



Annual Report 1998

People

Nature

Kali und Salz



At a glance

Kali und Salz Group

in DM million

1998

1997

Sales and result

Sales		2,228.3	2,173.8
of which: Potash and Related Products		1,812.2	1,733.2
Salt		254.6	259.3
Waste Management		73.6	78.5
Services and Other Activities		87.9	102.8
Result before taxes		160.0	136.5
Net income		163.6	133.6
Return on sales	%	7.3	6.1
Net income after minority interests		163.5	103.5

DVFA result		281.0	138.0
Cash flow		367.1	226.1

Balance sheet

Equity		882.9	1,053.0
Return on equity	%	25.6	19.6
Tangible fixed assets		972.0	1,046.2
Capital expenditures to tangible fixed assets		157.0	194.8
Depreciation to tangible fixed assets		227.8	181.0
Balance sheet total		2,604.4	2,844.5
Return on total investment	%	6.6	5.3

Employees

Number of employees (Dec. 31)	Number	8,472	8,507
of which: trainees	Number	434	385
Personnel expense		809.3	736.8

Data per DM 50 share

DVFA result	DM	56.20	27.59
Dividend	DM	7.00	-
Dividend incl. tax credit	DM	10.00	-

Note: consolidated accounts for Kali und Salz were prepared for the first time in fiscal year 1997.

Kali und Salz

. . . is a future-oriented company with a wealth of experience and tradition. Our product range will continue to meet the growing needs and demands of our customers also in future. We control strong positions in our respective markets. In the market for potash products, we are Europe's largest producer and a major global player. We are also one of western Europe's leading salt producers.

Our products are processed from domestic raw materials. Production is based on state-of-the-art processes. In addition to our wide-ranging mining operations, we are involved in waste management and also provide a number of specialized services. Europe is the home market for Kali und Salz products; we occupy strategic positions in overseas markets.

In the fields of nutrition, health, ecology and safety our products make significant contributions towards improving society. We are aware of the responsibilities which this entails and have aligned our corporate strategy accordingly.

Contents

4	Preface
6	Report of the Supervisory Board
9	The Kali und Salz share
12	Our contribution to
	Nutrition
	Health
	Ecology
	Safety
20	Management's Analysis
44	Annual Financial Statements
55	Notes
74	Ratio definitions

P r e f a c e



Axel Hollstein

Dr. Ralf Bethke

Gerd Grimmig

Peter Backhaus

Dr. Volker Schäfer

Dear Shareholders,

The Kali und Salz Group can look back on another successful business year. In 1998 we achieved one of our major strategic objectives: with the acquisition of the 49-percent share in Kali und Salz GmbH held by Bundesanstalt für vereinigungsbedingte Sonderaufgaben – BvS (Federal Office for Special Tasks Arising out of Unification), we now also own 100 percent of the capital stock in our largest affiliated company.

Consolidated sales rose by almost 3 percent to over DM 2.2 billion in 1998. Favorable conditions in our Potash and Related Products Segment meant that we could more than compensate for reduced sales in other areas. We successfully developed business in the logistically more favorable European market and expanded operations in those areas which offer higher returns.

Net income after minority interests of the Kali und Salz Group climbed above DM 160 million, with all Business Segments making positive contributions. Moreover, the acquisition of the BvS holding meant that minority interests were reduced, leading to a consequent beneficial effect on earnings.

Due to improved earnings and our sound financial status we intend to distribute our first dividend for many years in 1998. The Board of Executive Directors and Supervisory Board propose a dividend of DM 7 per DM 50 share for the 1998 financial year. Including tax credit, the dividend amounts to DM 10 per DM 50 share; a dividend yield of 4.3 percent based on the year-end market price.

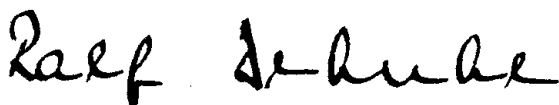
Kali und Salz complies with all requirements to successfully develop its respective markets. The Group has an attractive product range and a wide variety of special products as well as modern production facilities and a highly motivated work force. In pursuing our successful cost management policy we also see further potential for increased efficiency. The general outlook for Kali und Salz is encouraging.

Furthermore, as in the past months, we shall continue to investigate the possibility of acquisitions and the establishment of new business segments with regard to their suitability for our long-term objectives and return on investment requirements.

In the fields of nutrition, health, ecology and safety, the Kali und Salz Group makes a significant contribution to the good of society. In order to communicate this fact to a wider audience, we have expanded the scope of our 1998 Annual Report to include information on the specific benefits of our products and services.

For 1999 we expect a generally stable development of Group business. We intend to aim for a similar level of earnings as in 1998 so that we can pay an equally attractive dividend for the current business year. Our confidence is based in no small part on the commitment of our employees, whom we should like to thank for their dedication and decisive contribution towards our business success in 1998. For the first time, annual remuneration of our employees was based in part on company earnings in 1998. We intend to pursue this practice in future. We should also like to thank our business associates as well as our shareholders for the trust and confidence which they placed in us.

Yours sincerely,



Ralf Bethke
Chairman of the Board of Executive Directors
of Kali und Salz Beteiligungs AG

Report of the Supervisory Board



Gerhard R. Wolf, Chairman of the Supervisory Board

During the period under review the Supervisory Board regularly monitored the management activities of the Board of Executive Directors and was available to offer advice. Through its verbal and written reports the Board of Executive Directors kept us thoroughly informed at four meetings as to the situation of the company. The reports also included matters concerning the development of major affiliates of the Kali und Salz Group.

Our discussions within the Supervisory Board centered mainly on current business and economic development in the year under review and major investment plans as well as medium-term planning and the strategic alignment of the Group.

Accounting also for our increasing European business activities, we welcome the introduction of the new common European currency. We were thoroughly informed as to the company's preparations for the change-over to the euro as well as its efforts in preparing all computer systems for the year 2000.

The Chairman of the Supervisory Board was in constant contact with the Board of Executive Directors as well as with the management of Kali und Salz GmbH and was kept constantly informed on all important business events and the development of key ratios; this also applies to the company's expansion of existing Business Segments and the search for new segments.

All measures requiring the approval of the Supervisory Board as part of its overall responsibility were discussed in detail. In particular, we advised and gave support to Kali und Salz Beteiligungs AG's acquisition of the 49-percent holding in Kali und Salz GmbH held by the Federal Office for Special Tasks Arising out of Unification (BvS). We expect the move to improve the earning potential of Kali und Salz Beteiligungs AG and to provide greater flexibility in the further development of the Kali und Salz Group.

In connection with the new Law Concerning Company Control and Transparency which took effect as of May 1, 1998, we discussed in detail its requirements and implications at our Supervisory Board meeting of November 18, 1998, with the company's auditors Wollert-Elmendorff Deutsche Industrie-Treuhand GmbH, Wirtschaftsprüfungsgesellschaft, Hanover. We shall pursue our future-oriented advisory function and control of the company's risk management system in line with statutory requirements.

In 1998 there was no cause to convene the mediating committee as provided for in § 27 section 3 of the Law on Codetermination (Mitbestimmungsgesetz). The personnel committee met one time during the period under review, on August 28, 1998.

We have examined the financial statements of Kali und Salz Beteiligungs AG and the Kali und Salz Group as well as the joint Management's Analysis for Kali und Salz Beteiligungs AG and the Kali und Salz Group prepared by the Board of Executive Directors. The financial statements, including the books and the joint Management's Analysis, have been examined by Wollert-Elmendorff Deutsche Industrie-Treuhand GmbH, Wirtschaftsprüfungsgesellschaft (certified public accountants), Hanover, the auditors voted by the Annual Meeting and appointed by us, and have been given an unqualified opinion. The Board of Executive Directors passed on the auditor's report to all members of the Supervisory Board. At today's meeting, the auditor dis-

cussed the report of his examination in detail and was on hand to answer any questions. Having concluded our examination we see no grounds for objections.

At today's meeting we approved the financial statements by Kali und Salz Beteiligungs AG drawn up by the Board of Executive Directors. The financial statements are therefore final. The Supervisory Board concurs with the proposal of the Board of Executive Directors as to the appropriation of profit retained of Kali und Salz Beteiligungs AG amounting to DM 35.1 million.

We have also examined the report submitted by the Board of Executive Directors regarding the relationship to affiliated companies, which Wollert-Elmendorff Deutsche Industrie-Treuhand GmbH, Wirtschaftsprüfungsgesellschaft, Hanover, has attested as follows:

'Having completed our obligatory examination and evaluation, we confirm that,

1. the factual details of the reports are correct,
2. the consideration of the company for legal transactions mentioned in this report was not unduly high,
3. there are no circumstances under which the measures mentioned in this report would support a recommendation essentially different from the one expressed by the Board of Executive Directors.'

We concur with the auditor's report. As a result of our final examination we see no grounds for objections to the declaration about relationships to affiliated companies made by the Board of Executive Directors at the conclusion of the report.

At close of the Annual Meeting of May 6, 1998, Dr. Ralf Diekmann, Mr. Harald Grunert, Mr. Joachim Lauterbach, Dr. Dr. Hans-Joachim Leuschner and Mr. Dieter Thomaschewski retired from the Supervisory Board. They performed their statutory duties with

great dedication. The Supervisory Board would like to thank those members leaving during the year under review for their services and valuable cooperation in the interest of the company.

As of May 6, 1998, Mr. Rüdiger Kienitz and Dr. Helmut Zentgraf were newly elected to the Supervisory Board as representatives of the employees. Mr. Karl-Heinz Georgi, Mr. Manfred Kopke, Mr. Gerhard Söllner and Mr. Hans-Dieter Winkelhake were re-elected.

At the Annual Meeting of May 6, 1998, the shareholders' representatives Mr. Leonhard H. Fischer, Mr. Rainer Grohe and Mr. Helmut Mamsch were newly elected to the Supervisory Board. Mr. Hans Peter Schreib, Dr. Eckart Sünner and Mr. Gerhard R. Wolf were re-elected by the Annual Meeting.

On May 31, 1998, Mr. Gerhard Söllner, former Chairman of the Joint Works Council of Kali und Salz GmbH retired and left the Supervisory Board. We would like to thank him for his valuable service. Mr. Willi Fahner was appointed as member of the Supervisory Board with the resolution of the County Court of Kassel of July 20, 1998.

Mr. Harald Grunert, a former member of the Supervisory Board, died on June 25, 1998. Mr. Grunert was a member of our Supervisory Board from May 5, 1995 to May 6, 1998. We will honor his memory.

We should like to express our appreciation and gratitude to the Board of Executive Directors, the management, labor representatives and to all employees of Kali und Salz Group for their commitment and performance during the past business year.

Kassel, March 10, 1999

The Supervisory Board



Gerhard R. Wolf
Chairman

Supervisory Board of Kali und Salz Beteiligungs AG

Gerhard R. Wolf, Worms

Chairman
Bachelor of Commerce
other seats: Kali und Salz GmbH, Lehnkering AG,
SGE Deutsche Holding GmbH, Stinnes AG, Südzucker AG,
Hornbach Baumarkt AG, Hornbach Holding AG

Manfred Kopke, Neukirchen-Vluyn

Deputy Chairman
Member of the Managing Board of the
Industriegewerkschaft Bergbau, Chemie, Energie
(Mining, Chemical and Energy Union)
other seats: Kali und Salz GmbH, Saarbergwerke AG,
Thyssen Schachtbau GmbH, Metallgesellschaft AG, BGAG
Beteiligungsgesellschaft der Gewerkschaften AG, Allgemeine
Deutsche Direktbank AG

Dr. Ralf Diekmann, Wunstorf

until May 6, 1998

Willi Fahner, Philippsthal

Former Chairman of the Joint Works Council
of Kali und Salz GmbH
from July 20, 1998
other seats: Kali und Salz GmbH

Leonhard H. Fischer, Frankfurt/Main

Member of the Board of Executive Directors
of Dresdner Bank AG
from May 6, 1998
other seats: Dresdner Kleinwort Benson (Marchés) S.A.,
Dresdner Kleinwort Benson Beteiligungs GmbH

Karl-Heinz Georgi, Haltern

Head of the Bildungszentrum Haltern der Industrie-
gewerkschaft Bergbau, Chemie, Energie (Mining,
Chemical and Energy Union training center)
other seats: BEB Erdgas und Erdöl GmbH

Rainer Grohe, Munich

Member of the Board of Executive Directors
of VIAG AG
from May 6, 1998
other seats: Cubis AG, Frankfurter Versicherungs AG,
Klöckner-Werke AG, Thyssen Industrie AG, Gerresheimer
Glas AG, Schmalbach-Lubeca AG, VAW Aluminium AG

Harald Grunert, Mannheim

until May 6, 1998, died June 25, 1998

Rüdiger Kienitz, Geisa

Member of the Works Council of the Werra potash
plant of Kali und Salz GmbH
from May 6, 1998

Joachim Lauterbach, Grasleben

until May 6, 1998

Dr. Dr. Hans-Joachim Leuschner, Cologne

until May 6, 1998

Helmut Mamsch, Mülheim/Ruhr

Member of the Board of Executive Directors of
VEBA AG
from May 6, 1998
other seats: Readymix AG, SGE Deutsche Holding GmbH,
Commerzbank AG, STEAG AG

Hans Peter Schreib, Düsseldorf

Lawyer
other seats: Gildemeister AG, Thyssen Industrie AG,
Metro AG

Gerhard Söllner, Philippsthal

until May 31, 1998

Dr. Eckart Sünner, Neustadt/Weinstraße

Managing Director Legal Affairs, Taxes and
Insurance of BASF AG
other seats: Kali und Salz GmbH, BASF Coatings AG,
BASF Schwarzheide GmbH, Knoll AG, Wintershall AG

Dieter Thomaschewski, Wachenheim

until May 6, 1998

Hans-Dieter Winkelhake, Rehburg-Loccum

Chairman of the Works Council of the Sigmundshall
potash plant of Kali und Salz GmbH

Dr. Helmut Zentgraf, Burghaun

Plant Manager of the Neuhoof-Ellers potash plant of
Kali und Salz GmbH
from May 6, 1998

Board of Executive Directors of Kali und Salz Beteiligungs AG

Dr. Ralf Bethke, Kassel

Chairman

Axel Hollstein, Kassel

Director of Production and Sites

Dr. Volker Schäfer, Kassel

Director of Finance and Waste Management

Management of Kali und Salz GmbH

Dr. Ralf Bethke, Kassel

Chairman
Director of Sales and Marketing

Peter Backhaus, Baunatal

Director of Personnel, Personnel Manager

Gerd Grimmig, Söhrewald

Director of Mining

Axel Hollstein, Kassel

Director of Production and Salt

Dr. Volker Schäfer, Kassel

Director of Finance and Waste Management

The Kali und Salz share

Improved performance of Kali und Salz

After reaching record levels in mid 1998, the stock market has entered a period of consolidation. Starting the year at 4,315 points, the DAX climbed to an all-time high of 6,171 by July before weakening in the second half of the year and ending at 5,002 points. Altogether, the DAX rose by 16 percent over the year.

The MDAX was somewhat weaker overall. It started at 3,721 points, rose to a high of 4,875 and closed the year standing at 3,924 points. Share prices of companies included in this index were up an average of 5 percent on the year.

As of March 1998, the Kali und Salz share far outperformed the DAX and particularly the MDAX.

After starting at DM 152 (77.72 euro), the share price climbed to its year-high of DM 269 (137.53 euro) in mid 1998. In the wake of the overall downturn in share prices in the second half of the year, the Kali und Salz share also lost ground. By the end of the year, however, it had recovered to DM 231 (118.11 euro) and was thus 52 percent higher than at the beginning of 1998. The growth in value was 36 and 47 points above the DAX and MDAX, respectively.

Key data of the Kali und Salz share

per DM 50 share in DM

	1998	1997
Dividend	7.00	-
Dividend incl. tax credit	10.00	-
Net income	32.72	26.71
DVFA result	56.20	27.59
Cash flow	73.42	39.21*)
Equity	219.65	140.62
Number of shares	million 5.0	5.0
Year's high	268.70	190.80
Year's low	130.00	126.00
Year-end price	231.00	148.50
Market capitalization (Dec. 31)	DM million 1.155	743
Dividend payments	DM million 35.0	-
Price-earnings ratio	4.1	5.4
Dividend yield	% 4.3	-
(incl. tax credit)		

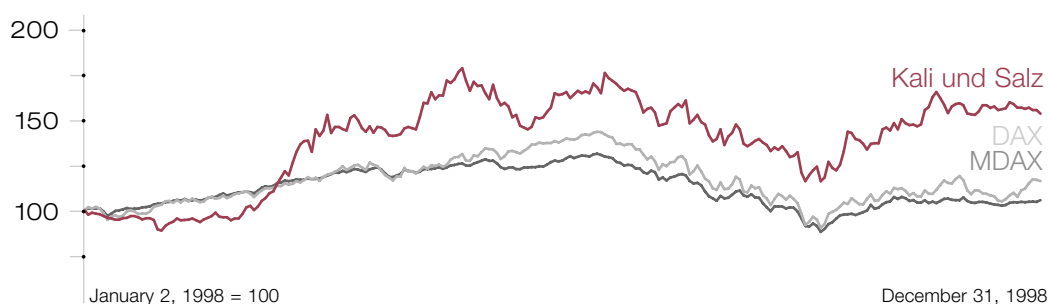
*) after minority interests

MDAX listing

With resolution of the Board of Executive Directors of Deutsche Börse AG in September 1998, Kali und Salz Beteiligungs AG was accepted for inclusion in the German mid-cap index MDAX. A decisive factor was the greatly increased free float ratio of Kali und Salz shares after the reduction of BASF's holding in Kali und Salz and the increase in the company's market capitalization.

Our share has thus become more attractive for both private and institutional investors. It is also regarded by analysts as a high yield-bearing security. In view of the relatively low price-earnings ratio we see plenty of scope for further market price increases.

Development of the Kali und Salz share in 1998 compared to the DAX and MDAX (indexed)



Further fall in BASF's Kali und Salz holding

In late 1997 BASF AG reduced its holding in Kali und Salz Beteiligungs AG, through Guano-Werke GmbH, to 49.5 percent. In a second step in November 1998 the holding was reduced further to just over 25 percent. The shares were acquired, by institutional investors, who now hold 50 percent of the company. A further 25 percent are widely spread among numerous private investors.

Above-average dividend yield

The positive development of Kali und Salz Group earnings in 1998 means that the Board of Executive Directors and Supervisory Board can propose a dividend payment of DM 7 per DM 50 share from retained earnings of DM 35.1 million at the forthcoming Annual Meeting. Moreover, domestic shareholders are also entitled to a tax credit of DM 3 per share. On the basis of a year-end share price of DM 231 the dividend yield amounts to 4.3 percent, including the tax credit.

Own shares

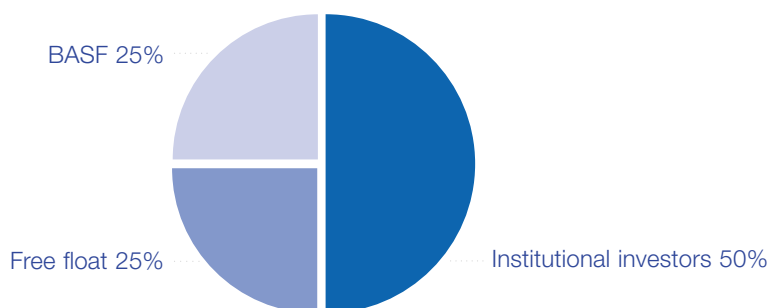
Since the amendment of the German Stock Corporation Law (Aktiengesetz), companies are now able to buy their own shares back from the market. For various reasons we intend to make use of this new possibility at a suitable point in events. A proposal will therefore be made to the Annual Meeting that it allows the Board of Executive Directors to acquire company shares within the framework of its legal possibilities.

No-par-value shares

The law allowing the sale of no-par-value shares (Stückaktiengesetz) came into effect on April 1, 1998. No-par-value shares have no nominal or par value but represent a certain proportion of the company's share capital.

The Board of Executive Directors and Supervisory Board will propose at the Annual Meeting that the company articles be changed to allow the introduction of no-par-value shares as well as to change the company's share capital to the new euro currency.

At an official conversion rate of 1.95583 this would result in a capital stock of 127,822,970.30 euro, which is to be rounded up to 128,000,000.00 euro by a minimal increase in capital from company funds. At the same time, we intend to combine these changes with a share split of 10 to 1. The capital stock would therefore be divided in future into 50 million no-par-value shares.



Shareholder structure

December 31, 1998

Financial timetable

Date

Report on the 1998 business year	March 11, 1999
Annual report press conference and analyst conference, Frankfurt/Main	March 11, 1999
Interim report March 31, 1999	May 5, 1999
Annual Meeting, Kassel	May 5, 1999
Interim report June 30, 1999	August 26, 1999
Interim report September 30, 1999	November 19, 1999
Press conference and analyst conference, Frankfurt/Main	November 19, 1999
Annual Meeting, Kassel	May 11, 2000

Intensification of our Investor Relations activities

The central task of our Investor Relations work is to establish continual communication with investors and analysts in order to provide them with information on the current business development of the Kali und Salz Group and its future prospects.

Our objectives are:

- to improve the transparency of our Group,
- to strengthen the trust of institutional investors, private shareholders, financial analysts and the public in our Group, and
- to enable potential investors to make an appropriate assessment on the Kali und Salz share.

In 1998 we accounted for the growing interest of the financial community in our company by holding spring and fall information events for analysts and journalists, in cooperation with Deutsche Vereinigung für Finanzanalyse und Anlageberatung (DVFA).

Moreover, since the beginning of 1998 we have been publishing quarterly reports on the business development of the Kali und Salz Group. We shall also be presenting our Business Segments in greater detail as part of our company's Annual Report. Our company website on the Internet provides round-the-clock information for shareholders throughout the world.



NUTR

Kali und Salz offers a wide range of top quality fertilizers containing potash and magnesium as well as a variety of different salt products for industrial, commercial and private users. Our specialties enable us to fulfill the varying requirements and demands of our customers in the field of nutrition.

Our fertilizers are specially adapted to the nutritional needs of plants in all kinds of soil and climate regions. They improve both the yield and quality of the crop. Kali und Salz therefore makes a significant contribution towards feeding a constantly expanding world population.

Potassium, an indispensable nutrient drawn out of the soil by plants, must be replaced by mineral potash fertilizers in order to preserve and promote consistent soil fertility. Regular mineral fertilizer applications give plants the benefit of a balanced and sufficient nutritional source. This positive effect produces, for instance, fruit and vegetables that are not only richer in vitamins and nutrients, but which also keep better and longer. The nutrients magnesium, sulfur and sodium also make an important contribution. Sodium, for example, plays an important role in maintaining the health and fertility of farm animals.

Our salt is not only used for flavoring food. Food producers value salt for its ability to preserve foodstuffs: it is therefore indispensable for meat and sausage products as well as for fish.



IT ION

Our products make a valuable contribution towards improving the health of human beings. This is true, for example, of our iodine- and fluoride-enriched table salts.

Iodine, like protein, vitamins, calcium and iron, is among the most important trace elements which the body needs on a daily basis. It is needed to form thyroid gland hormones, which among other things control the body's metabolism. Iodine-enriched table salt is an indispensable ingredient in every household, restaurant and food processing plant.

The fluoride we receive via drinking water and food may be sufficient for our metabolism, but is not enough to provide effective protection against tooth decay. Fluoride strengthens the tooth enamel and offers protection against damaging acids.

Based on the findings of long-term research projects, scientists strongly recommend the use of iodine and fluoride-enriched salt.

Our high-purity pharmaceutical salts also make contributions in several areas towards preserving and recovering health. Among other things, they are used in infusion and dialytic solutions as well as in the production of various tablets. They are also to be found in the production of insulin.

Potassium salts are used in nutrient solutions for fermentation purposes. Potassium chlorides are processed world-wide in the production of gelling agents.

■

HEA



LTH



E C O L

For mankind to live in sustained and uninterrupted harmony with nature we must ensure that our impact on the environment is both safe and ecologically compatible.

Kali und Salz provides the market with waste management concepts which make both economic and ecological sense. Our underground disposal and reutilization facilities have set standards in the safe solution to long-term disposal problems, and are seen as exemplary in both Germany and abroad. The underground disposal and reutilization of waste is particularly safe with regard to its impact on the environment. The depth of storage chambers, well below groundwater levels and surrounded by permanently stable geological barriers, means that the stored materials are effectively and permanently sealed off from the biosphere.

Moreover, our products and services are offered in such a way that they can be used in an environmentally compatible way, for example granulated fertilizers or pre-dampened de-icing salts.



OGGY

Kali und Salz makes a major contribution towards the safety on our roads in wintry conditions.

Ice, sleet and snow on roads and sidewalks can present a considerable danger for motorists and pedestrians. Road clearance teams using de-icing salts help improve road safety and reduce the number of accidents.

Fortunately, an increasing number of people are beginning to realize that safety and ecology is not necessarily a contradiction in terms.

When it comes to the use of de-icing salts, our motto and that of our customers is: as much as necessary, as little as possible. With the aid of modern technology, clearance vehicles distribute salt mixed with a saline solution efficiently and sparingly across the road surface. The carefully dosed addition of the saline solution has been in use since the Eighties and has proved very effective. It improves the salt's de-icing capability at low temperatures as well as preventing loss of dry salt through the effects of wind. This 'damp salt technology' system has led to considerable savings in the quantity of salt required.

A further contribution to safety in the broader sense is made by a specialized part of our potash products. Potassium sulfate, for example, is a highly effective component of fire extinguishing powders. The surface of the tiny potassium sulfate crystals has the ability to stop the oxygen supply at the source of the blaze and can therefore prevent flames from spreading.

SAF



ETY

Management's Analysis

Kali und Salz Group

Kali und Salz Beteiligungs AG

Acquisition of BvS holding in Kali und Salz GmbH

After long and difficult negotiations Kali und Salz Beteiligungs AG acquired the 49-percent holding of Bundesanstalt für vereinigungsbedingte Sonderaufgaben – BvS (Federal Office for Special Tasks Arising out of Unification) in Kali und Salz GmbH in July 1998 with effect from January 1, 1998.

Kali und Salz Beteiligungs AG paid BvS a sum of DM 250 million. In addition, the loss compensation payable by BvS to Kali und Salz GmbH of originally DM 135 million was reduced to DM 70 million and further compensation claims renounced.

The acquisition of the BvS holding in Kali und Salz GmbH represented the successful conclusion of the privatization of the Eastern German potash industry. The acquisition will lend support to the further development of existing Business Segments of the Kali und Salz Group as well as opening up new growth opportunities.

Annual Financial Statements of Kali und Salz Beteiligungs AG

Sales of Kali und Salz Beteiligungs AG were down 8 percent to DM 84.4 million. This development was due largely to the difficult market conditions in the underground depository business in Herfa-Neurode.

The non consolidated Financial Statements of Kali und Salz Beteiligungs AG show net income of DM 107.5 million (1997: DM 22.8 million). This result includes the first dividend payment of Kali und Salz GmbH amounting to DM 80 million. The appropriation of Kali und Salz GmbH was made possible by netting the loss carry forward with existing capital surplus. As a result of this dividend payment by Kali und Salz GmbH, the loss carry forward of Kali und Salz Beteiligungs AG were completely balanced out as of December 31, 1998.

Dividend proposal

The Board of Executive Directors and the Supervisory Board propose that the Annual Meeting accept a dividend payment of DM 7 per DM 50 share from the profit retained of DM 35.1 million of Kali und Salz Beteiligungs AG. Domestic shareholders will also be entitled to a tax credit of DM 3 per share.

Affiliated companies

In accordance with § 312 section 3 of the German Corporation Law (Aktiengesetz), we declare that under the circumstances known to us when legal transactions were concluded with affiliated companies or measures were executed or omitted respectively, at the instigation or in the interest of those companies, Kali und Salz Beteiligungs AG and the companies controlled by it were compensated adequately for each legal transaction and were not disadvantaged by the fact that measures were either taken or omitted.



Kali und Salz – line of success continued in 1998

Sales

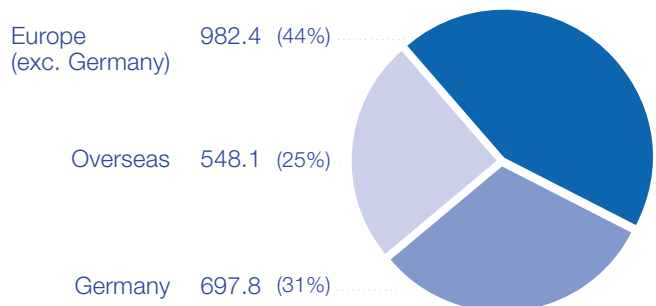
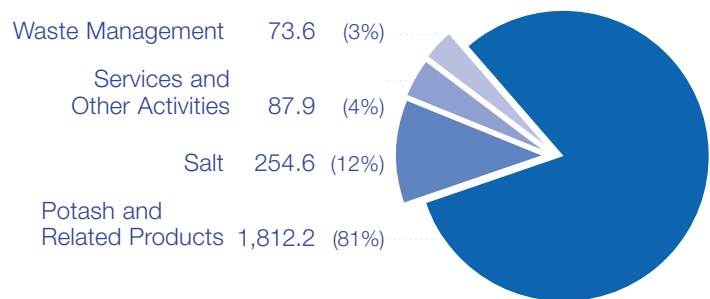
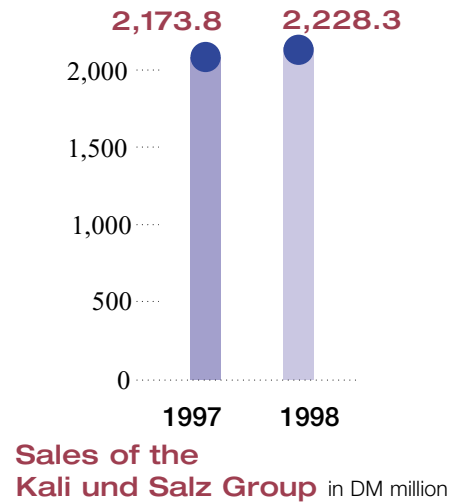
On the whole, 1998 was a successful business year for the Kali und Salz Group. Favorable conditions in our largest Business Segment, Potash and Related Products, more than compensated for downturns in other business sectors.

Consolidated Group sales grew by almost 3 percent to DM 2,228.3 million. This rise resulted from an increase in sales of the Potash and Related Products Segment of DM 79 million, due mainly to considerably improved prices and favorable exchange rates.

Despite difficult market conditions, sales of the Salt Segment were satisfactory on the whole. The strong increase in sales of de-icing salts towards the end of the period under review made up for slow sales in the first six months.

The fall in sales of the Business Segments Waste Management and Services and Other Activities was in line with expectations and resulted from difficult market conditions.

Our activities are focused on the European markets – our domestic markets. In these regions we can fully utilize our advantages over competitors – particularly from overseas – in the fields of logistics, freight, product range and especially service. Sales in Germany amounted to DM 697.8 million (1997: DM 715.0 million) and to DM 982.4 million (1997: 870.8 million) in the rest of Europe. In our overseas markets we posted sales of DM 548.1 million (1997: DM 588.0 million).

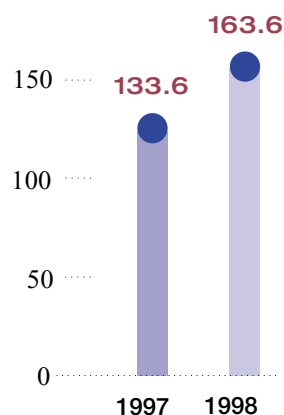


Earnings

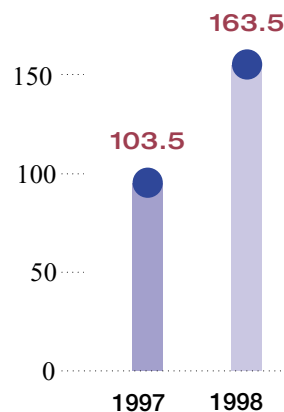
Net income of the Kali und Salz Group rose by around 22 percent to DM 163.6 million during the 1998 business year. At DM 163.5 million net income after minority interests was well above the previous year's figure of DM 103.5 million. The rise was influenced by the discontinuance of minority interests in net income owing to BvS.

In our operating business, we succeeded in sustaining the positive development of the previous year. The encouraging performance of our Potash and Related Products Segment made a positive contribution in this respect. At DM 124.3 million earnings before interest and tax (EBIT) were up on the previous year's figure of DM 122.7 million.

The financial result was improved by DM 21.8 million to DM 35.7 million. The 1997 figure had included a write-down of DM 20.0 million on the book value of POTACAN. In 1998 we sold our interest in POTACAN; the amount received was slightly above the remaining book value. Income from interest remained steady at the level of 1997.



Net income of the Kali und Salz Group in DM million



Net income after minority interests of the Kali und Salz Group in DM million

Potash and Related Products

World potash market

After the strong development of the world potash market in the previous reporting period, demand was somewhat lower again in 1998. Worldwide sales were down 4 percent on 1997 to stand at 25.1 million tons of K_2O . Demand was particularly weak on the North American market, caused by high pre-season stockpiling, a deterioration of the agricultural situation due to falling wheat prices and unfavorable weather conditions for fertilizing. Sales in Latin America were also down somewhat. The Asian market remained firm, in spite of its economic difficulties. The fastest growing markets in the region are still China and India. It can be assumed that fertilizer sales in this region will continue to grow. Sales of potash in Europe remained relatively constant. In Western Europe, however, the Common Agricultural Policy of the European Union (EU) is inhibiting the use of fertilizers by farmers. Sales in the Commonwealth of Independent States (CIS) remained at the very low level of the previous year.

In 1998 world potash production rose slightly to 25.9 million tons of K_2O . While output in Europe was down 3 percent to 5.1 million tons of K_2O due to a decrease in French production, North American output remained firm at 10.5 million tons of K_2O . Producers in the Dead Sea region raised output to 2.5 million tons of K_2O . Output in the CIS also continued to rise with an increase in output of 4 percent to 7.0 million tons of K_2O at the Ural and Belarus.

The development of prices was generally encouraging. The strengthening of demand first noticed in 1997 led to temporary shortages in certain regions during the first six months of 1998. This positive trend in prices was influenced decisively by the unexpected stop in production of our former Canadian potash plant POTACAN in 1997 as well as by the



A major employer in Saxony-Anhalt: the Zielitz potash site north of Magdeburg

decline in Alsatian output during 1998, which proved faster than expected. Local prices in Latin America and Asia are noticeably firmer due to strengthened demand in the regions.

The average exchange rate of the US dollar during 1998 was generally firmer and led to an improvement of DM earnings of the Kali und Salz Group in our overseas markets.

Key figures

in DM million	1998
Sales	1,812.2
Result from operations	81.3 *)
Capital expenditures	131.4
Number of employees as of Dec. 31	7,450

*) after special depreciations of DM 28.7 million regarding capital expenditures in the new States of Germany

Management's Analysis

Potash and Related Products



A highly visible landmark of potash mining on the Werra: the pithead tower in Hattorf of our Werra site

Market position of Kali und Salz

With a market share of 14 percent Kali und Salz remained entrenched as one of the world's major potash producers. We successfully defended our position as the leading global supplier of the specialties potassium sulfate and water-soluble magnesium sulfates.

The Potash and Related Products Segment contributed DM 1,812.2 million to total sales of the Kali und Salz Group; representing an increase of 5 percent. Our business with agricultural fertilizers and products containing potash or magnesium for industrial uses therefore accounts for 81 percent of total sales.

The Segment also benefited from our policy of increasing the proportion of sales within Europe, in order to utilize logistic advantages as well as from our focus on improving sales of those products offering greater margins.

Fertilizers

Sales of all fertilizer products reached 7.0 million tons in 1998, almost equaling the high level of the previous year. Sales were encouraging in almost all segments. Utilization of our production capacities was high and output rose by 5 percent.

Potassium chloride

Sales of potassium chloride – in volume the most important product group – were up slightly in 1998 to 4.0 million tons. Higher sales volumes in our core market, Europe, and especially in France, played a significant role in this development. We utilized our opportunity arising from the decline in output of the French potash industry, which proved faster than expected.

Business also benefited from increased U.S. dollar prices in individual overseas markets as well as from the generally favorable development of exchange rates.

Potassium sulfate

Sales of our specialty product potassium sulfate were marked by a continuation of the strong demand in both European and overseas markets. At almost 1.0 million tons, shipments of potassium sulfate products reached the high levels of the previous year. Sales to European producers of complex fertilizers remained unchanged at a gratifying level; shipments to China, the world's largest market for potassium sulfate, were also stable.

Special fertilizers

Our range of special fertilizers comprises special potash grades as well as Thomaskali and Kieserite. Business in Europe in 1998 was hampered by exceptionally high rainfall levels in the fall with occasional flooding.

Sales of the potash grades Korn-Kali and Patentkali, which are marketed mainly in Germany and its European neighboring countries, were below 1997 levels due to the extreme fall rains. Shipments of our Magnesia-Kainit fertilizer, developed specially for green fodder, suffered from the general deterioration of market conditions for green fodder and other fodder growing farms.

Sales of Thomaskali, our phosphate potash fertilizer, were also down on the previous year; the general use of phosphate in agriculture continues to decline significantly.

Shipments of Kieserite products were down slightly. Consumption of Kieserite in Indonesia was affected by the general economic crisis of South East Asia. There was a strong decline in sales of 'fine grade' ESTA-Kieserite in this market. An increase in sales of Kieserite for Indonesia's oil palm crop is expected at any moment, albeit in small steps at first. There is continued competitive pressure in this region, however, from synthetically produced, secondary magnesium sulfates produced in China.

In contrast, sales of granulated ESTA-Kieserite performed very well; particularly in our core European markets of France and Germany. Shipments to various overseas markets were also up on the previous year.

Industrial products

Shipments of our potash and magnesium-containing products outside the agricultural sector progressed well again to stand at 1.0 million tons. There was also a gratifying increase in revenues. Our major markets remain Germany and the other markets of the European Union.

Key customers are the major chemical producers as well as pharmaceutical, metallurgical and construction material companies. The excellent standard of our production processes and product qualities is held in high regard by the pharmaceutical industry.

The fitting of a new drainage system at our plant for treating salt slag acquired from aluminium scrap processors was successfully completed in 1998. This made a further contribution towards stabilizing and increasing the plant's output; the volume of salt slag processed during the period under review was up considerably on the previous year. The aluminium granules won in the treatment process were sold successfully on the market.



Quality-compatible storage: a product shed for potash fertilizers at our Zielitz plant

Management's Analysis

Salt



Rock salt mining at our Bernburg salt site in Saxonia-Anhalt

Kali und Salz is one of Europe's leading producers of salt. We offer a broad-based line of high quality products tailored to the needs of both end users and processors in various sectors. The range extends from iodine and fluoride-enhanced table salts to commercial and industrial salts and de-icing salts used to enhance road safety during icy winter periods.

Key figures

in DM million	1998
Sales	254.6
Result from operations	18.6 *)
Capital expenditures	15.2
Number of employees as of Dec. 31	667

*) after special depreciations of DM 16.3 million regarding capital expenditures in the new States of Germany

European salt market

The salt markets of Europe show only marginal growth while West European capacities remain greater than local requirements. Moreover, imports mainly from neighboring East European states are penetrating various market segments. Several suppliers have responded to this increased competition with strategic alliances and acquisitions. This led in part to price reductions and changes in customer and supplier relations. In general, however, prices remained stable in many product categories and segments.

Kali und Salz was also affected to a certain extent by the negative trend on the salt market; sales in the Salt Segment fell by 2 percent to DM 254.6 million. The proportion of total Group sales represented by the Salt Segment remained unchanged at 12 percent.

Development of sales volume

The salt business is an important and stable pillar of our company. Our balanced portfolio of user-oriented products helps us to occupy comparatively strong positions in our European markets. In 1998 sales totaled 2.0 million tons of salt solids.

In Germany, we countered the general market trend and expanded our share slightly. Our export sales are directed mainly at the markets of North West and Central Europe; smaller but constant volumes are also sold to individual overseas markets. We defended our positions in these markets.

Sales of table salts, which are produced at our modern evaporated salt plant in Bernburg, were most encouraging throughout Europe. Our products are marketed in various types of packing through retailers and to the food industry.

Due to icy conditions in late 1998, sales of de-icing salts were up slightly on the previous year so that we were able to hold our strong market position. Bulk and bagged de-icing salts for public road maintenance authorities and large commercial users are successful mainstays of our standard product program. For over 30 years our 'anti-rutsch' de-icing salt for household use has been available in a variety of consumer-oriented pack sizes. In fall 1998 we successfully launched a handy de-icing salt dispenser to help distribute salt more evenly. The exceptionally high demand for de-icing salts in winter 98/99 helped us demonstrate the high performance levels and flexibility of our production plants.

For reasons of freight expenses, we supply industrial salts only to the chemical industry located in Eastern Germany. After the refitting of a major customer's electrolysis plant, however, demand has fallen somewhat.

We succeeded in expanding our high share of the domestic market for trade salts in 1998. Due to strong competition, however, a fall in export sales was unavoidable.

A further focus of our salt business is the production of sodium chloride brine at our facilities in Bernburg. In addition to our own requirements for our evaporated salt plant, we also supply customers in the vicinity of our production site. This business grew slightly in 1998. Depleted mine caverns are used successfully as a storage site for liquid gas. We also prepare caverns as an operator for third parties, who use them for storing natural gas.



A crystal with many benefits: rock salt from our mining plants

Management's Analysis

Waste Management



Permanently removed from the biosphere: waste disposal in our Hessian underground depository Herfa-Neurode

The Waste Management Segment comprises waste disposal and reutilization as well as the recycling of building rubble. With two underground depositories and four underground waste reutilization plants, Kali und Salz is one of Europe's leading and economically successful providers of underground waste management services.

Key figures

in DM million	1998
Sales	73.6
Result from operations	23.7
Capital expenditures	3.8
Number of employees as of Dec. 31	179

In 1998 this Segment showed satisfactory performance despite decreased revenues. The 6 percent decline in sales revenues to DM 73.6 million was due to depressed prices. The Segment's share of total Kali und Salz Group sales fell slightly to 3 percent.

Despite fierce competition, the volume of material for underground disposal and reutilization grew by about 10 percent to 334,400 tons. Increases in the volume of waste reutilization more than compensated for the decline in waste disposal volumes. We are a leading supplier in our various Waste Management Segments in both Germany and the neighboring countries and control major market shares.

Underground depositories

Market conditions for underground depositories remained as difficult as in previous years. At 90,400 tons storage volumes fell short of the previous year's level, but were in line with expectations. This trend is due to both falling market volumes and current legislation in Germany, which has led to considerable decreases in waste disposal by industry, trade and households and to greater emphasis on the recycling of materials.

The general decline in waste disposal was limited in its extent by orders from abroad, stronger positioning of our silo and BigBag filling facility in Herfa-Neurode and a customer-oriented expansion of our services.

The creation of additional capacities at a time of falling disposal volumes led to considerable pressure on prices. We are continuing to work swiftly on the optimization of our work processes and have implemented a rigorous cost management system in order to safeguard our competitive edge for years to come.

Underground reutilization

The market for underground waste reutilization is even more crowded than that for underground depositories (waste disposal).

Against this difficult background, however, we succeeded in expanding reutilization volumes by 20 percent to 244,000 tons. In order to gain additional volumes we improved the technical capabilities of our plants and tailored our services more to the needs of our customers.

An example of the above is our Hattorf site, where the introduction of BigBag emptying equipment has greatly improved the delivery process.

This new equipment enables the processing of residue delivered in BigBags in our underground reutilization facility.

To safeguard our market positions and utilize existing capacities we were forced to introduce a more flexible price policy, which consequently led to a decline in revenues from reutilization.

Recycling building rubble

Business in the recycling of building rubble was encouraging. At our recycling facilities in the district of Hanover, we processed a total of 239,000 tons of soil, building rubble and road surfacing. Part of the material can be used as a secondary raw material for use in the construction and road building industries.



Underground reutilization: storage of residues from incineration plants in BigBags

Management's Analysis

Services and Other Activities



Expertise in the field of analysis: the Potash Research Institute in Heringen, Hesse

This Segment comprises those areas which cannot be associated with our other Business Segments, yet which we intend to pursue and expand systematically. The main activities are: granulation of a product used in animal hygiene at our Salzdetfurth plant, a comprehensive range of analytical services, cargo handling for third parties by Kali-Transport Gesellschaft mbH (KTG) and the trading activities of our sales organizations.

Revenues from Services and Other Activities amounted to DM 87.9 million; a decline of 15 percent on the previous year.

The fall in sales was due mainly to the significant decline in trading of our North American sales organization PICC in the first half of 1998. The shortfall was the consequence of discontinued production at our former POTACAN plant in mid 1997.

The granulation of a product used in animal hygiene on the site of our former potash plant in Bad Salzdetfurth was in line with forecasts. Revenues matched the 1997 levels, while overall output was raised slightly. This business was also the major focus for capital expenditures in the Segment. Packaging equipment costing DM 4.9 million was purchased during the period under review.

Key figures

in DM million	1998
Sales	87.9
Result from operations	0.7
Capital expenditures	6.6
Number of employees as of Dec. 31	176

Kali und Salz Consulting GmbH offers a wide range of chemical and physical chemical examinations by our Kaliforschungs-Institut (Potash Research Institute), including work on waste, water, soil and sewage sludge. Over 2 million analyses per year are completed at our modern laboratories. We also act as consultants and prepare studies and expert opinions in the field of geology and hydrogeology.

Our major fields are:

- investigation, analysis and development of deposits
- geophysical exploration
- development and monitoring of groundwater
- preparation of redevelopment plans.

Our services in this Segment also benefit greatly from our extensive know-how in all questions of waste management and in terms of recycling.

In the field of logistics, our major activities focus on the handling services of our subsidiary KTG in Hamburg. The company can look back on over 70 years of experience and is responsible for more than 15 percent of all goods exported from the port of Hamburg. State-of-the-art technical equipment and experienced personnel guarantee fast and reliable loading and unloading of ocean-going vessels and barges, freight cars and

trucks.

The trading of calcium chloride, the main source of revenue, by Chemische Fabrik Kalk GmbH (CFK), Cologne, remained stable in 1998 at the previous year's level; other trading products were down slightly. Sales of sodium bisulfite and reprocessed sulfuric acid, newly included into the agency business in 1998, have made encouraging progress.

The result from operations of CFK contains the burden of relatively high pension payments. These are more or less compensated for by corresponding income from interest, not included in this level of profit calculation.



Over 70 years of experience in cargo handling: Kali-Transport Gesellschaft in Hamburg

Management's Analysis

Cash flow statement of the Kali und Salz Group

	1998	1997 ^{*)}
in DM million		
Net income	163.6	133.6
Depreciation of fixed assets	230.7	202.9
Increase (+) / decrease (-) in long-term provisions	+ 26.7	- 77.5
Increase (+) / decrease (-) in special reserves	- 9.7	+ 13.5
Other income not related to disbursements	- 44.2	- 46.4
Cash flow according to DVFA	367.1	226.1
Results from retirements of fixed assets	- 4.8	- 9.3
Increase (-) / decrease (+) in inventories	- 21.5	+ 14.5
Decrease (+) in receivables	+ 5.9	+ 55.4
Increase (+) / decrease (-) in short-term provisions	- 3.2	+ 18.0
Decrease (-) in liabilities	- 44.2	- 34.6
Cash provided from operating activities	299.3	270.1
Proceeds from retirements of fixed assets	21.8	26.5
Purchases of fixed assets (without acquisitions)	- 178.7	- 200.7
Expenditure on acquisitions	- 329.2	-
Cash used in investing activities	- 486.1	- 174.2
Capital contributions by shareholders	70.0	-
Cash provided from financing activities	70.0	-
Free cash flow	- 116.8	95.9
Changes in cash flow related to disbursements	- 116.8	95.9
Other changes in value	+ 0.2	+ 5.1
Changes in cash	- 116.6	101.0

DVFA result

of the Kali und Salz Group

	1998	1997 ^{*)}
in DM million		
Net income after minority interests	163.5	103.5
Depreciation of fixed assets	53.7	26.1
Additions (+) / release (-) of pension provisions	+ 29.0	- 8.5
Additions (+) / release (-) of other provisions	+ 48.2	+ 0.5
Other adjustments	- 13.4	+ 16.4
DVFA result (after minority interests)	281.0	138.0

^{*)} not audited by public accountant

Financial situation

The increased financial strength of the Kali und Salz Group is reflected in the company's improved cash flow position. At DM 367.1 million in 1998 cash flow is up 62 percent on the corresponding figure for 1997.

After elimination of results from retirements of fixed assets, the changes in inventories and receivables as well as short-term provisions and liabilities on the balance sheet date resulted in a cash provided from operating activities of DM 299.3 million; representing an increase of DM 29.2 million on the figure for 1997.

Funds generated by operations thus exceeded our capital expenditures in fixed assets (excluding acquisitions). This allowed us to finance our purchase of 49-percent of shares in Kali und Salz GmbH in part from cash provided by current activities

Expenditure on acquisitions amounting to DM 328.9 million concerned the purchase of the BvS holding in Kali und Salz GmbH. Of this amount, DM 250.0 million is represented by the acquisition price, DM 65.0 million by the reduction of outstanding loss compensation by BvS and DM 13.9 million by the realty transfer tax incurred by the purchase of the BvS holding. The partial renouncement of loss compensation led to a corresponding reduction in receivables; this amount was transferred to Kali und Salz GmbH by Kali und Salz Beteiligungs AG.

Cash provided from financing activities contains the loss compensation amount paid by BvS to Kali und Salz GmbH in 1998.

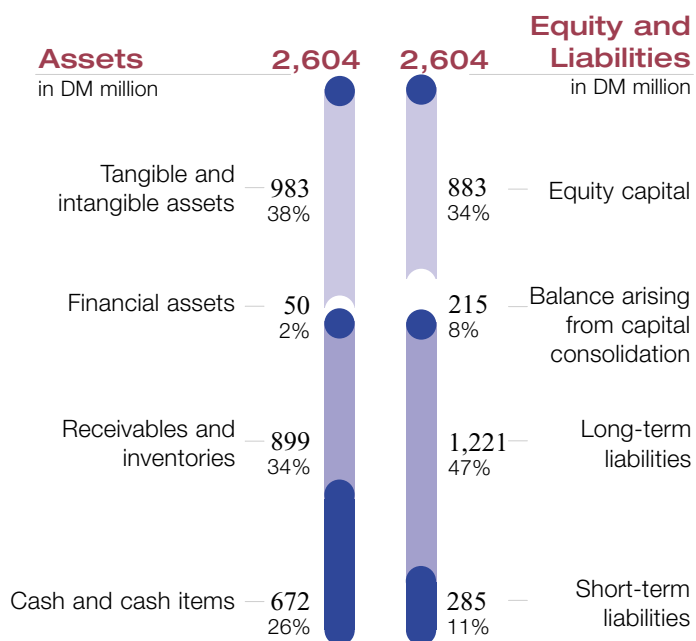
DVFA result

The Group result according to the DVFA calculation increased to DM 281.0 million in 1998 (1997: DM 138.0 million). The termination of the BvS share in net income also affected this figure; both as a direct effect on net income and through the end of minority interests in the DVFA adjustments. The high DVFA result is also attributable to the special depreciations of DM 45.0 million regarding capital expenditures in the new States of Germany in 1998 as well as to a change in the calculation basis for pension provisions (new reference tables) and mining provisions. These effects have to be adjusted to conform to DVFA guidelines. Due to the number of extraordinary effects in 1998, there was an unusually high level of DVFA adjustments.

Improved returns

The positive development of earnings had a strong impact on returns in 1998. Return on sales, after tax, but before minority interests, grew to 7.3 percent. At 6.6 percent return on total investment reached an encouragingly healthy level. Return on equity was also improved and at 25.6 percent reflects our strong level of profitability.

Balance sheet structure of the Kali und Salz Group December 31, 1998



Value added 1998 of the Kali und Salz Group

Source

in DM million

Sales 2,228.3

Other income 211.6

Total performance 2,439.9

Material expense 885.6

Depreciation 230.7

Other expenses 351.4

Total inputs 1,467.7

Value added 972.2

Application

in DM million

Shareholders 35.0

Employees 809.3

State - 0.7

Company 128.6

Value added 972.2

Balance sheet structure

Our balance sheet structure remains sound. Equity capital amounts to DM 883 million (1997: DM 1,053 million). The decrease on the previous year is due largely to the consolidation of the acquired 49-percent holding in Kali und Salz GmbH. The equity ratio thus fell by three percentage points to 34 percent. The acquisition of the minority shareholding in Kali und Salz GmbH will be compensated for, however, by the full contribution of the company's future profits.

The assets are marked by the high level of tangible assets. This results from the considerable level of investments required as part of the unification of the German potash industry between 1993 and 1997. Fixed assets account for 40 percent of total assets. Tangible assets are covered at 91 percent by equity capital and over 200 percent by long-term capital.

Value added

At DM 972.2 million value added by the Kali und Salz Group is 14 percent up on the previous year (DM 854.2 million). Employees account for the largest share of this amount (DM 809.3 million or 83 percent). The increase on the previous year amounts to DM 72.5 million. For the first time since 1986, our shareholders can expect a dividend payment amounting in total to DM 35.0 million. The remaining DM 128.6 million are to be retained in order to strengthen the Group's financial structure.

Employees

The companies of the Kali und Salz Group employed in and outside Germany a total of 8,472 people on December 31, 1998 (1997: 8,507). The number of employees hired under limited-term (more than 6-month) contracts was up by 33 on the previous year to stand at 111.

The Group employed 434 trainees on December 31, 1998; 49 more than one year previous. At 5.1 percent of the total work force, the increasing number of trainees reflects our continued commitment to the training of future generations over the last three years as well as our sense of responsibility and duty towards society.

Kali und Salz Beteiligungs AG employed 271 people at year-end 1998; 9 less than on the corresponding date in the previous year.

Personnel expenses of the Kali und Salz Group amounted to DM 809.3 million in 1998; an increase of DM 72.5 million on the previous year (+ 10 percent). This marked increase in expenditure resulted primarily from the 100 percent adaptation of wages in the East to those in the West of Germany. We feel that this marks a significant contribution towards the integration of the old and new Federal States. There was also an effect from increased union and non-union negotiated remuneration throughout the Group in early 1998. Furthermore, the rise in personnel expenses also reflect increased social security contributions and company pension expenditure.

For the first time, we issued employee shares this year worth a total of DM 4.6 million, of which the largest part (DM 4.1 million) were free of charge. The shares allow employees to participate in the success of the company as well as rewarding them for their hard work and motivating them to take a keener interest in the future development of the Kali und

Salz Group. In addition, the company paid a voluntary remuneration amount of 30 percent above the union-negotiated annual payment. This amount will continue to depend increasingly on the success of the company in future.

Special attention was paid once more to the field of education and training. A total of 2,867 employees participated in qualification programs (1997: 2,461). Employees posted 1,622 improvement proposals to our company suggestion scheme and helped realize considerable potential for rationalization. This is further evidence of the dedication of our employees and their contribution towards optimizing work processes.



Young people with attractive career opportunities: qualified training at Kali und Salz

Health and safety

We attach the greatest importance to the maintenance of high health and safety standards at Kali und Salz. The aims and principles which we observe are defined in our company guidelines.

30 health and safety officers were permanently on hand for those responsible at our sites to offer advice on accident prevention, the solution of work safety problems and the creation of safe processes. A further 186 experienced employees, trained by the Miners' Professional Association and safety engineers at our sites, acted as secondary safety officers. Kali und Salz also employs nine doctors at its sites who are responsible for the medical treatment of staff and for all work-related health issues.

After the positive trend of previous years, reported industrial accidents were up by 14 during the period under review. Of the 73 reported accidents, four unfortunately resulted in the deaths of employees. The 'industrial accidents per million working hours' ratio deteriorated by 1.2 to 5.7.

The number of reported accidents occurring in transit fell to 16 in 1998 (1997: 31). The 'accidents in transit per 1,000 employees' ratio improved from 3.9 to 2.1. Unfortunately, one traffic accident also proved fatal for one of our employees.

The development of industrial accidents leads us to appeal once more to all employees not to neglect their efforts for increased safety and to observe the technical, organizational and individual safety guidelines during their work. In addition to the material prerequisites, safety at work also requires the individual's care and observance of safety guidelines. The success of all measures we are aiming at depends to a decisive extent on the active cooperation of all employees.

By eliminating all known sources of danger and helping to prevent accidents we aim to achieve a continual improvement of health and safety standards at our companies.

Capital expenditures

In the year under review, the Kali und Salz Group invested a total of DM 157.0 million in tangible fixed assets. Of this sum, DM 131.4 million was invested in the Potash and Related Products Segment, DM 15.2 million in the Salt Segment, DM 3.8 million in Waste Management and DM 6.6 million in the Services Segment.



New facility: view of the loading and unloading station for liquid gas opened in May 1998 at our Bernburg site

Investments in mines focused mainly on the replacement of mobile equipment, of which a major share was devoted to scoops. Scaling jumbos to secure the gallery roof were also purchased. A second major focus was the addition of further stationary equipment as a result of the permanent expansion of panels. A quarter of all investments in underground equipment was accounted for by main conveyors.

Replacements were also required in the field of electrical installations, bunkers and crushers as well as for the winder at our Hattorf site. A new mobile radar system was purchased to enhance the high safety standards at our sites by providing early warning of ground falls. The company's Zielitz site and Hattorf/Wintershall mine accounted for approximately two thirds of all investments in underground equipment.

Investments in surface installations also focused on the Zielitz and Werra sites. Among the major improvements at the Werra site was the adaptation of equipment to protect the groundwater. A major share of investments in Zielitz was devoted to the renewal of equipment and the optimization of work processes.

In the company's Salt Segment, a new grinding plant for underground processing of rock salt was commissioned at the Braunschweig-Lüneburg site in order to increase the plant's de-icing salt capacities. Further investments were made in bagging equipment for finished products and the installation of dust extraction equipment.

In mid 1998 the Bernburg plant successfully completed the construction and commissioning of a new liquid gas plant with gas dehydration unit. Kali und Salz can now boast state-of-the-art, and highly efficient facilities for the storage and handling of liquid gas. The company already gained several new customers for the plant during the year under review.

Research and development

In addition to its agricultural research activities, research and development within the Kali und Salz Group continued to concentrate on developing and adapting product qualities to the changing needs of our customers as well as on measures to improve efficiency in mining, processing and finishing processes.

In the main, these activities are undertaken by our own technical facilities:

- the Kaliforschungs-Institut (Potash Research Institute),
- the application technology laboratories and
- the mines and production plants.

Numerous agricultural field tests and cooperation agreements with various universities support our research and development efforts.

In 1998 we spent a total of DM 14.5 million on research and development activities.

Mining research

Our development efforts in the field of mining concentrate on the further optimization of work processes at our active mining facilities. Particular importance is attached to the continued geomechanic support for mining techniques.

A further focus is the reduction in particle emissions from diesel engines. We are currently testing particle filters and new engines for our large-scale machinery. Of the existing underground salt loading equipment, approximately one quarter of all scoops now run on electric power.

The research project sponsored by the Federal Ministry for Education, Science, Research and Technology into achieving longterm security for sealed mine shafts was continued during the year under review. Under the leadership of Kali und Salz, a major trial is being carried out by the year 2002 at the shaft of the inactivated Salzdettfurth potash plant. The tests employ concepts already elaborated for making seals of shafts technically water and brine tight.

In the field of waste reutilization, a thickening process was developed which enables waste at the Unterbreizbach site to be stored hydraulically, possibly usable with binder which previously was only backfilled into underground cavities pneumatically.

Surface research

Extensive separation tests were carried out at the Kaliforschungs-Institut (Potash Research Institute) into the most suitable processing route for rock salt not yet mined at the Sigmundshall site. In addition, large scale production trials with Sigmundshall salt at the ESTA facilities of the Neuhof-Ellers site confirmed the chosen processing method. The trials were accompanied by intensive geological examination activities to discover the possibilities of increased exploitation of deposits and longer utilization of the Sigmundshall site.

At the Kaliforschungs-Institut a process was trialled on the ESTA pilot plant to separate an unwanted mineral from the valuable substance Kieserite. The results were later confirmed under normal production circumstances at one of the company's plants. The method improves the possibilities for processing rock salt more economically while preserving quality standards.

At the potassium sulfate plant in Hattorf we successfully developed a new baffle plate thickener for clearing potassium sulfate brine. As the new system represents a significant increase in extraction potential and the operational safety has been proven, the project is to be put into operation during the course of 1999.

Development work on improving potash separation focused on trials with alternative flotation agents in an attempt to raise efficiency further. Moreover, newer types of pneumatic flotation cells were tested. Results so far promise further improvements in extraction results.

In the Salt Segment we concentrated research and developments efforts on the continual improvement of our product range and in particular the purity of our rock salt products. At the Braunschweig-Lüneburg site we are currently running tests to enable us to separate undesired minor minerals from rock salt more efficiently.

During the period under review we developed a standardized separator for electrostatic sorting of plastic waste. It is being marketed in cooperation with another company.

As part of our consulting activities we developed software to simulate solar evaporation processes. The program was tested for the first time for a foreign application. Further development of this specialized software is planned.

The projects undertaken in cooperation with universities and specialist institutes concentrated on the following topics:

- research into crystal surfaces to optimize our separation processes
- materials research with particular focus on corrosion
- geomechanics for residue storage concepts

- hydrogeology in connection with sinking salt-containing sewage and dump storage concepts
- possibilities to extract valuable substances available in raw salts only in minute amounts.

As cooperation on these projects has proved successful to date, we intend to continue this type of research and possibly expand it in future.

Agricultural consulting

Balanced and sustained fertilization plays an undisputed role in improving the economic and ecological yield of agricultural production. Our international research and development activities are aimed at researching and proving these benefits. Our current research focuses on the effects of accompanying nutrients such as sulfur, magnesium and sodium in connection with potash fertilizers.

Numerous field tests throughout the world are evidence of the benefits of our special fertilizers with respect to yield and quality of the various crops. Special emphasis is placed on fruit and vegetables as well as plantation crops, such as tea and oil palms. Local field tests serve mainly to provide us with reliable results for our site-based fertilizer recommendations. We can thus play a major role in supporting international agriculture in its search for optimum fertilizer types with regard to economic and ecological aspects.

Only long-term field tests can help us counter the fierce yet unjustified demands from various political forces to reduce the use of mineral fertilizers and especially potash.

Quality management

During the 1998 fiscal financial year further business units of the Kali und Salz Group were awarded certificates as part of our quality management program.

The Zielitz site earned certification according to DIN EN ISO 9002 for its industrial potash product group. The EN 45001 accreditation process was carried out at the central laboratories of Kali und Salz GmbH at the Kaliforschungs-Institut. This process includes DIN EN ISO 9002 certification. The auditors of Deutsche Akkreditierungssystem Prüfwesen GmbH have recommended awarding the accreditation certificate.

Of those business units already certified, monitoring and repeat audits were carried out in 1998 by TÜV-Nord. The continuation or prolongation of the certificates was confirmed in all cases. The Kali und Salz Group thus possesses six certified product lines, two waste management operations and an accredited central laboratory at the Kaliforschungs-Institut.

Quality management and customer orientation have been made permanent and binding cornerstones of our corporate culture and strategy by their integration in the Kali und Salz Group's management guidelines.

Environmental protection

Environmental protection enjoys a high priority status within our company. At our various sites we have established a permanent flow of information between the company, local authorities and the public. We meet the challenge of increasing environmental requirements and the growing thirst for information by constantly monitoring the impact of our mining and processing activities on the living conditions of the local population and on the surrounding environment. Our plants and technical processes are geared to meeting the highest possible technological and ecological standards.



High environmental standards: sewage discharge is constantly monitored and checked by Kali und Salz

The environmental guidelines, binding for all employees, are the basis for realizing our specific ecological objectives. At the heart of our environmental protection policy are all measures to prevent air and water pollution as well as the reduction of energy and raw material needs, the avoidance of waste and the constant monitoring of our environmental impact.

In the field of water protection we have introduced a wide range of measures to reduce the volume of sewage at our Werra plant in Unterbreizbach.

In November 1998 the Thuringian Board of Mines in Bad Salzungen and the regional Water Board approved the sinking of salt sewage from potash production in Unterbreizbach in the overflow reservoir of Gerstunger Mulde. The site has thus gained a desperately needed disposal possibility for its unavoidable liquid residues, without which the company would not have been able to reduce salt levels in the river Werra.

The sinking of waste will have no unfavorable effects on local water supplies. This was proven by pilot tests in 1995 and 1996 which fully confirmed the company's geological and hydrogeological examination results. The basic precondition for the sinking project to comply with strict water supply laws had thus been satisfied.

To complement these activities, we have also developed and tested a comprehensive and completely new discharge control system for the Ulster/Werra river complex. We are also involved in a research program to examine the possibilities of improving plant and wildlife along the rivers Werra and Weser.

We elaborated the climate protection declaration of the German potash industry and supply regular information updates for the monitoring process. The self-regulation program specifies a reduction of specific carbon dioxide emissions by about 66 percent and of absolute carbon dioxide emissions by around 78 percent compared to 1990 by the year 2005. The reductions are based on the use of gas and steam turbine technology in our power generators which were introduced at considerable expense to the company. The new technology enables us to achieve efficiency ratings of over 90 percent.

Safety and custodial services

In order to improve efficiency, we have combined our custodial services for inactivated production facilities in Lower Saxony into a uniform, Group-wide division. The new division regulates our measures concerning the legally prescribed flooding of mines as yet not backfilled, the filling and sealing of shafts and the care of old dumps. The division also includes the demolishing of surface installations which have proved unsuitable for any alternative uses.

A major project was the flooding started in 1998 of the mine building of the Hildesia-Mathildenhall shaft near Hildesheim. Flooding also began in the first half of 1998 at the Bergmannsseggen-Hugo shaft in Lehrte. Shaft filling is also being prepared at further disused plants. The custodial services provided for and at the expense of BvS at the Thuringian Merkers mine concentrates on hydrological problems and shaft sealing concepts as well as on eliminating the danger of rock bursts, by backfilling rock salt into discontinued panels.

Provisions set aside in the past for safety and custodial work mean that these activities will not impact the results of the Kali und Salz Group, although liquidity will of course be affected.

Risk management

As an internationally operating company in the fields of potash and rock salt mining, Kali und Salz is facing a variety of opportunities and risks which form a constituent aspect of our business. Our objective is to utilize the opportunities and to accept only those risks which are unavoidable in releasing further profit potential but whose scope can be easily estimated.

Kali und Salz is aware of the risks which it takes and regards efficient, provident risk management as one of its major tasks. Operative and strategic risks are permanently identified, analyzed and actively controlled. We have a number of instruments at our disposal for these important tasks.

In the field of production we have developed a comprehensive monitoring and examination system which is programmed to send alarms of potential operating risks when certain criteria are fulfilled. Potential risks are uncovered by feasibility studies, company evaluations and our stock control and planning systems. In the financial sector, we constantly monitor profitability and hedge systematically against exchange rate fluctuations in U.S. dollars and British sterling as well as a main part of our receivables.

Our highly efficient internal audit team are also involved in the recognition and monitoring of risks. All remaining risks are covered by corresponding provisions in our balance sheet.

Against this background, the demands made by the new law regulating control and transparency within companies for an effective monitoring system are not new for us, they merely represent a systematic implementation and documentation of what has long been an integral part of Kali und Salz's business practice.

Introduction of the euro

1998 was also a year of scheduled preparations for the launch of the new euro.

Kali und Salz welcomes wholeheartedly the introduction of this single European currency. As an internationally active Group of companies, a large part of our revenues stems from the new euro currency region. Until recently 46 percent of sales were invoiced in Deutschmarks, 25 percent in other European currencies and 29 percent in U.S. dollars. With the introduction of the euro, there will be no more exchange rate effects on sales invoiced in European currencies and no respective hedging and administrative costs.

The conversion strategy of Kali und Salz was elaborated well in advance. The following important stages in our concept are currently being implemented during the transition period:

- in consultation with our clients, invoicing was gradually changed to euro from January 1, 1999
- as of 1st quarter 1999, the company's balance sheet will be drawn up in both euro and DM
- corporate currency will be changed from DM to euro in April 2000, with effect from January 1, 2000.

Preparations for the year 2000

In order to secure the transition of all business processes into the next millennium we began a comprehensive information management project as early as 1995. The project comprised all EDP applications and was implemented in conjunction with the year-2000-compatible SAP R/3 system.

Kali und Salz has set itself the target of completing all necessary adjustments by mid 1999. In order to safeguard the timely conversion of these measures we have installed appropriate monitoring systems.

We are convinced that the implemented measures will safeguard the functionality of our systems and equipment into the next millennium.

Outlook

For 1999 we expect a good level of demand for our Potash and Related Products Segment, although the Common Agricultural Policy of the EU and the pending anti-dumping proceedings represent uncertainties for us.

Harmonized fertilization with a controlled supply of potassium, magnesium and sulfur will grow in importance for intensive crop cultivation and for perennials such as tea, oil palms and wine. This will lead to an increase in demand for specialty fertilizers containing magnesium sulfate.

The overall positive medium and long-term projections for consumption of potash fertilizers are closely connected to the dire necessity to almost double crops over the next few decades if we are to safeguard the requirements of a growing world population for sufficient and nutritional food. The use of a balanced fertilization, and in particular potash, as the most efficient and ecological method of raising crop yields, has long been

neglected by many African and Asian countries, which has left them with a considerable backlock demand. This is especially true for potash, which is still at a very low level in most of these countries.

In Central and Eastern Europe and the CIS it is becoming increasingly apparent that the reduction in the use of fertilizers, especially in the early 90's, is having a limiting effect on crop yields. A strong increase in the use of fertilizers, including potash, is desperately needed. We have regularly informed those responsible of this imbalance, within the means available to us, via the International Potash Institute in Switzerland, the International Fertilizer Association in Paris and through our international network of consultants and sales personnel. We are also in permanent contact with the German Ministry of Trade and Commerce and the Ministry for Economic Cooperation.

The anti-dumping protection extended by the EU against CIS potash producers will last until March 1999. An application for prolongation of this ruling was filed with the EU-Commission in December 1998 by APEP, the European Association of Potash Producers. We are taking all efforts to ensure that the Commission accepts this application and prolongs the current – even in a slightly modified regulation form. We feel that such a decision is justified by the market behavior of Russian and Belarus producers. We also intend to keep the German government well informed and are confident that they will show understanding for our stand in this affair. Above all, however, we need the undivided support of the EU-Commission in Brussels against unfair competitive practices.

We expect stable sales for our salt business during the current business year. We intend to counter increased competition and pressure on prices throughout Europe in certain product categories with high-quality evaporated and rock salt products as well

as with our customer-oriented service policy. The high quality standards of our products, the favorable locations of our facilities and the resulting flexibility in our supplies will continue to allow us to completely satisfy customer wishes also in those applications with the most exacting requirements.

In the Waste Management Segment we expect a continuation of the fierce competitive situation. Further decreases in waste volumes, especially hazardous waste, are to be expected as our customers optimize processes and discontinue or relocate their production facilities. There is still uncertainty concerning the effect on Germany of the hotly debated, future European legislation on waste and the EU's negative attitude towards underground reutilization as backfilling material. We are actively participating in this discussion.

In a number of cases we are being confronted with draft guidelines by the EU which we feel are not justified. We are particularly worried by the fact that these proposals seem to be progressing without outside control.

Among the most important objectives of our corporate strategy are the strengthening and securing of our existing businesses and the opening up of new segments. We have the necessary liquidity for further development. Among other things, we intend to widen our portfolio and customer base in line with our objectives, in order to secure the long-term profitability of our company and to reduce the impact of the potash business on the results of the Kali und Salz Group.

The optimization of production, information and decision processes remains a central and permanent objective of our strategy as well as the reduction of costs in order to remain our plants and products competitive in international comparison. By using the synergy potential of our various sites we

intend to achieve further positive cost effects. We can and will defend our market positions. We remain, however, keenly aware of the specific risks of our segments and will proceed with care. We do not pursue high risk strategies.

We will continue to develop the earnings-based remuneration system for our employees in order to achieve the necessary improved flexibility for our company which this measure promises. We are currently negotiating a modified collective wage contract with labor representatives. We are confident of achieving satisfactory agreements.

As an energy-intensive industry, we currently expect that Kali und Salz will only be marginally affected by the introduction of the first stage of the new German energy tax. We have strongly vocalized our feelings on the effects of this tax on several occasions in meetings with political representatives. We shall continue to pursue our information strategy with both political leaders and the public and are hoping to continue the successful cooperation with the Mining, Chemical and Energy Union.

The government's proposed stage two energy tax would have a negative impact on our competitive situation. Although our ecological power plants achieve a near maximum efficiency rating of over 90 percent, the implementation of the coalition agreement would lead to considerable additional burdens for us.

The Kali und Salz Group is well prepared to prove its long-term market strength in our chosen markets. For fiscal year 1999 we expect sales to develop favorably and earnings to be satisfactory once again.

Annual Financial Statements

of the Kali und Salz Group

Balance sheet

as of December 31, 1998

Assets	Notes	Dec. 31,1998	Dec. 31,1997
in DM thousand			
Fixed assets	(6)		
Intangible assets		10,763	6,190
Tangible assets	(7)	971,977	1,046,170
Financial assets	(8)	49,708	49,092
		1,032,448	1,101,452
Current assets			
Inventories	(9)		
Raw materials and supplies		94,756	86,186
Unfinished products		4,663	11,803
Finished products and merchandise		105,087	84,985
Payments on account		-	67
		204,506	183,041
Receivables and other assets	(10)		
Accounts receivable – trade		437,102	366,053
Receivables from affiliated companies		41	29
Receivables from companies in which participations are held		12,711	360,595
Other assets		242,801	89,703
		692,655	816,380
Own shares	(11)	6,607	-
Securities		243,117	278,341
Checks, cash on hand, bank balances		422,890	463,141
		1,569,775	1,740,903
Prepaid expenses		2,172	2,122
		2,604,395	2,844,477

Equity and liabilities	Notes	Dec. 31,1998	Dec. 31,1997
in DM thousand			
Equity			
Subscribed capital	(12)	250,000	250,000
Capital surplus	(13)	319,777	39,000
Reserve for own shares	(14)	6,607	-
Other revenue reserves and net income after allocations to reserves	(15)	297,661	140,716
Minority interests	(16)	398	609,965
		874,443	1,039,681
Special reserves	(17)	16,886	26,594
Balance arising from capital consolidation	(18)	215,730	260,094
Provisions	(19)		
Pension provisions and similar obligations		329,757	301,682
Provisions for taxes		15,863	7,279
Other provisions		986,506	999,763
		1,332,126	1,308,724
Liabilities	(20)		
Payments received on account		-	13,313
Accounts payable – trade		122,711	150,645
Liabilities to affiliated companies		1,327	1,300
Liabilities to companies in which participations are held		15	39
Miscellaneous liabilities		41,157	44,079
		165,210	209,376
Deferred income		-	8
		2,604,395	2,844,477

Annual Financial Statements

of the Kali und Salz Group Development of fixed assets as of December 31, 1998

	Gross book values				
	Jan. 1,1998	Additions	Retire- ments	Transfers	Dec. 31,1998
in DM thousand					
Intangible assets					
Concessions, trademarks and similar rights and assets as well as licenses for such rights and assets	14,258	2,448	1,656	145	15,195
Goodwill	766	5,000	-	- 66	5,700
Payments on account	57	67	-	- 40	84
	15,081	7,515	1,656	39	20,979
Tangible assets					
Land, rights similar to land and buildings including buildings on land owned by others	461,106	14,909	4,482	3,460	474,993
Machinery and technical equipment	1,394,561	98,249	15,898	31,140	1,508,052
Miscellaneous equipment, fixtures and fittings	169,569	24,383	7,874	1,776	187,854
Payments on account and construction in progress	37,335	19,474	3	- 36,415	20,391
	2,062,571	157,015	28,257	- 39	2,191,290
Financial assets					
Shares in affiliated companies	2,382	-	-	-	2,382
Participating interests	106,709	35	105,179	-	1,565
Other loans and other investments	36,557	14,136	4,767	-	45,926
	145,648	14,171	109,946	-	49,873
Total fixed assets	2,223,300	178,701	139,859	-	2,262,142

	Depreciation				Net book values		
	Jan. 1,1998	Additions	Retire- ments	Transfers	Dec. 31,1998	Dec. 31,1998	Dec. 31,1997
	8,685	2,412	1,644	66	9,519	5,676	5,573
	206	557	-	- 66	697	5,003	560
	-	-	-	-	-	84	57
	8,891	2,969	1,644	-	10,216	10,763	6,190
	167,062	59,530	3,481	-	223,111	251,882	294,044
	740,333	141,443	14,197	15	867,594	640,458	654,228
	108,870	26,782	7,165	- 15	128,472	59,382	60,699
	136	-	-	-	136	20,255	37,199
	1,016,401	227,755	24,843	-	1,219,313	971,977	1,046,170
	96	-	-	-	96	2,286	2,286
	96,381	-	96,381	-	-	1,565	10,328
	79	-	10	-	69	45,857	36,478
	96,556	-	96,391	-	165	49,708	49,092
	1,121,848	230,724	122,878	-	1,229,694	1,032,448	1,101,452

Annual Financial Statements

of the Kali und Salz Group Profit and loss account January 1 - December 31, 1998

	Notes	1998	1997
in DM thousand			
Sales	(23)	2,228,278	2,173,779
Cost of sales		1,409,372	1,375,708
Gross profit on sales		818,906	798,071
Selling expenses		591,183	569,292
General administrative expenses		49,486	52,561
Research and development expenses		14,273	14,438
Other operating income	(24)	158,259	168,061
Other operating expenses	(25)	197,887	207,145
Result from operations		124,336	122,696
Result from participating interests	(26)	863	916
Write-offs of financial assets and securities in current assets		208	20,294
Interest result	(27)	34,998	33,192
Result from ordinary activities / Result before taxes		159,989	136,510
Income taxes	(28)	- 3,572	2,950
Net income for the year		163,561	133,560
Minority interests in net income	(31)	23	30,034
Net income after minority interests		163,538	103,526



Kali und Salz Group

Major affiliates

Company name and headquarters	Equity		Sales		Profit after taxes	
	1998	1997	1998	1997	1998	1997
in DM thousand; all holdings 100 percent						
Chemische Fabrik Kalk GmbH (CFK), Cologne	5,628	4,805	25,773	26,488	823	3,336
Deutscher Straßen-Dienst GmbH (DSD), Kassel	100	100	65,359	61,859	96	421 ¹⁾
German Bulk Chartering GmbH (GBC), Hamburg	100	100	2,311	2,594	1,310	1,540 ²⁾
Kali-Transport Gesellschaft mbH (KTG), Hamburg	14,000	14,000	46,650	48,977	14,745	17,212 ³⁾
Kali-Union Verwaltungsgesellschaft mbH, Kassel	5,155	5,155	-	-	244	266 ¹⁾
Kali und Salz GmbH, Kassel	1,353,520	1,343,615	2,121,417	2,024,375	89,905	60,146
Kali und Salz Bauschutt-Recycling GmbH, Sehnde	100	100	2,944	2,540	505	766 ⁴⁾
Kali und Salz Consulting GmbH, Kassel	100	100	1,475	1,211	205	236 ³⁾
Kali und Salz Entsorgung GmbH, Kassel	500	500	13,186	12,275	5,996	6,741 ³⁾

1) Profit transfer agreement with Kali und Salz GmbH

2) Profit transfer agreement with Kali-Transport Gesellschaft mbH

3) Profit transfer agreement with Kali und Salz Beteiligungs AG

4) Profit transfer agreement with Kali und Salz Entsorgung GmbH

Annual Financial Statements

of Kali und Salz Beteiligungs AG Balance sheet as of December 31, 1998

Assets	Notes	Dec. 31,1998	Dec. 31,1997
in DM thousand			
Fixed assets	(6)		
Intangible assets		18	23
Tangible assets	(7)	25,319	19,845
Financial assets	(8)	653,114	329,200
		678,451	349,068
Current assets			
Inventories	(9)		
Raw materials and supplies		880	921
Finished products and merchandise		65	281
		945	1,202
Receivables and other assets	(10)		
Accounts receivable – trade		970	1,771
Receivables from affiliated companies		29,953	32,810
Receivables from companies in which participations are held		4,267	28,139
Other assets		36,791	16,251
		71,981	78,971
Own shares	(11)	6,607	-
Securities		223,173	268,400
Checks, cash on hand, bank balances		65,822	221,909
		368,528	570,482
Prepaid expenses		38	46
		1,047,017	919,596

Equity and liabilities

in DM thousand

	Notes	Dec. 31,1998	Dec. 31,1997
Equity			
Subscribed capital	(12)	250,000	250,000
Capital surplus	(13)	39,000	39,000
Reserve for own shares	(14)	6,607	-
Other revenue reserves	(15)	114,393	91,000
Profit / loss retained	(15)	35,060	- 42,440
		445,060	337,560
Special reserves			
	(17)	16,886	19,120
Provisions			
	(19)		
Pension provisions and similar obligations		174,977	159,413
Provisions for taxes		13,900	6,250
Other provisions		198,259	217,755
		387,136	383,418
Liabilities			
	(20)		
Accounts payable – trade		5,038	4,104
Liabilities to affiliated companies		190,681	173,352
Liabilities to companies in which participations are held		-	10
Miscellaneous liabilities		2,216	2,032
		197,935	179,498
		1,047,017	919,596



Annual Financial Statements

of Kali und Salz Beteiligungs AG Development of fixed assets as of December 31, 1998

	Gross book values				
	Jan. 1,1998	Additions	Retire- ments	Transfers	Dec. 31,1998
in DM thousand					
Intangible assets					
Concessions, trademarks and similar rights and assets as well as licenses for such rights and assets	4,650	-	52	-	4,598
	4,650	-	52	-	4,598
Tangible assets					
Land, rights similar to land and buildings including buildings on land owned by others	64,055	9,501	2,325	563	71,794
Machinery and technical equipment	88,155	7,140	2,589	1,929	94,635
Miscellaneous equipment, fixtures and fittings	13,780	724	1,455	14	13,063
Payments on account and construction in progress	2,549	2,087	-	- 2,506	2,130
	168,539	19,452	6,369	-	181,622
Financial assets					
Shares in affiliated companies	358,650	328,918	-	-	687,568
Participating interests	104,828	-	103,987	-	841
Other loans and other investments	13,677	5,360	2,386	-	16,651
	477,155	334,278	106,373	-	705,060
Total fixed assets	650,344	353,730	112,794	-	891,280

	Depreciation				Net book values		
	Jan. 1,1998	Additions	Retire- ments	Transfers	Dec. 31,1998	Dec. 31,1998	Dec. 31,1997
	4,627	2	49	-	4,580	18	23
	4,627	2	49	-	4,580	18	23
	53,262	8,940	1,885	-	60,317	11,477	10,793
	83,790	3,406	2,566	-	84,630	10,005	4,365
	11,642	925	1,211	-	11,356	1,707	2,138
	-	-	-	-	-	2,130	2,549
	148,694	13,271	5,662	-	156,303	25,319	19,845
	51,903	-	-	-	51,903	635,665	306,747
	96,000	-	96,000	-	-	841	8,828
	52	-	9	-	43	16,608	13,625
	147,955	-	96,009	-	51,946	653,114	329,200
	301,276	13,273	101,720	-	212,829	678,451	349,068

Annual Financial Statements

of Kali und Salz Beteiligungs AG Profit and loss account January 1 - December 31, 1998

	Notes	1998	1997
in DM thousand			
Sales	(23)	84,421	91,674
Cost of sales		67,035	63,421
Gross profit on sales		17,386	28,253
Selling expenses		7,643	7,970
General administrative expenses		8,465	9,245
Other operating income	(24)	51,894	42,895
Other operating expenses	(25)	64,982	50,388
Result from operations		- 11,810	3,545
Result from participating interests	(26)	101,879	25,019
Write-offs of financial assets and securities in current assets		208	20,294
Interest result	(27)	12,780	16,332
Result from ordinary activities / Result before taxes		102,641	24,602
Income taxes	(28)	- 4,859	1,765
Net income for the year		107,500	22,837

Notes to the Financial Statements

Kali und Salz Group

Kali und Salz Beteiligungs AG

The financial statements of Kali und Salz Beteiligungs AG and the consolidated financial statements of the Kali und Salz Group are prepared in accordance with the directives of the German Commercial Code (Handelsgesetzbuch) and the German Corporation Law (Aktiengesetz). The following notes apply both to the Kali und Salz Group and Kali und Salz Beteiligungs AG. Unless otherwise stated the information applies to both financial statements. In keeping with accounting regulations, the Kali und Salz Group financial statements are identical to the consolidated financial statements.

(1) Scope of consolidation

The Group financial statements of the Kali und Salz Group include 11 (1997: 11) German and 12 (1997: 11) foreign companies. The South East Asia Fertilizer Company (Private) Limited, Singapore, was consolidated for the first time in 1998. The following companies are included in the consolidated financial statements:

Germany

Kali und Salz Beteiligungs AG, Kassel
Chemische Fabrik Kalk GmbH, Cologne
Deutscher Straßen-Dienst GmbH, Kassel
German Bulk Chartering GmbH, Hamburg
Kali und Salz GmbH, Kassel
Kali und Salz Bauschutt-Recycling GmbH, Sehnde
Kali und Salz Consulting GmbH, Kassel
Kali und Salz Entsorgung GmbH, Kassel
Kali-Transport Gesellschaft mbH, Hamburg
Kali-Union Verwaltungsgesellschaft mbH, Kassel
Wohnbau Salzdetfurth GmbH, Bad Salzdetfurth

Outside Germany

Compagnie Belge des Engrais Potassiques S.A., Brussels, Belgium
Kali und Salz France S.A.R.L., Reims, France
Kali und Salz Polska Sp. z o.o., Poznan, Poland
Kali + Salz spol. s r.o., Prague, Czech Republic
Kali Importen A/S, Hvidovre, Denmark
Nederlandsche Kali-Import Maatschappij B.V., Amersfoort, Netherlands
Potash (China) Ltd., Hongkong, China
Potash Import & Chemical Corporation, New York, USA
Potash Ltd., Sawbridgeworth, Great Britain
Sociedade Brasileira de Potassa e Adubos Ltda., São Paulo-SP, Brazil
Società Potassio e Magnesio S.r.l., Verona, Italy
South East Asia Fertilizer Company (Private) Limited, Singapore

All these companies, in and outside Germany, were fully consolidated.

(2) Methods of consolidation

The financial statements of consolidated companies are prepared on the same date as the consolidated financial statements. The recognition and valuation of the assets and liabilities of the consolidated companies is recorded uniformly in accordance with the principles described here and in Note 3. Aside from consolidation measures and differences in depreciation methods, the financial statements of Kali und Salz Beteiligungs AG have been incorporated in the Group financial statements without alteration.

Where the accounting and valuation methods applied in the financial statements of the consolidated companies deviate from these principles appropriate adjustments have been made to the relevant items. Intercompany sales, expenses and income, and receivables and liabilities are eliminated in full among the consolidated companies. Intercompany profits resulting from deliveries and services rendered between consolidated companies are eliminated unless they are not of minor significance.

Capital is consolidated in accordance with the principles of the so-called book value method. The acquisition cost of participations is eliminated on consolidation against their proportionate share in equity at the time of first consolidation.

The credit balance arising from the capital consolidation results from offsetting the book value of Kali und Salz Beteiligungs AG's participation in Kali und Salz GmbH against the corresponding proportionate equity share of Kali und Salz GmbH as of January 1, 1997. This proportionate share of equity capital includes the capital contribution by the Federal Office for Special Tasks Arising out of Unification (Bundesanstalt für vereinigungsbedingte Sonderaufgaben-BvS) as well as further contributions by BvS. The capital contribution as well as the additional payments compensate for future expenses incurred at the plants in the new states of the Federal Republic of Germany. These expenses are write-offs from modernization investments. The credit balance thus takes the form of special provisions.

The reversal of the credit balance, included in income, is calculated according to the amount of the proportionate depreciation of selected investments made in plants in the new states of the Federal Republic of Germany in the years 1993 to 1997.

The credit balance arising from consolidation of the 49-percent share in Kali und Salz GmbH acquired by Kali und Salz Beteiligungs AG as of January 1, 1998, was transferred to capital surplus as there are no recognizable expenses or burdens which can be allocated to it.

The credit balances of other subsidiaries are based on retained profits during the period when they belonged to the Group, but prior to first consolidation. Since the income was derived from operations during their consolidation in the Group, they are transferred to the Group revenue reserves, after being set off against the debit balances.

(3) Accounting and valuation principles

Intangible assets

Acquired intangible assets are capitalized at purchase costs and reduced by straight-line depreciation over the expected useful life, most commonly a period of three years. Software is shown as retirement after full depreciation. In case of expected permanent impairment of value, special write-downs are taken.

Tangible assets

Tangible assets are stated at acquisition or production costs, less accumulated depreciation. Construction costs of plants built by ourselves consist of direct costs and an appropriate share of the overhead, including depreciation charges.

Investment subsidies received are deducted from the asset balance.

In the Kali und Salz Group financial statements movable and immovable fixed assets are depreciated under the straight-line method.

Movable fixed assets of Kali und Salz Beteiligungs AG are primarily depreciated under the declining balance method, immovable fixed assets mainly under the straight-line method, while additions to domestic operational buildings have been depreciated under the declining balance method since 1986 and as of 1994 by the straight-line method as soon as it results in higher annual depreciation.

Depreciation rates are based on estimated useful life, which is mostly 10 to 30 years for buildings, 10 years for machinery and technical equipment, and 4 to 5 years for miscellaneous equipment, fixtures and fittings. Assets of low value are fully depreciated in the year of acquisition, and shown as retirements.

Special write-downs are taken for prospective permanent impairment of value. During the year under review, special write-downs were taken for investments in the new states of the Federal Republic of Germany as allowed by paragraph 4 of the German Development Region Act (Fördergebietsgesetz). In the previous year only small amounts of depreciation allowable for tax purposes were utilized.

Gallery and excavation work is not capitalized.

Financial assets

Shares in affiliated companies and participating interests are stated at acquisition costs, or, in case of prospective permanent impairment of value, at the appropriate lower value at the balance sheet date.

Loans are carried at acquisition costs, or, in case of non-interest bearing loans or loans at below-market interest rates, at present value. Special write-downs are taken for foreseeable risks.

Inventories

Inventories are stated at acquisition or production costs at the lower cost of market taking into account any write-downs as permitted by tax law. In addition to the directly allocated costs, production costs also include allocated overhead costs based on the normal capacity of the production plants including depreciation.

Acquisition and production costs of finished products and goods are mainly based on average costs.

Receivables and other assets

Receivables and notes receivable are stated in accordance with their due date at cost or present value. Individual risks are covered by corresponding write-downs, general credit risks by flat-rate valuation adjustments.

Securities

Securities are carried at cost or at the lower quoted or market value.

Special reserves

In the case of German companies, special reserves with equity portion may be formed in accordance with the tax regulations for certain situations. The stated amount includes the apportionment of gains from sales of assets, according to § 6b German Income Tax Law (Einkommensteuergesetz). Appropriations and write-backs are shown in Notes 24 and 25.

Pension provisions and similar obligations

Pension provisions are computed on an actuarial basis according to the modified entry age normal method, using an interest rate of 6 percent.

Other provisions

Provisions for taxes and other provisions are stated at the expected amount of ultimate liability. Provisions for mining obligations for backfilling mines or shafts were accumulated in installments in keeping with mining operations and appropriated fully upon the planned shutdown of the plants up to the ultimate liability. Provisions for service age premiums are recorded by the partial value method related to the services provided to-date.

Liabilities

Liabilities are valued by the amount of repayment.

(4) Influence of special tax valuation measures

These result from depreciation and special reserves as permitted by tax law. After taking advantage of these opportunities, the effect on earnings was as follows:

	Kali und Salz Group DM thousand	Kali und Salz Beteiligungs AG DM thousand
Net income after minority interests / Net income 1998	163,538	107,500
Influence of special tax valuation	+ 26,518	+ 5,140
Adjusted net income after minority interests / Adjusted net income 1998	190,056	112,640

On account of the loss carry-forward, no tax liability will be incurred in the near future for the Kali und Salz Beteiligungs AG.

(5) Currency translation

Translation of foreign currency items

The cost of assets acquired in foreign currencies as well as revenues from sales in foreign currencies are recorded at current rates on transaction dates. Items covered by specific hedging measures are recorded at the hedged rate.

Foreign currency receivables are recorded at the rate prevailing on the acquisition date or at the lower rate on the balance sheet date. Foreign currency liabilities are posted at the selling rate prevailing on the acquisition date or at the higher rate on the balance sheet date.

Translation of foreign currency financial statements

Foreign currency translation is based on the principle of the modified closing rate method. The financial statements of the foreign companies are translated as follows:

- all asset items, prepaid expenses, liabilities and provisions at rates prevailing on the balance sheet date,
- equity capital at the rate prevailing on the date of the first-time consolidation,
- all expenses and revenues at the annual average rate, with the exception of the net income for the year, which is translated at the rate on the date of the balance sheet,
- inclusion of translation adjustments in the profit and loss account.

Notes to the Balance Sheet

(in DM thousand)

(6) Fixed assets

The development of gross book values and depreciation of the individual fixed asset items are shown in separate tables for the Kali und Salz Group as well as for Kali und Salz Beteiligungs AG.

(7) Tangible assets

Special write-downs and added depreciation allowable for tax purposes relate to:

	Kali und Salz Group		Kali und Salz Beteiligungs AG	
	1998	1997	1998	1997
Write-downs according to § 4 Regional Development Act (Fördergebietgesetz)	45,029	-	-	-
Transfer of gains on sale according to § 6b German Income Tax Law (Einkommensteuergesetz)	8,715	980	8,322	642
Special write-downs based on the lower applicable value according to § 253, section 2, sentence 3, German Commercial Code (Handelsgesetzbuch)	486	14,245	-	-
	54,230	15,225	8,322	642

During the year under review, investment subsidies received amounting to DM 1,862,000 were written down by the Kali und Salz Group after having affected net income in the previous years.

(8) Financial assets

The participating interest in Potash Company of Canada Ltd. (POTACAN), Toronto, was sold during the year under review. The proceeds from this sale amounting to DM 11,701,000 were DM 3,714,000 above the remaining book value, after non-scheduled write-downs had already been taken in the previous years.

During the period under review, the remaining 50 percent of shares in South East Asia Fertilizer Company (Private) Limited, Singapore, were acquired for DM 243,000 thus increasing the Kali und Salz Group holding in this company to 100 percent.

A list of total holdings (list of shares held) is filed with the Commercial Register in Kassel, HRB 2669, pursuant to § 313, section 2 or § 285, No. 11, respectively, of the German Commercial Code. If required, shareholders may also request the list directly from Kali und Salz Beteiligungs AG.

(9) Inventories

Calculation of going-concern values according to the inverse cost method and on the basis of current market conditions led to added depreciation allowable for tax purposes on current assets of the Kali und Salz Group amounting to DM 1,050,000.

(10) Receivables and other assets

Receivables with a residual term of more than one year relate to:

	Kali und Salz Group		Kali und Salz Beteiligungs AG	
	1998	1997	1998	1997
Receivables from companies in which participations are held	-	167,397	-	-
Other assets	164,186	3,587	3,005	2,911
	164,186	170,984	3,005	2,911

In 1997 the item 'Receivables from companies in which participations are held' concerned BvS, the former shareholder of Kali und Salz GmbH. These amounts were listed under 'Other assets' in 1998.

(11) Own shares

In the course of 1998 Kali und Salz Beteiligungs AG purchased 50,000 of its own shares (par value DM 2.5 million = 1 percent of capital stock) at a price of DM 225 per DM 50 share in order to be able to offer these shares to employees of the Kali und Salz Group.

Of these shares, 686 (par value DM 34,000 = 0.01 percent of capital stock) were issued to employees of Kali und Salz Beteiligungs AG as part of annual remuneration and without separately calculated compensation.

A further 215 shares (par value DM 11,000) were sold to staff outside the regular pay scale of Kali und Salz Beteiligungs AG at a price of DM 89.20 per DM 50 share.

A total of 19,734 shares (par value DM 987,000 = 0.39 percent of capital stock) were transferred to subsidiaries of Kali und Salz Beteiligungs AG at acquisition cost. Of these shares, 17,549 were distributed without separately calculated compensation and 2,185 were sold to subsidiary employees outside the regular pay scale at a price of DM 89.20 per DM 50 share.

On December 31, 1998, Kali und Salz Beteiligungs AG held 29,365 of its own shares; these were valued at acquisition cost.

(12) Subscribed capital

The capital stock of Kali und Salz Beteiligungs AG totals DM 250 million. It consists of 5 million bearer shares, denominated at DM 50 each.

(13) Capital surplus

The capital surplus of the Kali und Salz Group developed as follows:

As of January 1, 1998	39,000
Transfer of balance resulting from capital consolidation	280,777
As of December 31, 1998	319,777

The transferred balance from capital consolidation resulted from consolidation of the remaining 49 percent of shares in Kali und Salz GmbH acquired as of January 1, 1998.

(14) Reserve for own shares

This reserve was formed for the shares acquired by Kali und Salz Beteiligungs AG as explained in note (11).

(15) Other revenue reserves and net income after allocations to reserves

Kali und Salz Group

In the consolidated financial statements, other revenue reserves and net income after allocations to reserves are combined as one item in order to take account of the purpose of consolidated statements.

Other revenue reserves as of January 1, 1998	102,356
Profit retained as of January 1, 1998	+ 38,360
	140,716
Withdrawal for transfer to reserve for own shares	- 6,607
Adjustments resulting from consolidation measures as of December 31, 1998	+ 14
Net income after minority interests 1998	+ 163,538
As of December 31, 1998	297,661

Kali und Salz Beteiligungs AG

In the fiscal year 1998 the revenue reserves developed as follows:

As of January 1, 1998	91,000
Withdrawal for transfer to reserve for own shares	- 6,607
Transfer from net income 1998	30,000
As of December 31, 1998	114,393

Profit retained / Loss retained in fiscal 1998 developed as follows:

	1998	1997
Net income for the year	107,500	22,837
Loss carry-forward	42,440	65,277
Transfer to other revenue reserves	30,000	-
Profit retained / Loss retained	+ 35,060	- 42,440

(16) Minority interests

During the fiscal year 1998 this item developed as follows:

As of January 1, 1998	609,965
Additions	+ 105
Retirements	- 609,695
Minority interests in net income for the fiscal year 1998	+ 23
As of December 31, 1998	398

The retirements concern the shares of BvS in Kali und Salz GmbH which were acquired by Kali und Salz Beteiligungs AG as of January 1, 1998.

(17) Special reserves

	Kali und Salz Group		Kali und Salz Beteiligungs AG	
	1998	1997	1998	1997
Special reserve according to § 6b German Income Tax Law (Einkommensteuergesetz)	16,886	26,594	16,886	19,120

(18) Balance arising from capital consolidation

The balance arising from capital consolidation concerns Kali und Salz GmbH and results from the first-time consolidation of the 51-percent holding as of January 1, 1997.

As of January 1, 1998	260,094
Write-backs	44,364
As of December 31, 1998	215,730

For purposes of the financial statements of the Kali und Salz Group, the special loss account of Kali und Salz GmbH in the amount of DM 99.662 million (1997: DM 100.714 million), posted in the Kali und Salz GmbH financial statements, was charged against the equity capital of Kali und Salz GmbH in accordance with § 17, section 4 of the D-Mark Balance Sheet Law.

(19) Provisions

There are no deficiencies in pension provisions and similar obligations.

The valuation of pension provisions and similar obligations was adjusted fully as of December 31, 1998, in accordance with the new guidelines published in 1998. This led to an increase of DM 28.961 million for the Kali und Salz Group and DM 17.798 million for Kali und Salz Beteiligungs AG.

Provisions for taxes of the Kali und Salz Group include deferred taxes in the amount of DM 1.734 million.

Other provisions provide for all foreseeable risks. They result mostly from mining obligations, reconciliation of interests including a social plan, service age premiums, allowances, and other personnel obligations.

In the case of provisions for mining obligations with respect to the custody of dumps and the back-filling of mines and shafts, a harmonization of accumulation processes was carried out during the year under review. This measure resulted in an increase in provisions of DM 31.112 million for the Kali und Salz Group.

(20) Liabilities

Liabilities with a residual term of up to one year relate to:

	Kali und Salz Group		Kali und Salz Beteiligungs AG	
	1998	1997	1998	1997
Advances received on account or orders	-	13,313	-	-
Accounts payable – trade	122,086	149,963	5,038	4,104
Liabilities to affiliated companies	1,327	1,300	190,681	173,353
Liabilities to companies in which participations are held	15	39	-	10
Miscellaneous liabilities	40,707	44,079	1,766	1,581
	164,135	208,694	197,485	179,048

Liabilities of the Kali und Salz Group with a residual term of more than five years relate to an amount of DM 280,000 (1997: DM 354,000) for accounts payable – trade.

Miscellaneous liabilities relate to:

	Kali und Salz Group		Kali und Salz Beteiligungs AG	
	1998	1997	1998	1997
Taxes	5,861	6,538	285	279
Social security	20,247	19,527	749	768

(21) Contingent liabilities

	Kali und Salz Group		Kali und Salz Beteiligungs AG	
	1998	1997	1998	1997
Contingent liabilities from guarantees	741	772	61	92
Contingent liabilities from warranties	-	29,636	-	29,636
	741	30,408	61	29,728

The contingent liabilities from warranties shown in the previous year were eliminated with the sale of shares in POTACAN.

(22) Other financial commitments

	Kali und Salz Group		Kali und Salz Beteiligungs AG	
	1998	1997	1998	1997
Commitments to uncompleted investment projects	23,759	16,501	2,147	859
Commitments to long-term rents and leases				
■ due during the following year	4,025	5,133	513	555
■ due from the second until the fifth year	4,804	11,975	616	859
■ due after five years	89	6,447	-	-
	32,677	40,056	3,276	2,273

There were no other commitments to affiliated companies as of December 31, 1998.

Notes to the Profit and Loss Account

(in DM thousand)

(23) Sales**Sales by Segments Kali und Salz Group**

	1998	1997
Potash and Related Products	1,812,180	1,733,201
Salt	254,604	259,288
Waste Management	73,600	78,531
Services and Other Activities	87,894	102,759
	2,228,278	2,173,779

Sales by Product Sectors Kali und Salz Beteiligungs AG

	1998	1997
Granulation	40,565	40,589
Waste Storage	28,934	36,031
Other	14,922	15,054
	84,421	91,674

Sales by Regions

	Kali und Salz Group		Kali und Salz Beteiligungs AG	
	1998	1997	1998	1997
Germany	697,809	715,018	75,116	85,930
Europe, exc. Germany	982,394	870,751	9,305	5,744
Outside Europe	548,075	588,010	-	-
	2,228,278	2,173,779	84,421	91,674

(24) Other operating income

	Kali und Salz Group		Kali und Salz Beteiligungs AG	
	1998	1997	1998	1997
Income from the reversal of balance arising from capital consolidation	44,364	46,397	-	-
Income from the reversal of provisions	28,560	35,918	14,542	15,462
Gains from foreign currency exchange	16,349	44,796	2	475
Income from the reversal of special reserves	15,809	685	8,335	685
Income from damage claims	10,257	1,411	322	10
Income from rents and leases	7,581	9,359	6,785	7,442
Gains from the retirement of fixed assets	6,900	15,296	6,119	6,846
Gains from the retirement of financial assets	3,994	-	3,714	68
Income from tax recoveries from affiliates	13	31	4,965	9,278
Other	24,432	14,168	7,110	2,629
	158,259	168,061	51,894	42,895

Income of the Kali und Salz Group amounting to DM 40.175 million and of Kali und Salz Beteiligungs AG amounting to DM 25.516 million is attributable to other fiscal years and results from retirement of tangible assets, the reversal of provisions and from refunds.

(25) Other operating expenses

	Kali und Salz Group		Kali und Salz Beteiligungs AG	
	1998	1997	1998	1997
Pension expense	45,469	25,359	31,262	13,035
Expense for closed plants	37,136	49,191	14,435	15,272
Horizontal backfilling at Merkers	35,100	34,187	-	-
Losses from foreign currency exchange	14,814	17,527	-	-
Additional charges of capital expenditures	9,088	14,288	-	-
Housing expenses	6,366	7,664	5,640	6,237
Appropriation to the special reserve	6,101	14,188	6,101	6,714
Expense for social plan	2,812	3,315	-	-
Losses due to retirement of tangible assets	2,087	6,027	69	13

(25) Other operating expenses

	Kali und Salz Group		Kali und Salz Beteiligungs AG	
	1998	1997	1998	1997
Other taxes	255	237	222	3,729
Other	38,659	35,162	7,253	5,388
	197,887	207,145	64,982	50,388

Expenses of the Kali und Salz Group amounting to DM 8.188 million and of Kali und Salz Beteiligungs AG amounting to DM 6.170 million relate to prior fiscal years and result from appropriations to special reserves and losses from the retirement of tangible assets.

(26) Result from participating interests

	Kali und Salz Group		Kali und Salz Beteiligungs AG	
	1998	1997	1998	1997
Income from participating interests	847	907	80,771	662
Income from profit transfers	16	9	21,108	24,357
	+ 863	+ 916	+ 101,879	+ 25,019

Income from participating interests of Kali und Salz Beteiligungs AG includes DM 80 million resulting from the preliminary dividend of Kali und Salz GmbH for fiscal year 1998.

The income of Kali und Salz Beteiligungs AG from profit transfer agreements are largely attributable to Kali-Transport Gesellschaft mbH and Kali und Salz Entsorgung GmbH.

(27) Interest result

	Kali und Salz Group		Kali und Salz Beteiligungs AG	
	1998	1997	1998	1997
Other interest and similar income	33,474	33,158	21,555	22,916
- of which from affiliated companies	-	(14,265)	(28)	(5,696)
Interest and similar expenses	1,188	2,458	9,577	7,471
- of which to affiliated companies	(45)	(170)	(9,211)	(7,378)
Income from other securities, loans and other financial assets	2,712	2,492	802	887
	+ 34,998	+ 33,192	+ 12,780	+ 16,332

(28) Taxes

	Kali und Salz Group		Kali und Salz Beteiligungs AG	
	1998	1997	1998	1997
Income taxes	- 3,572	2,950	- 4,859	1,765
Other taxes	2,899	10,897	700	4,858
	- 673	13,847	- 4,159	6,623

Income taxes of Kali und Salz Beteiligungs AG relate to trade income taxes amounting to DM 2.641 million. As tax was already paid on the equity used for dividend payments, there is a corporation tax claim amounting to DM 7.5 million.

The Kali und Salz Group figures also include deferred taxes and foreign income taxes.

Other taxes are allocated to operational costs.

(29) Cost of materials

	Kali und Salz Group		Kali und Salz Beteiligungs AG	
	1998	1997	1998	1997
Cost of raw materials, supplies and purchased merchandise	535,812	542,194	31,386	32,436
Cost of purchased services	183,318	245,850	22,514	23,299
	719,130	788,044	53,900	55,735

(30) Personnel expense / Number of employees

	Kali und Salz Group		Kali und Salz Beteiligungs AG	
	1998	1997	1998	1997
Personnel expense				
Wages and salaries	580,851	549,099	22,205	21,906
Social security contributions	173,594	162,075	5,978	5,892
Pension	54,279	24,841	34,171	11,687
Assistance	604	800	135	159
	809,328	736,815	62,489	39,644

(30) Personnel expense / Number of employees

Number of employees (annual average)	Kali und Salz Group		Kali und Salz Beteiligungs AG	
	1998	1997	1998	1997
Wage earners	5,790	5,963	133	142
Salaried employees	2,352	2,415	133	134
	8,142	8,378	266	276
Part-time employees	98	93	9	10
Trainees	364	324	1	-
	8,604	8,795	276	286

(31) Minority interests

	Kali und Salz Group	
	1998	1997
Minority interests in net income	23	30,034

The participation in earnings in 1997 related primarily to the participating interests of the Federal Office for Special Tasks Arising out of Unification (Bundesanstalt für vereinigungsbedingte Sonderaufgaben) in the net income of Kali und Salz GmbH. After the acquisition of a 49-percent holding in Kali und Salz GmbH by Kali und Salz Beteiligungs AG, minority interests in net income refer exclusively to the minority interests in Sociedade Brasileira de Potassa e Adubos Ltda., Sao Paulo, Brazil.

Other Information**(32) Total remuneration of the Supervisory Board and the Board of Executive Directors**

	Kali und Salz Group	
	1998	1997
Total remuneration of the Supervisory Board	673	
Total remuneration of the Board of Executive Directors	2,017	
Total remuneration of former members of the Board of Executive Directors and their surviving dependents	1,218	
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	9,525	
	Kali und Salz Beteiligungs AG	
	1998	1997
Total remuneration of the Supervisory Board	579	
Total remuneration of the Board of Executive Directors	403	
Total remuneration of former members of the Board of Executive Directors and their surviving dependents	1,218	
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	9,525	

(33) Members of the Supervisory Board and the Board of Executive Directors

The list of members of the Supervisory Board and the Board of Executive Directors precedes the Management's Analysis.

(34) Proposal for appropriation of profit

We propose to the Annual Meeting the distribution of a dividend of DM 7.00 per DM 50.00 par value share from the profit retained of DM 35,059,348.21 of Kali und Salz Beteiligungs AG. Eligible shareholders in Germany will also receive a tax credit of DM 3.00 per share.

If this proposal is accepted, there will be a total dividend payment of DM 35,000,000.00 for the 1998 financial year on the share capital entitled to dividend amounting to DM 250,000,000.00. We furthermore propose that the remaining profit retained of DM 59,348.21 be carried forward.

Kassel, February 25, 1999

Kali und Salz Beteiligungs Aktiengesellschaft

The Board of Executive Directors



Auditors' opinion

The accounting records, the Financial Statements and the Group Financial Statements of Kali und Salz Beteiligungs Aktiengesellschaft, both of which we have audited in accordance with professional standards, comply with German legal provisions.

The Financial Statements of the company and the Group, prepared in accordance with generally accepted accounting principles in Germany, give a true and fair view of the net worth, financial position and earnings of the stock corporation and of the Group.

The Management's Analysis of the Kali und Salz Group and its consolidation with the Management's Analysis of Kali und Salz Beteiligungs Aktiengesellschaft is consistent with the Financial Statements of the company and the Group.

Hanover, February 26, 1999

Wollert-Elmendorff

Deutsche Industrie-Treuhand GmbH

Wirtschaftsprüfungsgesellschaft

Prof. Dr. Emmerich
Auditor

Vogel
Auditor

Major companies of the Kali und Salz Group

Kali und Salz Beteiligungs AG,
Kassel



Status: December 31, 1998

Ratio definitions

$$\text{Return on equity} = \frac{\text{DVFA result}}{\text{subscribed capital + reserves} + 50\% \text{ of special reserves} + \text{credit balance}}$$

$$\text{Return on total investment} = \frac{\text{Earnings before tax + interest expenditure}}{\text{Total assets less receivables and provisions for custodial work at Merkers, respectively}}$$

$$\text{Return on sales} = \frac{\text{Net income}}{\text{Sales}}$$

$$\text{Equity per share} = \frac{\text{Subscribed capital + reserves} + 50\% \text{ of special reserves} + \text{credit balance}}{\text{number of shares (5 million)}}$$

$$\text{Dividend yield} = \frac{\text{Proposed dividend per share} + \text{tax credit}}{\text{market price on balance sheet date}}$$

$$\text{Price-earnings ratio} = \frac{\text{Market price on balance sheet date}}{\text{DVFA result per share}}$$

At a glance

Kali und Salz Beteiligungs AG

in DM million	1994	1995	1996	1997	1998
Sales	94.9	86.7	73.9	91.7	84.4
Net income	39.3	15.9	21.1	22.8	107.5
Profit retained / Loss retained	- 102.3	- 86.4	- 65.3	- 42.4	+ 35.1
Cash flow	38.9	37.9	35.3	37.0	113.9
Capital expenditures to tangible fixed assets	4.6	8.8	11.2	6.6	19.5
Depreciation to tangible fixed assets	3.1	6.4	6.0	4.4	13.3
Number of employees (Dec. 31)	303	288	296	280	271
of which trainees	-	-	-	-	2
Personnel expense	41.0	49.8	42.7	39.6	62.5

Kali und Salz GmbH

in DM million	1994	1995	1996	1997	1998
Sales	1,683.2	1,718.2	1,907.8	2,024.4	2,121.4
Net income / Net loss	-40.6*)	-29.3	-7.4	+ 60.1	+ 89.9
Profit retained / Loss retained	-334.2	-363.5	-370.9	-310.7	0
Cash flow	48.4	75.3	123.2	190.4	334.0
Capital expenditures to tangible fixed assets	250.6	377.2	263.4	186.9	135.0
Depreciation to tangible fixed assets	204.0	117.4	162.9	174.9	213.4
Number of employees (Dec. 31)	9,104	8,786	8,431	8,066	8,030
of which trainees	277	321	354	385	432
Personnel expense	675.7	683.7	682.8	668.5	718.6

*) Result after withdrawal from capital surplus

Contacts:

Investor Relations

Hermann Schinkhof

Tel: ++49 (0)561 / 301 - 35 67

Fax: ++49 (0)561 / 301 - 24 25

Jörg Bettenhausen

Tel: ++49 (0)561 / 301 - 16 87

Fax: ++49 (0)561 / 301 - 23 63

email: joerg.bettenhausen@kalisalz.de

Communication

Ulrich Göbel

Tel: ++49 (0)561 / 301 - 17 22

Fax: ++49 (0)561 / 301 - 16 66

email: ulrich.goebel@kalisalz.de

Concept and design

Kirchhoff Consult AG, Hamburg



Kali und Salz Beteiligungs Aktiengesellschaft · Friedrich-Ebert-Strasse 160 · D-34119 Kassel
Federal Republic of Germany