Experience growth.

K+S Aktiengesellschaft

Analyst Conference

on 14 November 2005

in Frankfurt am Main

Speech by Norbert Steiner,

Member of the Board of Executive Directors

– The spoken word is binding –

Ladies and Gentlemen,

Following the comments about how business has been developing for the K+S Group and for the individual business segments, I would now like to go into greater detail about the financial position of the K+S Group. The figures that you have before you been prepared under IFRS for the both the current year, 2005, and the previous year. We have already provided an in-depth explanation of the key changes arising from the transition to IFRS from HGB. I will go into the peculiarities connected with the practical application of IFRS and which, in our opinion, are sometimes formulated in a way that deviates quite considerably from the needs of users.
Firstly, by way of an introduction, a really very pleasing overview of the revenues and earnings of the K+S Group as of 30 September.

K+S Group

Revenues and Earnings as of 30 September

€ million. **IFRS**

	2005	**2004**	**Δ**
Revenues	**2,099.7**	**1,907.9**	**+ 191.8**
Operating earnings (EBIT I)	**202.1**	**132.5**	**+ 69.6**
Result after market value changes (EBIT II)	221.9	145.3	+ 76.6
Financial result	- 7.2	- 12.4	+ 5.2
Earnings before income taxes (EBT)	**214.7**	**132.9**	**+ 81.8**
Income taxes	76.6	45.0	+ 31.6
of which: deferred taxes	35.2	27.7	+ 7.5
Earnings after taxes	**138.1**	**87.9**	**+ 50.2**
Elimination of market value changes	- 12.3	- 8.0	- 4.3
Earnings after taxes. adjusted *	**125.8**	**79.9**	**+ 45.9**

* Adjusted for the effect of market value changes; 37.8% tax rate assumed.

14 November 2005

K+S Group / 1

Allow me to comment on a few points.

K+S Group

Change in revenues as of 30 September 2005

€ million. **IFRS**

Revenue as of 30 September 2004:	**1,907.9**
Revenues as of 30 September 2005:	**2,099.7**
Change:	**+ 191.8**
● resulting from consolidation:	+ 28.2
● resulting from prices:	+ 166.7
● resulting from volume/structural factors:	+ 9.4
● resulting from exchange rates:	- 12.5

14 November 2005 K+S Group / 2

In 2005 too, we have reported a consolidation-related revenue increase resulting from the inclusion of newly acquired companies. This effect, which is mainly connected with French SCPA and amounts to about € 28 million, only explains a small part of the total improvement in revenues.

At about € 167 million, by far the greatest part of this increase, as Dr. Bethke has already explained, is attributable to better prices. In addition, higher volume produced a revenue increase of almost € 9.5 million.

In terms of currency factors, you can see, by contrast, a slight decrease in revenues of € 12.5 million, because the U.S. dollar was on average weaker during the first nine months of the current year than during the same period last year. By way of a reminder: Under IFRS, we are unable to measure foreign currency revenues at hedged rates, but have to record them at spot rates. Thus, exchange rate changes impact fully on revenues.

As the U.S dollar exchange rate is an important success factor, especially for the Potash and Magnesium Products business segment, we engage in, as you know, active foreign currency management that is oriented towards the future. Consequently, we have achieved very good results compared with respective spot rates over the period of more than two years during which the dollar was weak.

Potash and Magnesium Products

Foreign currency management: USD 2005-2008

- **Ø Hedging 2005:** **USD 480 million USD at 1.15 USD/€ incl. option premium**
  Ø spot rate as of 30 September 2005: 1.26 USD/€
- **Ø Hedging 2006:** **USD 500 million at 1.07 USD/€ incl. option premium**
- **Ø Hedging 2007:** **USD 520 million at 1.04 USD/€ incl. option premium**
- **Ø Hedging H1/08:** **USD 260 million at 1.06 USD/€ incl. option premium**
- **Hedging instruments (Options) effective only within certain ranges; (≤ 1.14 USD/€ and ≥ 1.30 USD/€), on impending expiry or possible restructuring**

14 November 2005 K+S Group / 3

For the current year, we have achieved an average hedging rate, taking account of premium expenses, of USD 1.15 per € for hedged volume totalling USD 480 million. This means that while 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, which has hitherto stood at USD 1.26 per €.

We have also hedged the anticipated dollar receipts for 2006 and 2007 as soon as first half-year 2008 on current, very attractive terms. Taking into account the premiums paid, our average hedging rates are USD 1.07, 1.04 and 1.06 per €. This has resulted in positive foreign income, which appears in the income statement under other operating income.

As you all know, the options we have contracted are only effective as long as the exchange rate moves within certain ranges while they apply. The upper knock-out values at which the hedge would no longer apply currently range between USD 1.30 to 1.40 per euro depending on duration and the lower knock-out values range from USD 1.03 to 1.14 per €. We naturally act if there is a possibility that we will lose our hedges by restructuring existing positions if need be, which is something that we have had occasion to do several times this year. The average hedging rates shown here include the additional premiums paid.

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

K+S Group

Trend in expenses as of 30 September

€ million. **IFRS**

	2005	2004	Δ
Personnel expenses	482.1	454.7	+ 27.4
Energy costs	112.5	93.1	+ 19.4
Outward freight	276.0	251.7	+ 24.3

14 November 2005 K+S Group / 4

Up about 6% to € 27.4 million, personnel expenses have risen very clearly. The increase was mainly due to the payment of higher than expected bonuses to our employees for 2005. Over the past few years, we have successively extended the variable components of remuneration from the Board of Executive Directors, through managerial personnel, to industrial employees. In this way, we have attained a situation where personnel expenses are automatically adjusted to the earnings position of the company to a certain extent, which results in correspondingly higher payments to employees in good times. As a company that has its eye both on profitability and its social responsibility for jobs, we consider the flexibility on personnel expenses that we have obtained to be indispensable and will therefore develop remuneration structures in the direction of greater variability.

In the case of energy costs, the general increase in prices is now impacting on our natural gas supplies. This has resulted in an increase of about € 19.5 million or a good 20 % more. We are seeking to counteract this trend by means of price agreements as well as through other forms of sourcing energy – the heating plant that is planned, as mentioned by Dr Bethke, is an example.

The increase in outward freight costs is in large part volume related. In addition, the worldwide increase in freight rates has also had an impact, which, despite measures to save on costs, such as the use of containers, is something that we cannot fully escape. However, it has been possible to make up for this increase in costs through higher prices to a very large extent.

The structure of the financial result has changed significantly under IFRS.

K+S Group

Financial result as of 30 September

€ million, **IFRSs**

	2005	2004	Δ
Interest income	+ 7.1	+ 7.8	- 0.7
Current interest expense	- 3.5	- 4.8	+ 1.3
Interest expense for provisions for mining obligations	- 9.9	- 10.7	+ 0.8
Interest expense for pension provisions	- 7.1	- 7.2	+ 0.1
Realised gains/losses on disposal of securities and financial investments	+ 4.0	+ 2.1	+ 1.9
Gains and losses on market valuation of securities	+ 2.2	+ 0.4	+ 1.8
Financial result	**- 7.2**	**- 12.4**	**+ 5.2**

14 November 2005 K+S Group / 5

Interest income as of 30 September was slightly down on the figure for the same period last year. As current interest expenses were appreciably lower, there was an improvement in the cash result. In addition, we also disclose the non-cash expense associated with the interest on mining and provisions in the financial result, so that the overall balance is negative.

In addition, the financial result under IFRS covers realized gains and losses on securities and financial investments as well as the earnings effects of the measuring of certain securities to market. Both these factors results in tangible, positive contributions to earnings as of 30 September and which were significantly above those of a year ago.

K+S Group

Income taxes as of 30 September

€ million. **IFRS**

	2005	2004	Δ
Current taxes. domestic	34.4	10.0	+ 24.4
Current taxes. foreign	7.0	7.3	- 0.3
Deferred taxes	35.2	27.7	+ 7.5
Income taxes	**76.6**	**45.0**	**+ 31.6**

14 November 2005

K+S Group / 6

Income taxes have risen significantly during the course of the year, rising by € 31.6 million to € 76.6 million.

The domestic tax burden is particularly high. This is mainly attributable to the fact that K+S Aktiengesellschaft's trade tax loss carryforward was completely used up last year, with the result that we now have to bear the full burden.

By contrast, we still have loss carryforwards for corporate income tax, so the current burden in this regard will be limited to the so-called minimum tax. Of course, better earnings also lead to higher taxes. Current income taxes are therefore on approximately the level of a year ago.

Under IFRS, deferred taxes are to be disclosed in full. In particular, we must take account of the deferred taxes resulting from the use of corporate income tax loss carryforwards that are still available. In this case too, the higher the use of a loss carryforward as a result of good earnings, the higher the deferred tax expense.

K+S Group

Earnings per share as of 30 September

€ million. **IFRS**

	2005	2004	Δ
Earnings after taxes	138.1	87.9	+ 50.2
Elimination of market value changes (gross)	- 19.8	- 12.8	- 7.0
Elimination of deferred taxes on market value changes *	+ 7.5	+ 4.8	+ 2.7
Earnings after taxes for the period. adjusted	**125.8**	**79.9**	**+ 45.9**
Average number of shares	42.5	42.5	± 0
Earnings per share (in €)	3.25	2.07	+ 1.18
Earnings per share. adjusted (in €) *	**2.96**	**1.88**	**+ 1.08**

* Tax rate of 37.8% assumed

14 November 2005 K+S Group / 7

Our after-tax earnings are also significantly better. However, we consider adjusted after-tax earnings to be more relevant for determining earnings per share. The adjustment involves eliminating changes in market value for the derivatives acquired to hedge future dollar receipts and which, under IFRS, have to be recognized in income for each reporting date and are subject to very great fluctuations. As of 30 September, the related gains for accounting purposes amounted to almost € 20 million compared with about € 13 million for the same period last year. After taking into account the related deferred tax burden, adjusted earnings after taxes as of 30 September amounted to € 125.8 million. Compared with same period last year, this represents an improvement of € 46 million.

Adjusted earnings per share as of 30 September amounted to € 2.96; which represents an increase of € 1.08 or a good 57% on the same time last year.

K+S Group

Cash flow statement as of 30 September

€ million. **IFRS**

	2005	2004	Δ
Gross Cash Flow	**237.5**	**216.9**	**+ 20.6**
Cash flow provided by operating activities	260.8	230.9	+ 29.9
Cash flow used in investing activities	- 60.1	- 165.2	+ 105.1
Free cash flow	**200.7**	**65.7**	**+ 135.0**
Cash flow used in financing activities	- 49.3	- 41.3	- 8.0
Other	0.4	0.2	+ 0.2
Change in cash and cash equivalents	**151.8**	**24.6**	**+ 127.2**
Net cash and cash equivalents as of 30 Sep.	**213.6**	**148.8**	**+ 64.8**

14 November 2005

K+S Group / 8

Gross cash flow has further improved this year and increased by a good € 20 million to about € 237.5 million as of 30 September. This is also reflected in cash flow provided by operating activities, which has improved by just under € 30 million to € 260.8 million.

Cash flow used in investing activities as of 30 September 2005 was significantly down on the figure for the same period last year. This is mainly due to the fact that we did not record any acquisition-related expenditure this year, while the 2004 figures included expenses related to the purchase of the remaining 38% of esco last year. In addition, we spent somewhat less cash on tangible fixed assets.

The improvement in operating cash flow as well as lower disbursements on investing activities and acquisitions meant that free cash flow of € 200.7 million was generated for the period ending 30 September 2005. After taking into account disbursements related to financing activities, which mainly comprise last May's dividend payment, net cash and cash equivalents for the current year were up € 151.8 million to € 213.6 million. This represents a decrease of € 64.8 million on the corresponding reporting date last year.

However, it has to be pointed out at this juncture that these figures will be lower at the end of the year, because disbursements related to investing activities are traditionally particularly high in the fourth quarter.

K+S Group

Balance sheet as of 30 September

€ million, **IFRSs**

	2005	2004	Δ
Fixed assets	924.4	914.9	+ 9.5
Securities, cash and cash equivalents	350.8	302.9	+ 47.9
Equity	986.2	884.8	+ 101.4
Provisions	596.2	636.7	- 40.5
Liabilities due to banks	30.0	19.0	+ 11.0
Balance sheet total	2,301.4	2,100.2	+ 201.2
Working capital	309.7	234.4	+ 75.3
Gross cash flow	237.5	216.9	+ 20.6
Capital expenditure	65.7	85.1	- 19.4

14 November 2005 K+S Group / 9

Let’s now turn to the K+S Group balance sheet. As you know, the changeover to IFRS has resulted in the disclosure of much higher assets, especially because of the recognition of market values for our derivatives and the capitalization of deferred taxes, but also because of the partial adjustment of asset carrying amounts.

In the balance sheet as of 30 September, securities and liquid funds were higher than a year ago. The figure of a good € 350 million that is disclosed includes investments in monetary instruments and securities along with the cash equivalents available at short notice, which I already referred to in connection with the cash flow statement. I wish to point out that our liquidity position for September is usually the highest because of seasonal factors.

Equity as of 30 September rose to € 986 million. The increase of a good € 100 million essentially reflects the results for the fourth quarter of 2004 as well as for the first three quarters of the current year. These are significantly higher than the dividend payment made in May 2005.

In the case of provisions, there was an approximate balance between reductions resulting from current use and increases from interest for long-term positions. The fact that we have nevertheless recorded a decrease of a good € 40 million to € 596 million is connected with the exclusion of certain provisions for pension and semi-retirement obligations, which is something I will return to shortly.

As was the case last year, liabilities due to banks are of little significance. They relate solely to our South American COMPO companies, which are mainly financed through borrowings in local currency so as to avoid exchange rate risks.

K+S Group

Separating off personal obligations via CTA*

- **Transfer of assets to a trustee**
- **Use of transferred assets to cover pension and semi-retirement obligations**
- **Transferred assets offset in the balance sheet with provisions; no earnings effect as of 30 Sep. 2005:**
  - **External financing of pension obligations by securities: € 40.9 million**
  - **External financing of semi-retirement obligations through liquid funds: € 3.4 million**
- **Further external financing of personnel obligations is intended**

* Contractual Trust Arrangement

14 November 2005 K+S Group / 10

Ladies and Gentlemen,

As I already mentioned, certain pension obligations were removed for the balance sheet as of 30 September 2005. We implemented this by means of what is known as a Contractual Trust Arrangement, abbreviated to CTA, which entails transferring assets to a trustee. These assets are to be used for the specific purpose of covering pension and semi-retirement obligations.

The assets thus transferred are offset against the corresponding provisions in the IFRS balance sheet. In the income statement, the income arising from the assets so transferred is offset with provisions expenditures, which has no effect on the net result overall.

As of 30 September, we have effected the external financing of pension provisions by means of securities totalling € 41 million and the external financing of provisions for semi-retirement in the amount of € 3.4 million. As you can see from the much higher amounts of the provisions disclosed in our balance sheet, this is only a first step. We intend to continue along this path.

K+S Group
Repurchase of shares

- **May 2005 AGM authorization: up to max. 10% = 4.25 million shares**
- **Resolution:** **Repurchase of up to 1.25 million shares by the end of 2005**
- **Purpose:** **Cancellation**
- **Goal:** **Improved capital structure**
- **Expenditure:** **Approx. € 70 million**

➔ **No limitation on financing possibilities**

14 November 2005 — K+S Group / 11

In addition, we launched a share repurchase programme in October.

On the basis of the existing AGM authorisation, we can acquire up to 10% of the share capital, which corresponds to 4.25 million shares. By exercising this authorisation, we initially want to purchase 1.25 million shares by the end of the year and then cancel them. Expenditure related to the repurchase programme is expected to amount to about € 70 million.

Our aim in implementing both these measures is to improve the capital structure of the K+S Group. This will not restrict our financing possibilities. In fact, we are working more on strengthening our areas of business further through investment as well as suitable acquisitions.