";

  average hedge 2005: USD/€ 1.04, incl. premiums USD/€ 1.06
  average hedge 2006: USD/€ 1,04, incl. premiums USD/€ 1.04
  average hedge 2007: USD/€ 1.02, incl. premiums USD/€ 1.02
- "range options": no classic hedging mechanism, only effective within certain barriers. Restructuring is necessary in case of a possible knock-out.

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As part of our currency management, we are pursuing an active hedging policy for the potash business in particular covering our medium-term planning period. Accordingly, we hedge our net positions about three years in advance.

After we had profited from very favourable fixed hedging rates last year, we have currently hedged our positions using range options. Using these instruments, we were able to achieve an average hedging rate of USD 1.04 per euro for the current year and USD 1.09 per euro when taking account of premium expenses. That means that even though we have not attained the favourable level of a year ago, we are still in a much better position than in the case of the average spot rate for this year.

We have also hedged the anticipated dollar receipts for 2005, 2006 and 2007 by means of range options. While taking account of premium expenses, we have achieved average hedging rates of USD 1.06, 1.04 and 1.02 per euro respectively.

However, the options we have contracted are only effective as long as the exchange rate moves within certain ranges during their term. The upper knock-out levels at which the hedge would no longer apply currently range between USD 1.35 and 1.40 per euro depending on duration and the lower knock-out levels range from USD 1.04 to 1.14 per euro. In view of the significance of the US dollar for our business, we certainly would not stand and watch the USD and our hedges further deteriorate but would restructure our existing hedging positions if need be. As a result of the premiums that would become payable then, the resulting hedge rates would, however, worsen. This selective approach appears to us to be more appropriate than paying premiums at the outset of the hedging process for large ranges and then finding that they are not required.

I would now like to comment on how our costs have been evolving.

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Cost Trends as of 30 September

€ million

	2004	**2003**	**Δ**	**Δ ex acqu.**
Personnel	446.9	416.5	+ 30.4	+ 7.2
Energy	93.1	89.3	+ 3.8	- 3.7
Freight	251.7	225.5	+ 26.2	+ 17.1

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At first sight, personnel expenses have risen very substantially by € 30.4 million or a good 7%. However, of this increase € 23.2 million is attributable to the acquisition of the remaining 38% of esco as well as of Meiners AG. The remaining increase is also due to the expected higher bonuses to our employees for 2004.

Energy costs are an area on which many analysts have been focussing this year. As of 30 September, the K+S Group saw an increase of € 3.8 million or a good 4%. What needs to be taken into account is that there is a consolidation-related increase of € 7.5 million, which means that energy costs have actually fallen slightly if this effect is disregarded. This result which you might find surprising is connected with the fact that the increase in the oil price has not yet had a significant impact on our natural gas prices due to contractual arrangements, such as delays in adjustments or price caps. However, if oil prices remain high over the long term, we will not be able to avoid price increases for our natural gas supplies.

Freight cost trends are also attracting considerable attention this year. Up € 26.2 million, K+S Group freight costs as of 30 September were up a good 10% on last year. Of that figure, € 9.1 million, or a good third, is consolidation-related. The remaining increase is mainly price-related and a consequence of the global increase in freight rates, the effects of which we were not able to fully escape despite cost-reducing adjustments made. However, it was possible to make up for these increase in costs by raising prices.

Overall, it can be stated that exogenous, adverse impacts arising from the US dollar development as well as energy and freight costs could be lessened partly through hedging and contractual arrangements and partly be more than made up for through raising prices.

There is little to be said about the financial result:

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Financial Result as of 30 September

€ million

	2004	2003	Δ
Income from investments	1.3	0.8	+ 0.5
Write-downs on financial assets and short-term securities	- 0.2	- 0.6	+ 0.4
Interest income	7.1	8.0	- 0.9
Interest expenses for pension provisions	- 7.6	- 7.6	0.0
Other interest expenses	- 4.3	- 4.4	+ 0.1
Financial result	**- 3.7**	**- 3.8**	**+ 0.1**

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Income from equity investments was slightly higher as of 30 September and the write-downs on financial assets and short-term securities were lower than for the same period last year. In addition, we also saw reversals of former impairment depreciation of more than € 2 million, which, however, are reported in EBIT.

Interest income is down year-on-year because of the further decline in interest rates and lower cash and cash equivalents while interest expenses have barely changed. Interest expenses on bank loans are mainly incurred by our South American COMPO companies, which are financed by local currency borrowing in order to avoid exchange rate risks. However, the non-cash compound interest in provisions for pensions account for the greater part of interest expenses and amounted to € 7.6 million.

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Income Taxes as of 30 September

€ million

	2004	2003	Δ
Domestic corporation tax	4.5	0.0	+ 4.5
Domestic trade tax	5.5	3.0	+ 2.5
Foreign income taxes	7.3	6.2	+ 1.1
Deferred taxes	- 0.6	0.5	- 1.1
Income taxes	**16.7**	**9.7**	**+ 7.0**

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Income taxes have risen significantly during the course of the year, rising by € 7 million to € 16.7 million.

The biggest increase was in the case of domestic corporate income tax. In contrast to last year, it was up by € 4.5 million year-on-year as a result of the German minimum tax. However, we will now be able to use our existing loss carry-forwards over a longer period of time.

The minimum tax rules also partially explain the rise in domestic trade tax of € 2.5 million. An effect in this regard also derives from the higher result of esco GmbH & Co. KG, which, being an unincorporated entity, is not part of the trade tax group of K+S Aktiengesellschaft.

We have seen an increase of € 1.1 million in the case of foreign income taxes, which is also attributable to the higher share that we now hold in esco companies. By contrast, deferred taxes have fallen by € 1.1 million.

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DVFA Earnings as of 30 September

€ million

		2004	2003
Earnings after taxes		**111.7**	**83.1**
Deferred (imputed) taxes	1)	- 31.4	- 23.5
Goodwill amortization	2)	- 10.8	- 8.4
Other adjustments	2)	-	- 0.8
DVFA adjustments		- 42.2	- 32.7
DVFA earnings		**69.5**	**50.4**
DVFA earnings per share (€)	3)	**1.64**	**1.21**
Earnings after taxes per share (€)	3)	**2.63**	**2.00**

1) average tax rate of 40.8%
2) after imputed tax liability of 40.8%
3) basis: average number of outstanding shares (30 Sept. 2004: 42.5 mil., 30 Sept. 2003: 41.6 mill.)

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The greatly improved earnings after taxes also impacts on DVFA earnings.

In computing DVFA earnings, deferred taxes are to be primarily taken into account as was the case a year ago which place the K+S Group in the position in which it would be if no loss carry-forwards were available. In addition, imputed goodwill amortization is also to be taken according to DVFA. No other adjustments were necessary over the course of the year so far.

Despite the higher adjustments of € 42.2 million, the DVFA earnings of € 69.5 million are up a good € 19 million on the same period last year. On a per share basis, this means an increase to € 1.64 compared with € 1.21. In terms of earnings after taxes on a commercial law basis, we even have earned € 2.63 per share compared with exactly € 2 last year.

K+S Group
Cash Flow Statement as of 30 September

€ million

	2004	2003	Δ
Gross cash flow	**209.9**	**157.9**	**+ 52.0**
Cash flow from operating activities	224.2	264.4	- 40.2
Cash flow from investing activities	- 171.8	- 82.3	- 89.5
Free Cash flow	**52.4**	**182.1**	**- 129.7**
Cash flow from financing activities	- 42.5	- 84.9	+ 42.4
Other items	4.8	2.6	+ 2.2
Change in cash and cash equivalents	**14.7**	**99.8**	**- 85.1**
Cash and cash equivalents, net	**230.2**	**267.7**	**- 37.5**

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The significant improvement in the earnings position of the K+S Group is particularly evident in gross cash flow, which rose by € 52 million to about € 210 million as of 30 September. By contrast, cash flow provided by operating activities has declined by about € 40 million compared with the exceptionally high value of the same period last year. The main reason for this is that operating liabilities as of 30 September were significantly lower, resulting in corresponding cash outflows.

As a result of expenditure on acquisitions, especially on the acquisition of the remaining share in esco, the cash flow used in investing activities was significantly up year-on-year, although expenditure on tangible fixed assets was lower.

Despite higher expenditure as result of acquisitions, there was a good € 52 million in free cash flow as of 30 September. This is more than enough to cover the dividend payment of last May, which you can see here as cash flow used in financing activities, with the result that cash and cash equivalents for the current year were up almost by € 15 million to € 230 million. This represents a decrease of € 37.5 million year-on-year. This is a net figure insofar, as cash and cash equivalents are offset with liabilities due to banks.

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Balance Sheet Key Data as of 30 September

€ million

	2004	2003	Δ
Fixed assets	776.0	727.0	+ 49.0
Cash in hand and bank balances, securities	249.2	286.0	- 36.8
Equity	574.9	559.6	+ 15.3
Provisions	831.0	741.9	+ 89.1
Bank loans and overdrafts	19.0	18.3	+ 0.7
Balance sheet total	1,781.0	1,707.6	+ 73.4
Working capital	244.1	202.4	+ 41.7
Gross cash flow	209.9	157.9	+ 52.0
Capital expenditure	81.4	89.3	- 7.9

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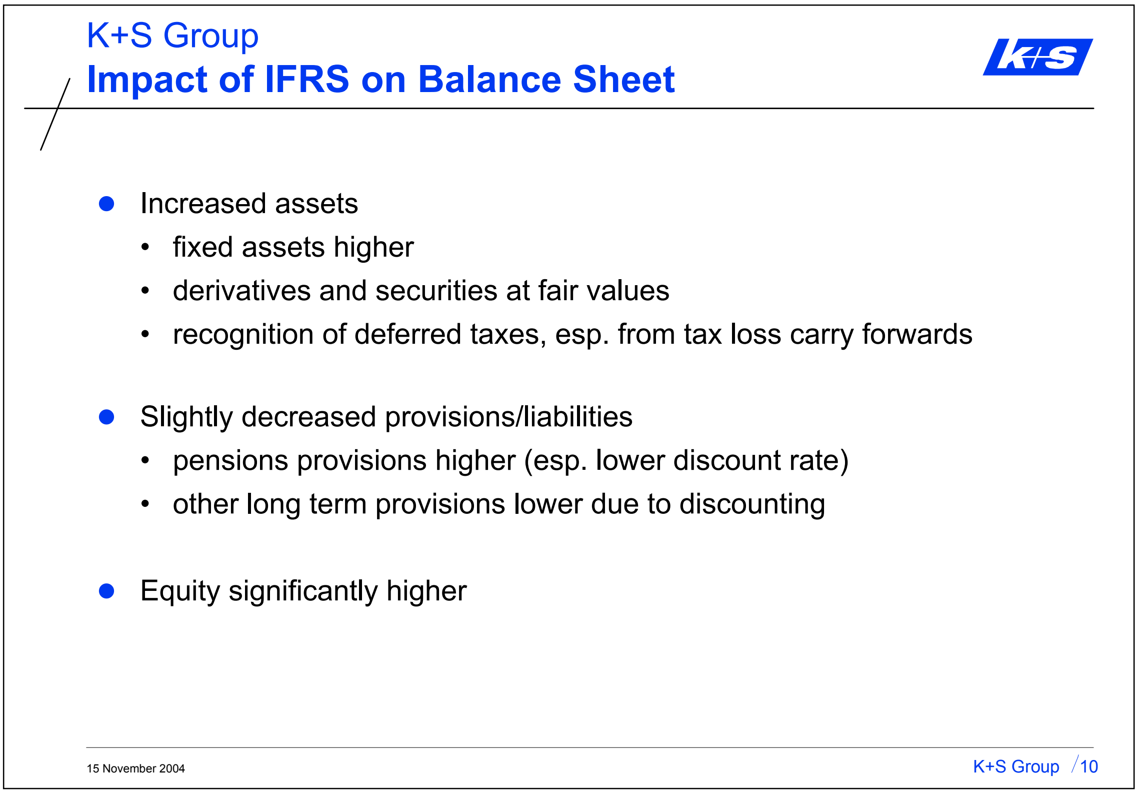
Fixed assets as of 30 September were up € 49 million year-on-year largely as a result of consolidation.

As you can see, equity has only risen by about € 15 million. What particularly impacted on it was the set-off of the difference resulting from the acquisition of the 38% esco share against reserves.

Provisions have risen significantly by € 89 million to € 831 million. In addition to consolidation-related increases, this is also attributable to higher risk provisioning. As was the case last year, liabilities due to banks are of little significance. As I already explained, they are almost exclusively attributable to our South American COMPO companies.

Ladies and Gentlemen,

Having commented on the consolidated financial statements as of 30 September, which were still prepared in accordance with German Commercial Code accounting principles, I would now like to outline some key changes that will result from the changeover in group accounting principles from the German Commercial Code to IFRS.



The changeover to IFRS will cause a significant increase in total assets. In addition to higher fixed assets mainly resulting from longer depreciation periods, this will also be a consequence of the reporting of derivatives and securities at their fair values as well as the recognition of deferred taxes, especially in respect of loss carry-forwards.

By contrast, provisions under IFRS will be somewhat lower. Whereas provisions for pensions will be higher, especially as a result of the application of a lower discount rate than under the German Commercial Code, by contrast, lower amounts are recorded under IFRS with regard to other long-term provisions, essentially provisions for mining obligations. There will be a systems change in this regard: Instead of the known accumulation provision without discounting, now future price increases are to be included and the amount determined in this way to be discounted to the balance sheet date. As this rate of interest is higher than the rate of inflation, the value to be recorded will be lower.

As a result of the higher valuation of assets and the somewhat lower provisions, in our IFRS financial statements we will report significantly higher equity than under the German Commercial Code.

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Impact of IFRS on Earnings

- EBIT: No significant changes (generally somewhat higher because of interest effects)
- Interest income: Lower because of recognition of interest for provisions
- Changes to fair value: Depends on USD development
- Earnings before taxes: Indeterminable because of fair value influence
- Taxes: Significantly higher because of deferred taxes
- Net income: Significantly lower until deferred tax assets used

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Differences in valuation and balance sheet values will naturally have an impact on the profit and loss account too. The changeover to IFRS is not expected to have any significant impact on EBIT, because the various effects largely cancel each other. (However, we are still in discussion with our auditors concerning the way, we consider correct from a commercial point of view in reporting gains realised on our hedging transactions in EBIT.) As IFRS requires the accruing of interest in respect of other longer-term provisions in addition to provisions for pensions , even somewhat higher EBIT can be expected than under the German Commercial Code.

This interest effect means that the interest expenses under IFRS are higher and the interest result correspondingly lower. In addition, earnings under IFRS are also influenced by the fair value changes for our foreign currency derivatives. It is not possible to forecast the scale and direction of these earnings components that result from purely reporting date measurement.
As these fair value influences cannot be predicted, the effects on earnings before taxes cannot be forecast in an abstract fashion either.

However, tax expenses under IFRS will initially be considerably higher because of the reporting of deferred taxes in connection with the use of loss carry-forwards in particular. This is the decisive reason why – until the item ‘deferred tax assets’ is completely used up – net income under IFRS will be considerably lower than under the German Commercial Code.

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Impact of IFRS on Key Indicators

- (Gross) cash flow per share: Largely unchanged
- Earnings per share:
  - compared with DVFA result, generally higher
  - based on net income lower
- Equity ratio: Significant increase
- Return on equity: Significantly lower
  - lower net income
  - higher equity
- Return on total investment: Generally, somewhat lower
  - earnings before taxes + interest expenses generally higher
  - but total assets significantly higher
- ROCE: Generally, somewhat lower
  - EBIT about the same
  - but more capital employed

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The changeover to IFRS will have differenteffects on our key ratios.

Gross cash flow per share which is essentially unaffected by valuation influences will principally not be changed by the changeover to IFRS. Compared with DVFA earnings, earnings per share are expected to show a slight increase. In terms of net income, the result will be somewhat lower.

The equity ratio will rise significantly under IFRS.

The combination of lower net income and higher equity means, however, that the return on equity will be significantly lower under IFRS. The return on total investment should also decline but to a lesser extent than the return on equity. In this regard, higher total assets will be partially offset by generally higher earnings before taxes and interest expense. The effects are similar in the case of ROCE, which will also tend to be somewhat lower.

Overall, it can be stated that the changeover to IFRS will cause a tangible change with respect to many items. This does not make it any easier to analyse and interpret the figures, neither for us as those who prepare the figures nor for you as the persons receiving them.

We hope that what we have just said will provide you with at least a rough guideline and are confident that under IFRS we will also be able in the future to convey a picture of the K+S Group that will reflect what will be hopefully a positive course of business.