

K+S Aktiengesellschaft

Analyst Conference

14 November 2006

Frankfurt am Main

**Speech by Norbert Steiner,
Vice Chairman of the Board of Executive Directors**

– The spoken word is binding –


Ladies and Gentlemen,

Following the broad outline of the course of business of the K+S Group and the individual business segments, I would now like to give you some more detailed information concerning the K + S Group's financial situation. The most important event for our company this year was surely the acquisition of the Chilean salt producer SPL, and I shall return to this event at various points in my speech.

Let me first repeat that we included the companies newly acquired on 29 June 2006 in the group balance sheet as of 30 June 2006, but in the group earnings for the first time only as of 1 July 2006, so that in the reporting quarter, the first effects on revenues and EBIT became visible.

First, however, an overview of the revenues and earnings of the K+S Group as of 30 September.

Slide 1 - Revenues and earnings as of 30 September


K+S Group		Revenues and earnings as of 30 September			
€ million	2006	2005	+ / -		
Revenues	2,225.7	2,099.7	+ 126.0		
Operating earnings (EBIT I)	224.2	202.1	+ 22.1		
Earnings after market value changes (EBIT II)	329.4	221.9	+ 107.5		
Financial result	- 11.3	- 7.2	- 4.1		
Earnings before income taxes (EBT)	318.1	214.7	+ 103.4		
Taxes on income	110.1	76.6	+ 33.5		
of which deferred taxes	59.5	35.2	+ 24.3		
Group earnings after taxes	208.0	138.1	+ 69.9		
Earnings before income taxes, adjusted *	212.9	194.9	+ 18.0		
Group earnings after taxes, adjusted *	141.7	125.6	+ 16.1		

* adjusted for the effect of market value changes in exchange rate hedging transactions; 37.0% tax rate assumed

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Let me give you some more detail to this overall very positive development.

Slide 2 - Change in revenues as of 30 September 2006

K+S Group		
Change in revenues as of 30 September 2006		
€ million		
Revenues as of 30 September 2005:	2,099.7	
Revenues as of 30 September 2006:	2,225.7	
Changes:	+ 126.0	
• resulting from consolidation:	+ 33.1	
• resulting from prices:	+ 87.7	
• resulting from volume/structural factors:	- 3.8	
• resulting from exchange rates:	+ 9.0	

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During the current year, we could record a rise in revenues of € 126 million or 6 percent. To this, the SPL Group has contributed a good € 33 million.

At € 88 million, most of the increase in revenues resulted from higher prices that we were able to achieve in all business segments.


In contrast, the volume and currency-related changes in revenues are rather moderate. The increases in sales volume, which we have achieved primarily in our salt business, make up for the decreases especially at fertiva.

The currency-related increase of about € 9 million resulted above all from the fact that, at USD 1.24, the exchange rate of the US dollar in the first nine months of the current year was more favourable than in the same period of the previous year with USD 1.26 per euro. These exchange rate changes are meanwhile having a direct effect on our revenues, since according to IFRSs we are no longer allowed to post the revenues at hedged rates; instead, we have to apply the respective spot rates.

Because of the considerable effect that the US dollar exchange rate has on our earnings, especially in the Potash and Magnesium Products business segment, we have, of course, continued to pursue our long-term currency management strategy.

**Slide 3 - Potash and Magnesium Products
US dollar currency management 2006 – 2009**

Potash and Magnesium Products
US dollar currency management 2006 - 2009



- Ø Hedging 2006: USD 500 million at 1.07 USD/EUR incl. option premium
(Ø spot rate until September: 1.24 USD/EUR)

- Receipts from 2007 to 2009 also hedged by means of double-barrier options;
 - Ø Hedging 2007: USD 505 million at 1.04 USD/EUR incl. option premium
 - Ø Hedging 2008: USD 575 million at 1.07 USD/EUR incl. option premium
 - Ø Hedging 2009: USD 556 million at 1.09 USD/EUR incl. option premium

- Hedging instruments (options) effective only within certain ranges;
 - 2006: $1.12 \leq \text{USD/EUR}$ and ≤ 1.35
 - 2007: $1.13 \leq \text{USD/EUR}$ and ≤ 1.40

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For the current year, we are expecting an average hedged rate of USD 1.07 per euro in the Potash and Magnesium Products business segment for a hedging volume of altogether USD 500 million, taking into account premium costs. We thus will achieve an improved hedging gain compared to last year (the average hedged rate was then USD 1.15 per euro) and have above all an advantage over this year's average spot rate of so far USD 1.24 per euro.

We have hedged the anticipated dollar receipts for 2007 to 2009 at very good conditions, in accordance with our philosophy of, if possible, covering a three-year period in advance. Taking into account paid premiums, our average hedging rates are USD 1.04, 1.07 and 1.09 per euro. This is leading to positive currency earnings, which appear in the Income Statement under 'Other operating income'.

At this point, as always, I would like to point out that the options we have acquired only remain effective within certain barriers and, when the spot rate exceeds certain so-called knockout thresholds, the options forfeit. For 2006, the lower knockout thresholds are USD 1.12 per euro and below, while the upper knockout thresholds are USD 1.35 per euro and above. For options due as of 2007 and later, the lower knockout thresholds start at USD 1.13 per euro, and the upper knockout thresholds at rates of USD 1.40 per euro and above.

Currently, we are very comfortably in the middle of the corridor. Should the US dollar exchange rate, however, approach the knockout thresholds, we have the possibility to prevent the forfeiting of our hedging by adjusting the parameters.

Slide 4 - Salt
US dollar currency management 2007 – 2009

Salt
US dollar currency management 2007 - 2009 

- Hedging of USD net position for approx. 3 years in advance as for the Potash and Magnesium Products business segment

- Receipts from 2007 to 2009 hedged by means of double-barrier options;
 - Ø Hedging 2007: USD 55 million at 1.14 USD/EUR incl. option premium
 - Ø Hedging 2008: USD 55 million at 1.13 USD/EUR incl. option premium
 - Ø Hedging 2009: USD 55 million at 1.12 USD/EUR incl. option premium

- Hedging instruments (options) effective only within certain ranges; currently $1.13 \leq \text{USD/EUR}$ and ≤ 1.40


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With the acquisition of the SPL Group, we will in future also have a net position in US dollars in the Salt business segment resulting from the de-icing salt business in the United States. Analogous to the potash business, we intend to secure this about three years in advance using double-barrier options.

In accordance with the anticipated and cautiously estimated payment receipts, we have agreed on a hedging volume of USD 55 million for each of the years 2007 to 2009. The hedged rates thus obtained, including paid premiums, amount to USD 1.14, 1.13 and 1.12 per euro.

Now some explanations of the development of our costs.

Slide 5 - Development of costs as of 30 September

K+S Group		Development of costs as of 30 September			
€ million	2006	2005	+ / -		
Personnel expenses	492.0	482.1	+	9.9	
Energy costs	150.0	112.5	+	37.5	
Freight	310.2	288.0	+	22.2	

● Personnel:	collective wage agreement increases + inclusion of SPL
● Energy:	price increases
● Freight:	volume effects + price increases

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Personnel expenses have risen by € 9.9 million or around 2%. This increase is mainly due to the standard wage increase that took effect in August 2006 and the first-time consolidation of SPL.

Energy costs increased by € 37.5 million or around 33%. Here, the trend for natural gas prices to rise has continued from last year. The drop in the oil price that has occurred in the meantime should also affect natural gas prices – however, due to a time lag not before the coming year.

The rise in costs for outward freight is mainly a result of increased sales volumes, especially for de-icing salt, but also results from the increased overseas shipping of potash products. The freight costs have, of course, also increased this year due to price factors.

Overall, it was possible to more than offset the increase in costs primarily through higher prices, but also due to better earnings from currency hedging, so that the operating earnings of the K+S Group improved by € 22 million to € 224 million.

The financial result was € 4 million less in the current year.

Slide 6 - Financial result as of 30 September

K+S Group				
Financial result as of 30 September				
€ million	2006	2005	+ / -	
Interest income	7.5	7.1	+ 0.4	
Interest expense	- 24.1	- 20.5	- 3.6	
of which for pension provisions	- 5.5	- 7.1	+ 1.6	
of which for provisions for mining obligations	- 10.4	- 10.0	- 0.4	
Interest income, net	- 16.6	- 13.4	- 3.2	
Other financial result	5.3	6.2	- 0.9	
Financial result	- 11.3	- 7.2	- 4.1	


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While the interest income as of 30 September was slightly above the figure of the same period last year, higher interest expenses have reduced net interest income by € 3 million. This is, of course, a consequence of the liabilities due to banks for the funding of the SPL acquisition.

As of 30 September, at € 5 million, the other financial result almost equalled the figure of the same period last year of € 6 million.

This position includes particularly profits and losses from the sale of financial assets, as well as the effects of evaluating such items on the reporting date. Moreover, it includes costs incurred through the funding.

Slide 7 - Taxes on income as of 30 September

K+S Group				
Taxes on income as of 30 September				
€ million	2006	2005	+ / -	
Corporation tax	16.6	12.1	+ 4.5	
Trade tax on income	28.3	22.3	+ 6.0	
Foreign income taxes	5.7	7.0	- 1.3	
Deferred taxes	59.5	35.2	+ 24.3	
Taxes on income	110.1	76.6	+ 33.5	


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In the current year, income taxes increased by € 33.5 million to € 110.1 million due to higher earnings before taxes.

With almost € 60 million, deferred taxes contribute the largest share. This is mainly a result of the considerable increase in the market value of our derivatives, but also from the use of the still available corporate income tax loss carryforward.

Thanks to the good earnings position of recent years, the loss carried forward will to a large extent be used up by the end of the year. In future, the deferred tax expense in Germany will thus be structurally lower and the corporate income tax to be paid higher, at least on the basis of the valid tax rates.

Slide 8 - Earnings per share as of 30 September


K+S Group				
Earnings per share as of 30 September				
€ million	2006	2005	+ / -	
Group earnings after taxes	208.0	138.1	+ 69.9	
Elimination of market value changes (net)	- 66.3	- 12.5	+ 53.8	
Group earnings after taxes, adjusted	141.7	125.6	+ 16.1	
Average number of shares (million)	41.23	42.50		
Earnings per share (in €)	5.04	3.25	+ 1.79	
Earnings per share, adjusted (in €)	3.44	2.96	+ 0.48	

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Looking at the earnings after taxes on an unadjusted basis, we can see a dramatic increase in earnings of more than 50%. In addition to the improvement in operating earnings, the changes in market values of the derivatives acquired for the hedging of future US dollar receipts are mainly responsible for this. According to IFRSs, these have to be recognised in profit and loss on each reporting date and are subject to very large fluctuations. As of 30 September 2006, the affected book profits amounted to around €66 million considering deferred taxes, at the same period last year “only” to around €12 million. If we eliminate these effects, as we believe it correct to do, adjusted group earnings after taxes were €141.7 million as of 30 September. Against the same period last year, this is an improvement of €16.1 million.

Adjusted earnings per share as of 30 September amount to €3.44 compared to €2.96 in the previous year, which is an increase of a good 16%.

Slide 9 - Cash flow statement as of 30 September

K+S Group				
Cash flow statement as of 30 September				
€ million	2006	2005	+ / -	
Gross cash flow	251.9	237.5	+ 14.4	
Cash flow provided by operating activities	200.7	257.4	- 56.7	
Cash flow used in investing activities	- 379.6	- 60.1	- 319.5	
of which acquisition payment	- 358.6	-	- 358.6	
Free cash flow	- 178.9	197.3	- 376.2	
Cash flow from/for financing activities	124.2	- 45.9	+ 170.1	
Other items	0.0	0.4	- 0.4	
Change in cash and cash equivalents	- 54.7	151.8	- 206.5	
Gross cash flow per share (in €)	6.11	5.59	+ 0.52	

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Also gross cash flow has improved again during the current year and increased by € 14.4 million to € 251.9 million as of 30 September. On contrast, cash flow from operating activities amounted to € 200.7 million and thus displayed a decrease of € 56.7 million on the same period last year. The key factors were a larger reduction in operating liabilities. Nevertheless, cash inflow from operating activities is again substantially higher than the current capital expenditure.

Overall, cash outflow for investing activities, however, at € 379.6 million was significantly higher than operating cash inflow, since it also includes the expenditure for the acquisition of SPL, which account for just below € 359 million. This also explains the negative free cash flow.

In the framework of financing activities, as of 30 September 2006, we had a cash inflow of € 124.2 million. Here, essentially outgoing payments for dividends are facing incoming payments from the net raising of financial liabilities, related, of course, to the acquisition of SPL.

Overall, this leads to a reduction of cash and cash equivalents of € 54.7 million.

Slide 10 - Balance sheet as of 30 September

K+S Group			
Balance sheet as of 30 September			
€ million	2006	2005	
Non-current assets	1,400.0	1,054.0	
of which securities	39.5	54.4	
Current assets	1,326.0	1,247.4	
of which securities and cash and cash equivalents	121.3	296.4	
Equity	1,073.7	986.2	
Non-current debt	911.1	666.5	
of which bank loans and overdrafts	160.3	21.3	
of which provisions (for pensions and mining obligations)	499.9	501.5	
Current liabilities	741.2	648.7	
of which bank loans and overdrafts	145.2	8.7	
of which cash received from affiliated companies	4.1	3.6	
Balance sheet total	2,726.0	2,301.4	
Net debt *	648.7	184.3	

* Financial liabilities + interest-bearing provisions (pensions, mining) + cash from affiliates - securities - cash and cash equivalents

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The acquisition of SPL and its financing also shape the picture of K+S Group's balance sheet as of 30 September 2006. Above all, it shows an increase in non-current assets. This is mainly attributable to the assets acquired with the acquisition of SPL and which have been newly evaluated in accordance with IFRSs, as well as the goodwill. In contrast to this, the amount of securities and cash and cash equivalents has decreased.

As of 30 September 2006, equity rose to € 1.074 billion. The increase on the same period last year is mostly due to the already explained effect of the increases in market value of our derivatives used for currency hedging. If these effects amounting to € 66 million are eliminated, the rise in equity of more than € 20 million is very moderate. This increase results mainly from earnings for the period of the fourth quarter of 2005 and the first three quarters of the current year, less the cancellation of own shares undertaken at the end of 2005 and the dividend payment in May 2006.

The net raising of financial liabilities has increased debt tangibly as of 30 September. The carrying amount of the provisions, on the contrary, has not changed significantly; although, provisions are still the largest item in debt.

Due to the reduction in the amount of securities as well as cash and cash equivalents, on the one hand, and the increase in financial liabilities, on the other hand, net debt of the K+S Group jumped substantially from € 184 million to around € 649 million. Net debt also includes, at present value, the non-current provisions for pensions and mining obligations.

Slide 11 - IFRSs adjustments SPL

K+S Group
IFRSs adjustments SPL

- The difference between the purchase price (acquisition costs) and net assets (equity) was largely allocated to individual items, especially the salt deposit.
- The remeasurement of assets trigger the recognition of deferred tax liabilities.
- The remaining difference is reported as goodwill; the total deriving from asset remeasurement and goodwill is higher than the difference.
- Asset remeasurement impacts on earnings through higher depreciation/ amortisation charges and utilisation; generally limited to about € 2 million p.a. because of the very long useful life of the salt deposit.

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As already mentioned, the first-time consolidation of SPL has significantly changed the carrying values of some balance sheet items. This is mainly attributable to the fact that, in accordance with IFRSs, the balance between the purchase price and net assets of the acquired companies has, to the largest possible extent, to be allocated to individual balance sheet items.


In the case of the SPL balance sheet, the difference chiefly was to be allocated to the salt deposit and to some intangible assets. As these carrying amounts are not reflected in the respective tax balance sheets, the revaluation triggers the creation of deferred tax liabilities of around € 48 million, recognised in equity.

As the balance between purchase price and net assets remaining after the revaluation and the creation of deferred tax liabilities has to be shown as goodwill, the amount from revaluations of assets and goodwill even exceeds the actually paid balance amount – in this respect, we thus have a balance sheet extension not caused by purchase price payments but by IFRSs rules.

The revaluation of assets is reflected in earnings due to higher amortisation and consumption. Although the balance was mostly assigned to depreciable assets within the framework of purchase price allocation with only a relatively small amount of goodwill remaining, the extraordinary long useful economic life of the salt deposit leads to an amortisation, which at around €2 million per annum is very manageable. This is inevitable and has, above all, nothing to do with the operational success of SPL.

Slide 12 - Capital structure

K+S Group
Capital structure



- SPL purchase price mainly financed by syndicated loan (€ 330 million)
- Repayment of syndicated loan; in part through fixed repayments and and in part flexibly over the duration of the agreement
- in addition: financial liabilities SPL for the financing of business operations
- Total increase in net indebtedness
- Sufficient room for manoeuvre remains to finance investments and acquisitions

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Ladies and Gentlemen,

The figures just discussed show that the financial and capital structure of the K+S Group has indeed changed considerably during the current year.

The main point is the taking out of a syndicated loan, which was particularly used to finance the purchase price for SPL, but which at the end of the day is available for the purposes of generally financing the K+S Group.

Thanks to the very solid financing and attendant good creditworthiness of the K+S Group, it proved possible to obtain these funds easily at very attractive conditions.

A partial amount of the syndicated loan will be repaid through fixed repayment instalments within the next three years. The other part can be repaid flexibly from the cash flows of the K+S Group within the contractual term of five years or be used for other entrepreneurial purposes.

The financial liabilities of the SPL companies, taken on for the funding of their operating activities must be added to the liabilities from the syndicated loan, so that overall net debt for the time being has increased.

Nonetheless, the K+S Group continues to have solid balance sheet ratios and financial key figures. Thus, we continue to see sufficient scope for the financing of investments and acquisitions in particular to further strengthen the business base of the K+S Group.