

Annual Report 1999

People

Nature

Kali und Salz



At a glance K+S Group

		1999	1999	1998
		€ million	DM million	DM million
Sales and result				
Sales		1,191.9	2,331.1	2,228.3
Potash and Related Products		943.3	1,845.0	1,812.2
Salt		147.8	289.1	254.6
Waste Management		52.4	102.4	73.6
Services and Other Activities		48.4	94.6	87.9
Result before taxes		95.9	187.5	160.0
Net income		98.5	192.7	163.6
Return on sales	%	8.3	8.3	7.3
Net income after minority interests		98.7	193.1	163.5
DVFA result		63.5	124.2	115.0
Cash flow		228.3	446.6	404.0
Balance sheet				
Equity		444.4	869.2	882.9
Return on equity	%	18.4	18.4	14.9
Tangible fixed assets		499.6	977.2	972.0
Capital expenditures to				
tangible fixed assets		100.7	196.9	157.0
Depreciation to tangible fixed assets		118.3	231.3	227.8
Balance sheet total		1,337.5	2,615.9	2,443.9
Return on total investment	%	8.0	8.0	7.3
Employees				
Number of employees (Dec. 31)		9,176	9,176	8,472
of which: trainees		473	473	434
Personnel expense		410.4	802.7	792.3
Data per share		€	DM	DM
DVFA result		1.32	2.58	2.31
Dividend		0.57	1.11	0.70
Dividend incl. tax credit		0.81	1.59	1.00

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At a glance K+S Group

			1999	1999	1998	1997
			€ million	DM million	DM million	DM million
Sale	s and result					
	Sales		1,191.9	2,331.1	2,228.3	2,173.8
	Potash and Related Products		943.3	1,845.0	1,812.2	1,733.2
	Salt		147.8	289.1	254.6	259.3
	Waste Management		52.4	102.4	73.6	78.5
	Services and Other Activities		48.4	94.6	87.9	102.8
	Result before taxes		95.9	187.5	160.0	136.5
	Net income		98.5	192.7	163.6	133.6
	Return on sales	%	8.3	8.3	7.3	6.1
	Net income after minority interests		98.7	193.1	163.5	103.5
	DVFA result		63.5	124.2	115.0	41.3
	Cash flow		228.3	446.6	404.0	258.8
Bala	nce sheet					
	Equity		444.4	869.2	882.9	1,053.0
	Return on equity	%	18.4	18.4	14.9	14.7
	Tangible fixed assets		499.6	977.2	972.0	1,046.2
	Capital expenditures to tangible fixed assets		100.7	196.9	157.0	194.8
	Depreciation to tangible fixed assets		118.3	231.3	227.8	181.0
	Balance sheet total		1,337.5	2,615.9	2,443.9	2,647.1
	Return on total investment	%	8.0	8.0	7.3	5.9
Emp	loyees					
	Number of employees (Dec. 31)		9,176	9,176	8,472	8,507
	of which: trainees		473	473	434	385
	Personnel expense		410.4	802.7	792.3	736.8
	·					
Data	per share					
			€	DM	DM	DM
	DVFA result		1.32	2.58	2.31	0.82
	Dividend		0.57	1.11	0.70	_
	Dividend incl. tax credit		0.81	1.59	1.00	_

K+S Group

We are a group of companies combining a wealth of experience gathered over several decades with modern know-how. Our products, containing the substances potash, nitrogen, phosphate, magnesium, sodium and sulfur, make a major contribution to global nutrition, health and safety as well as – from this year onwards – to leisure activities. We also have considerable expertise in the field of ecology.

We belong to the major global suppliers of standard and specialty products for agriculture, horticulture and industry and also market a wide range of salt products. Drawing on our core business, we can offer a high level of expertise in the fields of waste management, logistics, consulting and data processing. Europe is our home market; however, with our wide range of products and services, we also occupy strategic positions in overseas markets.

We aim to carefully expand our spectrum of goods and services in order to strengthen the K+S Group as a supplier of specialty agricultural and branded products. To this end, we are targeting growth in new and profitable Business Segments related to our core areas of competence. We will continue to develop our position as an innovative, highly competitive supplier with a strong regional focus on the European market.

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Preface



Ralf Bethke

Ladies and Gentlemen,

The fiscal year 1999 was a very successful year for the K+S Group. We not only reached our ambitious targets with regard to sales but even exceeded expectations with regard to earnings.

Sales grew by 5 percent to DM 2.33 billion; net income rose by 18 percent to DM 192.7 million. These figures reflect our increased efforts on the market as well as high capital expenditures and improvements in our business processes. Business was also aided by favorable conditions in certain areas of activity.

As a result of these strong earnings, we intend to pay our shareholders a considerable higher dividend for 1999 than in the previous year. The Supervisory Board and Board of Executive Directors propose a dividend of DM 1.11 (euro 0.57) per share; an increase of 58 percent over the fiscal year 1998.

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The acquisition of the specialty supplier COMPO and the take-over of marketing and sales of BASF's agricultural fertilizer business in late 1999 were further milestones in our company's dynamic development. This applies in particular to COMPO, whose range of innovative and consumer-oriented products have made it Europe's leading private and commercial horticultural supplier. We aim to extend this competitive lead in COMPO's promising market segments.

With the addition of nitrogenous and multi-nutrient fertilizers produced for K+S by BASF, the K+S Group has advanced to become a system supplier of fertilizer products. Together with our successful potash and magnesium-based ranges, we have opened up new opportunities for further improvements in earnings. The agricultural fertilizer business will be managed by our newly established subsidiary, fertiva GmbH.

Despite a temporary weakness in demand for fertilizers, market conditions can generally be viewed as favorable for our business activities. We are therefore confident that we can once again present a good result in the fiscal year 2000.

Our success over the past few years is due in no small part to the competence, dedication and above-average level of commitment displayed by our employees. We would like to take this opportunity to thank them. We also thank our business partners and shareholders for the trust and confidence which they placed in us. Our aim is to remain a supplier which can enhance the benefit of the customers.

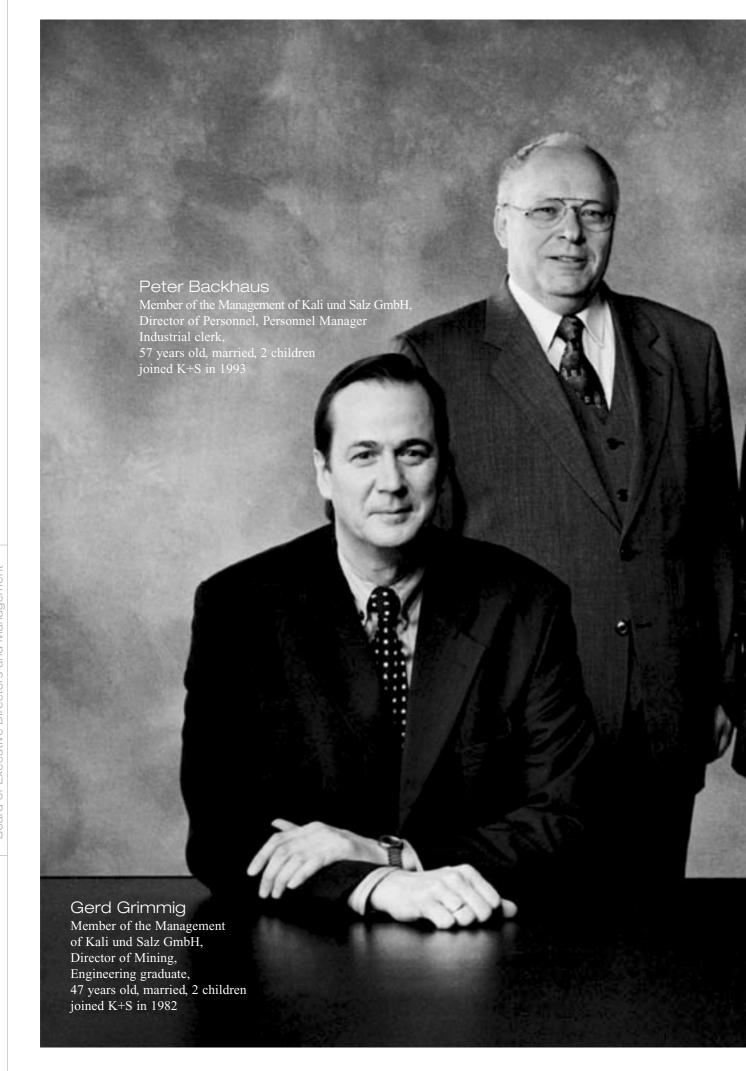
Yours sincerely,

Ralf Bethke

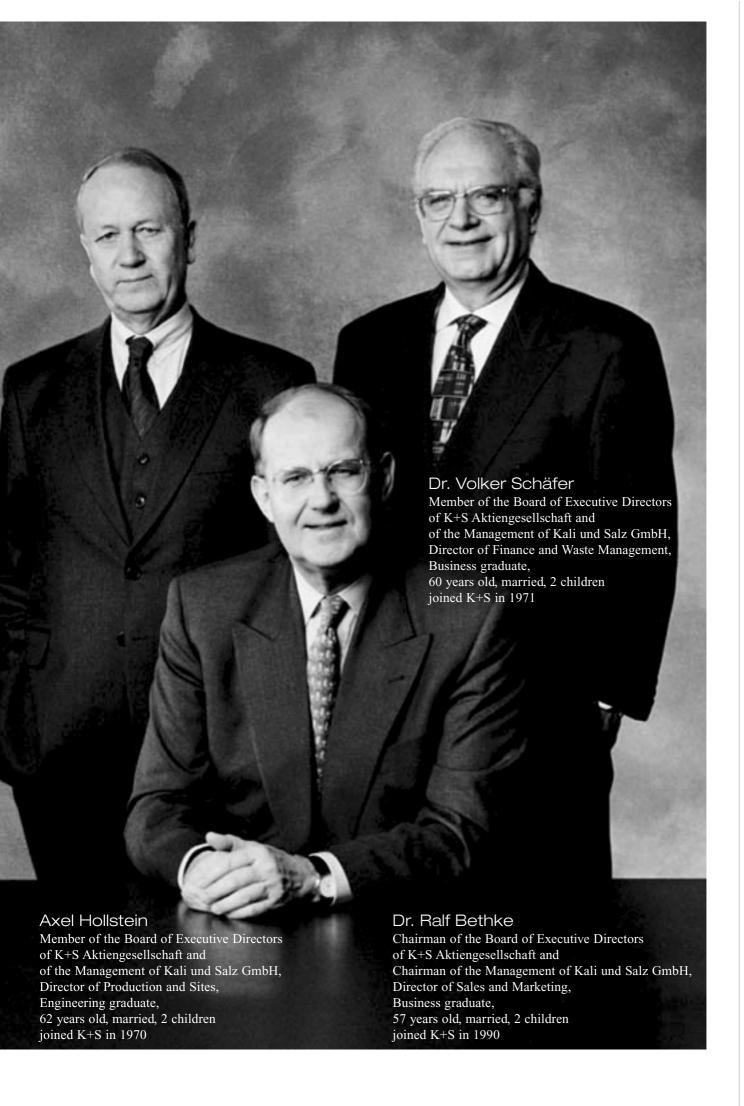
Chairman of the Board of Executive Directors

Raff delude

of K+S Aktiengesellschaft







Report of the Supervisory Board



Gerhard R. Wolf

Dear Shareholder,

In 1999 the K+S Group posted its best-ever results for its existing Business Segments. Major decisions were taken concerning the Group's future development. After acquiring third-party interests in Kali und Salz GmbH in 1998, the Group continued to pursue its strategy in 1999 with the acquisition of COMPO and the take-over of marketing and sales of nitrogenous and multi-nutrient fertilizers produced for K+S by BASF. The K+S Group has thus greatly expanded its business portfolio and its proportion of specialty and branded products.

The Supervisory Board was on hand to offer advice during this important phase of strategic alignment and growth for the K+S Group. At the same time, we closely monitored the development of the Group's existing Business Segments.

Supervisory Board Meetings

The Supervisory Board met on four occasions during the previous financial year and was kept thoroughly informed by verbal and written reports of the Board of Executive Directors. Together with the financial key figures provided, this information formed the basis of our discussions on the company's business situation. Furthermore, the Chairman of the Supervisory Board remained in constant contact with the Board of Executive Directors in connection with key strategic questions and was regularly informed on all important business events.

Key Events

During the business year under review the Supervisory Board's discussions centered mainly on the work of the Board of Executive Directors, the development of business, the current earnings situation and the financial situation of the Group and its affiliated companies. Furthermore, individual items requiring the approval of the Supervisory Board as part of its legal or statutory responsibility were discussed in detail.

The Supervisory Board advised and encouraged the Board of Executive Directors in its decision to acquire COMPO and to take over the marketing of BASF fertilizers. As the contractual partner is also a shareholder of K+S Aktiengesellschaft, the Supervisory Board requested the services of an independent expert, who attested that the agreements made were fair and reasonable.

In the period under review 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 on March 9 and August 25, 1999.

Annual Statements

The financial statements of K+S Aktiengesellschaft and the K+S Group for the fiscal year 1999, including the books and the joint Management's Analysis for K+S Aktiengesellschaft and the K+S Group, have been examined by Wollert-Elmendorff Deutsche Industrie-Treuhand GmbH, the auditors voted by the Annual Meeting and appointed by the Supervisory Board. Both annual statements were awarded an unqualified opinion. The auditors provided all members of the Supervisory Board with copies of their audit reports on K+S Aktiengesellschaft and the K+S Group. At today's meeting of the Supervisory Board, the auditor was on hand to explain the result of his examination and to answer questions. The Supervisory Board agree with the opinion of the auditors and on conclusion of its own examination see no grounds for objections. The Supervisory Board therefore approves the financial statements of K+S Aktiengesellschaft as drawn up by the Board of Executive Directors. The financial statements are thus final. The Supervisory Board concurs with the proposal of the Board of Executive Directors as to the appropriation of retained profit.

Personnel Changes on the Supervisory Board

Mr. Willi Fahner, former Chairman of the Joint Works Council of Kali und Salz GmbH retired from the Supervisory Board on June 24, 1999. He performed his statutory duties with great dedication during his time on the Board. The Supervisory Board thanked Mr. Fahner on behalf of the company. Mr. Klaus Krüger was appointed to the Supervisory Board with resolution of the County Court of Kassel as of August 9, 1999. Mr. Krüger is Chairman of the Joint Works Council of Kali und Salz GmbH and also Chairman of the Works Council of the Zielitz facility of Kali und Salz GmbH.

The Supervisory Board would like to express its appreciation and gratitude to the Board of Executive Directors and the management of all subsidiaries, as well as to all labor representatives and employees of the K+S Group for their commitment and performance during the past business year.

Kassel, March 15, 2000 On behalf of the Supervisory Board

Gerhard R. Wolf

Chairman

Supervisory Board

Gerhard R. Wolf, Worms

Chairman

other seats:

Kali und Salz GmbH (Chairman), Hornbach Baumarkt AG, Hornbach Holding AG (Chairman), Lehnkering AG, SGE Deutsche Holding GmbH (until December 1999), STINNES AG, Südzucker AG, other committees:

Heidelberg Innovation GmbH / Bio Regio

Manfred Kopke, Neukirchen-Vluyn

Deputy Chairman

other seats:

Kali und Salz GmbH (Deputy Chairman), Allgemeine Deutsche Direktbank AG, BGAG Beteiligungsgesellschaft der Gewerkschaften AG, Metallgesellschaft AG (until July 1999), Saarbergwerke AG (Deputy Chairman), Thyssen Schachtbau GmbH (Deputy Chairman)

Willi Fahner, Philippsthal

until June 24, 1999

other seats:

Kali und Salz GmbH (until June 1999)

Leonhard H. Fischer, Frankfurt/Main

Member of the Board of Executive Directors of Dresdner Bank AG

other seats:

Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH, dresdnerbank investment management Kapitalanlagegesellschaft mbH, Dresdner Capital International Kapitalanlagegesellschaft mbH, Eurex Clearing AG, Eurex Frankfurt AG, SVC AG Schmidt Vogel Consulting other committees:

dresdnerbank assets management S.A. (Luxemburg), Dresdner Kleinwort Benson (Asia) Ltd. (Hongkong / Japan), Dresdner Kleinwort Benson (Marchés) (France), Dresdner Kleinwort Benson North America Inc. (USA), Dresdner RCM Global Investors LLC (USA), Eurex Zürich AG (Switzerland)

Karl-Heinz Georgi, Haltern

Head of the Bildungszentrum Haltern der Industriegewerkschaft Bergbau, Chemie, Energie (Mining, Chemical and Energy Union training center)

other seats:

BEB Erdgas und Erdöl GmbH (until May 1999)

Rainer Grohe, Munich

Member of the Board of Executive Directors of VIAG AG

other seats:

Frankfurter Versicherungs AG, Gerresheimer Glas AG, Klöckner-Werke AG, Schmalbach-Lubeca AG, Thyssen Krupp Industries AG, TÜV Mitte AG, VAW Aluminium AG

Rüdiger Kienitz, Geisa

Member of the Works Council of the Werra potash plant of Kali und Salz GmbH

Klaus Krüger, Wolmirstedt

Chairman of the Joint Works Council of Kali und Salz GmbH

since August 9, 1999

Helmut Mamsch, Essen

Member of the Board of Executive Directors of VFBA AG

other seats:

Commerzbank AG, Degussa-Hüls AG, Readymix AG, SGE Deutsche Holding GmbH, STEAG AG other committees:

Logica plc (Great Britain), MEMC Electronic Materials Inc. (USA)

Hans Peter Schreib, Düsseldorf

Lawyer, Member of the Management Board of the Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW)

other seats:

Gildemeister AG, Metro AG, Thyssen Industrie AG (until August 1999)

Dr. Eckart Sünner, Neustadt a. d. Weinstraße

Managing Director Legal Affairs, Taxes and Insurance of BASF AG

other seats:

Kali und Salz GmbH, BASF Coatings AG (until December 1999), BASF Schwarzheide GmbH, Knoll AG, Wintershall AG other committees: BASFIN Corporation (USA)

Hans-Dieter Winkelhake, Rehburg-Loccum

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

Dr. Helmut Karl Zentgraf, Burghaun

Plant Manager of the Neuhof-Ellers potash plant of Kali und Salz GmbH

Executive Directors

Management

K+S Aktiengesellschaft

Dr. Ralf Bethke, Kassel

Chairman

Director of Sales and Marketing

other seats:

SGE Deutsche Holding GmbH

Axel Hollstein, Kassel

Director of Production and Sites

Dr. Volker Schäfer, Kassel

Director of Finance and Waste Management

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

K+S share

Key data of the K+S share		1999 in €	1998 ^{*)} in €
Dividend		0.57	0.36
Dividend incl. tax credit		0.81	0.51
Net income		1.97	1.68
DVFA result (new method)		1.32	1.18
Cash flow		4.74	4.13
Equity		10.72	11.23
Year's high		15.80	13.74
Year's low		10.55	6.65
Year-end price		14.05	11.81
Number of shares	million	50.0	50.0
Stock exchange turnover (Jan-Dec)	€ million	541.8	466.4
Market capitalization (Dec. 31)	€ million	702.5	590.5
Dividend payments **)	€ million	25.8	17.9
Price-earnings ratio		10.6	10.0
Dividend yield (incl. tax credit)	%	5.8	4.3

^{*)} previous year's figures adjusted for share split of 1:10

Share split completed

At the Annual Meeting in May 1999 K+S AG shareholders voted to accept a new division of the company's existing capital stock and a conversion to no-par-value shares. The corresponding amendments to the company's articles were filed with the Commercial Register as of July 1999. As a result of the 1 to 10 share split, which was physically completed by the end of August 1999, the capital stock is now divided into 50 million no-par-value shares. As the company's articles do not allow shareholders to demand individual share certificates, the old share certificates were also declared invalid at the end of 1999.

K+S share once again outperforms MDAX

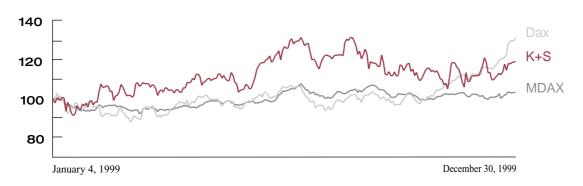
At the close of trading for 1999, the German stock index DAX stood at 6,958 points -39 percent above its closing rate of the previous year (5,006). Investors, however, were interested mainly in just a small number of communication technology and high-tech shares.

The MDAX index, in which K+S has been listed since September 1998, was up just 3 percent on the previous year after a number of fluctuations.

^{**) 1999} figure after deduction of own shares

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Development of the K+S share in 1999 compared to the DAX and MDAX (indexed)



The K+S share once again outperformed the MDAX in 1999. Although the share failed to hold its mid-year high of euro 15.80, the year-end price of euro 14.05 was a gratifying 19 percent up on the previous year-end level. Considering the share's low price-earnings ratio and our projected sales and earnings figures, we still feel that there is considerable scope for further share price increases.

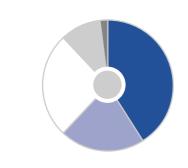
Further changes to shareholder structure

On February 17, 2000, we carried out our first survey of shareholder structure and achieved a response rate of 93 percent. The survey showed that stock of K+S Aktiengesellschaft is held by around 24,000 shareholders.

Institutional investors and foreign banks account for 41 percent of registered capital stock. A further 21 percent is held by German and foreign companies; including the equity holding of BASF AG. Private investors own around 26 percent of all shares; this figure includes shares held by almost 8,500 employees of K+S. The Annual Meeting of K+S Aktiengesellschaft in May 1999 gave the Board of Executive Directors the permission to buy back company's own shares. The company currently holds about 10 percent of its own shares. The remaining 2 percent are held by various share-holders.

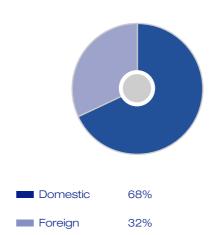
The regional distribution of share ownership reveals that 68 percent of registered capital stock is held by German investors. Most foreign investors are residents of Great Britain, Luxembourg, Switzerland and the USA, with regional shares of between 7 and 9 percent each.

Shareholder structure





Shareholders by region



K+S share

Sustained increase in value

Seen from the medium-term perspective, an investment in K+S shares represented an attractive return on investment. The shareholder who purchased K+S shares for euro 5,000 at the end of 1996 and reinvested his dividend payments in further K+S shares, found his investment was worth euro 11,430 on December 31, 1999. An increase in value of almost 129 percent in the space of three years. During the same period, the German DAX rose by about 104 percent and the MDAX by 40 percent.

Market Value Added

The capital market uses a number of indicators to measure the performance of a company. One such indicator is Market Value Added (MVA). MVA is defined as the difference between the market value of a company and its business assets; it indicates the value added by the company from the point of view of the investor.

The rise in value of the K+S share led to a higher market capitalization on the balance sheet date and thus to a higher market value of the K+S Group's equity capital. As liabilities were also up slightly at year-end, the market value of total capital grew to euro 1,263.9 million. As of December 31, 1999, business assets had grown to euro 1,106.5 million. The difference of euro 157.3 million represents MVA, which was thus euro 21.8 million higher than year-end 1998.

Economic Value Added

The improvement in K+S earnings is only partially reflected by the company's share price. This is shown by the indicator Economic Value Added (EVA), which represents the difference between the company's operating profit and its cost of capital. EVA reveals whether the company has been able to recover capital costs from its operating activities.

We base our EVA calculations on a capital cost rate of 6.9 percent, which represents the weighted average between assumed return expectations of equity investors and debt capital costs after taxes. In 1999 we generated a return on capital of 8.9 percent based on average tied business assets. As this was above our capital cost rate, we achieved an EVA of euro 21.0 million. We view this as a realistic figure also for the coming years.

The company's future earnings capacity, based on the above EVA figure, would lead to an increase in MVA and a higher market capitalization. This interdependence of MVA and EVA indicates that the current market value of K+S does not yet reflect the true earnings capacity of the K+S Group.

Financial timetable

Report on the 1999 business year

Annual report press conference and analyst conference, Frankfurt/Main

Interim report March 31, 2000

Annual Meeting 2000, Kassel

Dividend payment

Interim report June 30, 2000

Interim report September 30, 2000

Press conference and analyst conference, Frankfurt/Main

Report on the 2000 business year

Annual report press conference and analyst conference, Frankfurt/Main

Annual Meeting 2001, Kassel

Date

March 17, 2000

March 17, 2000

May 11, 2000

May 11, 2000

May 12, 2000

August 10, 2000

November 24, 2000

November 24, 2000

March 15, 2001

March 15, 2001

May 9, 2001

Higher dividend

The Board of Executive Directors and Supervisory Board will propose a greatly increased dividend payment for the fiscal year 1999: the Annual Meeting will be recommended to accept a dividend of euro 0.57 or DM 1.11 per share — an increase of 58 percent over the previous year. Eligible shareholders in Germany will also receive a tax credit of euro 0.24 or DM 0.48 per share.

Based on a year-end share price of euro 14.05, the dividend yield including tax credit amounts to 5.8 percent; an increase of 1.5 percentage points over the previous year.

Further expansion of Investor Relations activities

In the past business year we succeeded in intensifying our relations with investors and the financial community. Together with the German Society of Investment Analysts and Asset Managers (DVFA) we held two conferences, in March and November, for analysts and representatives of the press. We also made numerous new contacts and held a number of individual talks with potential investors.

In addition to our re-styled quarterly reports, interested investors can access a wealth of recent information about K+S and its business activities via the Internet at our www.kalisalz.de homepage. The company's Web pages contain documents of conferences and press releases concerning major company events as well as interim and annual reports. K+S is a member of the German Investor Relations Circle (Deutscher Investor Relations Kreis e.V. DIRK).



Nutrition

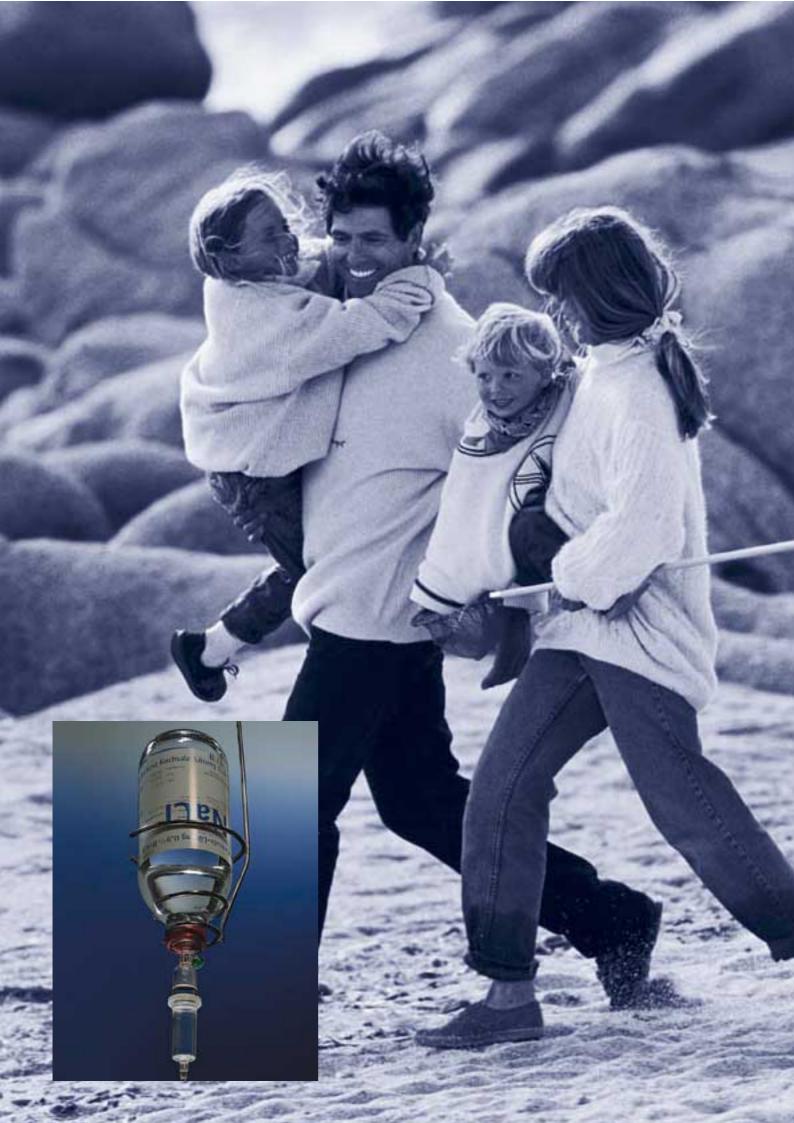
High-quality K+S fertilizers secure rising agricultural food output

The world population continues to grow from year to year. Today, the earth is already home to more than 6 billion people – in thirty years the figure is expected to reach 8 billion. World food production must therefore grow significantly in the coming years in order to feed this estimated population level at today's standards.

The basis of all food production is the plant. In addition to light, air and water, plants also require mineral nutrients to grow. Only properly nourished plants will be able to meet the rising crop expectations – both today and in future. It is man's own responsibility to secure and develop sustainable soil fertility. However, such sustained fertility requires regular replacement of those nutrients which plants take out of the ground. These include nitrogen and phosphate as well as the minerals potash, magnesium, sodium and – increasingly – sulfur and other trace elements.

Increased crop yields can only be achieved by intensive utilization of those agricultural areas available to us today. The possible, limited expansion of crop land would not be sufficient to offset the steady decline in fertile land caused by the effects of urbanization, destruction, floods and desertification.

Our raw salts – the basis for our high-quality K+S fertilizers – contain not only potash, but also the valuable nutrients magnesium, sodium and sulfur; a fact which sets us apart from our main competitors. We are already making a major and essential contribution towards providing balanced nutrition, adapted to both the needs of the plant and its environment. We have the potential to meet the earth's increasing food needs, also in future.



Health

K+S-a competent supplier of products for the manufacture of pharmaceutical preparations and salt specialties

Our high-purity pharmaceutical salts and also our table salts enriched with iodine and fluoride make important contributions towards preserving and recovering human health.

As active pharmaceutical substances, sodium chloride and potassium chloride are needed for infusion and dialytic solutions. K+S supplies pharmaceutical companies throughout the world and is in close and constant contact with infusion and dialysis producers.

In addition to electrolytic and glucose solutions, infusion therapies also involve intra- and post-operative cleansing solutions as well as carrier solutions for drugs containing potassium, sodium and magnesium. We supply the main ingredients for so-called plasma expanders or volume replacement solutions used in the case of blood loss or for therapeutic blood dilution.

Potassium- and sodium salts also play a key role in nutritional therapies. They are used to "top up" the body's store of essential nutrients in the case of illness. These nutrients can be provided either intravenously or via artificial feeding. Leading producers of infusion solutions also supply complete home care packages for patients.

We intend to intensify our activities in the field of pharmaceutical substances in order to build on our strong position in this important and highly profitable specialty segment.





Ecology

K+S offers the best conditions for long-term safety in the disposal of waste

Our systems for the ecologically sound disposal and reutilization of waste make a major contribution towards protecting our environment. By using the highest possible safety and quality standards, regularly inspected by state institutions, our underground depositories are able to provide long-term safety for waste requiring a high degree of supervision. These materials mostly consist of waste which cannot be reprocessed in any form.

The dry and highly stable chambers of the K+S salt mines provide the safest possible solution for the disposal and reutilization of such waste for a number of reasons:

- The geological conditions of our salt mine depositories, which have remained intact for over 200 million years, effectively seal off any stored waste from the biosphere.
- The storage chambers are several hundred meters below the earth's surface and effectively separated from the groundwater well above them by the natural impermeability of the earth's layers.
- In contrast to other waste disposal methods, underground storage chambers do not create additional waste which may have to be disposed of later.
- On completion of storage activities, the chambers are closed and the stored waste permanently sealed in. This method requires no usage of valuable surface space, no further care and represents no danger for the biosphere.

In conjunction with our stringent safety, monitoring and testing processes, the above conditions have helped us to achieve a reputation as one of the safest waste disposal facilities worldwide. By constantly developing our disposal technologies and widening the spectrum of storage materials, we are constantly expanding our range of long-term disposal solutions in this important field of activity.



Safety

K+S - a major supplier of de-icing products

Wintry road conditions with ice, sleet and snow represent a regular, annual challenge for the municipal and highway clearance teams. They provide an invaluable service with regard to road safety, cost efficiency and protection of the environment. Without de-icing salt and modern methods of distributing it effectively on road surfaces, there would be a significant rise in the number of accidents and casualties with all the attendant costs of vehicle damage, delays and even total transport breakdowns causing considerable damage to the economy.

The main objective of the clearance teams is to achieve safe road conditions in the shortest possible time and with the minimum amount of de-icing salt. With the introduction of damp salt technology, the amount of salt required was drastically reduced without affecting the effectiveness. The clearance vehicles spray carefully dosed amounts of dry salt with calcium, magnesium or sodium chloride solutions before dispatching it onto the road surface. Damp salt de-ices faster and cannot be blown away as easily.

A study prepared by the Swiss Federal Office for Roads came to the conclusion that salt was also cheaper, safer and more ecologically compatible than grit. It proved that de-icing salt represents a considerable benefit for the economy, as it reduces the number of accidents by a quarter in comparison to untreated roads. Surfaces treated with grit provide much less grip for vehicles. In addition, the costs for grit are about six times more in normal winters and up to ten times more for a severe winter. Due to the dirt left on grit by tires and oil residue, it also has to be specially disposed of as a hazardous waste material.

K+S provides strong support for road clearance teams with a full range of de-icing salt types as well as magnesium and calcium chloride products, which offer tailored solutions to specific road condition problems.

Portfolio expanded and proportion of specialty products increased

In December 1999 we acquired COMPO together with its fertilizer production and distribution facility in Krefeld, Germany, from BASF. In addition, we took over the marketing, world-wide sales and distribution of agricultural fertilizers still produced by BASF at various facilities in Europe. The total cost amounted to DM 420 million. COMPO was taken over virtually free of debt and has sufficient own funds to finance its fixed and current assets. Both COMPO and the agricultural fertilizer business will be managed by two newly created Business Segments.

COMPO is the leading supplier on the horticultural or "green" market. Its COMPO® brand is a recognized quality leader among gardening and flower enthusiasts. The company offers a wide range of high-quality branded products for the home and garden as well as products for specialty plants and market gardens. COMPO is the market leader in Europe with sales of DM 600 million.

The current market volume in Europe of DM 3.3 billion will grow significantly over the coming years. COMPO is expected to benefit more than average from this development.

COMPO fits ideally to the growth and specialty strategy of K+S. The company represents a further strong pillar for our business and its success depends on quite different factors and conditions to those affecting our other Business Segments. Furthermore, we aim to explore further acquisition and alliance possibilities in the same operating and strategic field as COMPO.

In addition to COMPO's German facilities in Münster, Krefeld and Uchte we also took over the production and sales companies in France, Belgium and Greece as of December 31, 1999. During the course of the year these will be joined by further COMPO sales companies and those for agricultural fertilizers in Europe and overseas.

Our agricultural fertilizer activities, with sales of around DM 1 billion, will be managed by the newly founded company fertiva GmbH. With this acquisition K+S has advanced to become Europe's second largest supplier of fertilizers after Norsk Hydro.

The fertilizers produced by BASF are single nitrogen and multinutrient fertilizers; the leading brand on this market with high awareness levels is Nitrophoska[®]. The BASF fertilizer production facilities are favorably located for both European and overseas distribution. By taking over the marketing and world-wide sales activities we can utilize numerous regional and logistical synergies with our existing potash business, which will greatly benefit the whole K+S fertilizer Segment.

Potash market

The world demand for potash remained firm in 1999 at 24.8 million tons of K₂O.

There was a marked decline in demand, however, on the North American market, where sales fell by 5 percent to 5.8 million tons of K₂O. The situation in South America recovered slightly towards the end of the year to reach 3.4 million tons of K₂O, after sales in the first half of 1999 had been 25 percent below the previous year's level.





COMPO specialties for home and garden

Demand for potash on the main Asian markets of China, India, Indonesia and Malaysia was up 7 percent, despite the recessionary effects still being felt in 1999 and China's low level of potassium sulfate imports. With sales of 7.9 million tons of K_2O , the region once again confirmed its above-average growth potential.

Sales of potash in Western Europe were down by around 3 percent to 5.1 million tons of K₂O. Demand was inhibited by changes to the EU's Common Agricultural Policy. In Eastern Europe and the former states of the Soviet Union, insufficient funding and government intervention in agricultural marketing prevented the urgently needed increase in the use of fertilizers to an acceptable minimum level. At 2.1 million tons of K₂O, sales of potash remained at the same very low and completely insufficient level of the previous year.

Our increased European alignment over the last few years and proximity to our customers have enabled us to exploit in many cases the potential opened up by the decline in French production of potash. This meant that we were not affected as strongly by the general fall in demand on many overseas markets as well as in Europe. K+S once again succeeded in defending its 14-percent share of the world potash market in 1999.

Salt market

The salt business is characterized by ever greater concentration on the demand side as the European markets continue to grow together. There is only little absolute growth in consumption of salt throughout Europe. Due to excess capacity, all suppliers have little possibility of improving prices. The competition from West European and increasingly from East European producers means that increases in market share or profitability are difficult to achieve. This situation has led to a number of alliances and acquisitions also on the supply side. We are keeping a watchful eye on the situation.

We are countering this intensified competitive situation with further measures to reduce costs and increase efficiency as well as by constantly improving our logistics. In the deicing salt market we can capitalize on the cost advantages from our rock salt mining business. We also react more quickly to changing consumer demands. Despite the difficult market conditions, we are convinced that we can improve our market position by achieving a high level of customer satisfaction.

Waste management market

Competition on the waste management market continued to be fierce while waste volumes in Germany showed signs of decline. The general decline results from the political and legal priority given to the policy of "avoidance before reutilization before disposal". According to our estimates, this development will continue in the coming years, although in a somewhat milder form.

Due to our customer-oriented and ecologically sound full-service disposal concepts, together with the establishment of partnerships with our customers, superior quality assurance and good value for money we were able to successfully defend our strong position on the German market in the past year. With the highest quality standards in Europe, we are looking increasingly outside Germany to expand orders for our waste management services. Our main targets are Germany's direct European neighbors.

K+S Group sales up 5 percent

At DM 2,331.1 million, consolidated sales of the K+S Group exceeded the previous year's high level by a further 5 percent.

In the Business Segment Potash and Related Products, sales were up by 2 percent on the previous year to DM 1,845.0 million. There was particularly encouraging growth in sales of our Kieserite and industrial potash products.

Sales of the Salt Segment were raised by DM 34.5 million to DM 289.1 million. This growth was achieved mainly through higher demand for de-icing salts at the beginning of the year as well as strong early deliveries in fall.

Our Waste Management business progressed very favorably in the period under review. This resulted mainly from business with residual pollution and from the favorable development of building waste recycling; sales rose 39 percent to DM 102.4 million.

Sales of the Services and Other Activities Segment grew by DM 6.7 million to DM 94.6 million as a result of improved trading activities in the USA.

Sales by Segments in DM million









Powerful machines transport rock salt in our underground mines

Cutting-edge drilling technology in our mines

Sales to European customers were once again up by 5 percent in 1999 to reach DM 1,766.3 million. This figure includes German sales of DM 739.0 million (1998: DM 697.8 million). Europe is the domestic market for a large proportion of our fertilizer business, as well as for potassium- and magnesium-based industrial products, salts and waste management. In this market we can fully utilize our advantages over competitors – particularly from overseas – in the fields of logistics, freight and especially service.

In our overseas markets we posted sales of DM 564.8 million (1998: DM 548.1 million). We continue to occupy strategically important positions in selected markets in North and South America, as well as in Asia and Africa.

Earnings

By exploiting our market opportunities, carefully monitoring costs and optimizing our business processes we succeeded once more in raising earnings in the fiscal year 1999.

Earnings before interest, taxes and depreciation (EBITDA) of the K+S Group grew by DM 31.2 million compared to 1998 to reach DM 403.3 million – an increase of 8 percent. Due to savings in energy expenses, manufacturing costs grew more slowly than sales revenues. As a result there was a stronger percentage increase in EBITDA than in sales.

The Group's operating result (EBIT) also made very encouraging progress, rising by DM 31.7 million to DM 173.1 million, as depreciation of DM 231.4 million was only marginally higher than in the previous year (DM 230.7 million). This growth in earnings in 1999 was driven mainly by the Salt and Waste Management Segments.

The Salt Segment improved EBIT by DM 16.9 million to DM 36.9 million. This was due mainly to increased sales of de-icing salts, achieved with a less than proportionate rise in costs.

Increased waste deposits brought about a similar effect in the Waste Management Segment, which was further aided by a high degree of flexibility and fast adjustment of capacity. In this Segment we were able to raise EBIT by DM 17.0 million to DM 40.7 million. The Segment profits to a great extent from the preliminary underground work of the Potash and Related Products and Salt Segments.

At DM 85.5 million, EBIT of the Potash and Related Products Segment could not quite achieve the high level of the previous year (DM 91.4 million).

The Services and Other Activities Segment succeeded in fulfilling the targeted earnings of DM 10.0 million; an increase of DM 3.6 million over the previous year.

Due to higher depreciation of securities in current assets, the Group's financial result was somewhat below last year's level at DM 14.5 million (1998: DM 18.6 million). The interest of DM 18.6 million contained in transfers to pension provisions was included in the financial result and is no longer included in EBIT. The change in disclosure carried out during the period under review was also applied to comparative figures of the previous year.

As a result of the strong increase in EBIT, the Group's result before taxes grew by DM 27.5 million compared to the previous to stand at DM 187.5 million.

Net income of the K+S Group grew by around 18 percent in 1999 to DM 192.7 million. Net income after minority interests rose by approximately the same amount from DM 163.5 million to DM 193.1 million in 1999.

Annual Financial Statements of K+S Aktiengesellschaft

In the fiscal year 1999, K+S Aktiengesell-schaft raised sales by DM 11.9 million to DM 96.3 million. This rise in sales income resulted from an upturn in business of the company's underground depository in Herfa-Neurode.

Net income amounted to DM 97.0 million (1998: DM 107.5 million). The result includes an interim dividend payment of Kali und Salz GmbH amounting to DM 70.0 million (1998: DM 80.0 million).

Profit retained by K+S Aktiengesellschaft amounted to DM 51.1 million (1998: DM 35.1 million). We aim to use part of this

sum to pay a higher dividend to our share-holders. The Board of Executive Directors and Supervisory Board will therefore propose to the company's Annual Meeting a dividend payment of euro 0.57 or DM 1.11 for each share bearing dividend rights. Eligible German shareholders will also receive a tax credit of euro 0.24 or DM 0.48 per share.

Financial position remains favorable

The financial strength of the K+S Group continued to improve in 1999. At DM 446.6 million, cash flow was up 11 percent on the previous year.

There was an even stronger increase in cash provided by operating activities. A reduction in working capital led to a marked reduction in tied up funds.

Cash used in investing activities was heavily influenced by capital expenditures of DM 196.9 million and prorated expenditure of DM 290.8 million for the acquisition of the COMPO companies in late 1999. The purchase agreement foresees the acquisition of further COMPO companies during the current fiscal year.

Cash used in financing activities concerns the dividend payment of DM 35.0 million distributed in May 1999. In 1998 cash provided from financing activities amounted to DM 70.0 million.

The acquisition of COMPO was financed completely from liquidity. The remaining cash funds also include our own shares.

Cash flow statement	1999	1998
in DM million		
Net income	192.7	163.6
Cash flow	446.6	404.0
Cash provided from operating activities	479.4	299.3
Cash used in investing activities	- 550.9	- 486.1
Cash used in / provided from financing activities	- 35.0	70.0
Changes in cash	- 109.7	- 116.6

DVFA result	1999	1998
in DM million		
Net income after minority interests	193.1	163.5
Deferred tax adjustments	- 74.3	- 57.5
Write-back of balance arising from capital consolidation	- 36.5	- 44.4
Special depreciation of fixed assets	25.8	28.7
Net change from special items	4.4	- 5.2
Additions to provisions	11.9	31.9
Other adjustments	- 0.2	- 2.0
DVFA result	124.2	115.0

DVFA result

The Group's DVFA result for both 1999 and 1998 has been adapted to the new recommended calculation method.

The greatest impact on earnings results from the inclusion of deferred tax payment in the case of loss carry-forwards. This resulted in an imputed tax burden of DM 74.3 million for the K+S Group (1998: DM 57.5 million).

In contrast to the old DVFA calculation basis, the result also has to be adjusted for earnings from the write-back of balance arising from capital consolidation.

This change in the calculation method resulted in corrections totaling DM-68.9 million. The DVFA result for the past financial year therefore amounted to DM 124.2 million (comparable figure for 1998: DM 115.0 million).

Improved returns

At 8.0 percent, the Group's return on total investment before tax was up once more on the previous period (7.3 percent). Return on equity after tax also made good progress and at 18.4 percent (1998: 14.9 percent) reflects our strong level of profitability.

The positive development of value and profitability of the whole K+S Group was also reflected in the return on sales achieved in 1999. At 8.3 percent the figure was well in excess of last year's healthy 7.3 percent.

Balance sheet structure

As of December 31, 1999, the ratio of fixed assets to total assets was unchanged from the previous year at 42 percent. The equity ratio also remained above average; a fact reflected by the very favorable ratio of equity to fixed assets. The goodwill of DM 183.7 million included in the purchase price of the COMPO companies was netted with capital surplus.

After payment of the prorated purchase price for COMPO, the Group's cash assets fell from DM 672.6 million to DM 562.9 million. In total, the K+S Group still has comparatively large funds of cash and cash equivalents. A major share of these cash assets is required for the payment of pension obligations and the fulfillment of legal commitments with regard to mining activities, which we have included in provisions.

Employees

The number of staff employed by foreign and domestic companies of the K+S Group in 1999 was up by 704 in comparison with the previous year. The rise in personnel resulted from the acquisition of COMPO and the take-over of the agricultural fertilizer business; a total of 729 employees were taken over at the end of the year. On December 31, 1999, the K+S Group employed a total of 9,176 people (1998: 8,472).

Of this total staff figure, the Group employed 473 trainees as of December 31, 1999 (1998: 434). Despite the increase in staff levels resulting from the newly consolidated companies, the ratio of trainees remained at the comparatively high level of 5.2 percent. This figure reflects both our strategy of developing our own future staff, as well as our continued commitment to providing employment in the structurally weak regions where our facilities are located.

Personnel expenses of the K+S Group grew by DM 10.4 million in 1999 to DM 802.7 million. The rise was due in particular to unionnegotiated pay rises as well as to the increase in profit-sharing schemes for our staff. Profit-related staff remuneration in 1999 amounted to DM 49.6 million (1998: DM 20.3 million). This figure includes an increase of 10 percentage points to 140 percent in the company's voluntary remuneration above the unionnegotiated annual payments. Also included are the free K+S shares offered to staff.

Constant improvement of our apprenticeship and training programs is an important component of our personnel development strategy. In 1999, a total of 3,371 employees participated in qualification programs (1998: 2,867).

In 1999 there was a renewed increase in the number of staff participating in our company suggestion scheme. Employees posted 1,705 improvement proposals with expected savings for the company of around DM 3.0 million per year.

We undertake numerous measures in order to ensure a high degree of safety and health protection at our facilities. We set high standards for our employees in the elimination of possible dangers and avoidance of accidents. In addition to motivating each employee to respect the safety regulations, we provide regular training measures in order to make all staff aware of their responsibility.

In the period under review there were 80 reported accidents (1998: 73). The ratio of "industrial accidents per million working hours" deteriorated by 0.5 compared with 1998 to 6.2. The number of accidents occurring in transit fell slightly to 14 (1998: 16), leading to an improvement in the "accidents in transit per 1,000 employees" figure from 2.1 to 1.8.





The Potash Research Institute offers a wide range of analytical services

Central monitoring of processes with computer technology

Profit-oriented remuneration and stock option program for senior management

In 2000 we will introduce a new system of profit-oriented remuneration for our senior managers. We expect the program to increase the profit-orientation of our managers and at the same time increase the loyalty of those involved. Moreover, the program will enable us to link personnel expenses to the development of business.

A stock option program was introduced in May 1999 for all Executive Directors and senior managers of the K+S Group. The program allows managers to invest a part of their bonus in K+S shares and receive virtual options for K+S stock, i.e. the right to receive a payment according to share price performance. The options can be exercised during a specific time period after the two-year blocking period has ended. The limited benefit can only be achieved should the K+S share price outperform the MDAX. This virtual option program avoids the dilution of the position held by our shareholders; it therefore takes special consideration of shareholder interests.

Significant rise in capital expenditures

In fiscal year 1999 the K+S Group invested a total of DM 196.9 million in tangible fixed assets – an increase of 25 percent over the previous year. The major share was devoted to securing production, modernizing plant and improving production processes.

In the Potash and Related Products Segment the major investments concerned the start of work on the new magnesium sulfate facilities at our Sigmundshall plant near Hanover; the project will have an investment volume of around DM 77 million. The new facilities are designed to produce 300,000 tons of Kieserite per year and are expected to be put into operation in fall 2001. As market leader we intend to profit from the worldwide growth in demand for the magnesium- and sulfur-based fertilizer Kieserite. The production is based on a previously unexploited deposit of so called hard salt. The potash contained in this hard salt will double the life expectancy of the potash-dependent Sigmundshall facility from the current 10 to over 20 years.

In June 1999 the central magazine of our Werra plant in Philippsthal was put into operation. We also renewed the Hera shaft engine at the Hattorf/Wintershall mine and completed the new K+S railway line between the Werra facilities Unterbreizbach and Hattorf.

In our Salt Segment we optimized loading equipment at our Bernburg facilities in order to improve deliveries of de-icing salts.

In July 1999 we commenced work on our new administration building for the K+S Group near the ICE train station in Kassel.

Research and development

In addition to developing new products and processes, as well as optimizing the whole value chain from rock salt mining to processing, packaging and application of our products, our R&D activities focussed on a number of large-scale projects, such as the planned magnesium sulfate production at our Sigmundshall facilities. Total development expenditure amounted to DM 16.1 million.

As part of our optimization of waste management processes we concentrated on the development of new suitable material mixtures and optimized binding additives. These activities will be continued after 1999. The company's own, so-called thickening process for pumping recyclable waste was introduced in 1999 after two years of successful trials.

The research project sponsored by the Federal Ministry for Education, Science, Research and Technology (BMBF) into achieving long-term security for sealed mine shafts was continued during the year under review. The tests employ concepts already elaborated for making seals of shafts technically waterand brine tight.

Processes, analysis and products

The electrostatic separation process (ESTA) remains one of our core competencies. In our search for more effective conditioning substances we were able to score a number of successes with regard to cost reduction and improvement of output.

As part of our Kieserite project at the Sigmundshall facilities we have successfully completed the development of a new electrostatic separation plant for obtaining Kieserite and the examination of necessary modifications to the flotation cells.

The major focus of our flotation equipment studies was the search for new reagents and the testing of pneumatic flotation machines specially suited to sylvine flotation. The studies were carried out in preparation for necessary replacement investments concerning cost-intensive agitation cells.

Further projects concerned the development of processes for use of online analysis in our production. Basic principles were established for the use of near-infrared spectrometry for online measurement of the composition of concentrated salt solutions. Another project concentrates on the development of a corresponding process to measure solid product flows.

Agricultural research and consulting

Balanced fertilization with nutrients adapted to the respective environment is the basis for achieving sustained soil fertility and high crop yields. In addition to nitrogen, phosphate and potash, other nutrients such as magnesium and sulfur – and increasingly trace elements – also play a key role.





K+S fertilizer trials – a service provided for our agricultural customers

Grain size selection using laser technology

Our R&D activities focus on the economical use of these nutrients as soil and foliar fertilizers. In over 100 long-term field trials throughout Europe we are currently testing the effect and efficiency of main and supplementary nutrients on sustained soil fertility. Foliar feeding with magnesium, sulfur and trace elements is especially useful during growth to compensate for temporary deficiencies and thus avoid deterioration of both yield and quality. The development of new mineral fertilizer types, which are even better suited to the specific requirements of plants, is an important part of our needs-oriented research and development work.

We are also strengthening our activities in the promotion of fertilizers for special crops, such as fruit and vegetable, as well as for plantation crops such as tea, oil palms and coffee. With over 80 field tests spread throughout the world's most important growing regions, we aim to provide farmers with an economical and ecologically sound fertilizer for their specific needs.

Quality management

During the 1999 financial year we expanded our network of certified quality management programs in the K+S Group. The Werra underground reutilization facilities in Hattorf, Wintershall and Unterbreizbach were recognized as specialized waste management plants and awarded ISO 9002 certification. The central laboratories at the Potash Research Institute received EN 45001 accreditation, which also includes ISO 9002 certification.

At our facilities for high-purity pharmaceutical salts we are currently working on further measures to fulfill the future international "Good Manufacturing Practice" guidelines.

Environmental protection

Ecologically sound economic activity is the prerequisite for sustained trouble-free development of our planet. We therefore use the most intelligent production processes available in order to conserve both energy and resources. We try to make sure that the unavoidable use of resources is made as compatible as possible with nature and with the least possible impact on man and his environment.

Economy and ecology do not necessarily contradict each other. The use of cutting-edge gas and steam turbines in our highly efficient power generation plants is a prime example. Its efficiency rating of over 90 percent and its reduction of emissions to an absolute minimum prove that initiative and economic sense can achieve more than state regulation, such as the introduction of an energy tax.

In 1993 we initiated an extensive program, together with the German government and other states crossed by the River Weser, to greatly reduce the level of brine entering the River Werra.

In early June 1999 the last two stages of this program were introduced with the sinking of salt sewage in the Gerstungen district and the launch of our central brine control system.

The successful implementation of these measures resulted in a reduction of waste water at our Unterbreizbach facility by more than two thirds.

Risk management

The German Law Regulating Corporate Control and Transparency (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich – KonTraG) requires companies to set up a risk management system to monitor and safeguard their business activities. The team entrusted with this task examined our particular risk areas as well as the correct functioning of the instruments and systems established to recognize and limit possible risks.

Apart from the systematic documentation of existing regulations, instruments, reporting procedures and responsibilities, no organizational changes were found to be necessary as a result of the new law. We endeavor to identify, evaluate and analyze potential operative and strategic risks at an early stage. The respective impact of such risks are included in our planning systems. At regular intervals we then compare our planning with the actual situation and analyze the cause of deviations.

The breakdown of technical equipment could seriously impair our production capability. We have therefore developed a comprehensive monitoring and examination system which is programmed to send alarms of potential operating risks when certain criteria are met.

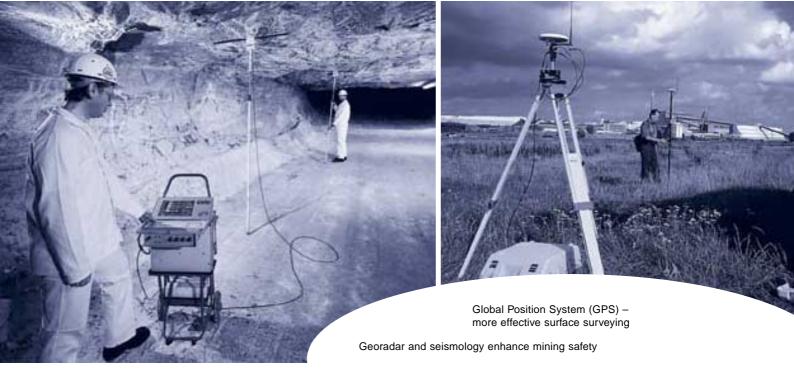
We permanently monitor our competitive situation as well as overall supply and demand in order to gauge possible risks and future influences in the field of sales and economic development. Through in-depth talks with those institutions influencing our legal and political operating framework, we aim to gain timely information concerning changes in the relevant regulations.

In the field of finance, we systematically and constantly monitor the factors influencing profitability and include them in our revolving planning system. Risks which we identify in the course of feasibility studies for investments, company valuations or major business transactions, are evaluated and considered as part of our decision process. We hedge against exchange rate fluctuations for most of our positions, especially in U.S. dollars and British sterling. Furthermore, we have insured a part of our receivables against non-payment.

Introduction of the euro

As of January 1, 1999, the K+S Group has been capable of conducting all internal and external financial transactions in euro: 20 percent of sales are already invoiced in the new European currency.

The necessary measures, which we recognized and planned from an early stage, have been, or will be, implemented on schedule. Our internal accounting system will be changed from DM to euro over Easter 2000. Extensive tests are to be carried out to ensure that the SAP software we are using converts all internal currency values from DM to euro.



Year 2000 changes

K+S began preparations for the Year 2000 as early as 1995 with the formation of several teams for central IT and production plant questions. All planned activities were completed on schedule during the second half of 1999. After these careful preparations, the change into the new millennium went ahead according to plan; there were no malfunctions in any area.

Outlook

We expect conditions to remain favorable in 2000 for our Business Segments Salt and Services as well as for the industrial business of our Potash and Related Products Segment.

We will have to face a temporary downturn in demand, however, for certain product lines of our fertilizer range. Due to the EU's Common Agricultural Policy and its effect on farmers' incomes, we expect a slight decline in the consumption of fertilizers in Western Europe. There are signs that demand in North America will stagnate as a result of low crop prices. In Brazil and China, however, we expect a slight rise in sales opportunities for potassium chloride. In general, world potash consumption is forecast to remain stable or rise slightly in comparison to the previous year.

The application for prolongation of antidumping protection filed by APEP, the European Association of Potash Producers, was accepted by the EU-Commission in March 1999. The Commission has since been examining the effectiveness of protection measures to date. We are confident that the EU-Commission will soon reach and announce a decision acceptable for us.

In our Waste Management Segment, we expect competition to remain intensive. After completion of a special project in 1999, we expect waste disposal volumes for our underground depositories to decline. In our underground waste reutilization business we aim to sustain the high level of activity.

We have gained unequivocal support of the German government in the controversial question of whether underground backfilling of waste is to be regarded as a reutilization measure under European law.

The acquisition of COMPO and our agricultural fertilizer business will help accelerate growth in the current fiscal year. Compared to 1999, consolidated sales will increase to nearly DM 4 billion. The expected positive result of COMPO will far exceed the loss in interest through use of cash for the acquisition. As a result of agreements made with BASF, the result of fertiva GmbH will not affect K+S Group earnings in the first two years.

In general, we are confident that we can achieve a good result also in the next fiscal year.

Potash and Related Products

Key figures	1999 € million	1999 DM million	1998 DM million
Sales	943.3	1,845.0	1,812.2
Result from operations (EBIT)	43.7	85.5	91.4
Capital expenditures	87.1	170.4	131.4
Number of employees as of Dec. 31	7,430	7,430	7,450

K+S produces and markets a wide range of mineral fertilizers containing potassium, magnesium, sodium and sulfur. Furthermore, we supply potash- and magnesium-based products for industrial and pharmaceutical purposes. We are increasingly exploiting the advantages resulting from the components of our raw salts, which allow us to offer such a wide range of products, also on international markets. We attach particular importance to the production and sale of special mineral fertilizers, specially suited to the nutritional needs of particular plants and the crop yield expectations of the agricultural industry.

With a market share of 14 percent in 1999, we defended our strong position on the world potash market. We remain the leading global supplier of the specialties potassium sulfate and water-soluble magnesium sulfates.

The Potash and Related Products Segment accounted for 79 percent of total K+S Group sales in 1999. Increased prices for some of our products and the stronger U.S. dollar compared to 1998, helped raise sales by 2 percent.

In 1999 we sold a total of 7.9 million tons of potash and related products; this represents a slight decline of 2 percent compared with 1998.







In conversation with customers at the 1999 Pharma Fair in Frankfurt

K+S consulting services - drawing on our practical experience

Fertilizers

Despite difficult economic conditions in some of our key agricultural markets, we were able to sell around 6.8 million tons of fertilizers in 1999. This figure is just 3 percent below the very high sales of the previous year.

Sales of **potassium chloride** once again reached the high level of the previous year. Thanks to the favorable development of exchange rates and individual price rises in certain key markets, sales income was up slightly once again.

The low level of fall fertilization in almost all European countries in 1998 – due to weather conditions – was largely made up for in spring 1999. This led to strong sales of potassium chloride in the first six months. Due to a

deterioration in incomes among European farmers, however, the fall fertilization was once again weak in 1999 – despite favorable weather conditions. Sales in the second half of the year were therefore below expectations. This applies in particular to supplies to producers of multi-nutrient fertilizers.

Overseas sales in the first half of 1999 were strongly impacted by complete deliveries of fertilizers to India, as part of the German support program for developing countries. In the second half of the year we were able to extend overseas sales further. Sales of potassium chloride in these regions exceeded the strong level of the previous year.

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Potash and Related Products

As expected, sales of potassium sulfate were unable to reach the exceptionally high level of 1998. This was due mainly to the decline in key markets of tobacco production, an important crop for potassium sulfate. This affected both direct sales to these markets as well as sales to manufacturers of multinutrient fertilizers. Increased production of potassium sulfate in China and expansion of capacity by other competitors further aggravated the supply situation for us. Despite these difficulties, however, sales prices for potassium sulfate remained mostly firm as we deliberately avoided marginal business. Exchange rate fluctuations meant that revenues declined less than the decrease in sales.

Sales of our **specialty potash grades** (Korn-Kali, Patentkali, Thomaskali and Kieserite) were slightly below 1998 levels. Falling prices for agricultural produce and higher fallow land requirements throughout countries of the EU, our main sales region for these products, were the main factors for the decline. By focussing sales more on the stronger Patentkali line we were able to maintain revenues at the level of 1998.

Due to its ideal nutrient combination of potassium, magnesium and sulfur, the specialty potash fertilizer Patentkali is perfectly suited to nourishing high-quality agricultural and horticultural products. Because of its sulfate bonding structure and low salt index Patentkali is particularly suited as a nutrient for chloride-sensitive crops.

Sales of ESTA®-Kieserite were up slightly in 1999. As the South East Asian market pulls out of recession, Indonesia in particular will begin using more ESTA®-Kieserite "fine" for the fertilization of oil palm crops. ESTA®-Kieserite is also becoming an increasingly attractive source of water-soluble magnesium for the multi-nutrient fertilizer industry. The sales development in Germany was rather gratifying, whereby a strong demand for granulated products stimulated the spring business. Price increases, mainly in europe and a favourable development of exchange rates helped to realize an encouraging sales increase.

The weak level of fall fertilization in 1999 led to a significant decline in sales of Thomaskali, our phosphate potash fertilizer. Due to depressed prices, sales revenues were also disappointing. We are currently working on a re-positioning of this product.





The right choice of fertilizer for healthy and fresh food

Wine growing - another important crop for our specialty fertilizers

Industrial products

Shipments of our potash and magnesium-containing products outside the agricultural sector were up again by 13 percent to over 1.1 million tons. There was also a gratifying increase in revenues. Key customers are the major chemical producers as well as pharmaceutical, metallurgical and construction material companies.

Sales of **industrial potash** were particularly encouraging. The strongest growth was recorded by our main product, potassium chloride 99 percent, mainly as a result of increased shipments to the French market. After the French potash producer MDPA ceased production of industrial potash on June 30, 1999, we took over supply of the company's domestic customers. As well as exploiting this gap in the market, we also benefited from increased demand in the second half of 1999 – especially from the chemical industry. Due to the favorable development of the U.S. dollar, we were also able to gain a number of new customers in overseas markets.

Our **magnesium compound** business also made very gratifying progress. This resulted primarily from the positive development of our de-icing business in early 1999 with sales of magnesium chloride solutions.

We remain the world's leading producer by far of Epsom salt. The increase in shipments of Epsom salt and other magnesium sulfate products to the cellulose and detergent industries had a very positive impact on sales in our Industrial Products business field. There has also been an increase in sales of Epsom salt over the past years for foliar and liquid fertilizers.

We further improved processes at our plant for treating salt slag acquired from aluminum scrap was successfully in 1999. In the period under review the volume of salt slag processed exceeded 100,000 tons.

Salt

Key figures	1999 € million	1999 DM million	1998 DM million
Sales	147.8	289.1	254.6
Result from operations (EBIT)	18.9	36.9	20.0
Capital expenditures	8.2	16.1	15.2
Number of employees as of Dec. 31	670	670	667

K+S is one of Europe's leading salt producers. We offer a top-quality range of products made from crystalline salt solids gained either from rock salt mining or evaporation processes. These products meet the needs of both our private and industrial processing clients. The range also includes table-, commercial- and industrial salts enriched with iodine and fluoride. An important part of our business is the wide range of de-icing salts we supply to enhance road safety during icy winter periods.

Sales in the Salt Segment were up 14 percent on the previous year to reach DM 289.1 million. This Segment accounted for around 12 percent of total Group sales.

The salt business is one of our core areas of activity. The high-quality products of our well-balanced range guarantee strong positions on the European markets. In 1999 we sold over 2.4 million tons of solid salt products. Production output rose by a total of 28 percent to 2.5 million tons — mainly due to high demand for de-icing salts at the beginning of the year.

Despite a continuation of the strong competition and high import levels, we succeeded in strengthening our position on the German market. For logistical reasons, our export business is focussed on the markets of Northern, Western and Central Europe; we sell smaller amounts of specialty products to overseas markets on an ongoing basis. We were able to hold our positions on export markets.





K+S table salt - put the spice in processed foods

K+S salt lickblock - a key source of minerals for animals

Table salt

Sales of table salt once again reached the good level of the previous year. The proportion of salt sold with trace elements of iodine and fluoride is making gratifying progress. Promoted by the World Health Organization, fluoridated iodine salt prevents both tooth decay and iodine deficiency illnesses.

Commercial salt

We succeeded in stabilizing both sales and market share of commercial salts on our domestic market. Increased price competition, also from overseas suppliers, led to a decline in sales volumes on our export markets. Our most important businesses in this Segment are salts for fishing, fodder and skinning. Commercial salts are also used, for example, for water softening processes. In this field, there was good growth in sales of tablets, compact- and dish-washer salts; high supplies on the market led to a decline in revenues in some areas, however.

Industrial salt

There was a marked decrease in sales of our industrial salt products. This was due to an expected decline in demand from Central Germany resulting from the refitting of production facilities of a former major industrial customer.

De-icing salt

As a result of our high degree of flexibility in supply, we were able to post significant increases in both volume and revenues of deicing salts. On the one hand, we benefited from extremely harsh weather conditions at the beginning of the year, and in addition there was an exceptionally high level of advance orders later in the year.

Waste Management

Key figures	1999 € million	1999 DM million	1998 DM million
Sales	52.4	102.4	73.6
Result from operations (EBIT)	20.8	40.7	23.7
Capital expenditures	1.5	3.0	3.8
Number of employees as of Dec. 31	173	173	179

The Waste Management Segment comprises the company's activities in the field of waste disposal and reutilization, as well as the recycling of building rubble and soil. With its two underground depositories and four underground reutilization plants in three different German states, K+S is Europe's largest and most technologically versatile supplier of waste management services.

In 1999 our waste management business made very gratifying progress as a result of special one-off effects. Underground waste disposal volumes were raised by around 28 percent to a total of 429,200 tons. Sales leapt by 39 percent to DM 102.4 million – mostly as a result of the increased volumes. As a consequence, this Segment's share of total K+S Group sales rose to 4 percent (1998: 3 percent).

Waste disposal

The market for underground waste disposal services in 1999 was marked by surplus capacity in Germany. At the same time, demand

continued to decline. Despite these difficult conditions, however, we increased waste disposal volumes by 94 percent to 175,300 tons in 1999. This strong increase in volume was due exclusively to large-scale, one-off redevelopment projects concerning residual pollution. One of these redevelopment projects was completed in late 1999.

We were able to strengthen our market position in the fiercely competitive waste disposal market. This development was based on partnerships, and in particular on cooperation agreements with individual customers and other waste disposal companies.

Both K+S underground depositories fulfill the most exacting quality and safety standards. They are the safe, long-term solution for those waste materials which represent a danger to humans and nature due to their pollutant concentration and solubility. By storing such materials in stable salt formations at a depth of 400 to 800 meters, we can ensure that waste is kept effectively out of range of the biocycle over the long term.



Waste reutilization

With a waste reutilization volume of 253,900 tons in 1999 we once again reached the high level of the previous year. As in the field of waste disposal, the reutilization business is characterized by high excess capacity and a tendency towards price reductions. However, by developing the processes used and expanding our range of services we succeeded in defending our market share in this difficult but highly interesting market.

At the Group's four underground reutilization locations, waste material from outside the mining industry is used to backfill cavities created by potash and salt mining. Such underground reutilization has the benefit of being both ecologically sound and safe over a very long period of time. The depth of our depositories and the nature of their geological surroundings guarantees that the reutilized waste is effectively and permanently sealed off from the biosphere above.

The high technical standard of our facilities is documented by their ISO 9002 certification and confirmation as recognized specialist disposal companies. Both quality seals represent overwhelming proof that waste entrusted to K+S Group companies is in safe hands and that reutilization is both responsible and ecologically sound.

Recycling building rubble

Business in the recycling of building rubble was extremely encouraging. We increased the volume of processed and reutilized soil, building rubble and road surfacing to a total of 407,600 tons. We have gained a major market share in the Hanover district.

Services and Other Activities

Key figures	1999 € million	1999 DM million	1998 DM million
Sales	48.4	94.6	87.9
Result from operations	5.1	10.0	6.3
Capital expenditures	3.8	7.4	6.6
Number of employees as of Dec. 31	174	174	176

This Segment comprises our independent services and activities.

These consist mainly of:

- the granulation of an animal hygiene product at our Salzdetfurth plant,
- cargo handling for third parties by Kali-Transport Gesellschaft mbH (KTG),
- the trading activities of Chemische Fabrik Kalk GmbH (CFK) and our sales organizations, and
- the extensive range of analytical services provided by the Kaliforschungs-Institut (Potash Research Institute) and our company laboratories.

In the year under review, we raised sales to DM 94.6 million; an increase of 8 percent over the previous year. This growth can be attributed to a large extent to the improvement in business of our sales company in the USA with sales of de-icing products in the first months of 1999.

Granulation

The granulation of a product used in animal hygiene on the site of our former potash plant in Bad Salzdetfurth remained at the healthy level of the previous year. Sales reached DM 40.4 million (1998: DM 40.6 million).

KTG cargo handling

With its state-of-the-art technical equipment, our subsidiary in Hamburg, KTG, can guarantee fast and reliable loading and unloading of ocean-going vessels and barges, freight cars and trucks. With a volume of 4.3 million tons, KTG set a new record for cargo handled at its facilities in Hamburg in 1999.

Sales and earnings continued to make gratifying progress. In 1999, KTG posted sales of DM 44.7 million; of which DM 9.7 million (1998: DM 9.6 million) resulted from business with non-Group companies attributable to the Services and Other Activities Segment.





data process GmbH – a central EDP service of the K+S Group

The potash quay - fertilizer handling for the world's markets

Trading activities

With sales of DM 21.1 million in 1999, the trading activities of Cologne-based CFK were slightly down on 1998, despite the positive development of sales of de-icing products at the start of the year. Sales of the company's main trading product, calcium chloride, could not match the level of 1998. This was due to a new supply contract with lower margins and the decline in export sales. Business with other trading products was satisfactory. The trading result was positive.

Analytical services

In the field of analytical services Kali und Salz Consulting GmbH offers a range of routine and specialist analytical services throughout Germany. The major focus is on ecological examinations of soil, water and waste as well as analysis of raw materials and products. In the field of mobile air monitoring services, we also provide measurements of emissions, immissions and the working environment.

Foundation of data process GmbH

In order to expand our range of services we spun off our data processing activities in fall 1999 and set up the company data process GmbH. The new company will continue to provide K+S Group members with its extensive experience of SAP R/3 as well as marketing its know-how to third party companies.

The company offers a wide range of services, from computer consultancy to the development and implementation of specialized software and the assumption of complete computer center functions, especially for small to medium-sized companies.

K+S Group

Balance Sheet as of December 31, 1999

Assets	Notes	Dec. 31,1999	Dec. 31,1998
in DM thousand			
Intangible assets		18,286	10,763
Tangible assets	(7)	977,202	971,977
Financial assets	(8)	115,533	49,708
Fixed assets		1,111,021	1,032,448
Inventories	(9)	302,341	204,506
Receivables and other assets	(10)	698,332	532,126
Own shares	(11)	127,996	6,607
Securities	(12)	171,934	243,117
Checks, cash on hand, bank balances		201,003	422,890
Current assets		1,501,606	1,409,246
Prepaid expenses		3,245	2,172
		2,615,872	2,443,866
Equity and liabilities			
in DM thousand			
Subscribed capital	(13)	250,346	250,000
Capital surplus	(14)	141,374	319,777
Reserve for own shares	(15)	127,996	6,607
Other revenue reserves and			
profit retained	(16)	335,805	297,661
Minority interests	(17)	943	398
Equity		856,464	874,443
Special reserves	(18)	25,466	16,886
Balance arising			
from capital consolidation	(19)	179,266	215,730
Pension provisions and similar obligations		340,317	329,757
Provisions for taxes		8,735	15,863
Other provisions		921,033	825,977
Provisions	(20)	1,270,085	1,171,597
Liabilities	(21)	284,526	165,210
Deferred income		65	_
		2,615,872	2,443,866

Profit and loss account January 1 - December 31, 1999

		Notes	1999	1998
	in DM thousand			
Sales		(24)	2,331,153	2,228,278
	Cost of sales	(25)	1,430,819	1,406,110
Gross	profit on sales		900,334	822,168
	Selling expenses		620,148	591,183
	General administrative expenses		50,475	49,486
	Research and development expenses		16,141	14,273
	Other operating income	(26)	143,695	158,259
	Other operating expenses	(27)	184,208	184,085
Result	from operations		173,057	141,400
	Result from participating interests	(28)	627	863
	Write-offs of financial assets and securities in current assets		3,237	208
	Interest result	(29)	17,064	17,934
	from ordinary activities / before taxes		187,511	159,989
	Income taxes	(30)	- 5,192	- 3,572
Net inc	Net income for the year		192,703	163,561
	Minority interests in net income			23
Net inc	come after minority interests	193,088	163,538	

K+S Group

Development of fixed assets as of December 31, 1999

Gross book values

Tota	l fixed assets	2,262,142	286,192	41,874	44,179	-	2,546,029	
		49,873	78,710	840	12,545	-	116,878	
	Other loans and other investments	45,926	1,935	1,513	11,266	_	38,108	
	Securities in fixed assets	-	76,281	89	_	_	76,370	
	Loans to companies in which participations are held	_	-	133	-	-	133	
	Participating interests	1,565	247	55	226	_	1,641	
Fina	ncial assets Shares in affiliated companies	2,382	247	- 950	1,053	-	626	
		2,191,290	196,908	39,278	29,811	- 27	2,397,638	
	Payments on account and construction in progress	20,391	39,090	117	52	- 16,131	43,415	
	Miscellaneous equipment, fixtures and fittings	187,854	25,989	2,704	5,283	- 850	210,414	
	Machinery and technical equipment	1,508,052	120,002	13,582	20,030	13,785	1,635,391	
	Land, rights similar to land and buildings including buildings on land owned by others	474,993	11,827	22,875	4,446	3,169	508,418	
Tang	gible assets							
		20,979	10,574	1,756	1,823	27	31,513	
	Payments on account	84	168	_	_	- 14	238	
	Goodwill	5,700	-	-	-	-	5,700	
Intai	ngible assets Concessions, trademarks and similar rights and assets as well as licenses for such rights and assets	15,195	10,406	1,756	1,823	41	25,575	
	in DM thousand							
		Jan. 1, 1999	Additions	Changes in consolidation	Retirements	Transfers	Dec. 31, 1999	

K+S Group

Cash flow statement

	Notes	1999	1998
in DM thousand			
Net income		192,703	163,561
Depreciation (+) / write-backs (-) of fixed assets		+ 231,429	+ 230,724
Increase (+) / decrease (-) in long-term provisions	(33)	+ 47,164	+ 63,554
Increase (+) / decrease (-) in special reserves	(18)	+ 8,537	- 9,708
Income from the release of provisions	(19)	- 36,464	- 44,364
Depreciation of securities in current assets		+ 3,237	+ 208
Cash flow		446,606	403,975
Results from retirements of fixed assets		- 8,005	- 4,813
Increase (-) in inventories	(9)	- 5,018	- 21,465
Increase (-) / decrease (+) in receivables		+ 8,970	- 30,951
Increase (+) / decrease (-) in short-term provisions		+ 17,191	- 3,283
Increase (+) / decrease (-) in liabilities		+ 19,703	- 44,174
Cash provided from operating activities		479,447	299,289
Proceeds from retirements of fixed assets		+ 26,069	+ 21,794
Purchases of fixed tangible and intangible assets		- 207,482	- 164,530
Investments in financial assets (without acquisitions)	(34)	- 78,710	- 14,171
Expenditure on acquisitions	(35)	- 290,791	- 329,161
Cash used in investing activities		- 550,914	- 486,068
Free cash flow		- 71,467	- 186,779
Capital contributions by shareholders		_	+ 70,000
Dividend payments		- 35,000	-
Cash provided from / used in financing act	ivities	- 35,000	+ 70,000
Changes in cash flow related to disbursements		- 106,467	- 116,779
Changes in value of cash and cash equivalen	ts	- 3,237	- 208
Consolidation measures		- 45	+ 362
Changes in cash and cash equivalents	(36)	- 109,749	- 116,625

	Sale third p	es to parties	Segment capital expenditures		
Segments	1999 DM thousand	1998 DM thousand	1999 DM thousand	1998 DM thousand	
Potash and Related Products	1,845,029	1,812,180	170,354	131,431	
Salt	289,122	254,604	16,143	15,213	
Waste Management	102,358	73,600	3,026	3,753	
Services and Other Activities	94,644	87,894	7,385	6,618	
K+S Group	2,331,153	2,228,278	196,908	157,015	

	EBI	ΓDA	EBIT		
Segments	1999 DM thousand	1998 DM thousand	1999 DM thousand	1998 DM thousand	
Potash and Related Products	265,325	261,554	85,504	91,379	
Salt	77,025	59,611	36,935	20,040	
Waste Management	40,406	27,679	40,653	23,663	
Services and Other Activities	20,542	23,280	9,965	6,318	
K+S Group	403,298	372,124	173,057	141,400	

Annual Financial Statements

K+S Aktiengesellschaft

Balance sheet as of December 31, 1999

Assets	Notes	Dec. 31,1999	Dec. 31,1998
in DM thousand			
Intangible assets		7,365	18
Tangible assets	(7)	30,817	25,319
Financial assets	(8)	654,109	653,114
Fixed assets	(6)	692,291	678,451
Inventories	(9)	1,404	945
Receivables and other assets	(10)	388,018	71,981
Own shares	(11)	127,996	6,607
Securities	(12)	102,763	223,173
Checks, cash on hand,			
bank balances		35,120	65,822
Current assets		655,301	368,528
Prepaid expenses		24	38
		1,347,616	1,047,017
Equity and liabilities in DM thousand			
Subscribed capital	(13)	250,346	250,000
Capital surplus	(4.5)	39,000	39,000
Reserve for own shares	(15)	127,996	6,607
Other revenue reserves	(16)	38,658	114,393
Profit retained	(16)	51,084	35,060
Equity		507,084	445,060
Special reserves	(18)	25,423	16,886
Pension provisions and		100.050	174.077
similar obligations		169,850	174,977
Provisions for taxes		2,233	13,900
Other provisions	(00)	197,454	198,259
Provisions	(20)	369,537	387,136
Liabilities	(21)	445,572	197,935
		1,347,616	1,047,017

K+S Aktiengesellschaft Profit and loss account January 1 - December 31, 1999

		Notes	1999	1998
	in DM thousand			
Sales		(24)	96,344	84,421
	Cost of sales	(25)	61,346	67,035
Gross	profit on sales		34,998	17,386
	Selling expenses		12,462	7,643
	General administrative expenses		7,580	8,465
	Other operating income	(26)	43,265	51,894
	Other operating expenses	(27)	57,382	56,103
Result	from operations		839	- 2,931
	Result from participating interests	(28)	94,273	101,879
	Write-offs of financial assets and securities in current assets		2,384	208
	Interest result	(29)	- 2,566	3,901
Result from ordinary activities / Result before taxes			90,162	102,641
	Income taxes	(30)	- 6,862	- 4,859
Net inc	come for the year	97,024	107,500	

$\mathsf{K} + \mathsf{S} \ \mathsf{Aktiengesellschaft}$

Development of fixed assets as of December 31, 1999

Gross book values

		Jan. 1, 1999	Additions	Retirements	Transfers	Dec. 31, 1999	
in DM th	nousand						
Intangible a	ssets						
	ssions, trademarks and						
	rights and assets as well as	4.500	7.540	F		10.100	
licenses	s for such rights and assets	4,598	7,516	5	_	12,109	
		4,598	7,516	5	-	12,109	
Tanadala aa							
Tangible as:							
	ights similar to land and						
	gs including buildings on vned by others	71,794	963	3,145	25	69,637	
	•						
Machin	ery and technical equipment	94,635	1,112	4,367	6	91,386	
Miscella	aneous equipment,						
fixtures	and fittings	13,063	1,311	1,028	- 2	13,344	
Payme	nts on account and						
	action in progress	2,130	9,198	_	- 29	11,299	
		181,622	12,584	8,540	_	185,666	
Financial as	sets						
Shares	in affiliated companies	687,568	9,879	5,312	_	692,135	
	·	·	·	- , -			
Particip	pating interests	841	247	_	_	1,088	
	oans and						
other in	nvestments	16,651	867	3,506	_	14,012	
		705,060	10,993	8,818	_	707,235	
Total fixed a	assets	891,280	31,093	17,363	_	905,010	

		Depreciation	on		Net book values	
Jan. 1, 1999	Additions	Retirements	Transfers/ Write-backs*	Dec. 31, 1999	Dec. 31, 1999	Dec. 31, 1998
4,580	169	5	-	4,744	7,365	18
4,580	169	5	-	4,744	7,365	18
60,317	738	1,317	6	59,744	9,893	11,477
84,630	3,479	4,366	- 2	83,741	7,645	10,005
01,000	3, 17 3	1,000	_	33,7 11	7,010	10,000
11,356	1,006	994	- 4	11,364	1,980	1,707
					11 000	0.100
156 202	- E 002	6 677	_	154 940	11,299	2,130
156,303	5,223	6,677	_	154,849	30,817	25,319
51,903	-	-	-	51,903	640,232	635,665
_	-	-	-	-	1,088	841
43	1,200	8	- 12*	1,223	12,789	16,608
51,946	1,200	8	- 12*	53,126	654,109	653,114
212,829	6,592	6,690	- 12*	212,719	692,291	678,451

K+S Group and K+S Aktiengesellschaft Notes to the financial statements

The following notes apply to the annual financial statements of both K+S Aktiengesellschaft (K+S AG) and the K+S Group. Unless otherwise stated the information applies to both financial statements. In keeping with accounting regulations, the K+S Group financial statements are identical to the consolidated financial statements.

(1) Scope of consolidation

The consolidated financial statements of the K+S Group include 15 (1998: 11) German and 15 (1998: 12) foreign companies. Companies consolidated for the first time were K+S Projekt GmbH, Kassel, K+S Beteiligungs GmbH, Kassel, and the companies acquired as of December 31, 1999

COMPO Gesellschaft mbH & Co. KG, Münster, Torf- und Humuswerke Uchte GmbH, Uchte, COMPO Benelux N.V., Deinze, Belgium, COMPO Hellas S.A., Maroussi, Greece, COMPO Horticulture et Jardin SAS, Roche-lez-Beaupré, France.

As the acquired companies only became subsidiaries of the K+S Group as of December 31, 1999, only their balance sheets were consolidated; the profit and loss accounts were not consolidated. The following companies are included in the consolidated financial statements:

Germany

K+S AG, Kassel

Chemische Fabrik Kalk GmbH, Cologne

COMPO Gesellschaft mbH & Co. KG, Münster

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

K+S Beteiligungs GmbH, Kassel

K+S Projekt GmbH, Kassel

Torf- und Humuswerke Uchte GmbH, Uchte,

Wohnbau Salzdetfurth GmbH, Bad Salzdetfurth

Outside Germany

Compagnie Belge des Engrais Potassiques S.A., Brussels, Belgium

COMPO Benelux N.V., Deinze, Belgium

COMPO Hellas S.A., Maroussi, Greece

COMPO Horticulture et Jardin SAS, Roche-lez-Beaupré, France

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., Hong Kong, China

Potash Import & Chemical Corporation, New York, U.S.A.

Potash Ltd., Hertford, Great Britain

Sociedade Brasileira de Potassa e Adubos Ltda., São Paulo, 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) Method 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 debts 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 K+S 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 are eliminated in full among the consolidated companies, providing they were made while the companies concerned belonged to the K+S Group. Receivables and liabilities between consolidated companies are omitted. 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 costs of participations are eliminated on consolidation against their proportionate share in equity at the time of first consolidation. Any debit balance remaining after allocation of assets and liabilities is netted off against reserves.

The credit balance arising from the capital consolidation results from offsetting the book value of K+S 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 K+S 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.

(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.

K+S Group and K+S Aktiengesellschaft Notes to the financial statements

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

Movable fixed assets of K+S AG are primarily depreciated under the declining balance method, immovable fixed assets mainly under the straight-line method and additions to domestic operational buildings have been depreciated as of 1994 by the straight-line method. As soon as the straight-line method results in higher annual depreciation, we change from declining balance method to straight-line method.

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 3 to 6 years for miscellaneous equipment, fixtures and fittings. Assets of low value are fully depreciated in the year of acquisition, and shown as retirements after a period of 5 years.

Special write-downs are taken for prospective permanent impairment of value. If the reasons for special write-downs no longer apply, the original values are reinstated. During the year under review, special write-downs were taken for investments in the new states of the Federal Republic of Germany, as in the previous year, as allowed by paragraph 4 of the German Development Region Act (Fördergebietsgesetz). Other depreciation allowable for tax purposes was utilized only to a minor extent.

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 or to a lower value 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 (Einkommenssteuergesetz). Appropriations and writebacks are shown in Notes (26) and (27).

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:

	K+S Group	K+S AG
	DM thousand	DM thousand
Net income after minority interests /		
Net income 1999	193,088	97,024
Influence of special tax valuation	26,887	7,226
Adjusted net income after minority interests / Adjusted net income 1999	219,975	104,250

On account of the loss carry-forward, no tax liability will be incurred in the near future for the K+S 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,
- translation adjustments in the profit and loss account are included under other operating expenses or income,
- translation adjustments for equity are included in reserves.

K+S Group and K+S Aktiengesellschaft Notes to the financial statements

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 K+S Group as well as for K+S AG.

(7) Tangible assets

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

	K+S Group		K+	S AG
	1999	1998	1999	1998
Write-downs according to § 4 Regional Development Act (Fördergebietsgesetz)	50,000	45,029	-	-
Transfer of gains on sale according to § 6b German Income Tax Law (Einkommenssteuergesetz)	66	8,715	_	8,322
Special write-downs based on the lower applicable value according to § 253, section 2, sentence 3 German Commercial Code (Handelsgesetzbuch)	1,037	486	_	_
	51,103	54,230	_	8,322

(8) Financial assets

A list of total holdings pursuant to § 313, section 2 or § 285, No. 11, respectively, of the German Commercial Code (Handelsgesetzbuch), including details pursuant to § 285 No. 11a of the German Commercial Code of those companies whose unlimited partners are companies of the K+S Group, is filed with the Commercial Register in Kassel, HRB 2669. If required, shareholders may also request the list directly from K+S AG.

Securities included in fixed assets comprise those securities which are to be held permanently to cover future pension payments.

(9) Inventories

This item consists of the following:

	K	K+S Group		K+S AG
	1999	1998	1999	1998
Raw materials and supplies	133,596	94,756	1,031	880
Unfinished products	10,733	4,663	-	-
Finished products and merchandise	157,596	105,087	373	65
Payments on account	416	_	-	
	302,341	204,506	1,404	945

The COMPO companies consolidated for the first time accounted for inventories of DM 92.817 million.

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 K+S Group amounting to DM 1.295 million.

(10) Receivables and other assets

This item consists of the following:

	K	K+S Group		K+S AG
	1999	1998	1999	1998
Accounts receivable - trade	531,796	437,102	800	970
Receivables from affiliated companies	26	41	350,306	29,953
Receivables from companies in which participations are held	4,260	12,711	-	4,267
Other assets	162,250	82,272	36,912	36,791
	698.332	532.126	388.018	71.981

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

	K	K+S Group		K+S AG	
	1999	1998	1999	1998	
Accounts receivable - trade	468	-	-	-	
Other assets	416	3,657	101	3,005	
	884	3,657	101	3,005	

The COMPO companies consolidated for the first time accounted for receivables and other assets of DM 173.273 million.

The foreign currency receivables of the K+S Group (excluding COMPO companies) included undisclosed reserves of DM 3.550 million (1998: DM 1.017 million) due to the higher exchange rate on the balance sheet date of December 31, 1999.

(11) Own shares

The opening stock of own shares in K+S AG amounted to 293,650 units (= 0.59 percent of capital stock). The return of employee shares issued in the previous year raised this figure to 294,640 units.

In the course of 1999 K+S AG purchased 294,580 of its own shares (= 0.59 percent of capital stock) at a price of DM 24.47 (€ 12.51) per share in order to be able to offer these shares to employees of the K+S Group.

Of these shares, 2,340 were sold to senior managers of K+S AG at a price of DM 23.75 (€ 12.14) as part of a stock option plan. 1,950 shares were issued to employees of K+S AG outside the regular pay scale at a price of DM 14.71 (€ 7.52). Further 4,129 shares were issued to staff of K+S AG as part of annual remuneration for 1999 and without separately calculated compensation.

9,850 shares were sold to senior managers of K+S AG subsidiaries at a price of DM 23.75 (\leq 12.14) as part of a stock option plan. A further 22,600 shares were issued to employees of K+S AG subsidiaries outside the regular pay scale at a price of DM 14.71 (\leq 7.52) and 139,907 shares were issued to staff of K+S AG subsidiaries without separately calculated compensation.

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K+S Group and K+S Aktiengesellschaft Notes to the financial statements

408,334 own shares (=0.82 percent of capital stock), which were acquired to issue to K+S Group employees, were sold on the Stock Exchange at an average price of DM 25.78 (€ 13.18) pursuant to § 71 section 3, sentence 2 of the German Corporation Law (Aktiengesetz).

Based on the authorization of the Annual Meeting of May 5, 1999, K+S AG acquired 4,713,000 of its own shares in the fiscal year 1999 (= 9.43 percent of capital stock) at an average price of DM 27.32 (€ 13.97) through the Stock Exchange.

On December 31, 1999, K+S AG held 4,713,110 of its own shares; these were valued at acquisition cost.

(12) Other securities

The undisclosed reserves of the securities in current assets (including own shares) of the K+S Group rose by DM 25.636 million as of December 31, 1999.

(13) Subscribed capital

The capital stock of K+S AG totals DM 250.346 million (€ 128 million). It consists of 50 million no-parvalue bearer shares.

(14) Capital surplus

The capital surplus of the K+S Group developed as follows:

As of December 31, 1999	141,374
Netted balance resulting from capital consolidation	- 178,403
• As of January 1, 1999	319,777

The netted balance from capital consolidation resulted in a debit balance of DM 183.715 million from the consolidation of the COMPO companies acquired as of December 31, 1999.

(15) Reserve for own shares

This reserve was formed for the shares acquired by K+S AG as explained in note (11).

(16) Other revenue reserves and profit retained

K+S Group

In the consolidated financial statements, other revenue reserves and profit retained are combined as one item in order to take account of the purpose of consolidated statements:

As of December 31, 1999	335,805
Net income after minority interests 1999	193,088
Dividend payment	- 35,000
• Adjustment resulting from consolidation measures as of December 31, 1999	1,444
Withdrawal for transfer to reserve for own shares	- 121,388
• As of January 1, 1999	297,661

K+S AG

In the fiscal year 1999 other revenue reserves developed as follows:

• As of January 1, 1999	114,393
Withdrawal for capital increase	- 346
• Transfer from net income 1999	46,000
Withdrawal for transfer to reserve for own shares	- 121,389
As of December 31, 1999	38,658

Profit retained in fiscal year 1999 developed as follows:

Net income for the year	97,024
Profit carry-forward	60
Transfer to other revenue reserves	- 46,000
As of December 31, 1999	51,084

(17) Minority interests

As of December 31, 1999	943
Minority interests in net income for the fiscal year 1999	- 385
Adjustments through consolidation measures	930
• As of January 1, 1999	398

(18) Special reserves

	K+S Group		K+	K+S AG	
	1999	1998	1999	1998	
Special reserve according to § 6b German Income Tax Law (Einkommenssteuergesetz)	25,466	16,886	25,423	16,886	

(19) Balance arising from capital consolidation

The credit 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 December 31, 1999	179,265
• Write-backs	- 36,464
• As of January 1, 1999	215,730

For purposes of the financial statements of the K+S Group, the special loss account of Kali und Salz GmbH in the amount of DM 99.413 million (1998: DM 99.662 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.

K+S Group and K+S Aktiengesellschaft Notes to the financial statements

(20) Provisions

There are no deficiencies in pension provisions and similar obligations. The valuation of pension provisions and similar obligations take full account of the new guidelines published in 1998.

Provisions for taxes of the K+S Group include deferred taxes in the amount of DM 2.635 million.

Other provisions provide for all foreseeable risks. They result mostly from mining obligations. In addition, provisions mainly concern service age premiums, reconciliation of interests including a social plan, allowances and other personnel obligations. Additional obligations for the custody of the disused Merkers plant were set at DM 1, following indemnification by the Federal State of Thuringia. The previous obligations amounting to DM 117.119 million were netted with respective claims against the Federal Office for Special Tasks Arising out of Unification (Bundesanstalt für vereinigungsbedingte Sonderaufgaben-BvS). The figures for the previous year amounting to DM 160.529 million were adjusted in the same way.

Other provisions of the K+S Group developed as follows:

Other provisions	921,033	825,977
Short-term provisions	140,389	104,867
Long-term provisions	780,644	721,110
	1999	1998

The COMPO companies consolidated for the first time accounted for pension provisions and other provisions of DM 39.445 million.

(21) Liabilities

This item consists of the following:

	K+S Group		K	+S AG
	1999	1998	1999	1998
Liabilities to banks	5,596	_	_	-
Payments received on account	3,008	-	_	-
Accounts payable – trade	209,563	122,711	8,425	5,038
Liabilities to affiliated companies	584	1,327	435,074	190,681
Liabilities to companies in which participations are held	7	15	-	-
Miscellaneous liabilities	65,768	41,157	2,073	2,216
	284,526	165,210	445,572	197,935

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

	K+S Group		I	K+S AG
	1999	1998	1999	1998
Liabilities to banks	5,596	-	-	-
Payments received on account	3,008	-	_	-
Accounts payable - trade	208,994	122,086	8,425	5,038
Liabilities to affiliated companies	584	1,327	120,074	190,681
Liabilities to companies in which participations are held	7	15	-	-
Miscellaneous liabilities	64,914	40,707	1,623	1,766
	283,103	164,135	130,122	197,485

Liabilities of the K+S Group with a residual term of more than five years relate to an amount of DM 203,000 (1998: DM 280,000) for accounts payable – trade. Liabilities of K+S AG with a residual term of more than five years relate to an amount of DM 315.000 million (1998: DM 0) for a loan of Kali und Salz GmbH to finance part of the acquisition price for the COMPO Business Segment.

Miscellaneous liabilities relate to:

	K	K+S Group		K+S AG	
	1999	1998	1999	1998	
Taxes	7,502	5,861	409	285	
Social security	26,876	20,247	669	749	

The COMPO companies consolidated for the first time accounted for liabilities of DM 99.678 million.

(22) Contingent liabilities

	K+S Group		K+S AG	
	1999	1998	1999	1998
Contingent liabilities from guarantees	704	741	24	61

(23) Other financial commitments

	K+S Group		K+S AG	
	1999	1998	1999	1998
Commitments to uncompleted investment projects	114,838	23,759	36,358	2,147
Commitments to long-term rents and leases				
 due during the following year 	7,645	4,025	598	513
• due from the second until the fifth year	11,031	4,804	515	616
• due after five years	3,589	89	_	
	137,103	32,677	37,471	3,276

The commitments to uncompleted investment projects contain the remaining acquisition price of DM 47.000 million for the COMPO companies to be purchased in 2000. There were no other commitments to affiliated companies as of December 31, 1999.

K+S Group and K+S Aktiengesellschaft Notes to the financial statements

NOTES TO THE PROFIT AND LOSS ACCOUNT

(in DM thousand)

(24) Sales

Sales by Segments K+S Group

	2,331,153	2,228,278
Services and Other Activities	94,644	87,894
Waste Management	102,358	73,600
Salt	289,122	254,604
Potash and Related Products	1,845,029	1,812,180
	1999	1998

Sales by Product Sectors K+S AG

	96,344	84,421
Other	11,273	14,922
Waste Storage	44,640	28,934
Granulation	40,431	40,565
	1999	1998

Sales by Regions

	K	K+S Group		K+S AG
	1999	1998	1999	1998
Germany	739,011	697,809	81,743	75,116
Europe, exc. Germany	1,027,340	982,394	14,601	9,305
Outside Europe	564,802	548,075	_	_
	2,331,153	2,228,278	96,344	84,421

(25) Cost of sales

The proportion of interest contained in the transfers to pension provisions was disclosed as interest expenditure for the first time in the fiscal year 1999 and no longer allocated proportionately to manufacturing costs. The K+S Group figures for previous years have been adjusted correspondingly.

(26) Other operating income

	K+S Group		K+	S AG
	1999	1998	1999	1998
Income from				
• foreign exchange differences	37,803	16,349	585	2
the reversal of the balance arising from capital consolidation	36,464	44,364	-	-
• the reversal of provisions	13,309	28,560	7,278	14,542
• the retirement of fixed assets	9,826	6,900	8,542	6,119
• damage claims	8,315	10,257	338	322
• rents and leases	7,888	7,581	6,505	6,785
• retirements of securities in current assets	2,656	571	2,593	-
• tax recoveries from affiliates	16	13	5,382	4,965
• the reversal of special reserves	-	15,809	-	8,335
• the retirement of financial assets	-	3,994	-	3,714
• other income	27,418	23,861	12,042	7,110
	143,695	158,259	43,265	51,894

Income of the K+S Group amounting to DM 28.007 million and of K+S AG amounting to DM 17.072 million is attributable to other fiscal years and results from retirement of tangible assets, the reversal of provisions and from refunds.

(27) Other operating expenses

	K+S Group		K+	K+S AG	
	1999	1998	1999	1998	
Expense for closed plants	33,834	37,136	16,324	14,435	
Losses from foreign currency exchange	25,266	14,814	-	-	
Appropriation to the special reserve	8,537	6,101	8,537	6,101	
Additional charges of capital expenditures	8,529	9,088	-	_	
Housing expenses	7,417	6,366	7,033	5,640	
Other taxes	6,826	255	60	222	
Pension expense	5,601	31,667	4,323	22,383	
• Losses due to retirement of tangible assets	1,821	2,087	27	69	
Expense for social plan	724	2,812	171	-	
• Other	85,653	73,759	20,907	7,253	
	184,208	184,085	57,382	56,103	

K+S Group and K+S Aktiengesellschaft Notes to the financial statements

Expenses of the K+S Group amounting to DM 17.235 million and of K+S AG amounting to DM 8.564 million relate to prior fiscal years and result from appropriations to special reserves, taxes for previous years and losses from the retirement of tangible assets.

The proportion of interest contained in the transfers to pension provisions was disclosed as interest expenditure for the first time in the fiscal year 1999 and no longer allocated proportionately to pension expense. The figures for previous years have been adjusted correspondingly.

(28) Result from participating interests

	K+S Group		ŀ	K+S AG	
	1999	1998	1999	1998	
Income from participating interests	722	847	70,592	80,771	
Income from profit transfers	-	16	23,681	21,108	
Expenditure from loss assumption	95	_	-		
	627	863	94,273	101,879	

Income from participating interests of K+S AG includes DM 70.000 million (1998: DM 80.000 million) resulting from the preliminary dividend of Kali und Salz GmbH for fiscal year 1999.

The income of K+S AG from profit transfer agreements is largely attributable to Kali-Transport Gesellschaft mbH and Kali und Salz Entsorgung GmbH.

(29) Interest result

	K+5	K+	K+S AG		
	1999	1998	1999	1998	
Other interest and similar income	35,878	33,474	11,945	21,555	
- of which from affiliated companies	-	_	(291)	(28)	
Income from other securities, loans and other financial assets	2,555	2,712	852	802	
Interest expenses included in transfers to pension provisions	18,608	17,064	9,755	8,879	
Other interest and similar expenses	2,761	1,188	5,608	9,577	
- of which to affiliated companies	(9)	(45)	(5,547)	(9,211)	
	17,064	17,934	- 2,566	3,901	

The proportion of interest contained in the transfers to pension provisions was disclosed as interest expenditure for the first time in the fiscal year 1999. The figures for previous years have been adjusted correspondingly.

(30) Taxes

	K	K+S Group		K+S AG	
Incomo tovos	1999	1998	1999	1998	
Income taxes	- 5,192	- 3,572	- 6,862	- 4,859	
Other taxes	9,970	2,899	577	700	
	4,778	- 673	- 6,285	- 4,159	

Income taxes of K+S AG relate mainly to trade income taxes amounting to DM 3.949 million. As tax was already paid on the equity used for dividend payments, there is a corporation tax claim amounting to DM 10.819 million. The K+S Group figures also include deferred taxes pursuant to § 306 of the German Commercial Code (Handelsgesetzbuch) and foreign income taxes. Other taxes are allocated to operational costs.

(31) Cost of materials

	K+S Group		K+S AG		
	1999	1998	1999	1998	
Cost of raw materials, supplies and purchased merchandise	498,080	535,812	32,134	31,386	
Cost of purchased services	184,477	183,318	28,245	22,514	
	682,557	719,130	60,379	53,900	

(32) Personnel expense / Number of employees

Personnel expense

	K-	K+S AG		
	1999	1998	1999	1998
Wages and salaries	612,354	580,851	19,116	22,205
Social security contributions	178,635	173,594	4,719	5,978
Pension	11,039	37,215	4,704	25,292
Assistance	631	604	115	135
	802,659	792,264	28,654	53,610

The proportion of interest contained in the transfers to pension provisions was disclosed as interest expenditure for the first time in the fiscal year 1999. The figures for previous years for pension expense were adjusted by DM 17.064 million for the K+S Group and by DM 8.879 million for K+S AG.

Number of employees (annual average)

	K+S	K+S Group		S AG
	1999*	1998	1999	1998
Wage earners	5,862	5,790	113	133
Salaried employees	2,392	2,352	111	133
	8,254	8,142	224	266
Part-time employees	106	98	8	9
Trainees	390	364	2	1
	8,750	8,604	234	276

^{*} Excluding employees of the companies acquired as of December 31, 1999

K+S Group and K+S Aktiengesellschaft Notes to the financial statements

NOTES TO THE CASH FLOW STATEMENT

(in DM thousand)

(33) Change in long-term provisions

As stated in note (20), the disclosure of obligations for custody of the disused Merkers plant was changed in the period under review. The figure for the previous year was changed correspondingly.

(34) Investments in financial assets

The position concerns securities worth DM 76.281 million, held permanently to cover future pension payments and therefore included in fixed assets.

(35) Expenditure on acquisitions

This item concerns expenditure for the acquisition of the COMPO companies on December 31, 1999.

	- 290,791
Assumed financial liabilities of COMPO companies	- 5,596
Acquired cash funds of COMPO companies	80,305
Purchase price	- 365,500

The changes in other positions of the cash flow statement resulting from the consolidation of COMPO companies were thus eliminated.

(36) Cash and cash equivalents

	562,865	672,614
Short-term financial liabilities	- 5,596	
Cash items in other assets	67,528	-
Checks, cash on hand, bank balances	201,003	422,890
Other securities in current assets	171,934	243,117
Own shares	127,996	6,607
	1999	1998

OTHER INFORMATION

(37) Total remuneration of the Supervisory Board and the Board of Executive Directors

	K+S Group
	1999
Total remuneration of the Supervisory Board	937
Total remuneration of the Board of Executive Directors	2,850
 Total remuneration of former members of the Board of Executive Directors and their surviving dependents 	1,255
 Pension provisions for former members of the Board of Executive Directors and their surviving dependents 	9,261
	K+S AG
	1999
Total remuneration of the Supervisory Board	863
Total remuneration of the Board of Executive Directors	570
 Total remuneration of former members of the Board of Executive Directors and their surviving dependents 	1,255
 Pension provisions for former members of the Board of Executive Directors and their surviving dependents 	9,261

(38) 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.

(39) Proposal for appropriation of profit

We propose to the Annual Meeting the distribution of a dividend of \in 0.57 (DM 1.11) per no-par-value share from profit retained of DM 51.084 million of K+S AG. Eligible shareholders in Germany will also receive a tax credit of \in 0.24 (DM 0.48) per share.

If this proposal is accepted, there will be a total dividend payment of DM 50.487 million for the fiscal year 1999 for the 45,286,890 shares entitled to dividend payment. We furthermore propose that the remaining profit retained of DM 0.597 million be carried forward.

Kassel, February 25, 2000

K+S Aktiengesellschaft
The Board of Executive Directors

AUDITOR'S OPINION

We have audited the annual financial statements and accounts of K+S Aktiengesellschaft (K+S AG), Kassel, and the consolidated financial statements and joint Management's Analysis for the K+S Group and K+S AG which it prepared for the fiscal year January 1 to December 31, 1999. The preparation and content of the consolidated financial statements and consolidated Management's Analysis in accordance with German company law are the responsibility of the Company's Board of Executive Directors. Our responsibility is to express an opinion on these annual financial statements and accounts as well as on the consolidated financial statements and consolidated Management's Analysis for the K+S Group and K+S AG which it prepared, based on our audits.

We conducted our audits pursuant to § 317 of the German Commercial Code (Handelsgesetzbuch) in accordance with generally accepted auditing standards established by the German Institute of Certified Public Accountants (Institut der Wirtschaftsprüfer). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual financial statements and consolidated financial statements are free of material misstatement and the consolidated Management's Analysis is consistent with the consolidated financial statements. In planning the audit, we also take into consideration knowledge of the business activity, economic and legal environment as well as expectations of possible errors. An audit of the consolidated financial statements includes examining the efficacy of the internal controlling system as well as evidence, mainly on a test basis, supporting the amounts and disclosures in the accounts, annual financial statements, consolidated financial statements and joint Management's Analysis for the K+S Group and K+S AG. The audit also includes assessing the accounting, valuation and consolidation principles used and significant estimates made by the Board of Executive Directors, as well as evaluating the overall presentation of the annual financial statements, consolidated financial statements and joint Management's Analysis for the K+S Group and K+S AG. We believe that our audits provide a reasonable basis for our opinion.

Our audits did not give rise to objections.

In our opinion, the annual financial statements and consolidated financial statements give a true and fair view of the assets, liabilities, financial position and earnings of K+S AG and of the K+S Group with due regard to generally accepted accounting principles. The joint Management's Analysis for the K+S Group and K+S AG presents a true and fair view of the company's and the Group's position and of its future development and risks.

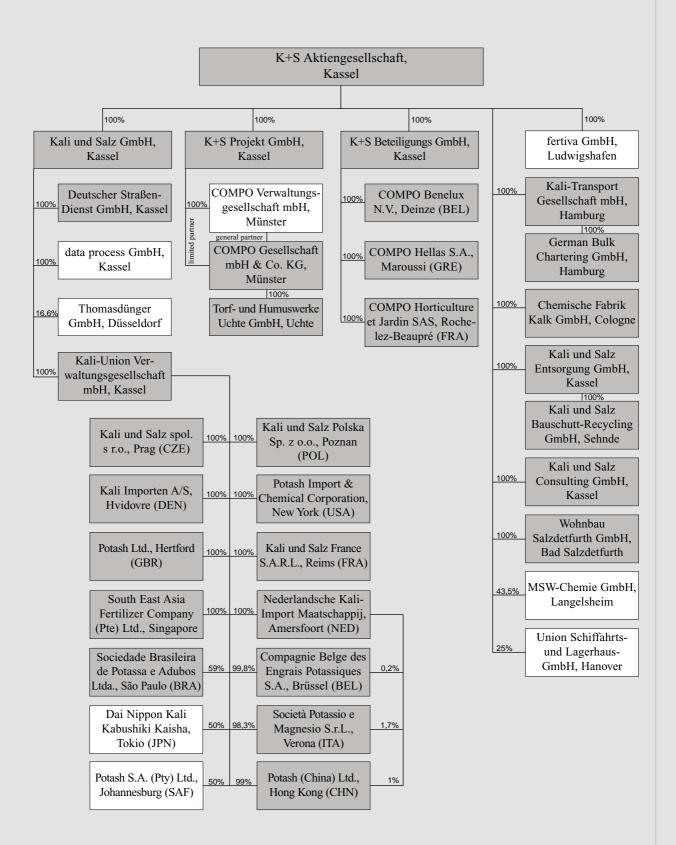
Hanover, February 28, 2000

Wollert-Elmendorff Deutsche Industrie-Treuhand GmbH

Vogel Auditor

Wirtschaftsprüfungsgesellschaft

Prof. Dr. Emmerich Auditor



consolidated in Group accounts

not consolidated in Group accounts

as of December 31, 1999

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Ratio definitions

Dividend yield	=	Proposed dividend per share + tax credit Market price on balance sheet date
Economic Value Added (EVA)	=	DVFA result + income from write-back of balance arising from capital consolidation + interest expenditure – capital costs
Equity per share	=	Equity + 50% of special reserves + balance arising from capital consolidation Number of shares (50 million)
Return on equity	=	Net income after minority interests Equity + 50% of special reserves + balance arising from capital consolidation
Return on total investment	=	Earnings before taxes + interest expenses Total assets
Business assets *)	=	Total assets – balance arising from capital consolidation – liabilities and short-term provisions
Capital costs *)	=	Business assets (annual average) x capital cost rate
Price-earnings ratio	=	Market price on balance sheet date DVFA result per share
Market Value Added (MVA) *)	=	Market capitalization + pension provisions + other long-term provisions – business assets
Return on sales	=	Net income Sales
Working capital *)	=	Inventories + receivables and other assets - short-term provisions – operating liabilities

^{*)} before acquisition of COMPO

	1999	1999	1998	1997	1996	1995
	€ million	DM million				
(+S Aktiengesellschaft						
Sales	49.3	96.3	84.4	91.7	73.9	86.7
Net income	49.6	97.0	107.5	22.8	21.1	15.9
Profit retained / Loss retained	+ 26.1	+ 51.1	+ 35.1	- 42.4	- 65.3	- 86.4
Cash flow	55.0	107.5	113.9	37.0	35.3	37.9
Capital expenditures to tangible fixed assets	6.4	12.6	19.5	6.6	11.2	8.8
Depreciation to tangible fixed assets	2.7	5.2	13.3	4.4	6.0	6.4
Number of employees (Dec. 31)	220	220	271	280	296	288
of which: trainees	4	4	2	-	-	-
Personnel expense *)	14.6	28.7	53.6	39.6	42.7	49.8
(ali und Salz GmbH						
Sales	1,117.8	2,186.2	2,121.4	2,024.4	1,907.8	1,718.2
Net income / Net loss	65.7	128.5	89.9	60.1	- 7.4	- 29.3
Profit retained / Loss retained	+ 0.2	+ 0.5	0	- 310.7	- 370.9	- 363.5
Cash flow	187.1	366.0	334.0	190.4	123.2	75.3
Capital expenditures to tangible fixed assets	93.1	182.0	135.0	186.9	263.4	377.2
Depreciation to tangible fixed assets	115.1	225.0	213.4	174.9	162.9	117.4
Number of employees (Dec. 31)	8,058	8,058	8,030	8,066	8,431	8,786
of which: trainees	459	459	432	385	354	321
Personnel expense *)	384.2	751.5	715.8	668.5	682.8	683.7

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*) since 1998 without interest pension provisions

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