Annual Report 2002

Contents

The annual report for 2002 describes the position of the K+S Group, sets out trends within individual business segments and provides information about figures, data and facts.

In addition to providing factual information, we also introduce you to people from different sections of society and continents who are connected either directly or indirectly with the products and services supplied by the K+S Group. These people provide their own, personal analyses. This is because K+S is always a world made for people, however old they may be, whatever job they may perform and whatever their background may be.

With our six business segments and as a group, we see ourselves as a reliable partner in an increasingly complex world.

At a Glance – The K+S Group

Revenues, earnings, cash flow		2002	2001
Revenues	€ million	2,258.5	2,179.4
Earnings before interest, taxes, depreciation and amortization (EBITDA)	€ million	240.1	248.4
Earnings before interest and taxes (EBIT)	€ million	132.8	120.6
Earnings before income taxes	€ million	113.9	121.1
Net income	€ million	103.8	118.3
DVFA earnings	€ million	69.4	70.2
Gross cash flow	€ million	216.9	224.6

Balance Sheet			
Equity[1]	€ million	558.8	516.8
Tangible and intangible assets	€ million	598.6	592.4
Capital expenditure[2]	€ million	129.0	157.9
Depreciation[2]	€ million	107.3	127.8
Balance sheet total	€ million	1,666.7	1,601.0
Outstanding shares as of 31 Dec.[3]	million	41.5	43.3
Average number of shares[4]	million	42.8	43.4

Employees			
Number of employees as of 31 Dec.[5, 6]		10,610	10,346
of which trainees		542	533
Personnel expenses	€ million	527.8	514.8

Key Data			
Net income per share	€	2.43	2.73
DVFA earnings per share	€	1.62	1.62
Dividend per share	€	1.00	1.00
Dividend yield	%	5.8	4.6
EBITDA margin	%	10.6	11.4
EBIT margin	%	5.9	5.5
Return on revenues	%	4.6	5.4
Return on total investment	%	7.7	8.5
Return on equity	%	18.6	22.9
Book value per share	€	13.47	11.94
Gross cash flow per share	€	5.07	5.18

1) incl. 50% special reserves and balance from capital consolidation
2) tangible and intangible assets
3) 45 million bearer shares less the number of own shares held by K+S as of the balance sheet date
4) 45 million bearer shares less the average number of own shares held by K+S
5) the number of employees for 2002 includes a prorated number of esco employees commensurate with the equity share in esco held by K+S (62%)
6) workforce including temporary employees (without students and interns)

Our world – products and services for life and growth

One of the great challenges of our time is to reconcile the growth in the world's population with the prudent treatment of nature to ensure that life is and will remain worth living for as many people as possible.

Our products, which are made using natural raw materials, are found in agriculture, many branches of industry and in private households. With our numerous specialities and branded products, we hold strong positions in both European and global markets. Our raw materials also find their way into goods produced by other manufacturers as intermediate products. Drawing on our wealth of experience, we also develop customized solutions for a wide range of problems and then make them available to our customers in the form of services.

You often encounter the K+S Group without always being aware of it.

Comprehensive and far-sighted planning as well as the technical and economic interlinking of all our areas of business are the hallmarks of our corporate structure, which is oriented towards long-term success. The K+S Group successfully creates the foundations for life and growth in conjunction with nature.

Welcome to our world.

Dear Shareholders,

Your K+S Group in large measure achieved its operational targets for 2002. Despite the slowdown in the global economy and difficult conditions, we successfully defended our strong market positions and even consolidated them in part. Furthermore, with our group of companies, which are purposefully interlinked, we have demonstrated robustness and achieved further increases in efficiency.

We have increased our revenues once again, raising them by 4% to about € 2.26 billion this time. Strong growth was achieved by the business segments COMPO and Salt in particular. EBIT grew by 10% to almost € 133 million. We view this as a success deriving from a strategy that consists in expanding our classic activities with attractive, new assortments in a manner that yields many opportunities while remaining conscious of risks.

At almost € 104 million, net income for financial year was good: That the result was below what we sought was mainly due to the poorer performance of the stock markets. Thus, at the end of 2002, we had to record impairment charges for short-term securities that significantly depreciated the financial result as of 31 December 2002. If share prices start to rise, we will be able to offset these book losses, at least in part, through the recovery of value.

We want to preserve dividend payments on a constant level as a result of our market success in operational terms as well as maintain what is a good result in terms of net income once again. The Supervisory Board and Board of Executive Directors will once again propose a dividend of € 1.00 per share for the financial year that has just been closed.

During 2002, we continued to strengthen our group of companies in a long-term manner. The focus lay on the development of the new joint venture esco-european salt company. As the provider of a complete, market-oriented salt assortment, esco has been a pioneer in adding a new dimension to the European salt market and is winning the leading position within it. The development and integration of the new company is proceeding smoothly – and, very importantly, the employees are happy to be working for their esco.

The capital expenditure of about € 129 million was mainly used to secure or further enhance the efficiency of our production and distribution processes. For example, it included the launch of a state-of-the-art COMPO logistics centre at Handorf near Münster. This will enable us to satisfy the wishes and needs of our customers even better in the future.

A further key project involves making optimal use of a high grade potash crude salt deposit at the Werra combined works. By the beginning of 2005 at the latest, we want to be able to use the particularly rich potash deposits to strengthen the international competitiveness of the Potash and Magnesium Products business segment. The necessary state legal decisions were adopted by the parliaments of Thuringia and Hesse at the end of the financial year.

With respect to financial year 2003, we do not expect to see a significant improvement in the economic and political environment either in Germany or in Europe. In addition to strengthening our internal efforts to reduce costs, we, as a company, will lobby more intensively for the urgent matter of strengthening of Germany's position as a business location within the European Union, doing so publicly, within the associations to which we belong and in conjunction with the Mining, Chemicals and Energy trade union.

Over the next few years too, we should secure our leading market positions. With innovative products and services, we will be able to fare successfully in a competitive environment that will in part be tough. In the future too, we will follow a strategy of continuing to expand the K+S Group by means of acquisitions and cooperation arrangements that provide a wealth of opportunity while remaining mindful of the risks that this may entail. Our financial strength provides the necessary basis for this.

We wish to extend our particular thanks to all our employees, who contributed to the success of the K+S Group through their performance and their high degree of commitment in 2002.

We wish to thank all the customers, suppliers and partners of our group for working together with us during the past financial year in a manner that was always oriented toward common success.

My colleagues and I would like to thank you, dear shareholders, for the confidence that you have placed in us once again. We regard it as both an obligation and a spur for the future at the same time.

Yours sincerely

Ralf Bethke
Chairman of the Board of Executive Directors
of K+S Aktiengesellschaft

Board of Executive Directors of K+S Aktiengesellschaft

Dr. Ralf Bethke
Business administration graduate
Chairman of the Board of Executive Directors

Potash and Magnesium Products business segment
COMPO business segment
fertiva business segment
Investor Relations
Communications
Corporate Development and Strategic Controlling

Norbert Steiner
Lawyer

Salt business segment
Services and Trading business segment
Finance
Legal Affairs, Taxes and Insurance
Purchasing and Materials Management
Audit

Gerd Grimmig
Engineering graduate

Waste Management and Recycling business segment
Mining and Geology
Research and Development
Engineering and Energy Management
Environmental Protection and Industrial Safety,
Quality Management

Peter Backhaus
Industrial clerk
Personnel Director

Personnel
Properties

Joachim Vogt
Engineering graduate, MBA

COMPO business segment*
Corporate Development*
Consumer Goods Coordination*

* from 1 January 2003

Ladies and gentlemen,

The global economy lacked momentum during 2002. Economic trends in Europe, our home market, were also unsatisfactory.

The K+S Group performed very well given these circumstances. It achieved good operative earnings, to which the pronounced interlinking of its business segments contributed.

The Board of Executive Directors briefed the Supervisory Board extensively on the course of business as well as on the position and development of the company. During the year under review, the Supervisory Board advised the Board of Executive Directors and oversaw its activities. With respect to the further development of the K+S Group, we accorded particular attention to the pooling of its salt operations with the salt business of Solvay S.A., Brussels. The joint venture esco - european salt company was formed within a brief period of time and thanks to its customer-oriented approach, the advantageous locations of its sites from a logistical angle and its efficient structures, it has come to occupy the leading position in the European market.

During the course of four meetings, the Supervisory Board examined the written and oral reports delivered by the Board of Executive Directors in depth and considered the plans, position and development of the company as well as its major events in detail. All measures requiring the approval of the Supervisory Board were examined and were the subject of intensive consultation. The chairman of the Supervisory Board was in constant contact with the chairman of the Board of Executive Directors.

During two meetings, the conformity of the company's corporate governance with the rules contained in the German Corporate Governance Code was examined in depth. Only minor action was required as a result, e.g. some suggestions and recommendations were incorporated into the Supervisory Board bylaws. The conformity declaration issued by the Board of Executive Directors and Supervisory Board in December 2002 pursuant to Article 161 of the Stock Corporation Act only contained three deviations from the recommendations contained in the Code.

In addition, we also examined risk management, as we did a year ago. There were no instances of a Supervisory Board member being involved in a conflict of interest.

The personnel committee met twice. Acting on a recommendation made by it, the Supervisory Board appointed Mr Joachim Vogt to the Board of Executive Directors of K+S Aktiengesellschaft with effect from 1 January 2003. Mr Vogt will be responsible for the COMPO business segments, consumer products in other business segments as well as the expansion of the K+S Group.

The Supervisory Board has reviewed the 2002 annual financial statements of K+S Aktiengesellschaft, the recommendation made by the Board of Executive Directors concerning the appropriation of the net profit, the K+S consolidated financial statements as well as the combined management analysis for K+S Aktiengesellschaft and the K+S Group. Both sets of financial statements have received an unqualified certificate from Deloitte & Touche GmbH, the auditors chosen by the Annual General Meeting and engaged by the Supervisory Board.

The auditors provided all the members of the Supervisory Board with their reports on the audit of the financial statements of K+S Aktiengesellschaft and the K+S Group, discussed them in detail at the meeting of the Supervisory Board held on 12 March 2003 and answered all the questions that were asked. As the Supervisory Board had no grounds for raising any objections, it approved the annual financial statements prepared by the Board of Executive Directors for K+S Aktiengesellschaft and the K+S Group; the annual financial statements for K+S Aktiengesellschaft have thus been ratified. The Supervisory Board concurs with the recommendation concerning the appropriation of profits submitted by the Board of Executive Directors and which recommendation envisages the payment of a dividend of € 1.00 per share.

One change in the personnel composition of the Supervisory Board occurred during financial year 2002. Mr Hans-Dieter Winkelhake stepped down from the Supervisory Board on 31 May 2002 in connection with his retirement. Mr Axel Hartmann was appointed to succeed him by the District Court at Kassel. Mr Hartman is vice chairman of the works council at the Neuhof-Ellers plant, which belongs to K+S KALI GmbH.

The Board of Executive Directors believes that for the purposes of the Co-Determination Act, the K+S Group will regularly have a workforce comprising more than 10,000 employees. Accordingly, the act requires that the Supervisory Board should comprise 16 members. With the publication of a notice in the Bundesanzeiger as well as in K+S Group companies on 8 November 2002, the Board of Executive Directors initiated the status procedure provided for by Article 97 of the Stock Corporation Act. The terms of office being served by the current twelve members of the Supervisory Board will end with the close of the Annual General Meeting to be held on 7 May 2003. The eight members who represent the shareholders are to be elected at the Annual General Meeting. The election of the eight members representing employees was initiated on 8 November 2002. The term of office of the new Supervisory Board will begin when the Annual General Meeting to be held on 7 May 2003 is declared closed.

We would like to thank the Board of Executive Directors, the managers of subsidiaries, employee representatives as well as all the employees of the K+S Group for their work and the great commitment that they displayed during 2002.

Kassel, 12 March 2003

On behalf of the Supervisory Board

Gerhard R. Wolf
Chairman

Supervisory Board

Gerhard R. Wolf
Chairman
former member of the Board of Executive Directors of BASF AG

Manfred Kopke
Vice Chairman
former member of the Managing Main Board of the Mining, Chemicals and Energy Trade Union

Leonhard H. Fischer
former member of the Boards of Executive Directors of Allianz AG and Dresdner Bank AG

Karl-Heinz Georgi
Principal of the Haltern am See Education Centre of the Mining, Chemicals and Energy Trade Union

Rainer Grohe
Managing Director of VIAG invent! GmbH

Axel Hartmann
from 14 August 2002, vice chairman of the works council at the Neuhof-Ellers plant, a part of K+S KALI GmbH

Rüdiger Kienitz
Member of the works council of the Werra potash plant, part of K+S KALI GmbH

Klaus Krüger
Chairman of the Group Works Council of the K+S Group

Helmut Mamsch
Former Member of the Board of Executive Directors of VEBA AG

Hans Peter Schreib
Member of the Presidium of the Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW)

Dr. Eckart Sünner
Head of the Central Legal Affairs, Tax and Insurance Department of BASF AG

Hans-Dieter Winkelhake
until 31 May 2002, chairman of the Works Council of the Sigmundshall potash plant, a part of K+S KALI GmbH

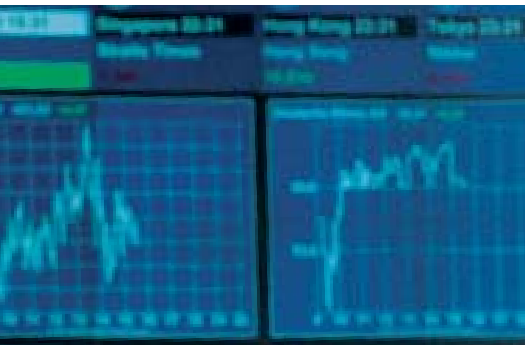
Dr. Helmut Zentgraf
Manager of the Werra potash plant, a part of K+S KALI GmbH

As of 31 December 2002


SOLIDITY

“How well a plant grows also depends on its roots and on the soil. In the case of share performance too, foundations and substance are key determining factors.”

Against a backdrop of falling share prices worldwide, the special properties of the K+S share proved to be a relatively reliable quantity in the portfolios held by private individuals and by institutions during the course of 2002. The renaissance of value stocks and a return to assessments based on fundamentals helped our share outperform the DAX and MDAX indices. Attractive earnings and dividends as well as a healthy balance sheet and strong financial position boosted investor confidence in our company and our strategy.



The renaissance of value stocks

The slowdown in the world economy that has been felt since 2000 as well as the accounting scandals that have shattered investor confidence in the accounting practices of companies have produced a degree of buying restraint on the world's most important stock exchanges that has seldom been seen in the past.

On 9 October 2002, the DAX posted a 6-year low of 2,597 points. The MDAX index, which is of relevance to us, was somewhat more robust: It includes the fifty (seventy until 21 March 2003) non-DAX shares from classic sectors that are traded the most. High value stocks that were still labelled "boring" just over two years ago have experienced a renaissance, because what distinguished such companies were reliable earnings forecasts and balance sheets with a healthy structure.

K+S Share Key Indicators > ISIN: DE 0007162000/WKN: 716200

		2002	2001	2000	1999
Net income	€/share	2.43	2.73	2.72	2.04
DVFA earnings	€/share	1.62	1.62	1.98	1.68
Dividend	€/share	1.00	1.00	0.85	0.57
Gross cash flow	€/share	5.07	5.18	5.48	4.74
Highest price	€	24.51	22.30	18.55	15.50
Lowest price	€	16.83	15.69	12.25	10.85
Closing price (year end, XETRA)	€	17.35	21.90	18.00	14.00
Year-end market capitalisation	€ million	780.8	985.5	810.0	700.0
Total stock exchange turnover (Jan to Dec)	€ million	469.4	468.5	426.8	513.2
Total number of shares as of 31.12.	million	45.0	45.0	45.0	50.0
Outstanding shares less own shares	million	41.5	43.3	42.8	45.3
Average number of shares*	million	42.8	43.4	44.1	48.2
Total dividend payment**	€ million	41.5	43.4	37.6	25.7
Dividend yield (closing price)	%	5.8	4.6	4.7	4.1
Return on equity	%	18.6	22.9	22.6	18.4
Enterprise Value (EV) as of 31.12.	€ million	788.1	970.4	732.9	586.2
Enterprise Value to revenues (EV/Revenues)	x	0.3	0.4	0.4	0.5
Enterprise Value to EBITDA (EV/EBITDA)	x	3.3	3.9	2.9	2.8
Enterprise Value to EBIT (EV/EBIT)	x	5.9	8.0	5.8	6.6

* 45 million bearer shares less the average number of shares held by K+S

** for 2002, contingent on the number of shares carrying a dividend entitlement on the day of the annual general meeting

K+S share outperforms the market

A decline in price of about 21% during the course of 2002 is scarcely pleasing. However, a comparison with the DAX and MDAX shows that the K+S share also outperformed the aforementioned indices during difficult times (see chart).

Until the beginning of May, the price of the K+S share and the benchmark indices displayed a more or less stable trend. Subsequently, however, the strains in the economic situation throughout the world caused share prices to fall erratically, and the K+S share too was unable to remain impervious to this trend.

From the third quarter onwards, the roller coaster like behaviour of the world's stock markets intensified once again, with the markets reaching their temporary lowest point at the beginning of October. There was a massive increase in volatility, i.e. the extent to which daily shares prices fluctuated, which was an indicator of the great uncertainty felt by market players.

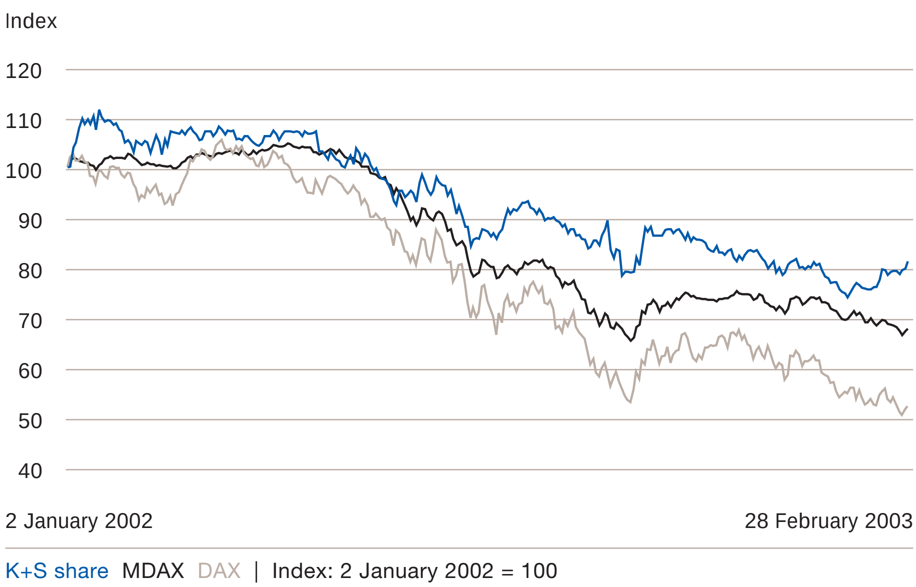
After the DAX had lost about 50% since the beginning of the year, the much longed for reversal of the hitherto trend began. Since then, the pace of the performance of the K+S share, the DAX and the MDAX has been more or less the same. On 30 December 2002, the K+S share closed at € 17.35 in XETRA trading, and was thus quoted at 21% below its closing price of a year ago. By contrast, the DAX (2,893 points) and MDAX (3,025 points) respectively closed 44% and 30% lower year-on-year.

On 28 February 2003, the K+S share was quoted at € 17.50. Thus, our share gained slightly (1%) in relation to the end of the year, the relatively high dividend yield undoubtedly contributed to preventing a decline in the price of our share. The DAX and MDAX indices lost 12% and 6% respectively since the end of the year.

The K+S share is quoted in the following stock market indices:

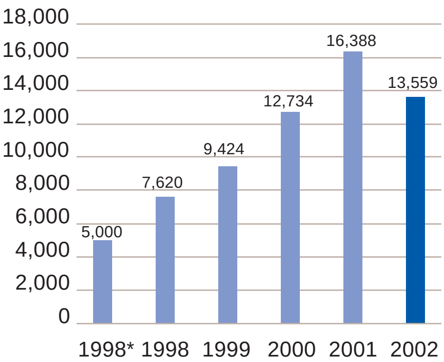
- MDAX
- HDAX
- CDAX Overall Index
- CDAX Basic Resources Index (until 21 March 2003)
- Prime Allshare Index (as of 24 March 2003)
- Classic Allshare Index (as of 24 March 2003)
- Mid Cap Market Index (as of 24 March 2003)
- Prime Sector Chemicals (as of 24 March 2003)
- Industry Group Chemicals/Commodity (as of 24 March 2003)
- STOXX TMI
- MSCI Germany Small Cap

Change in the value of the K+S share 2002/2003



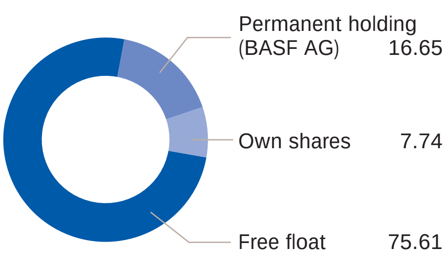
The K+S share

Development of Value of K+S Share
> in € incl. reinvestment of dividends & remaining cash as of 31.12.

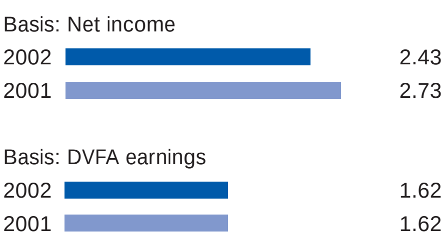


* Investment as of 02.01.

Shareholder structure > in %



Earnings per share > €



An investment in K+S shares has shown growth of an average 22% since 1998

Despite the generally poor performance of the markets in 2002, investing in K+S shares has paid off over a five-year period. The K+S shareholder who acquired € 5,000 worth of K+S shares at the beginning of 1998 and reinvested subsequent dividend payments in K+S shares found that his holdings were worth about € 13,560 on 31 December 2002. Over the five years, the value of shares rose by 171% in total, which represents an average increase of 22% per year. By comparison, both the DAX and the MDAX showed a negative result for the same period of time: Over the five years, the DAX lost a total of 33% and the MDAX 19%.

Fourth share repurchase programme launched

Pursuant to a resolution adopted by the Annual General Meeting on 8 May 2002, we have been authorized to acquire up to 10% of our shares. The K+S Aktiengesellschaft Board of Executive Directors decided to make use of this authorization in the every same month. We want to use shares that have been bought back to finance further acquisitions and should that prove not to be possible, we would not exclude the possibility of cancelling the shares. The authorization expires on 31 October 2003.

As of 31 December 2002, we held about 3.5 million of our own shares, or 7.7% of the share capital comprising 45 million shares. The average price paid per share was € 18.93.

High free float characterizes shareholder structure

According to the information available to us, BASF AG holds 16.65% of our shares. As of 31 December 2002, K+S Aktiengesellschaft itself held 7.74% of its own shares. The remaining 75.61% of our shares float freely. They are mainly held by German and foreign institutional investors and by a large number of private investors and K+S employees.

Slightly lower earnings per share

While EBIT rose by € 12.2 million to € 132.8 million, at € 2.43 per share, net income per share was below the previous year's level (– 11%); this was mainly due to the need for write-downs on short-term securities. At € 1.62 per share, DVFA earnings were on the 2001 level. DVFA earnings adjustments mainly involve imputed income taxes and goodwill amortization.

Dividend proposed remains high

The K+S share remains an investment offering a high yield: We will once again propose a dividend of € 1.00 per share to the Annual General Meeting. With the exception of those shares held by K+S itself, all shares carry a dividend entitlement. On the basis of the year-end closing price of € 17.35, the proposed dividend will result in a dividend yield of 5.8%. In terms of distribution levels (in relation to net income for the K+S Group) and against the background of our medium-term earnings expectations, a dividend of a similar size should remain a realistic goal for the future.

Reorganisation of market segments

In the fourth quarter of 2002, Deutsche Börse AG announced its plans for the reorganisation of existing stock exchange segments. K+S Aktiengesellschaft applied for a “Prime Standard” listing, or inclusion in that segment which has the highest information requirements, and received the relevant approval from the agency responsible on 12 December 2002. We will continue to be quoted in the MDAX, which has been reduced in size from 70 to 50 shares as a result of reorganisation, and according to the latest Deutsche Börse AG rankings for January, we are nineteenth in terms of market capitalisation and twenty-first in terms of trading volume.

A Prime Standard listing involves assuming a whole series of duties, which include the use of International Accounting Standards in reporting. The relevant EU directive requires the implementation of international accounting standards by 2005.

Financial analysts largely positive in their assessments of K+S

A moderate price/earnings ratio continues to characterize the K+S share. In addition, financial analysts often use what are known as enterprise value multiples to assess share prices. This entails viewing the value of a company, consisting of market capitalisation and net indebtedness, in relation to EBITDA (EV/EBITDA) or EBIT (EV/EBIT). The multiples computed for K+S (see table of indicators) are in part significantly lower than those for comparable companies, which financial analysts see as indicating that the K+S share is relatively undervalued.

Thus, an important goal for our investor relations and press work remains presenting the current and future earnings capacity and solid value of the K+S Group in an even more deliberate manner on domestic and foreign capital markets.

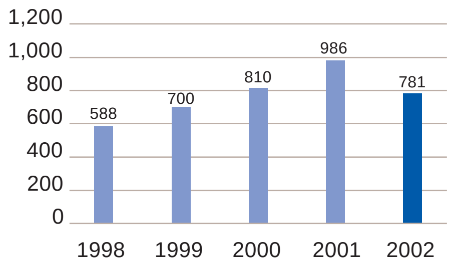
Investor relations as a medium linking the company and capital markets

For us, investor relations means transparent financial communications above all for the purpose of creating confidence on the capital markets. We report in a comprehensive, timely and open manner on all events relating to the development of the K+S Group. We very consciously cultivate our contacts with financial analysts, institutional investors, private investors and business journalists through the press and analysts conferences that we hold in the spring and autumn of each year serving this end. In 2002, we staged roadshows in the United States, Switzerland, Austria and Germany and also held a first teleconference with analysts in connection with the publication of our six-month figures. We noted a general increase in interest on the part of British and North American investors. Increased interest among financial analysts in K+S was evident from the research studies about our group that were published regularly.

Concerning the subject of "Corporate Governance", it is commented on extensively in both the Management's Analysis and in the Notes. During the course of 2002, we brought the content and format of our interim reports into line with changed capital market requirements and thus hope that the expectations of investors and analysts will be met even better than hitherto. We also simultaneously provide information concerning quarterly reporting on the course of business on the Internet at www.k-plus-s.com. Anyone who wants to find out more about us by accessing the site will also find a special investor relations page carrying frequently asked questions as well as the latest company presentation. You can also subscribe to a special newsletter on our homepage, which will ensure that you are automatically provided with current press releases and company news by e-mail. You can also contact our IR team directly:

Dividends per share > €

Market capitalisation 1998–2002
> € million 31.12



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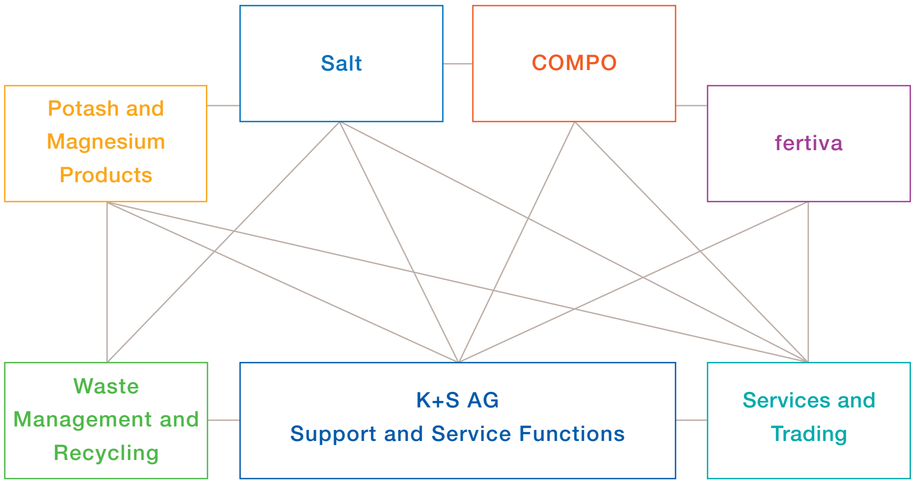
UNITY

“Being able to rely on others is what makes us strong. It means that we can successfully address the challenges that we face and achieve our goals together.”

Our six business segments work together hand in hand and are interconnected in a variety of ways. They are interrelated in terms of markets and technology and enjoy the support of the service and support functions provided by group headquarters. This type of corporate interlinking provides us with special opportunities for being successful in our dealings with customers and in relation to competitors. In addition, it also yields significant cost savings for our business processes.

The strategic cross-linking of the K+S Group is backed by group-wide, active knowledge management and a carefully considered policy on acquisitions and cooperation. In this way, we are able to offer our customers a wide choice of services and a broad product range that is geared towards needs. This also makes the K+S Group more valuable than just the sum of its parts.

The interplay between the individual business segments and functional departments that serves to increase earnings has a variety of forms. The key connecting points in our strategic arch are described below:



Marketing and sales

The know-how that is necessary for the marketing of fertilizers that belong to the Potash and Magnesium Products business segment, the COMPO professional area and fertiva is in large measure identical. Essentially, the products are marketed through similar distribution channels. Common knowledge with regard to market structures and target groups, including farming customers, produces considerable opportunities for realizing synergies. A special marketing forum established by the three business segments is used to successfully implement a specific marketing approach for each respective product group. An integral part of this strategy for the three business segments is the provision of product use advice based on latest findings to agriculture and to wholesalers. Furthermore, in the case of certain selected target markets, distribution is effected through joint companies to exploit the advantages afforded by the coordination of logistics.

Technology and production

Potassium chloride and natrium chloride are both mineral raw salts components that have been formed in the same way over thousands of years and thus share the same geological properties. To some extent, both minerals are even extracted in the same mines by K+S. The necessary mining know-how possessed by employees and the machines, equipment and processes used in potash and salt mines are in large part identical. Given that the specialist skills required of employees in these business segments are the same, secondments and capacity adjustments within the group are possible in general and allow for flexibility during periods of peak demand in particular. In addition, research and development activities are pooled. That production facilities at disused mines need not be "scrap" is borne out by, for example, the granulation of CATSAN®; a disused potash plant is being successfully used for the production of the animal hygiene product.

The wealth of experience that has been gained in both the potash and salt sectors over decades helps in fulfilling requirements laid down by public agencies, implementing necessary safety measures that have been proven over time as well as in meeting environmental requirements. Furthermore, the Waste Management and Recycling business segment benefits from this knowledge, because the caverns created underground as a result of the extraction process employed in the Potash and Magnesium Products as well as Salt business segments are used by the Waste Management and Recycling business segment for safe long-term waste disposal and recycling. Thus, the back-fill operations that are necessary to ensure that mines remain safe are in part performed by waste management in a way that yields earnings, because suitable waste materials can be used for this purpose. In doing so, waste management draws on the available infrastructure at active potash or salt mines.

Significant production technology synergies also exist in the COMPO and fertiva business segments. Both business segments have a substantial part of their products manufactured at the same plants, which makes it possible to exercise optimal control over production depending on the requirements of the given business segment. Combined production results in a high level of plant utilization, thus yielding a considerable reduction in unit costs.

Logistics, IT and analysis

The Services and Trading business segment occupies a special place within the group. The segment combines those service activities that are fundamental to the K+S Group such as logistics, IT and analysis. In addition, when free capacity is available, these services are also offered to third parties. These activities are deliberately exposed to market competition to ensure an efficient and cost effective quality of service internally too.

The logistics activities of the K+S Group are brought together within the logistics sector, which makes it possible to bundle transportation and services for the different business segments and to optimize logistical supply chains. Taken together, both these elements yield significant savings on logistics costs and thus make an important factor to the earnings capacity of the K+S Group.

The IT sector combines K+S Group IT activities. As far back as the 1970s, it was decided to adopt a group-wide SAP-based IT platform as the standardization of IT systems yields significant cost benefits in the form of lower service and maintenance costs.

The consulting and analysis area also conducts specialized geological analyses that are of great importance not only for crude salt mining. Ongoing inspections and analyses have also become indispensable in the Waste Management and Recycling business segment and in the context of fertilizer products.

Centralised support functions

Like the Services and Trading business segment, head office provides central support and service functions to all business segments. Such necessary functions as corporate controlling, finance and accounting, purchasing, reporting, taxation, legal affairs and personnel are pooled at head office and made available to the business segments centrally and in a cost effective manner.


VARIETY

“Kiwis from New Zealand or potatoes from Lower Saxony – specially developed fertilizers provide the best results!”

Minerals are vital nutrients for animals and people and for plants too, which extract large quantities of nutrients from the soil year for year. If soil is to remain fertile and retain or increase its productive capacity, those nutrients that have been removed must be restored to the soil with fertilizers containing minerals as needed.
K+S extracts such vital minerals as potassium, magnesium and sulphur from its deposits and processes them to produce highgrade mineral fertilizers. Our products are natural products. Farmers throughout the world use K+S mineral fertilizers and in doing so, they make an essential contribution to securing the world’s supply of food.

Potash and Magnesium Products Business Segment

Key figures > € million	2002	2001	%
Revenues	992.3	967.4	+ 3
Earnings before interest, taxes, depreciation and amortization (EBITDA)	126.9	141.1	– 10
Earnings before interest and taxes (EBIT)	55.6	66.9	– 17
EBIT margin in %	5.6	6.9	
Capital expenditure	89.1	112.6	– 21
Employees as of 31 December (number)	7,612	7,577	0

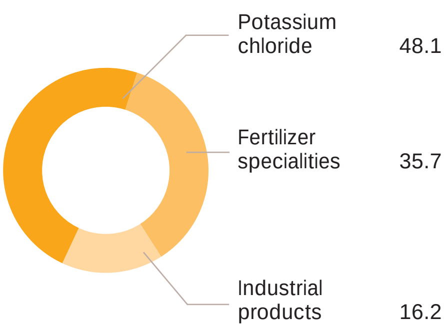
The Potash and Magnesium Products business segment extracts potash and magnesium salts at six mines in Germany. They are used to produce a large range of mineral fertilizers, some of which are approved for ecological farming. In addition, the salts are also processed to produce intermediate products for technical, commercial and pharmaceutical applications. Use in electrolysis, the production of paper and the extraction of crude oil are just a few examples. K+ S products are also found in dialysis solutions, dyes and detergents.

K+S Group consolidates its important market position worldwide

With a share of about 13%, the K+S Group is the fourth largest producer of potash products worldwide and the clear market leader in Europe. In the potash sulphate and magnesium sulphate fertilizers sector, the K+S Group has further consolidated its position as the global market leader. In addition to potash sulphate, ESTA-Kieserite and anhydrous magnesium sulphate, Epsom salt, a product that has the combined effect of magnesium and sulphur, is of growing importance within our product assortment.

Epsom salt has the broadest range of applications of all K+S products: It is a much valued magnesium and sulphur fertilizer for agriculture and gardening, because it not only quickly and successfully counters deficiencies but also significantly increases the quality of the crops that are harvested. Epsom salt also has a wide range of applications in various branches of industry. In the paper industry, it is used to aid environmental friendly oxygen bleaching in the production of synthetic materials, it serves as an auxiliary material for the separation of the desired end products, and it is employed in detergents to protect fibres from bleaching agents.

Revenues by product group > in %



Slight rise in revenues as a result of volume factors

Revenues for the Potash and Magnesium Products business segment rose by 3% in financial year 2002 primarily as a result of volume and assortment factors. Sales totalled 7.5 tonnes. Higher sales of potassium chloride, potash specialities and ESTA-Kieserite compensated for declines in industrial products such as potash sulphate.

Overseas, significant revenue growth was achieved as a result of volume factors. Overseas markets for fertilizers continue to grow, and K+S has also profited from this trend. In the European markets, revenues also grew, despite sales volume remaining constant, and mainly because of increased sales of higher-revenue granulated fertilizers for direct use in farming.

Most revenues are generated within the euro zone and are therefore largely unaffected by any direct foreign exchange risk. Outside this zone, forward exchange rate contracts were concluded for the US dollar and British pound in order to provide optimal protection against currency risks with the result that the weaker US dollar in the second half of 2002 had no impact on the segment earnings.

Potassium chloride – positive volume-based growth, price under pressure

During the year under review, potassium chloride revenues rose by € 10.9 million or 2% to € 477.2 million mainly as a result of volume factors. In addition, product spectrum realignment had a positive impact on revenues: Sales of higher-revenue granulated potassium chloride rose by 6%. Declining sales of standard products led to the closure of some European production sites for complex fertilizers. In overseas markets, higher sales volume, with prices that were in part lower, caused revenues to rise.

Fertilizer specialities show growth once again

Revenues for our fertilizer specialities during the past financial year posted growth of almost 7%. Significant volume increases for ESTA-Kieserite and potash specialities were the main factors driving this trend. In the European markets, the potash speciality business displayed a tangible recovery following the weather and disease related declines experienced in 2001. The good spring season for granulated products in Europe as well as increased demand from Southeast Asia in the wake of the recovery of palm oil prices resulted in higher revenues for ESTA-Kieserite in all markets.

Weak economy depresses industrial products

Sales of industrial products were 5% down on the previous year. Lower capacity utilization resulting from the economic situation on the part of customers, especially in the electrolysis area, caused demand for industrial potash to fall. In addition, two large customers were affected by technical problems that had an additional adverse impact on our sales. However, increased sales of higher grade kinds of industrial potash meant that the decline in revenues attributable to volume could in part be offset in overseas markets. The weak economy had less of an effect on the magnesium products business.

Year-on-year earnings lower because of higher unit costs and price pressure

At € 55.6 million, EBIT was € 11.3 million lower than a year ago. On the one hand, start-up problems connected with the new Kieserite production facility resulted in higher unit costs and on the other hand, increases in certain types of costs could not be avoided despite the implementation of further measures aimed at enhancing efficiency. These cost increases could not be passed on in prices partly as a consequence of difficult market conditions.

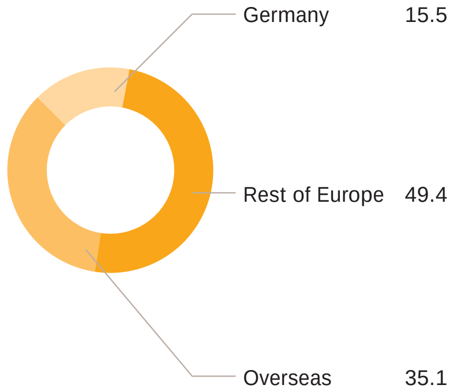
As of 31 December 2002, the business segment employed 7,612 people, which means that there was an increase of 35 employees in relation to the preceding year.

Unique product mix and new deposits create good opportunities

Operating from Germany, K+S offers its customers worldwide a product range derived from crude salts containing potash and magnesium that is more comprehensive than that offered by any producer of potash in the world. The broad assortment of speciality products can be used for a wide range of purposes. Supplying specialities to niche markets is an important strategic goal. The potash and magnesium products business is concentrated in Europe and in selected overseas markets.

A very important project for making the extraction of potash salt more productive is the opening up of a new sector of the Werra deposits ("Sylvinite Project"); the crude salt contains an above average quantity of potash. The use of this potash salt will result in significant increases in efficiency by 2005 at the latest and thus improve performance. After the necessary conditions at the state level were created last year, an immediate start was made on production technology preparations.

Revenues by region > in %



> www.kali-gmbh.com


DESIRE

“I always wanted to have the largest and most beautiful garden in our street. Since I retired, I have been helping in the largest garden of all: the municipal park.”

When hobby gardeners use COMPO products, their plants and flowers give them even more pleasure. COMPO has a broad range of suitable products that help turn a garden into a private paradise. COMPO products also stand for the highest quality and yields when it comes to professional uses. This applies to the economic and efficient supplying of fertilizers to sports turf as well as to special crops such as grapes, vegetables and fruits.

COMPO Business Segment

Key figures > € million	2002	2001	%
Revenues	481.0	436.2	+ 10
Earnings before interest, taxes, depreciation and amortization (EBITDA)	40.7	27.8	+ 46
Earnings before interest and taxes (EBIT)	30.8	19.7	+ 56
EBIT margin in %	6.4	4.5	
Capital expenditure	20.1	11.4	+ 76
Employees as of 31 December (number)	1,152	1,077	+ 7

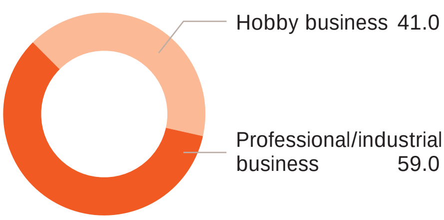
COMPO offers hobby gardeners a comprehensive assortment of high quality branded products; the portfolio ranges from flower soil, plant care agents, lawn and garden fertilizers to pesticides. With respect to the professional business, COMPO is a highly valued partner for the most diverse market segments. What are offered are fertilizer specialities for horticulture and special crops, slow release fertilizers for lawns, sports fields and public green areas as well as coated fertilizers for nurseries and the demanding cultivation of ornamental plants. In Germany, for example, COMPO specialities are the fertilizers used for the grass in more than 75% of Bundesliga soccer stadiums and for two-thirds of all golf courses.

The products, which are also of high quality in terms of ecological aspects, are manufactured at several sites in Europe. COMPO has its own facility at Krefeld for the production of complex fertilizers containing potash sulphate as well as liquid fertilizers and coated fertilizers. Some fertilizer assortments are produced by BASF at Antwerp and Ludwigshafen. Liquid fertilizers are made at COMPO facilities in France and Germany. COMPO has sites for the production and packaging of flower soil that are close to customers and located in Germany, Belgium, France and Italy. The integration of Algoflash and Gesal following their acquisitions has been successfully completed in all countries.

COMPO sets new standards with product innovation

COMPO has once again consolidated its position with regard to special complex fertilizers in the demanding gardening and special crops segment against a difficult background and in the face of tough competition. ENTEC products are continuing to show strong growth. ENTEC is a stabilized special fertilizer that is more efficient with respect to nitrogen, thus producing higher quality yields as well as work process advantages for users – both are important measures of success for COMPO customers. However, the newly launched Floranid Eagle slow release fertilizers – fine granulate slow release fertilizers that are above all suited for golf course greens and tee areas – were successful straight away. In the public green area sector, COMPO has launched new, special slow release fertilizers and thus asserted its market position.

Revenues by product group > in %



Revenue trends for both hobby and professional business favourable

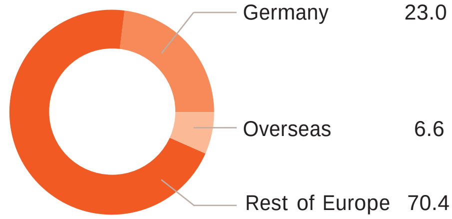
COMPO revenues for financial year 2002 were 10% higher year-on-year. The increase in revenues from € 436 to € 481 million is attributable to successes in two submarkets. Alongside moderate price increases, the further improvement in revenues was primarily a result of higher sales for ENTEC fertilizers in the professional area and successful innovations in the hobby area, including packages of COMPO SANA COMPACT flower soil that can be easily transported.

Hobby sector successful throughout Europe

Hobby sector revenues rose by 5% to € 197.0 million in 2002. Increase of 2% in both prices and quantities resulted in revenue growth that was above the average market rate of growth. Business in the more profitable branded goods sector was better than that involving private label products.

The European multiple brand strategy, which involves COMPO, ALGOFLASH, SEM, GESAL and GARDIFLOR and is based on the varying degrees to which the individual brands are known in the various core markets, was very successful. Year-on-year revenue growth was achieved in all European regions in which COMPO is represented. The rates of growth achieved in Germany (flower soil and lawn fertilizers), Austria (flower soil), Switzerland (flower soil and outdoor fertilizers) as well as France (development of the specialist brands ALGOFLASH and COMPO) were above average in particular.

Revenues by region > in %



Professional area posts strong growth

Professional area revenues for 2002 grew by about € 35 million or 14% to € 284.0 million. ENTEC fertilizers, which are becoming increasingly well established on the market as a result of their exceptional properties, showed strong growth. Sales of classic special mineral fertilizers and slow release fertilizers rose.

As with the hobby business, COMPO achieved higher revenues for its professional products in almost all European markets and in most of the overseas regions in which it is present. The exception was Latin America because of its current economic and currency difficulties. Growth was mainly driven by the Mediterranean countries Spain and Greece, where COMPO in part achieved double-digit growth.

Earnings 56% higher year-on-year

At € 30.8 million, earnings for the COMPO business segment were € 11.1 million higher than a year ago. Higher volume and revenues were the main factors behind the welcome improvement in earnings. In addition, earnings for the preceding year were depressed by integration costs, and such outlays were no longer incurred in 2002.

The number of employees grew by 75 to 1,152 mainly as a result of successful growth in European markets.

Innovation, high quality standards and customer satisfaction ensure success

The development of new products or the enhancement of existing ones is a constant challenge for COMPO. Work is currently underway on a number of promising new products that should be ready for marketing in the foreseeable future. COMPO continues to assume that it will achieve growth exceeding the market trend. In this regard, product quality and customer satisfaction are the key benchmarks towards which COMPO corporate goals are directed.

Growing internationalisation, the ongoing transfer of product innovations from the professional to the hobby area (e.g. in the case of ENTEC and premium lawn fertilizers), a range of services that is tailored to regional needs as well as the constant expansion of pesticide activities constitute the cornerstone of sustained, future growth for the COMPO business segment. In addition to internal growth, which is based on medium-term planning, external opportunities offered by acquisitions and cooperation arrangements are continually reviewed.

> www.compo.de


SUCCESS

“Providing everyone with sufficient food is a great challenge that has to be accepted. It is a goal that can be attained more quickly thanks to the balanced use of fertilizers.”

Fertilizers that contain nitrogen are essential for maintaining and increasing soil yields. As a global supplier of nitrogen single-nutrient and complex fertilizers, fertiva sets very demanding standards in the international fertilizer market and contributes to a healthy and improved world diet.

fertiva Business Segment

Key figures > € million	2002	2001	%
Revenues	469.5	500.2	– 6
Earnings before interest, taxes, depreciation and amortization (EBITDA)	6.7	0.9	>100
Earnings before interest and taxes (EBIT)	6.3	0.6	>100
EBIT margin in %	1.3	0.1	
Capital expenditure	0.5	2.0	– 75
Employees as of 31 December (number)	55	55	0

The K+S Group's activities relating to nitrogenous agricultural fertilizers are pooled in the fertiva business segment. fertiva markets all agricultural fertilizers exclusively produced for it by BASF. In addition, fertiva also trades in goods that it purchases from other well-known European producers. fertiva customers, who are all active in the agricultural sector, benefit from a high quality range of products and services as well as the many years of international experience possessed by the fertiva team. Within the K+S Group, fertiva works together closely with the Potash and Magnesium Products and COMPO business segments. Being consistently customer oriented, a high standard of service with regard to deliveries and flexibility are important criteria for shaping the fertiva business.

Overcapacity characterizes the European market for nitrogenous fertilizers

The economic environment for nitrogenous fertilizers in Western Europe was unfavourable in 2002. Weaker demand in important regions caused some prices to decline significantly.

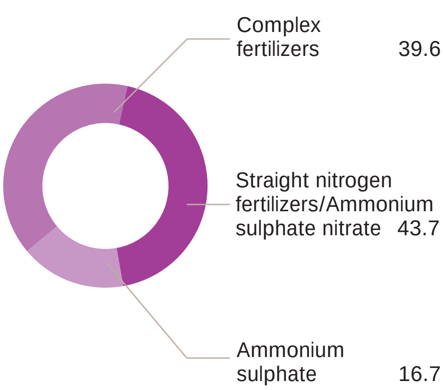
Individual producers of nitrogen fertilizers in Western Europe responded to this difficult market situation in 2002 too: Capacity that was no longer economically viable was closed and other sites contributed to new companies/joint ventures.

fertiva successful thanks to flexible adjustment process

With BASF's suspension of the production of complex fertilizers at Ludwigshafen at the end of March 2002 and the resulting decline in product availability, fertiva withdrew from some markets. As a result, fertiva's market share for complex fertilizers in Western Europe fell, albeit the market was one that was declining overall.

By contrast, in the case of straight nitrogen fertilizers, fertiva was able to assert its position in all markets. With the support of a targeted and consistent marketing strategy, sales of ammonium sulphate nitrate (ASS) worldwide even showed significant growth. fertiva was also able to successfully market the higher volume of ammonium sulphate available and thus assert its leading position worldwide.

Revenues by product group > in %



Declining trend in revenues, especially elsewhere in Europe

fertiva revenues for 2002 fell by € 30.7 million, or about 6 %, to € 469.5 million. Sales for Germany were 7% lower year-on-year, because the drop in revenues of about 10 % could only be partly offset by the growth in volume. With respect to the rest of Europe, revenues for 2002 were 14% lower year-on-year. That is primarily attributable to the tangible lowering of prices for single nutrient fertilizers.

While the relevant political and economic environment in Asia proved to be stable, economic conditions in South America were very volatile. Nevertheless, revenues rose by about 11%, despite a weaker US dollar, because it was possible to effect a significant increase in volume. Thus, the share of revenues accounted for by the overseas region rose by five percentage points in relation to 2001.

Price declines for complex fertilizers

Revenues for complex fertilizers displayed a downward trend and at € 186.2 million were 12% down on the preceding year. The reasons for this were significantly lower revenues in Europe as well as lower product availability following the closure of the BASF complex fertilizer production at Ludwigshafen. fertiva was successful overseas, posting revenue growth of more than 15%, especially as a result of considerable business in China.

Higher volume sales of straight nitrogen fertilizers partially offset declining revenues

The decline in revenues for straight nitrogen fertilizers was lower (– 5%). While calcium ammonium nitrate and ammonium nitrate experienced declines in relation to the preceding year as a result of price factors, revenues for ammonium sulphate nitrate rose. The substantial drop in the price of calcium ammonium nitrate and ammonium nitrate was due to strong competition from urea, especially in the form of imported goods from Eastern Europe. In the case of ammonium sulphate nitrate, prices also had to be lowered, but the effect of this was overcompensated for by a significant increase in the volume of sales. fertiva benefited from the strong demand for fertilizers containing sulphur.

Volume growth overcompensates for declining prices for ammonium sulphate

Ammonium sulphate revenues rose by 8% in relation to 2001 and amounted to € 78.2 million. As in the case of all the other product groups, prices fell. However, it was possible to post volume growth of about 15%, which fertiva was mainly able to achieve in some overseas markets.

fertiva achieves a positive result

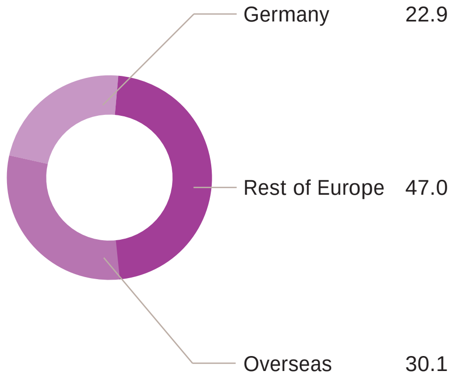
fertiva posted earnings of € 6.3 million for 2002. The agreement concluded between BASF and K+S states that profits and losses up to a sum of € ±10.2 million deriving from the basic business and transferred from BASF to fertiva will be halved. Any earnings in excess of this figure will accrue exclusively to BASF. During the year under review, fertiva generated the maximum earnings contribution from the basic business. In addition, other business yielded € 1.2 million, because the rule referred to above does not apply to earnings obtained from new areas of business. Favourable conditions with regard to purchase costs, in part influenced by the exchange rate for the US dollar, served to increase earnings.

The total number of employees remained unchanged at 55. Services provided by third parties were significantly scaled back.

fertiva impresses with good market positions

fertiva focuses its activities on the markets of Western Europe and overseas regions that show strong earnings. The market and product portfolio is continually analysed and optimised. fertiva will continue to consolidate its position as the global market leader in ammonium sulphate and the market leader in Europe for fertilizers that contain sulphur. In addition, fertiva has successfully launched a new nitrogen-magnesium-sulphur product on selected European markets in the form of "premago". The product splendidly complements the existing ASS product family by providing new nutrient combination. Low risk trading transactions to complement the basic business are exploited on a case-by-case basis.

Revenues by region > in %



> www.fertiva.de


SAFETY

“For me, half a meter of fresh snow is the most wonderful thing I can imagine. I just cannot get enough snow. However, that all changes very quickly if I am driving.”

Salt is a fundamental part of life. esco salt can almost be found everywhere: It is present in glass, paper and synthetic materials or is important for their production. Salt aids our health, is used for seasoning, dyeing and disinfecting and, last but no least, for traffic safety purposes. We cannot imagine life without salt.

Salt Business Segment

Key figures > € million	2002	2001*	%
Revenues	203.4	165.1	+ 23
Earnings before interest, taxes, depreciation and amortization (EBITDA)	36.9	42.2	– 13
Earnings before interest and taxes (EBIT)	26.0	27.5	– 5
EBIT margin in %	12.8	16.7	
Capital expenditure	7.9	6.6	+ 20
Employees as of 31 December (number)	840	729	+ 15

* of limited comparative value only

A significant step toward strengthening the position of K+S was taken in 2002 with the formation of the joint venture esco-european salt company with Belgium's Solvay. K+S holds a 62% share in esco with economic effect from 1 January 2002. The K+S Group's Salt business segment is represented by this share in esco.

esco is the leading supplier of rock and evaporated salts in Western Europe.

Revenues on a higher level after merger

The share of revenues corresponding to the 62% share that requires consolidating amounted to € 203.4 million, which represents an increase of 23%. As the character of the esco activities deviates significantly from the hitherto K+S salt business, comparisons with the preceding year are only of limited value. As a result of the combining of activities, the share of total revenues accounted for by higher price consumer goods rose from 23% in 2001 to 40% in 2002; the typical end-consumer business contributes 13% to the total revenues of the business segment. The shares for the remaining segments experienced a relative decline. The joint venture thus possesses a markedly more balanced structure and is therefore in a position, even in years where sales of de-icing salt are average, to achieve good earnings.

The 2002 price level was stable overall. There are signs of an improvement with respect to price in the case of quite a number of products or subsegments. The most important markets continue to be Germany, which accounts for 43% of total revenues, and the rest of Europe, which accounts for 56%.

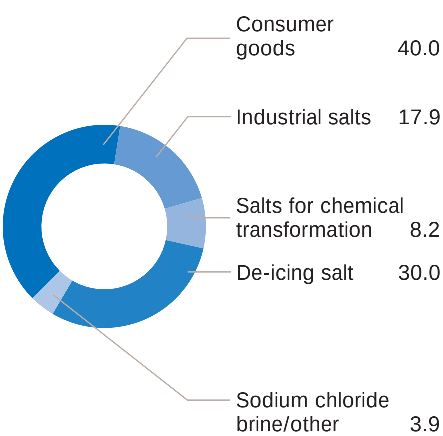
Consumer goods show strong growth as a result of merger

Consumer goods cover table salts for private households, table and pickling salt used for processing in the food industry as well as water softening salt. For the year under review, the share of K+S Group revenues accounted for by this segment more than doubled to € 81.3 million. The main reason for this is the high consumer goods share contributed by Solvay. In addition, the K+S business segment profited from the increase in deliveries of table salts, especially in Germany and neighbouring Eastern European countries, as well as a constant increase in sales of salt tablets for water softening purposes. The price increases that were in part implemented also had a positive impact.

Industrial salts show an upward trend

Revenues from industrial salts, e.g. fishery, feed and high purity pharmaceutical salts, amounted to € 36.4 million for the financial year that has just ended. Although the industrial salt share of revenues has experienced a slight decline in relation to the former K+S salt businesses as a result of the joint venture, revenues rose by 10% as a result of better prices. The main markets are Germany and European countries that can be reached without incurring high shipment costs.

Revenues by product group > in %



esco – a reliable partner for customers requiring salts for chemical transformation

Salts for chemical transformation are mainly used in processes connected with chlorine. The salt is used to obtain chlorine – a fundamental product for the entire PVC industry and many other chemical base and intermediate products.

The salt for chemical transformation business was to a large extent stable. At € 16.8 million, salts for chemical transformation revenues were € 2.4 million lower than previously, which was also attributable to the new esco assortment structure.

De-icing salt – the safety system for winter road clearance services

Measured and used in a controlled manner, de-icing salt in its various forms is an environmentally friendly and indispensable system for ensuring safety on motorways and streets. Just recently, a study commissioned by the Federal Department of the Environment found that the use of, for example, grit by winter road clearance services is no economic alternative to a de-icing salt safety system.

esco de-icing salt customers are public road authorities and large commercial customers. Small bags of de-icing salt are also available from retailers for private households.

Winter weather conditions, especially at the beginning and end of last year, ensured that the de-icing salt business was good once again. Revenues for 2002 amounted to € 61.0 million and were about 4% lower than a year ago, because the share of revenues accounted for by de-icing salt fell in comparison with the hitherto K+S salt business.

Lesser role for brine business because of structural factors

The brine business comprises the supplying of natrium chloride brine and magnesium chloride solutions as well as other services. Revenues fell to € 7.9 million in 2002 as a result of the pro rata inclusion of the business. In addition to own needs connected with the production of evaporated salt, natrium chloride brine is also used by the chemical industry in Eastern Germany; magnesium chloride solutions are used in wet de-icing systems employed by winter road clearance services.

Earnings satisfactory despite integration expenses

The EBIT allocated to the K+S Group for the year under review amounted to € 26.0 million. The figure was therefore just under the exceptionally good result achieved a year earlier. The decline is attributable to the aforementioned structural effects as well as integration expenses.

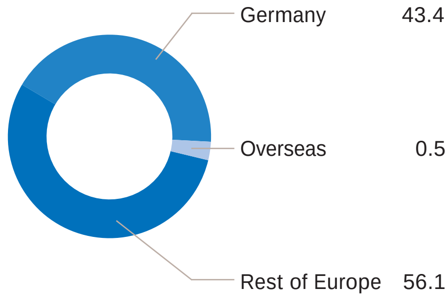
On 31 December 2002, esco had 1,354 employees, of which 840 can be allocated to K+S. This means that there were 111 employees more than in the preceding year.

esco challenges: Pooling strengths, optimizing processes and increasing earnings in a sustained manner

Being customer oriented in a consistent manner, high product quality and the ability to make deliveries at all times are the cornerstones of the salt business strategy. As a result of constant investment, technology remains up-to-date at all times. Production and logistics are subject to on-going optimizations and working hours models that allow for flexibility are the right answer to seasonal peaks in demand, especially in the case of de-icing salt.

The esco joint venture has successfully closed its first year. The important tasks that remain are the further enhancement of customer relationships and the intelligent pooling of people as well as the varied potential represented by different sites. With a product range that meets market requirements and efficient structures, esco will retain its leading position among Europe's salt producers in the future too.

Revenues by region > in %



> www.esco-salt.com


TRUST

“When I grow up, I will fly to Mars. And I know what will be used to build my spacecraft – mummy’s aluminium foil.”

Environmental protection is a major task for all areas of life – and it also presents us with a challenge. We offer safe solutions that address problems using modern waste management systems. We have gone on the offensive in dealing with what is in part very tough competition on the German and European waste management and recycling market. An example of a successful recycling system is our reprocessed, high quality aluminium granulate, which is reintroduced into the added value chain as a pure product after undergoing complex processing.

Waste Management and Recycling Business Segment

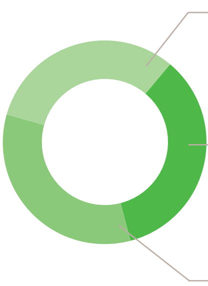
Key figures > € million	2002	2001	%
Revenues	58.6	63.5	– 8
Earnings before interest, taxes, depreciation and amortization (EBITDA)	12.5	15.3	– 18
Earnings before interest and taxes (EBIT)	8.3	11.2	– 26
EBIT margin in %	14.1	17.6	
Capital expenditure	1.6	2.6	– 38
Employees as of 31 December (number)	238	249	– 4

The K+S Group, in terms of technology, is one of Europe's leading providers of systems for underground waste management ensuring safety over long periods of time. The Waste Management and Recycling business segment uses the caverns that are created in active mines as a result of the mining of crude salt. The advantage of this concept is that it is recognized as providing the safest waste management solution. High quality and safety standards have substantially contributed to the excellent position occupied by K+S on the European waste management market. Customized solutions for the special recycling wishes of our customers constitute the second pillar and success criterion on which the business segment is based.

An internationally recognized system provider

Successful waste management and recycling concepts must provide long-term safety and be economic and measurable in a sustainable manner. The specialist services provided by the Waste Management and Recycling business segment begin with an analysis of the individual tasks that the customer needs to have performed and the resulting requirements. Providing system solutions also means that with respect to the necessary waste analysis, approvals and the selection of the waste management and recycling process, every customer receives reliable advice and assistance. A customer satisfaction analysis carried out by a German university in 2002 shows that in the case of the K+S waste management segment, a majority of customers regard the provision of services as competent, reliable, friendly and conscientious. That its competence is recognized beyond the borders of Germany is something that the business owes to the many years of experience that K+S possesses in the field of mining, chemistry, geology and process technology.

Revenues by segment > in %



Revenues only fall slightly despite completion of major projects

Business segment revenues fell by 8% to € 58.6 million year-on-year. The decline was primarily attributable to lower quantities of waste for disposal underground. The German waste management market remains in a state of flux: Overcapacity has resulted in intense competition and, in part, to significant pressure on prices. However, the K+S Waste Management and Recycling business segment was nevertheless able to successfully defend its market shares. However, it was not always possible to avoid making downward adjustments in response to lower offers from the competition.

The intensification of marketing and distribution efforts in European countries other than Germany had a positive impact. This was particularly true of Italy, but also of Austria, the Balkan countries as well as Spain, France and Finland. The increasing number of sales and marketing successes elsewhere in Europe meant that declining revenues in Germany could in part be offset.

Underground disposal affected by shelved major projects in 2002

In the case of underground waste disposal, financial year 2002 saw a shortfall of 17% in relation to revenues for the preceding year (€ 22.6 million). The reason for the decline was the completion of two major projects involving the eradication of accumulated dangerous waste and the delaying of a follow-up project, which is now expected to go ahead in 2003. The projects involve the disposal of heavily contaminated substances deriving from chemical plants located in Eastern Germany and which have been shut down. The core business – processing of deliveries of waste from current production – is unaffected by the special projects and it succeeded in posting a slight gain in relation to the preceding year.

Market position in the underground reutilization sector further consolidated

It proved possible to further consolidate what is already a strong position for the waste reutilization sector. Although the revenues of € 20.4 million were just below the previous year's level (– 4 %), the quantities of waste that could be reutilized below ground by K+S Group businesses during the financial year rose by 2 %. In this business sector in particular, overcapacity has led to intense competition with respect to price. The increase in volume that was attained was primarily attributable to the penetration of new foreign markets.

Positive market environment for recycling

At € 19.6 million, recycling segment revenues were on the same level as a year ago. The recycling business involving salt slag from secondary aluminium production attained the same level of revenues as a year ago with very good capacity utilization. Smelting salt is supplied to secondary aluminium producers and the salt slag that they generate is taken back for processing. It is processed by the REKAL plant at Sigmundshall, where aluminium granulate is also obtained and then marketed.

In the case of building rubble, it was possible to achieve pleasing growth in volume of 26 %, as large quantities could be acquired in connection with modernization work on two stretches of railway lines in the greater Hanover area.

Earnings good despite absence of special projects

EBIT of € 8.3 million was achieved for financial year 2002. Although this figure is below that attained a year ago, when special projects had a positive impact, effective cost management nevertheless made it possible to keep expenses on a level similar to that of a year ago. Process efficiency was further stepped up at waste management and recycling sites with the result that the effects of higher costs could be avoided.

The Waste Management and Recycling business segment employed 238 people on 31 December 2002. The decline in the level of employment was due to adjustments resulting from the decline in the volume of waste destined for our underground storage sites.

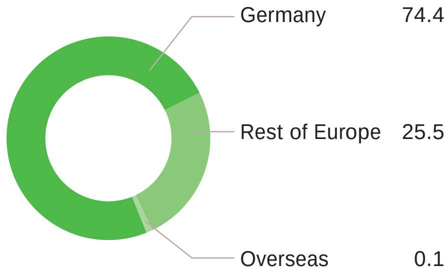
Waste Management and Recycling well equipped for the future

In the future too, the Waste Management and Recycling business segment will continue to further strengthen what are already good market positions in Germany. In the underground waste disposal segment, activities in selected European markets will be expanded in a selective manner and with a focus on communicating the quality and safety advantages that K+S systems can provide.

With regard to the recycling business, we will continue to seek a high rate of utilization for the REKAL plant. By entering the thermal soil cleaning sector, we have turned our attention to the processing of organic waste – a market for which prospects are good. This was simultaneously an important step toward being able to offer customers alternative solutions for their diverse waste management problems.

Overall, by proceeding from the position that it has already attained, the Waste Management and Recycling business segment stands a good chance of finding its way back to the path of higher revenues and earnings in the next few years.

Revenues by region > in %



> www.ks-entsorgung.com


KNOW-HOW

“Distinguishing between day and night has ceased to be of relevance in logistics for some time now. When it’s today here, it’s already tomorrow somewhere else. As a result, you can only succeed worldwide by using optimal and effective processes.”

Modern logistics and innovative information technology are not just words for K+S, but are of central economic importance within the combination of K+S Group business segments. The competence that has been gained over decades constitutes a competitive advantage that also benefits our customers. The range of services offered by K+S extend from the chartering of ships to the introduction of SAP products.

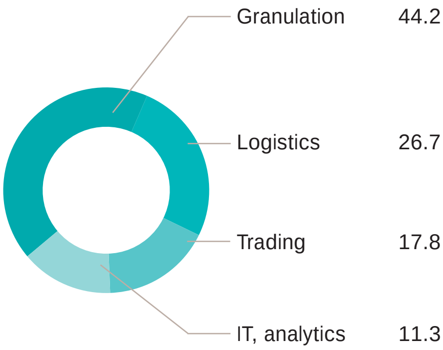
Services and Trading Business Segment

Key figures > € million	2002	2001	%
Revenues	51.8	47.0	+ 10
Earnings before interest, taxes, depreciation and amortization (EBITDA)	21.9	21.1	+ 4
Earnings before interest and taxes (EBIT)	15.4	14.9	+ 3
EBIT margin in %	29.7	31.7	
Capital expenditure	7.4	8.5	– 13
Employees as of 31 December (number)	401	344	+ 17

Various activities of importance to the K+S Group are bundled in the Services and Trading business segment The segment combines fundamental services that are essential for all business segments such as logistics, IT or analysis. Furthermore, these services are also offered to third parties when capacity is available. The activities are exposed to competition, with market terms also applied within the group. Simultaneously, market orientation places all business units under constant pressure to offer all the service provided efficiently and economically.

The Services and Trading business segment posted revenues of € 51.8 for the year under review. The growth is also attributable to the complete takeover and first-time consolidation of biodata ANALYTIK GmbH. The slight increase in earnings to € 15.4 million was mainly due to growth in the logistics segment.

Revenues by segment > in %



Logistics remain a central and integral part of operations within the K+S Group

The focus of K+S logistics is on optimizing logistics chains and the best possible exploitation of the potential for synergies within the K+S Group. Thus, it was possible, for example to lower shipping costs for potash and magnesium products by means of an inland waterway shipping service and a new, regular rail service in a way that not only benefited own shipments but also those of third parties. At the same time, this measure serves to reduce the traffic burden on the roads.

Despite lower volume, revenues rose by 8% to € 13.8 million. The increase was mainly due to the acquisition of new business in the UBT freight forwarding sector as well as higher GBC freight volumes. KTG shipped 3.7 million tons of goods in 2002, of which 0.8 million tons were for third parties. Despite higher costs, it was possible to exceed EBIT for the preceding year. The work force grew to 124 employees (previous year: 119 employees).

CATSAN® granulation boosts revenues

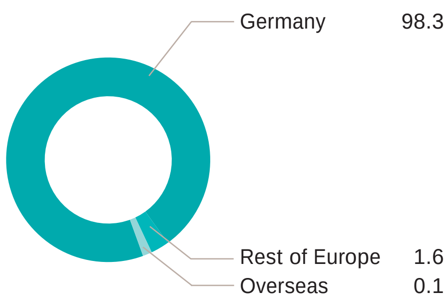
An excellent means has been found of making efficient, subsequent use of existing plants at the former Salzdetfurth potash plant. K+S uses the plant to granulate the animal hygiene product CATSAN® for Masterfoods GmbH from raw materials supplied by it.

Revenues for 2002 amounted to € 22.9 million, which represents an increase of about 2%. A key factor in this regard was increased demand on the part of our partner Masterfoods. However, the contribution to earnings was slightly lower as a result of extraordinary expenses. As of 31 December 2002, 102 employees were involved in granulation, that is, 6 more than in the preceding year.

Increased demand for IT services within the K+S Group

data process specializes in the provision of extensive IT services based on SAP R/3. The range of services offered covers almost all areas of information technology: From a full range of IT services along with a complete system solution to the development of specific, individual applications. Clients are mainly companies belonging to the K+S Group. In addition, the customer base is being extended by developing external business. The target group comprises medium-sized businesses that are to be acquired as customers for the operation of standardized SAP applications. Although external business revenues rose by 17% to € 2.8 million, it was not possible to increase them to the desired extent because of strong demand for project services within the K+S Group. Earnings for 2002 were somewhat below the good result obtained a year earlier and this was in part attributable to the purchase of expensive services from third parties. There were 130 employees in total, 11 more than a year ago.

Revenues by region > in %



Trading business achieves positive earnings despite economic downturn

CFK trades in chemicals and magnesium metals for its own account and on an agency basis. While the trend remained positive for calcium chloride, which is largely used as a component in de-icing systems, revenues for magnesium metals and caustic soda fell. Total revenues posted for 2002 amounted to € 9.2 million and were about 6% lower year-on-year. Although EBIT showed a negative trend over the year under review, it remained positive although the economic environment was difficult. Reductions in volume and, above all, price almost exclusively affected trading in caustic soda. The number of employees remained unchanged at 6 on 31 December 2002.

Analytical services expanded

Analytical services focus on investigations of relevance for the environment, such as analyses of soil and water, raw materials and products as well as mobile air monitoring. A competent team of analysts is available for these purposes at the K+S Research Institute and in plant laboratories. To expand its position in analytical services, K+S Consulting GmbH took over all third party shares in biodata ANALYTIK GmbH with effect from 1 January 2002.

Revenues for consulting and analytical services amounted to € 2.2 million in 2002. EBIT were slightly positive. A total of 39 employees were engaged in providing consulting and analytical services as of 31 December. There were 35 employees more than a year before and this was due to the complete takeover of biodata ANALYTIK GmbH.

Increased bundling in the marketing of experience and capacity

The business segment wants to use and market existing logistics know-how in close cooperation with other business segments within the K+S Group. KTG and UBT review cooperation with third parties in the logistics field on a on-going basis. The expansion of analytical activities as well as third party business in the IT sector are further goals. Successful production for third parties, that is, the granulation of the animal hygiene product CATSAN®, confirms the basic goal of not only using the many years of experience available within the group but of offering it to customers also under certain circumstances.

> www.biodata-analytik.com
> www.dataprocess.de
> www.kali-transport.com
> www.ubtnet.com


VISION

“He who interprets today’s signs correctly, not only looks to tomorrow but also to the day after tomorrow.”

We want to make our contribution to ensuring that people’s needs are kept in harmony with nature. Thus, we extract valuable, natural raw materials and process them into products that contribute to ensuring the supply of nourishment to people. In addition, our COMPO products make a considerable contribution toward increasing happiness at the individual level. In doing so, we are very conscious of our treatment of nature and natural resources. And that will remain so in the future too.

Management's Analysis 2002
K+S Group and K+S Aktiengesellschaft

CONOMIC REPORT

The management reports for the K+S Group and for K+S Aktiengesellschaft are contained in this report. The information contained in this report mainly refers to the group consolidated financial statements, as the position of K+S Aktiengesellschaft is in very large measure affected by the situation within the K+S Group.

Economic environment in 2002

Year-on-year growth in German GDP only amounted to 0.2% in 2002. Key economic institutes attributed the weak rate of the growth – as they already did in the preceding year – to an unfavourable global economic environment on the one hand and to structural factors engendered at home on the other. Financial year 2002 saw a further increase in the level of taxes and other levies in Germany, e.g. ecology tax. The high overall burden represented by taxes and other levies encumbering citizens and companies is higher than the international average. Germany needs reforms of the labour market and social system to restore international competitiveness in large sections of the German economy.

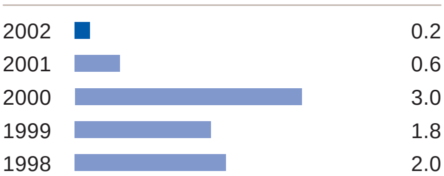
According to a Bundesbank report, the growth in disposable income in Germany did not keep pace with private consumption, with the result that the rate of savings at the private household level fell in 2002. Amounting to a good 14% of disposable income, private household debt was once again as high as it was during the middle of the 1980s. This relatively high level of private debt can be expected to have a depressing effect on private consumption trends. In addition, there has been no improvement in labour market prospects, although the application of measures intended to reverse trends is envisaged.

In the United States, the Federal Reserve Bank once again cut interest rates at the beginning of November 2002 to assist the economy and at 1.25% now, interest rates are at their lowest level since the 1960s. The US Administration has resolved further measures designed to stimulate the economy. In the euro zone, the European Central Bank cut its base rate to 2.75%, another historic low, in December 2002.

The euro has latterly made strong gains against the US dollar in an environment characterized by a substantial degree of uncertainty. While exchange rates at the end of 2002 fluctuated within a narrow band of about ± 3 US cents around parity of 1 US dollar to 1 euro, the euro began appreciating at the beginning of 2003. This will adversely impact on the export prospects for suppliers that produce goods within the euro zone.

Given the large degree of economic uncertainty that exists and the strains that this places on the European economy, various international organisations and economic research institutes have in part revised downward their macroeconomic forecasts for 2003. In a forecast issued at the end of October 2002, the IWF institute said that it now only expected to see GDP grow by 1.75% in real terms within the euro zone and by even less in Germany.

Percentage change in Gross Domestic Product > 1995 prices



Source: Federal Statistical Office

Markets, competition, industries

The situation in which agriculture found itself in the summer of 2002 was unfavourable both in Europe and in the United States. As a result of weather conditions, the grain harvest in Germany was lower than a year ago and quality was also significantly poorer. The prices obtained by producers were also lower than a year ago. In addition, flooding in Northern and Eastern Germany caused considerable crop losses. During the second half of 2002, these factors resulted in lower purchases of supplies by farmers and in lower stocks of fertilizers being built up compared to the same period in 2001 in Germany and, to some extent, in France and the Netherlands.

While relatively stable political conditions prevailed in Asia during 2002, thus producing relatively stable market conditions too, these elements of the overall environment in South America were to some extent critical. However, this did not adversely affect the fertilizer business.

Potash and Magnesium Products

Last year, demand on the global potash market increased by 1.3 million tons K_2O or about 5% to 26.7 million tons K_2O. The main reason for this was higher demand in Latin America and Asia. In North America and Western Europe potash demand also grew slightly as a result of a favourable spring season, benefiting our potash specialities in particular. In Eastern Europe and the CIS countries, the demand for fertilizers remained on a very low level.

The following factors shaped the international competitive environment in 2002. Canada's Canpotex and Russia's Uralkali continued to cooperate in overseas marketing. This resulted in more intense competition between Canpotex and IPC, Moscow, which represents the global distribution interests of the Russian producer Silvinit as well as Belarus' Belaruskali. England's Cleveland Potash Ltd. (CPL) was taken over by Israel Chemicals Ltd. (ICL) at the beginning of 2002, and consequently, ICL now directs Spanish and English potash production in addition to Israeli production. Following a fire, in September 2002 at the Stocamine underground storage site, France, which operates in conjunction with potash production, French potash production at Mines de Potasse d'Alsace (MDPA) was suspended. Fiercer international competition over the standard product potassium chloride (MOP) in important overseas markets caused prices to fall.

Our varied range of potash, magnesium and sulphur fertilizer specialities, stringent cost management and optimized production processes help us to remain, under difficult market conditions, a strong producer and competitive supplier in the global potash and magnesium fertilizer business.

COMPO

Although a difficult environment characterized 2002, the market in Europe for plant care products used in the home and garden area continued to grow. In Germany and France, which are important markets for COMPO, there was greater demand on the part of consumers for plant care products. The garden is becoming increasingly important as a place that offers peace and relaxation.

During the year under review, it became apparent that market leaders such as COMPO could perform well or further enhance their market position whereas smaller competitors in the mid-range price segment had to struggle intensely because of growing pressure from private label products. Thanks to the successful integration of the brands ALGOFLASH, GESAL and GARDIFLOR, which were

acquired over the past few years, and their strategic repositioning, COMPO could further enhance its overall position in Europe. COMPO is the leader in four out of five product groups on its hobby markets: Flower soil, plant care, lawn and outdoor fertilizers. In the fifth product group, plant protection agents, COMPO currently occupies third place.

In the professional segments of horticulture, special crops and agriculture, lower nitrogen prices and high trade inventories led to greater competition and, in part, to lower revenues for special fertilizers. In some of Europe's markets, flood catastrophes and the unavailability of land for farming depressed consumption. Contrasting trends were evident in Germany in the sub-segments "public green areas" and "golf." While consumption for public green areas stagnated or fell slightly as a result of growing budget restrictions at the municipal level, golf continued to grow as a result of area factors. This means that the area as a whole is experiencing a slight upward trend.

Given our very good market image, i.e. a high degree of awareness among consumers, we are successful in both the professional and hobby markets in many regions of Europe. Further innovations will additionally enhance the good positions that we already enjoy.

fertiva

In Western Europe, 2002 was characterized by a high degree of purchasing restraint on the part of trade partners. The main reasons for this were that by the end of 2001, high trade inventories had been built up and at the beginning of the year, the application of fertilizers in agriculture was postponed until April because of heavy rainfall. Weak demand caused the stocks held by Western European producers to rise significantly and placed market prices under substantial pressure.

Subsequent stocking up for new fertilizer year 2002/2003 was a difficult period. Despite existing antidumping measures, urea imports from Eastern Europe grew significantly once more. The use of urea as a fertilizer is drawing increasing public criticism, because its application results in relatively high nitrogen emissions. As prices for urea remained on a relatively low level throughout the year, the competitive environment for the straight nitrogen fertilizers marketed by fertiva also worsened and prices for these products fell substantially.

With regard to the competitive environment, the consolidation process that has been underway in the industry over the past few years continued in 2002. In April, the Russian MDM Group took over the Lithuanian nitrogen and phosphate producer Lifosa. At the end of March 2002, BASF, as announced earlier, suspended production of complex fertilizers at Ludwigshafen and in June, Degussa sold the German urea producer SKW Piesteritz to Ameropa (Switzerland) and Agrofert (the Czech Republic). Finally, Ireland decided in October to close the three Irish Fertilizer Industries sites in Ireland. In October, the fertilizer producers Fertiberia (Spain) and Rouiller (France) also formed a joint venture company that is to take over both companies' complex fertilizer sites in Spain.

Salt

Demand on Western Europe's salt markets remains high. The salt business is therefore also attractive for imports from Eastern Europe and overseas.The prospects for selling larger quantities in Western Europe are some limited as a result of the degree of market penetration that has been attained. However, potential for growth is appearing in some special product segments. Overall, price levels during the year under review remained stable, and signs of a recovery were apparent in the case of some products or sub-segments.

For this reason, the establishment of the esco - european salt company joint venture was a strategically important step towards consolidating our position in Western Europe. In its very first year of being present on the market, esco succeeded in attaining a position of market leadership within Europe. The key to success is, above all, the favourable geographical locations of esco sites in the various regions comprising Western Europe. By exploiting synergies in production, logistics and administration as well as lowering costs, esco will be in a position to further increase its earnings capacity.

Waste Management and Recycling

The waste management market in Germany was characterized by overcapacity in the same way as in the past few years. This is, in part, placing considerable pressure on prices in the field of underground waste disposal. The partial offsetting of falls in revenues attributable to prices was possible as a result of the intensification of sales and marketing activities in European countries other than Germany. The Southern and Eastern European markets provided good opportunities for the successful expansion of the waste management business.

With respect to waste reutilization, the European Court of Justice has decided that back-fill measures involving the use of waste below ground essentially constitute a recycling measure. This decision creates the necessary degree of legal security for the back-fill activities of our Waste Management and Recycling business segment.

We expect the Mine Back-Fill Ordinance, which entered into force in 2002, to result in an improvement in our competitive position in Germany in the medium term as in the case of salt mines, in contrast to other mines, it does not impose any pollutant ceilings on underground backfilling.

The 1999 EU Council Directive on the Landfill of Waste, was incorporated into German national law by the Waste Storage Ordinance, which entered into force in 2001, and the Waste Disposal Ordinance, which was adopted in 2002. As of 2005, it will no longer be possible for untreated residential waste to be stored at waste disposal sites located above ground. We expect this to have a positive impact on our waste management business, as waste will be increasingly incinerated and incineration plant output, which is important for our business, will increase.

With regard to salt slag recycling, our utilization of the technical capacity at the REKAL plant remains good and a relatively stable relationship between demand and supply characterizes the market. Our building rubble recycling business is currently suffering from the drop in construction sector activity but during the year under review, we profited from special projects for Deutsche Bahn AG.

Development of the Business in 2002

A corporate structure with clear areas of responsibility

All the operational business segments of the K+S Group have a separate corporate identity under company law. Holding and support functions for group companies are concentrated within K+S Aktiengesellschaft. Our business is managed and coordinated by means of central strategic direction and decentralized business-specific responsibility. Direction is provided by the Board of Executive Directors and the heads of business segments. Group interests take precedence over the interests of individual business segments.

A significant step taken in 2002 was the formation of the joint venture esco-european salt company together with Belgium's Solvay. We hold a 62% equity interest in esco with economic effect from 1 January 2002; the inclusion of esco in the consolidated financial statements for the K+S Group as of that date reflects the size of the holding. Our Salt business segment is represented by this share in esco.

Our subsidiary K+S Consulting GmbH acquired the remaining 92% of the shares of biodata ANALYTIK GmbH with effect from 1 January 2002. The company will strengthen the activities of our Services and Trading business segment. In order to further streamline our corporate structure, the Herfa-Neurode underground storage site was removed from K+S Aktiengesellschaft with economic effect as of 1 January 2003 and contributed to the wholly-owned subsidiary K+S KALI GmbH.

In addition, the year under review saw small changes affecting holdings in companies that were not included in the consolidated financial statements.

Revenues grow by 4%

We increased our revenues for financial year 2002 by almost € 80 million to € 2,258.5 million. The increase is mainly attributable to higher sales of potash and magnesium products as well as a positive trend in COMPO. In addition, the large share of higher-revenue consumer goods within the esco salt assortment had a positive impact.

Revenues by business segment > € million	2002	2001	%
Potash and Magnesium Products	992.3	967.4	+ 3
COMPO	481.0	436.2	+ 10
fertiva	469.5	500.2	– 6
Salt	203.4	165.1	+ 23
Waste Management and Recycling	58.6	63.5	– 8
Services and Trading	51.8	47.0	+ 10
Reconciliation	1.9	0.0	
K+S Group	2,258.5	2,179.4	+ 4

Potash and Magnesium Products

The business segment increased revenues by 3% to € 992.3 million as a result of volume and assortment factors. Increases for potassium chloride, potash specialities and ESTA-Kieserite more than made up for the declines in industrial products. Overseas, we managed to achieve significant revenue growth as a result of volume factors. In the European markets, revenues grew slightly while volume remained constant: A shift in the product mix toward more profitable granulated fertilizers made up for somewhat lower prices in the case of standard products.

COMPO

In financial year 2002, revenues rose once again, growing by 10% to € 481.0 million. Alongside moderate price increases, the growth in revenue was primarily attributable to further successful market penetration with our innovative ENTEC fertilizers in the professional area and our own product variations in the hobby area (e.g. COMPO SANA COMPACT flower soil).

fertiva

fertiva revenues for 2002 fell by about 6% to € 469.5 million. Germany was less affected, because volume increases almost completely offset the declines in prices. With respect to the rest of Europe, 2002 revenues were significantly lower year-on-year, because we experienced shortfalls of goods as a result of the closure of a BASF complex fertilizer facility. Revenues for overseas markets rose by about 11%, despite the weaker US dollar, because it was possible to achieve a significant increase in sales of nitrogen single nutrient fertilizers.

Salt

In the case of the Salt business segment, the revenues corresponding to our 62% holding increased to € 203.4 million, which represents an increase of 23%. However, only a partial comparison with the preceding year is possible, as the esco joint venture was only formed in 2002. The growth in revenues for K+S is mainly attributable to structural effects arising from the joint venture, because, for example, the share of revenues accounted for by higher-revenue consumer goods rose from 23% in 2001 to 40% in the year under review. Price levels were relatively stable for almost all assortments.

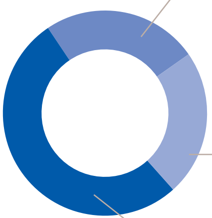
Waste Management and Recycling

Year-on-year revenues for the business segment fell by 8% to € 58.6 million. This was due to lower quantities of waste for underground disposal in Germany, as new special projects were postponed until 2003. An increasing number of successes in acquiring business elsewhere in Europe meant that declining revenues in Germany could be offset to some extent.

Services and Trading

The Services and Trading business segment posted revenues of € 51.8 million for the year under review. The increase was due to the first-time consolidation of biodata ANALYTIK GmbH but also to higher sales in the granulation field as well as the acquisition of new logistics business.

Revenues by regions > in %



Europe remains the most important market, overseas share increased

In Europe, we achieved revenues of € 1,736.1 million, which represents an increase of 3% in relation to the preceding year. The region accounted for approximately 77% of total revenues. The share of revenues attributable to Germany remained almost constant at € 556.7 million. The European market is particularly important for us, because it enables us to exploit our transportation cost advantages and our special services for the benefit of our customers in a deliberate manner. In the case of our target markets overseas, we further enhanced our strategic position in 2002 and raised revenues by 7% to a total of € 522.4 million. The share of revenues accounted for by overseas markets therefore rose by one whole percentage point year-on-year.

Earnings before interest and taxes (EBIT) exceed previous year's level

K+S Group operations were once again very successful in 2002. At € 132.8 million, EBIT exceeded the good result obtained last year (€ 120.6 million) by about 10% with the result that the growth in earnings was greater than that in revenues. Expenses that cannot be directly allocated to business segments and are carried in the reconciled EBIT for the K+S Group were also lower.

EBIT by business segment > € million	2002	2001	%
Potash and Magnesium Products	55.6	66.9	– 17
COMPO	30.8	19.7	+ 56
fertiva	6.3	0.6	> 100
Salz	26.0	27.5	– 5
Waste Management and Recycling	8.3	11.2	– 26
Services and Trading	15.4	14.9	+ 3
Reconciliation *	– 9.6	– 20.2	
K+S Group	132.8	120.6	+ 10

* Figures for business segments are shown before consolidation. Expenses and income that cannot be allocated to business segments are recorded separately. Both effects are shown under "Reconciliation" and result in the group figures.

As a result of higher costs, EBIT for the Potash and Magnesium Products business segment fell by € 11.3 million to € 55.6 million. As a result of a muted price development, higher costs (higher wages, Kieserite plant start-up costs) were not passed on in the market.

At € 30.8 million, earnings for the COMPO business segment were about 56% higher than a year ago. The main reasons for this significant improvement in earnings were higher revenues as a result of volume factors as well as the absence of the non-recurrent integration costs incurred in the preceding year.

EBIT for our fertiva business segment amounted to € 6.3 million. This figure includes the € 5.1 million maximum possible share of earnings under the contractual arrangements with BASF as well as € 1.2 million from own business that is not affected by the BASF agreement.

In the case of the Salt business segment, the earnings allocated to the K+S Group amounted to € 26.0 million. Earnings were only about 5% below the record earnings for the preceding year, when deliveries of de-icing salt were very high, although extraordinary expenses relating to integration were incurred during the year under review.

Waste Management and Recycling posted EBIT of € 8.3 million, € 2.9 million below the figure for the preceding year, which benefited from large volume. Strict management made it possible to keep costs on approximately the same level as in the previous year.

The Services and Trading business segment was able to post a slight increase in EBIT over the preceding year mainly as a result of good earnings in the logistics sector.

Condensed profit and loss account > € million	2002	2001
Revenues	2,258.5	2,179.4
Earnings before interest, taxes, depreciation and amortization (EBITDA)	240.1	248.4
Earnings before interest and taxes (EBIT)	132.8	120.6
Financial result	– 18.9	0.5
Earnings before income taxes	113.9	121.1
Net income	103.8	118.3

EBITDA shows slight decline year-on-year

K+S Group EBITDA fell by € 8.3 million in relation to the previous year. It should be noted that the figure for the previous year was positively affected by the release of a special reserve of € 15.9 million. In 2002, the effects on income of the release of the reserve only amounted to € 1.3 million. The high level of earnings and what remains a good EBITDA margin of 10.6% attest to the long-term earnings strength of the K+S Group.

Financial result reflects weak equity markets

At minus € 18.9 million, the financial result was significantly below the figure for the preceding year, and this was mainly due to the write-downs on short-term securities. We could not escape the effects of the exceptionally weak condition of the capital markets during the past financial year, with the result that impairment charges of € 17.7 million were necessary as of 31 December 2002, with € 5.5 million of this figure relating to our own shares. The lower interest rates obtainable on the capital markets resulted in lower interest income, which was insufficient to compensate for interest expenses of € 10.1 million relating to pension provisions. This produced negative interest income of € 2.4 million. Slightly higher income from investments of € 1.2 million only produced a marginal improvement in the trend.

Net income 1998 – 2002 > € million

Net income down 12% year-on-year

A weaker financial result meant that the earnings before income taxes of € 113.9 million were € 7.2 million lower than for the preceding year. Accordingly, at € 103.8 million, net income was also € 14.5 million lower than a year ago, which was also due to the effect of higher income taxes. This development is attributable to a higher tax burden abroad and to higher trade tax payments for COMPO and esco in Germany. Total income taxes amounted to € 10.1 million in 2002, which is € 7.3 million more than in the preceding year.

Although earnings per share, on the basis of net income, amounted to € 2.43, and were thus € 0.30 or 11% lower than a year ago, they nevertheless remained on a good level. This figure has been arrived at on the basis of an average 42.8 million no par value shares (2001: 43.4 million shares) and thus takes account of the average number of own shares held by K+S over the year.

DVFA earnings per share on previous year's level

DVFA earnings amounted to € 69.4 million, which represents a drop of € 0.8 million or 1%. Downward adjustments totalling € 34.4 million were necessary in order to compute DVFA earnings, a figure € 13.7 million lower than for the previous year. The adjustments included € 30.0 million in imputed taxes alone, which need to be taken into account in connection with the tax regulations applicable to K+S Group losses that have been carried forward.

Computation of DVFA earnings > € million	2002	2001
Net income	103.8	118.3
Adjustments for deferred taxes	– 30.0	– 40.0
Goodwill amortization	– 11.2	– 10.6
Special depreciation of tangible fixed assets	2.3	14.9
Changes in special reserves	– 0.8	– 9.4
Other adjustments	5.3	– 3.0
DVFA earnings	69.4	70.2
DVFA earnings per share in €	1.62	1.62
Earnings after taxes per share in €	2.43	2.73

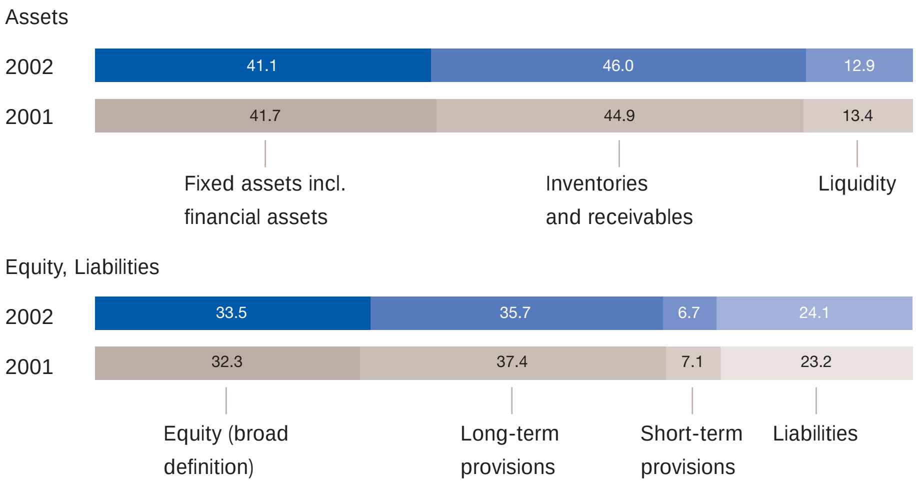
Sound asset and capital structure

K+S Group total assets showed a slight increase to € 1,666.7 million as of 31 December 2002. At about 41% or € 684.6 million, the share of total assets accounted for by fixed assets remained almost unchanged, current assets grew by 5% to € 978.8 million as a result of higher receivables, reflecting the increase in revenues. Total liquid assets – save for shifts in types of liquid assets – largely remained constant and amounted to € 215.7 million as of 31 December 2002. However, corresponding liabilities included borrowings amounting to € 47.7 million as of the balance sheet date.

There was no significant change in the structure of liabilities in relation to the previous year. Equity in the broader sense, which includes one half of special reserves and the balance from capital consolidation, increased slightly to 34% of the balance sheet total. This was mainly the result of the increase in net income after the deduction of the last dividend payment. At € 595.5 million, long-term provisions remained almost unchanged and are the largest item within liabilities, accounting for 36% of total liabilities. While short-term provisions fell slightly, liabilities rose by 8%, but viewed in absolute terms, the increase was lower than that in receivables.

The structure of the balance sheet shows that assets are mainly financed using long-term capital. The coverage of long-term assets by long-term capital is a relatively high 169%. Our high earnings capacity and healthy financial structure, especially the good liquidity position, place us in the position of being able to approach our external growth targets from an intrinsically strong financial basis.

Balance sheet structure > in %

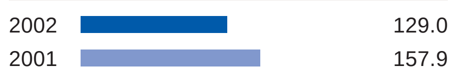


Lower capital expenditure

In 2002, we invested a total of € 129.0 million in tangible and intangible fixed assets, € 28.9 million or 18% less than in the previous year, and this trend will continue in coming years.

Following the realization of large scale projects such as the Kieserite production facility and the new K+S Group head office, capital expenditure in 2002 was mainly connected with raising efficiency in addition to regular maintenance.

Capital expenditure > € million



Potash and Magnesium Products

As planned, investment in tangible and intangible fixed assets during 2002 amounted to € 89.1 million and was about 21% lower than in the previous year.

The opening up of the valuable deposits of Sylvinite crude salt in the Unterbreizbach mine belonging to the Werra potash plant has begun. Total investment in this project will amount to about € 25 million by the end of 2004. Following the completion of a process chain analysis conducted in the preceding year – combined with more extensive moves designed to make working hours more flexible – measures intended to yield further cost optimization were implemented at all mining sites. At the Werra potash plant’s Wintershall site, a facility for the production of high purity salts was modernized to meet the market’s need for higher quality and to meet the US market’s Good Manufacturing Practice (GMP) requirements in particular. In addition to increasing production capacity, the modernization will serve to generally strengthen our global market position in supplying high purity salts to the pharmaceutical industry. With regard to the supplying of steam to the Zielitz plant, an additional boiler was installed at the

power plant to ensure that a constant supply is available at the site. In addition, a new steam turbine went into operation to increase the supply of own electricity at the Unterbreizbach site. As a result of the turbine's high efficiency, fuel consumption and the CO_2 balance will be optimized at the same time.

COMPO

At € 20.1 million, capital expenditure for 2002 was significantly higher than in the preceding year (€ 11.4 million). Expenditure on maintenance fell while we invested more in strengthening and enhancing capacity relating to the core business.

Important projects in 2002 included the expansion and modernization of logistics facilities at Münster and at the Krefeld plant as well as the construction, which we proposed, of a stabilization facility for single nutrient fertilizers (ENTEC) at BASF’s Ludwigshafen facility. In the future, these three projects will make a substantial contribution to raising service standards, reducing logistics costs, improving product quality and thus facilitating further growth in the COMPO business segment.

fertiva

During 2002, we undertook no significant investment in our fertiva business segment, which concentrates on sales and marketing activities. Instead, various small process improvements were achieved among partners engaged in production and this should be reflected in cost savings.

Salt

Capital expenditure on tangible and intangible fixed assets increased year-on-year, increasing by 20% to € 7.9 million. The increase is mainly attributable to work on exploiting the new Frisia Zout BV brine field at the Harlingen site in the Netherlands. Given that use of the existing brine field is expected to end, exploitation already began in 2002. Most of the investment will take place during the course of 2003. Solutions aimed at further optimizing production processes were prepared at all esco sites during the course of 2002. These measures will contribute to realizing planned cost savings.

Waste Management and Recycling

At € 1.6 million, capital expenditure for 2002 was € 1.0 million lower than in the preceding year. The focus was on further improving plant technology related to underground waste management as well as recycling processes in order to increase process efficiency.

Services and Trading

The bulk of the capital expenditure totalling € 7.4 million in the Services and Trading business segment was once again connected with our IT service provider data process: The computer centre and data network underwent more expansion and automation, and the number of SAP licenses was further increased. In the logistics area, 2002 saw the commencement of work on a new warehouse facility in Hamburg to ensure the availability of larger quantities for shipment overseas.

Gross Cash Flow Slightly Lower Year-on-Year

At € 216.9 million, gross cash flow did not entirely attain last year's good level. Cash flow from operating activities fell by € 20.4 million to € 182.4 million, because the typical seasonal increase in working capital at the end of the year resulting from higher sales and related increases in receivables was higher than a year ago. After taking into account payments related to investment and acquisition activities that were significantly lower than in the previous year, we achieved free cash flow of € 46.5 million, € 61.6 million more than a year ago. Cash flow from financing activities essentially covered the dividend payment for 2001 of € 43.4 million. In addition, loan liabilities connected with the financial restructuring of Latin America COMPO activities were extinguished. In addition to these repayments, write-downs on short-term securities to € 17.1 million caused cash funds to decline from € 26.6 million at the beginning of the year to € 167.9 million.

Cash flow statement > € million	2002	2001
Net income	103.8	118.3
Gross cash flow	216.9	224.6
Cash flow from operating activities	182.4	202.8
Cash flow from investing activities	– 135.9	– 217.9
Free cash flow	46.5	– 15.1
Cash flow from financing activities	– 51.6	– 44.8
Change in cash funds	– 26.6	– 59.3

Yields remain high

The high earnings capacity of the K+S Group was also apparent from the yields attained during the year under review. The high level of earnings before depreciation and amortization, interest and taxes were reflected in an EBITDA margin of 10.6%. The EBIT margin of 5.9% confirms our long-term earnings strength. With respect to computing the return on revenues of 4.6%, it should be noted that the fertiva revenues of € 469.5 million have been included, although they only give rise to limited earnings for us because of the special contractual arrangements with BASF. Our return on equity after income taxes amounted to 18.6% and was down on the high figure for the previous year because of the impact of the weaker financial result as in the case of the return on revenues. For the same reason, the return on total investment before taxes of 7.7% was below the previous year's level. The return on capital employed (ROCE), which is important for us, was 14.7% (2001: 14.1%) and was therefore very good because of an improvement in the employment of capital.

Gross cash flow > € million

EBITDA margin > in %

EBIT margin > in %

Return on total investment > in %

ROCE > in %

Dividend > in € per share

2002	1.00
2001	1.00
2000	0.85
1999	0.57
1998	0.36

Proposed dividend remains high

K+S Aktiengesellschaft, as the holding company of the K+S Group, generated net income of € 71.0 million in financial year 2002 (2001: € 46.0 million).

The dividend payment of € 43.4 million for 2001 was paid out of the retained profit of € 45.7 million at the beginning of 2002. After changes made during the course of the year under review to the reserve for own shares, the profit retained as of 31 December 2002 amounted to € 45.5 million.

We will once again propose to the Annual General Meeting the payment of a dividend of € 1.00 per share for each share entitled to participate in dividends. Taking into account the own shares held by us as of 28 February 2003, which are not entitled to participate in the dividend, the total dividend will amount to € 41.5 million. Thus, 40 % of the net income of the K+S Group will be distributed.

Condensed version of the annual financial statements of K+S Aktiengesellschaft

Profit and loss account > € million	2002	2001
Revenues	68.0	43.7
Earnings before income taxes	71.0	46.6
Taxes on income	0.0	0.6
Net income	71.0	46.0

Balance sheet > € million	2002	2001
Tangible / intangible fixed assets	23.4	26.6
Financial assets	354.7	339.4
Fixed assets	378.1	366.0
Inventories and receivables	233.3	173.1
Cash and cash equivalents	186.7	145.2
Current assets	420.0	318.3
Total assets	798.1	684.3
Equity	259.9	232.3
Provisions	264.5	274.9
Liabilities	273.7	177.1
Total capital	798.1	684.3

The complete version of the annual financial statements of K+S Aktiengesellschaft, for which the auditors have issued an unqualified opinion, will be published in the Bundesanzeiger (Federal Gazette) and filed with the Commerce Register in Kassel. A copy can be obtained from K+S Aktiengesellschaft.

Our employees

The K+S Group employed a total of 10,610 persons on 31 December 2002. This figure includes the core workforce, trainees and – extending our hitherto definition – temporary employees for the first time (without students and interns). Thus, the number rose by 264 or 3% in relation to 31 December 2001. The total esco work force of 1,354 employees was included in proportion to the 62% holding (840 employees).

A total of 123 of the additional 264 employees year-on-year stemmed from the change in the scope of consolidation (esco and biodata ANALYTIK).The situation was similar in terms of averages: During the year under review, K+S employed an average 10,511 people, 268 more than in 2001.

Further details can be found in the separate personnel and social report.

Employees > number

Slight rise in personnel expenses

Group personnel expenses for 2002 increased by € 13.0 million in relation to the preceding year and amounted to € 527.8 million. This represents additional expenses of about 2.5%. In addition to the larger number of employees, the reasons for the increases in expenses were a collective agreement pay rise of 3.3% as well as a holiday pay increase. During the year under review, we paid a total of € 408.9 million in wages and salaries (+ 3.5%) as well as € 113.2 million in social security contributions (+ 4.2%). Expenses relating to company pensions and support only amounted to € 5.7 million (– 48.7%) for 2002.

During the year under review, personnel expenses per employee amounted to € 50,216. Thus, despite the collective agreement pay increases, they remained on the previous year's level (2001: € 50,253). This reflects the growing application of variable salary components, which introduce greater flexibility in the form of linking personnel costs to the success of the company.

Performance related remuneration increasingly important

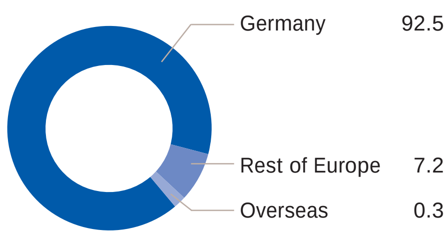
Pay components based on performance and profits have become increasingly important for us over the past few years. We use various models that provide for variable remuneration:

Employees covered by collective pay agreements receive an agreed annual bonus that ranges between 80% and 120% of gross pay for one month and as a result of our good earnings, we were able to pay higher amounts over the past few years. In addition, we offered employees of German K+S Group companies employee shares at reduced prices last year. In addition, a remuneration model that assesses and appropriately rewards personal performance in relation to agreed benchmarks as well as company success applies to employees that are not covered by collective agreements. This system was initially introduced in 2000 in relation to senior management and has been gradually extended to encompass employees that are not covered by collective agreements. Finally, a virtual option model available to the Board of Executive Directors and key executives has been in existence for a few years. This model requires an own investment in K+S shares: The options cannot be exercised for a period of two years and only if the K+S share outperforms the MDAX index, and in addition, the model sets an upper ceiling of 25% on outperformance. With the help of these additional components of remuneration, the interests of employees are linked even more closely with those of the company.

Employment focus is on Europe and Germany in particular

More than ninety percent of our employees, the overwhelming majority, are employed in Germany, and this is primarily linked to the location of the crude salt deposits for the Potash and Magnesium Products and Salt business segments. With the esco joint venture and the successful expansion of the COMPO business in Europe, the share of employees in other European countries has increased.

Employees by region
> in % (esco on 62% basis)



Length of service > in %
(excluding foreign companies)

up to 5 years	22.1
6 to 10 years	6.5
11 to 15 years	9.6
16 to 20 years	14.8
21 to 25 years	16.5
More than 25 years	30.5

Employee identification and loyalty – an important K+S asset

K+S Group employee identification and loyalty is particularly apparent from length of service. Over 60% of the workforce has been employed by the K+S Group for more than 16 years. Long length of service and a natural employee turnover of under 3% confirm that in addition to providing attractive wages and salaries, substantial social benefits and modern profit-sharing models, the K+S Group offers good career prospects and is thus perceived by employees as an employer offering many opportunities.

Ensuring a stream of next generation employees by offering good career prospects

Many years of service and the wealth of experience that this produces are one consideration and the training of the next generation of employees is another. This is an area in which we are already systematically laying the groundwork for tomorrow's growth. In 2002, more than 160 young people began vocational training with K+S, and we thus once again exceeded the high level of the previous year. The training that we provide, which is geared towards needs and quality, ensures that in the future, we will have the necessary availability of employees who will work in industrial, commercial, chemical and IT areas of activity. With a542 trainees as of 31 December 2002, our trainee ratio of 5.1% was on a very high level once again (2001: 5.2%), placing us in the top third of all German industrial companies. The 2002 hiring ratio of almost 90% on the completion of training was very satisfying once again. In addition, we have stepped up our presence at college and training fairs, offer students practical "on-the-job" training and assist students about to graduate with the completion of their thesis.

The provision of further training to our employees is becoming increasingly important because of rising and increasingly international requirements as well as technical developments. We regard our activities in the field of providing initial and further training as an investment in our employees and in the future of the K+S Group. During the year under review, 3,581 people, or about one third of our workforce, benefited from them.

Flexibility in providing part-time work options to employees approaching retirement

Since 1 July 2002, collective and company agreements have made it possible within the K+S Group to apply to work part-time on approaching retirement and thus choose a gradual transition to retirement. In 2002, 81 employees began working on the basis of pre-retirement part-time work agreements under what is known as the block model. Under it, they work full-time for the first half of the part-time work period and are then released from the obligation to work during the second half of it. We fill the positions that become vacant as a result of pre-retirement part-time work with young people who have completed their vocational training with K+S in particular. As a result, we make an important contribution to the labour market.

Employee ideas – an asset that should be leveraged

We provide various incentives to our employees to help the company achieve progress through the company suggestions scheme too. The year 2002 was exceptionally successful in that more than 4,109 improvements were suggested, which represents an increase of 58% over the previous year. This significant increase is mainly due to the newly introduced "short cut" through supervisors. The participation ratio for "suggestions per 1,000 employees" rose from 315 in 2001 to 491 and thus attained the average level for all companies in Germany. As in 2001, about 57% of all the suggestions were implemented. The total savings achieved in 2002 as a result of quantifiable suggestions for improvements amounted to about € 2.0 million and were about € 0.9 million or 74% higher than in 2001.

Knowledge management

Our knowledge management goal is to make all employees more aware especially of the kinds of findings and ideas that are important for us as the K+S Group. We have created a network of knowledge managers in order to incorporate knowledge management into business processes. Our SAP network plays a key role in the efficient documentation and distribution of knowledge. Competence centres, colloquia as well as virtual libraries and chat forums round off the possibilities that are available. We are aware of the fact that this kind of new knowledge network requires active input from each individual and that is why we have further stepped up our internal company efforts regarding this issue.

Further slight increase in value added

The value added statement sets out the difference between the output of the company and the value of the necessary inputs. The application statement shows how this is allocated to participants in the value added process. The value added by the K+S Group amounted to € 647.0 million and was thus about 1% higher than in 2001 (€ 641.2 million). Our employees accounted for the largest share, 82% or € 527.8 million, in the form of wages and salaries, social security contributions and pension related expenses. With the dividend level unchanged, our shareholders received € 41.5 million, € 1.9 million less than in the previous year, because the number of shares carrying an entitlement to participate in the dividend was lower as a result of the increased number of own shares held by us. The public sector's involvement amounted to € 13.1 million (+ € 8.7 million) and that of lenders to € 2.3 million. The remaining € 62.3 million were retained for the purpose of strengthening the group internally.

Value added

Source

> € million	2002	2001
Revenues	2,258.5	2,179.4
Other income	125.3	179.9
Company output	2,383.8	2,359.3
Cost of materials	1,050.7	1,047.1
Depreciation	109.0	129.8
Other expenses	577.1	541.2
Total input	1,736.8	1,718.1
Added value	647.0	641.2

Application

> € million	2002	2001
Shareholders	41.5	43.4
Employees	527.8	514.7
Public sector	13.1	4.4
Lenders	2.3	3.8
Company	62.3	74.9
Added value	647.0	641.2

RESEARCH AND DEVELOPMENT REPORT

The focus of our research and development (R&D) is on the development of new and improved products as well as ensuring that production processes are more efficient in economic terms and less burdensome for the environment. To this end, new processes are being developed and existing processes optimized with the objective of using resources in the form of energy, personnel and materials efficiently and in a way that conserves the environment. We use patents to protect our knowledge as much as possible. In addition, we engage in research that is directed at specific objectives and based on the latest developments in science and technology. The knowledge thus acquired is systematically recorded within the company and made available to employees through the knowledge management programme.

Research expenditure on previous year's level

Expenditure on R&D activities amounted to € 13.2 million during the year under review. Most of the expenditure, € 6.0 million (45%), was related to potash and magnesium products followed by new developments and enhancements in the COMPO business segment, € 3.7 million (28%). As of 31 December 2002, 48 K+S Group employees were involved full-time in research and development. In addition, employees working in production are involved in decentralized R&D tasks on a project basis. Our holdings of industrial property rights worldwide comprise 424 patents as well as 2,864 trademark rights and are on about the same level as in 2001.

Research costs

> € million	
2002	13.2
2001	13.6

Four pillars principle proves reliable

Our research activities are based on four pillars:

> We operate a research institute of our own for the development of products and processes; the focus is on the processing of raw materials in the form of minerals and the related analysis that this requires;
> Process optimization below and above ground is carried out at our plants and in addition, new techniques, materials and processes are tested in extensive plant trials;
> Under an extensive system of field tests, we conduct agricultural research in cooperation with BASF and other contractual partners. In addition, a research agreement concluded with BASF covers the new development or enhancement of nitrogenous fertilizers (especially for COMPO too);
> Research being conducted in colleges that can lead to applications is promoted by means of specific projects to ensure direct access to modern, specialist know-how.

To ensure the effective transfer of knowledge between these four research pillars and to optimize the leveraging of synergies, all research activities are managed and provided with budgets centrally. With regard to recording and reporting, the principles of modern knowledge management are applied and research findings are made available by means of a central database. To meet the requirements of ISO 9001: 2000 with regard to the development process, a project management system has been established to facilitate the efficient management of knowledge and costs.

In addition to classic farming, ecological farming is also an important component of research work

Sustainable soil fertility is the cornerstone of adequate food production worldwide. Maintaining and improving soil fertility involves the supplying, as required, of natural nutrients, which, in addition to nitrogen, phosphate and potash, include nutrients such as magnesium, sulphur, sodium and trace elements. During the course of field tests, some of which last many years and approximate practice, we assess the effects of our products on soil fertility and plant yields from economic and ecological angles.

We are also intensively involved in examining the nutrient situation in ecological farming. Use of the natural nutrient potash is limited in many farms, with the result that the selective application of potash as a fertilizer becomes necessary. We are pleased to be able to say that many of our potash and magnesium products have been certified for use and have been recommended for ecological farming in Europe.

We promote sales of our fertilizers by means of targeted activities in the area of agricultural advice and application technology and make use in this regard of our cooperation with the advisory and research institutions as well as the BASF research department at Limburgerhof.

COMPO banks on ENTEC and coated fertilizers

Research activities in the COMPO business segment during 2002 focussed on the enhancement of successful, new ENTEC fertilizers (fertilizers containing nitrification inhibitors that increase nitrogen efficiency) as well as coated fertilizers (BASACOTE, fertilizers that release nutrients slowly). The focus of development relating to ENTEC is on the removal of additional substances by means of filtration and the transfer of the principle on which ENTEC works to other production categories as well as to new applications. We are also testing new, ecologically efficient coating materials for the BASACOTE product line. In the classic slow release fertilizer area (Floranid line), research into the production of innovative lawn slow release fertilizers with an improved efficiency profile are close to completion.

New high-quality products

Our research institute has successfully begun operating a pilot plant for the production of magnesium hydroxide. The basic material used is a technical product ($MgCl_2$ solution) deriving from potash production that is processed into a fine chemical for the synthetic materials and pharmaceuticals industry. There is interesting potential in the process, although it requires further improvement.

Automation helps optimize processes

In the future, it should be possible, by means of the continual measurement of the content (K_2O) of potash salts at underground loading vehicles to separate a part of the accompanying minerals that are not worth conveying at the extraction stage and thus increase the quantity of K_2O being transported. Furthermore, it has in the meantime become possible to conduct fully automated analyses of product quality by means of x-ray fluorescence technology when producing and loading potash products. The data is available online within a few minutes, contributing to quality assurance and economic efficiency. Similarly, the time-consuming adhesion analysis of minerals, which is important for the processing of crude salts, has been automated by means of electronic image processing.

Successful testing of the remote control of mobile loaders underground

Following the completion of the test phase for a first machine used under an automated extraction system, two further machines went into operation in the spring of 2002. The project involves the use of mobile loaders that move automatically underground and are connected to a control unit located above ground by means of a remote control system. A control unit employee can steer up to three machines by means of a joystick. Operational testing aimed at further optimizing the system and at producing a version that will be ready for regular use is fully underway. When the system is subsequently deployed in normal operations, this could significantly reduce waiting periods while explosive gases in panels disperse and thus increase machine running times.

FURTHER INFORMATION

Corporate Governance Code Approved

The English term "Corporate Governance" denotes responsible and transparent management as well as control oriented toward the creation of long-term value. These principles have formed the basis of our decision-making and control processes for a long time.

For us, German law, especially the legislation that governs stock corporations, co-determination and the capital markets, our articles of association and the German Corporate Governance Code, has formed the legal basis on which management and control within the company has been shaped.

The entry into force of the German Corporate Governance Code has once again prompted us to conduct a critical examination of those of our internal rules and procedures that apply to the Supervisory Board, the Board of Executive Directors and the Annual General Meeting, accounting and auditing as well as to our external reporting. The resulting action that was required only pertained to a few areas, as we have for years acted in accordance with recognized standards of good management and control.

Management and corporate structure

The German Stock Corporation Act applies to K+S Aktiengesellschaft. As a result of this, we have a dual management and control structure comprising the Board of Executive Directors and Supervisory Board as corporate bodies. The Annual General Meeting, being a meeting of the shareholders, is the third corporate body.

The Supervisory Board

The Supervisory Board currently has twelve members. As required by the German Co-Determination Act, its members include an equal number of representatives of the shareholders and of the employees. In the event of a tied vote in Supervisory Board voting, the chairman of the Supervisory Board has a casting vote in the event that a second round of voting produces a tied vote once again. The term of office of the Supervisory Board lasts five years. In general, members of the Supervisory Board should not be more than 70 years old when they are elected. The Supervisory Board oversees and advises the Board of Executive Directors in connection with the carrying on of business. Its duties include the appointment of members of the Board of Executive Directors and the determination of the areas for which they are responsible. Important decisions made by the Board of Executive Directors – e.g. larger acquisitions, investment programmes and special financial measures – require its approval.

The Supervisory Board has formed two committees from among its members: The Personnel Committee consists of two members representing the shareholders and two members representing the employees. It is responsible for making preparations connected with the appointment of members of the Board of Executive Directors as well as the determination of the terms and conditions of their contracts of employment.

The Mediation Committee, which also comprises two members representing the shareholders and the employees respectively, performs the tasks set forth in Article 31 (3) Sentence 1 of the Co-Determination Act.

The Board of Executive Directors

The Board of Executive Directors, which comprises five members as of 1 January 2003, is the body that exercises an executive function in relation to K+S Aktiengesellschaft. It is bound by the interests of the company and, in this respect, seeks to continuously enhance its value. The tasks of the Board of Executive Directors include the shaping of the strategic direction of the company, the planning and determination of the company budget, the allocation of resources as well as the exercise of control over the management of business within the various business segments. The Board of Executive Directors is responsible for the preparation of quarterly and annual financial statements as well as the group consolidated financial statements.

The Board of Executive Directors cooperates closely with the Supervisory Board. It briefs the Supervisory Board at regular intervals in a timely and comprehensive manner about all issues that are of relevance to the company as a whole and concern planning, company strategy, the development of business and the financial and earnings position of the company as well as about any particular risks and opportunities of relevance to the company.

The Annual General Meeting

The Annual General Meeting is the body through which the will of the shareholders is formulated and at which our shareholders participate in fundamental decisions affecting K+S Aktiengesellschaft. The Annual General Meeting generally takes place within the first five months of the financial year. Each share carries one vote (one share, one vote principle). The Annual General Meeting is chaired by the chairman of the Supervisory Board.

The Annual General Meeting elects those representatives of the shareholders that are to serve on the Supervisory Board. It adopts resolutions on all matters for which responsibility is assigned to it by law and by the articles of association and does so in a manner that is binding on all shareholders and the company. This applies in particular to the appropriation of profits, the exoneration of the Board of Executive Directors and the Supervisory Board as well as the selection of an auditor. Amendments to the articles of association, measures resulting in a change in the capital of the company as well as approval for special company agreements are resolved exclusively by the Annual General Meeting. Shareholders may table motions of their own or countermotions that pertain to resolutions proposed by the Board of Executive Directors and Supervisory Board and they have the right to challenge unlawful resolutions adopted by the Annual General Meeting.

Accounting and audit policies

The accounting standards applied by K+S Aktiengesellschaft and the K+S Group conform to the principles set forth in the German Commercial Code. The individual company financial statements and the consolidated financial statements are audited by independent auditors who also perform such audits in accordance with the provisions of the German Commercial Code. The auditors are appointed by the Supervisory Board, which also determines fees and the main points to be covered by the audit process in consultation with the auditors.

Controlling and risk management

The Board of Executive Directors is responsible for the internal control and risk management system operated within the K+S Group. Principles, guidelines, processes and responsibilities are defined and established in such manner that the correct and timely recognition of all business transactions is assured. In addition, they facilitate the early identification of risks and supply reliable information on an on-going basis concerning the financial position of the company for internal and external purposes.

Further details can be found in the section entitled “Risk Management Report.”

Financial communications

We are bound by the principle of equality of treatment. We provide information about the position of the company and about all significant changes in business affecting it to our shareholders, all capital market participants, financial analysts, shareholders associations, the media and the interested general public by means of regular, open and up-to-date communications at the same time and in an equal manner. All important information is also simultaneously published on the Internet. Our financial calendar, which provides details of important financial reporting dates, can be found in our annual report as well as on the Internet at www.k-plus-s.com.

Board of Executive Directors and Supervisory Board remuneration

The remuneration received by the Board of Executive Directors comprises fixed and variable, performance-related salary components. In addition, it is possible to obtain a limited amount of income by exercising stock options. Details concerning the K+S stock option programme can be found in the notes. The Supervisory Board receives fixed and variable emoluments, with the variable component based on dividend payment levels. A board member receives € 250 for each cent by which the dividend exceeds the sum of € 0.20.

Conformity declaration concerning the German Corporate Governance Code

The Board of Executive Directors and Supervisory Board issued their first declaration on conformity pursuant to Article 161 of the Stock Corporation Act on 13 December 2002. We comply with the recommendations made by the Government Commission on the German Corporate Governance Code with three exceptions, which continue to apply today. Our declaration is available to shareholders on our corporate Internet site at all times.

Declaration on conformity with the German Corporate Governance Code

The Board of Executive Directors has made a recommendation to the Supervisory Board to ratify the following joint declaration on conformity pursuant to Article 161 of the Stock Corporation Act on 12 March 2003."The recommendations made by the Government Commission on the German Corporate Governance Code have been complied with and are being complied with in 2003 except for the following:

> The Supervisory Board has not set up an Audit Committee (Code item 5.3.2).
> The Chair and membership positions in committees are not remunerated separately (Code item 5.4.5 paragraph 1 sentence 3).
> The Consolidated Financial Statements and interim reports will be prepared under observance of internationally recognized accounting principles (IAS) for the first time for fiscal year 2004 or 2005 (Code item 7.1.1 sentence 2)."

This declaration on conformity appears on the Internet at www.k-plus-s.com.

Communications: Up-to-Date and Transparent

Active, open communications, whether internal or external, are an integral part of our corporate culture. Our objective is to communicate the strategic direction of the K+S Group and recent company developments in an up-to-date and transparent fashion to all interested partners.

Internal Communications – an important multiplier effect

Comprehensive internal communications are an important cornerstone of our information policy. Our employees are immediately informed about all important developments affecting the K+S Group. They are among our most important information channels, and that is true of external corporate communications too.

Of the instruments that we employ for internal communications purposes, the most important is the employee newspaper “K+S information”, of which we published a total of five editions in 2002. In addition, we inform our employees about current company issues through “K+S aktuell.” The new joint venture esco also already has a newsletter that appears regularly and it enables employees to keep abreast of the latest developments in their business.

The Intranet is of particular importance in keeping employees informed. Through the constant posting of the latest information about company events, employees are able to obtain up-to-date information quickly and simply on a daily basis. Various functions, such as the search feature for internal know-how sources included in the “Yellow Pages” that was launched in 2002, standard forms and presentations completed the Intranet services available to our employees.

External communications intensified

The goal of our external communications is to inform the interested public in a comprehensive and timely manner about the latest developments and events concerning the K+S Group.

All important print and TV media are supplied with information on an on-going basis. Regular contacts are maintained with representatives of the media and questions received from the press are answered by us immediately. Our communications instruments include press releases, press information packs and newsletters. By registering on the Internet, special newsletters covering the press, investor relations and fertilizers can be received by e-mail, and in addition, reports and brochures that we produce can be ordered over the Internet.

In 2001, we reorganised the way in which K+S Group is presented on the Internet. Since the relaunch, we have noted a steady increase in the number of visitors to our site. The new possibilities for downloading and ordering brochures have met with a positive response. During the course of 2002, Internet presentations for K+S subsidiaries were also redesigned by data process, our IT subsidiary.

The regular press and analysts conferences that we stage in March and November of each year are used to brief representatives and analysts in detail about the course of our business and to answer questions posed by participants. Meetings and talks with the press held in connection with the completion of larger and smaller projects are also used to provide journalists with information.

External presence increasingly international

Through our fair-related activities, we have deliberately sought to enhance our contacts not only with our customers but also with end-users. These were some of the fairs that we were represented at: DLG-Feldtage at Gut Hellkofen, IPM in Essen, Innovagri + Oléopro and CPhI (Pharmaceuticals) in France, Ricicla in Italy and Pollutec in Austria.

A further project that we launched this year is the expansion of the visitor centre at our Merkers Adventure Mine in Thuringia, which is a tourist attraction in the Werra-Ulster Potash District. It provides visitors with extensive information about the activities of the K+S Group and an opportunity to experience the underground world of potash extraction, unique geological features as well as part of German history. The new visitor centre is scheduled to open in May 2003.

Aiding the community and promoting culture with a regional focus

We devote particular attention to providing selective support to cultural and sports events staged near our sites. Our sponsorship activities in 2002 included the sponsoring of the "Kassel Kultur 2002" general programme connected with the Documenta year as well the Hesse state government environmental campaign entitled "Sauberhaftes Hessen" or "A Clean Hesse." Our wide-ranging communications activities include, for example, the provision of assistance to publishers of textbooks in the form of visual and written material concerning mining, fertilizer use and agriculture.

A campaign to aid agriculture and the victims of the Elbe floods staged jointly by the employees of K+S and the company yielded a sum of over € 185,000 in donations. K+S used the sum collected to help people in Saxony-Anhalt who had found themselves in need as a result of the catastrophic flooding.

Environmental Protection and Industrial Safety

The lasting protection of the environment was and is a key guiding principle underlying our actions. This principle is observed at all our domestic and foreign sites through production and use that are as safe as possible and minimize harm to the environment. Our guidelines and consistent compliance with them help us to ensure industrial safety and health protection for our employees in a comprehensive manner. We report extensively on the results of our work in a separate environmental report that we also publish on the Internet.

Bundling environmental protection, industrial safety and quality management

We have pooled the numerous tasks that concern the environment, industrial safety and quality management in a single company unit. Our Committee for Industrial, Health and Environmental Protection is the highest body within the K+S Group operating in this area. The committee comprises executives and employee representatives and is headed by the executive director responsible for the respective area. Business segments and sites also possess employees who are specialists in local environmental protection and representatives responsible for local environmental protection.

Expenses relating to environmental protection were slightly lower in 2002 than in 2001, declining from € 81.9 million to € 78.2 million. At € 6.8 million, 2002 investment in environmental protection remained on the same level as in 2001.

Energy balance and water consumption improve slightly

Our energy consumption levels are mainly determined by plants operating in the Potash and Magnesium Products and Salt business segments. Although the number of sites increased in 2002 as a result of the esco joint venture, it was possible to cut energy consumption by 127 GWh to 6,009 GWh. Our most important source of energy is natural gas, which is used as fuel in all power stations and drying facilities.

Wastewater volume was also slightly reduced last year, from 15.9 m^3 million to 15.3 m^3 million.

Slight increase in CO_2 emissions with increase in number of sites

CO_2 emissions of 1.36 million tons were ascertained for 2002, which means that they were 0.17 million tons higher than in 2001. This trend is a consequence of the inclusion of additional sites in the Salt and COMPO business segments as well as an increase in the external electricity needs of the Potash and Magnesium Products business segment.

In computing emission levels, we also take account of electricity sourced from the public grid and allocate to it the CO_2 emissions that correspond to the share of this energy source in the electricity produced in Germany. The energy required for the production process – electricity and heat – is almost exclusively produced from natural gas. The efficiency levels for our power stations, on a cogeneration basis, amount to between 90% and 92% and are at the limit of what is currently technically possible. Less efficient heating plants that use light heating oil are used to a modest extent solely for room heating purposes.

Further details can be found in the separate environmental report.

Sylvinite project to reduce resource consumption

Given the level of efficiency attained by our power plants, further improvements in energy efficiency are scarcely possible, absolute water and energy consumption as well as CO_2 emissions will depend on production volume above all. As a result of the use of richer crude salts obtained from the new deposit that is to be developed in the Potash and Magnesium Products business segment ("Sylvinite Project"), we wish to achieve a further significant reduction in specific resource use. We therefore expect that despite a planned increase in production, our energy and water consumption as well as CO_2 emissions will significantly decline as of 2005.

Industrial safety is a priority

We have produced a "Personal Protective Equipment Handbook" on the basis of analyses of various hazards. The handbook contains advice on the provision of instructions and the protective equipment used by employees. It has also been made available on our corporate intranet.

Furthermore, we drew up and implemented new rules in 2002 on the coordination of cooperation with external firms. Under them, external partners will only be considered in connection with the awarding of contracts as long as they submit a hazard assessment of their work together with their offer. This procedure means that we are able to ensure that we are aware of any possible hazards to which our own employees and those of external firms may be exposed before work commences, and that the necessary safety measures can be coordinated in good time.

In 2002, a total of 110 reportable workplace accidents occurred in K+S Group companies. This unfortunately means that the number of such accidents rose by 26 in relation to the preceding year. The number of "industrial accidents per million working hours" thus increased to 6.6 (2001: 5.2). Most of these accidents occurred at mining facilities, which have a ratio of 8.4 (2001: 5.7). We will not accept this increase, even if a comparison with those plants that are insured through the Bergbau-Berufsgenossenschaft (BBG) show that our accident figures are well below the average as computed by the BBG (the most recent BBG figure, that for 2001, was 20.1) and this confirms that the measures we implement to prevent accidents are effective.

Extending the scope of quality management

The Board of Executive Directors and the quality management (QM) officer form the "Quality Management Steering Group". Our quality management goals are to further improve the degree of customer satisfaction as well as to optimise our work processes. Adjustments required for the changeover to the new ISO 9001: 2000 and the related recertification audits will be completed on schedule by December 2003. K+S KALI GmbH has already submitted the recertification audit findings for the "high purity salts" product area. In addition, the "Good Manufacturing Practice" system for the production of pharmaceutical substances is being implemented.

QM systems have been introduced at all K+S Group sites. Decisions on the certification of a site or product areas are taken on a case-by-case basis. The Potash and Magnesium Products business segment is a special case in this regard because fertilizers are as such subject to statutory quality monitoring in the form of regular and stringent checks connected with approval for market release, making further certification unnecessary.

In 2002, about 2,400 K+S Group employees were working in certified areas, which corresponds to about 23% of the total workforce. Over 70% of all production sites already possess a QM certificate under ISO 9001 or 9002 that at least covers subareas. Our laboratories providing analytical services have EN 17025 accreditation.

In 2003, certification will be sought for Bauschutt-Recycling GmbH as well as its recognition as a specialist waste management company. In addition, data process GmbH is to be certified.

Procurement

The general task of our procurement units is to ensure the timely provision of materials and services required in such quantities as are needed for operations while ensuring that those materials and services possess appropriate standards of quality and to do so on the best possible terms and conditions. To successfully implement these goals, it is not only necessary to identify future needs and their structure early on, close consultations with ordering parties as well as fair cooperation with suppliers are also required.

Significant increase in procurement volumes

With the inclusion of further companies within the K+S Group, procurement volumes were also higher than a year ago. The value of purchases made in 2002 amounted to about € 800 million.

It is vitally important for us that our suppliers meet our demanding quality goals. The quality of service provided by suppliers is important and not just product quality. We conduct supplier appraisals at regular intervals to ensure that long-term relationships are only established with efficient and reliable suppliers.

K+S – a leading company in the field of e-procurement

We also use various e-procurement instruments for procurement purposes. According to a study prepared by the universities of Vienna and Stuttgart-Hohenheim, this is an area in which we are one of the leading companies in Germany.

For the procurement of capital goods and services, we use our "emaks"transaction platform to stage online auctions. As our experience in this regard has been good, more extensive use of the system is to be made in the future. Procurement volume sourced by means of auctions now amounts to about € 100 million per year.

We use an electronic ordering system for the procurement of consumer goods. The electronic cc-chemplorer marketplace for the chemical and pharmaceutical industries is used by us through a catalogue management system. A total of 17 plants and almost 600 users authorized to place orders have already been using this system. Through the rigorous inclusion of users and the automation of operational procurement activities, the catalogue management system helps reduce processing costs. At the same time, the group-wide pooling of demand means that purchasing costs are lower.

In the future, more K+S Group suppliers and foreign companies are to be incorporated into the catalogue management system or the online auctions. The medium-term objective is to have about 30% of orders, or about one half of our total procurement volume, processed online to achieve further purchasing advantages.

Social responsibility is practiced and encouraged

In addition to taking account of the economic and ecological aspects of procurement, we also pay due regard to compliance with the third component of sustainable development, namely ethical principles. We not only analyse the extent to which the products that are being procured are environmentally friendly but also consider the safety standards applied by suppliers in rendering their services. Similarly, it is also important for us that suppliers comply with the basic principles that ought to be self-evident for companies that operate globally. First and foremost, this means the observance of human rights, a commitment to sustainability as well as compliance with internationally recognized labour standards in the form of the ILO (International Labour Organisation) core norms.

RISK MANAGEMENT REPORT

A large number of business opportunities and risks are linked to our global activities. We have oriented our strategy towards the deliberate exploitation of opportunities and a responsible approach to risk.

Systematic risk management is therefore a key success factor with respect to the positive development of our company. Permanent risk and opportunity identification is carried out all in areas of relevance to monitoring. The methods used extend from analyses of the market and competition to observing risk indicators. We also use quantitative measures (e.g. probability factors) and qualitative criteria as part of our risk measurement, analysis and appraisal processes. For risk monitoring and control purposes, we use extensive systems that regularly supply relevant information and are being continually developed. All instruments are tailored to the various areas being monitored.

The entire risk management system is integrated into the way in which processes and hierarchical structures are currently organised. The appropriate spheres and areas of responsibility within the company are clearly regulated. The possible effects of risks and opportunities are processed in preparation for the adoption of decisions, fed into our reporting and uniform group-wide rolling forecast system and reported to the Board of Executive Directors in a timely manner. The organisation of our risk management ensures the effective appraisal of and active control over chances and risks.

The way in which our instruments function is documented and reviewed for proper functioning and efficiency at regular intervals by a group-wide working party as well as by internal and external auditors. The resulting findings are used to improve risk management on an on-going basis.

This risk report has been prepared in accordance with Accounting Standard No. 5 (DRS 5) of the Deutsche Rechnungslegungs Standards Committee e.V. (DRSC).

General economic risks

Global economic trends impact on the economic success of our business segments in a variety of ways. At present, possible risks may stem from economic weakness worldwide and the political uncertainty surrounding crisis regions. At the national and EU levels, changes in the political, legal and tax environment can influence the course of business. We expect prospective changes in the taxation of companies in Germany as well as the decision to levy tolls on the movement of lorries within Germany as of September 2003 to have negative consequences. Price trends on the energy markets, with the price of crude oil being of particular importance, are having a significant influence on costs at the present time. We see other factors affecting earnings in the form of trends in exchange rates, especially the US dollar/euro exchange rate, on the capital markets and in interest rate levels.

Industry risks

Industry risks essentially stem from the business climate in a given industry. Current assessments of the situation in the fertilizer area are generally positive. We expect to see rising demand for our fertilizers worldwide over the next few years.

A possible reform of agricultural policy within the EU could have a lasting impact on our business. They include proposals to significantly reduce the compensatory payments made to farmers in current EU member states. In addition to particular cost risks, the eastward expansion of the EU will create opportunities for our Potash and Magnesium Products business segment, e.g. the possibility of selling more special products in these markets. The closing of complex fertilizer production sites that are located in Europe and have ceased to be profitable will no doubt continue in the medium term. To leverage this trend and to respond in a focussed manner to the trend towards single nutrient fertilizers, we are increasing our capacity for the production of granulated potash and of magnesium fertilizers that can be applied directly in agriculture.

The recognition of Russia as a market economy by the EU will make it possible to conduct a simplified review of the anti-dumping regulations that currently apply to nitrogenous and potash fertilizers originating from the CIS. Without such anti-dumping protection, the business prospects for the Western European fertilizer industry would worsen because manufacturers based in CIS states would then be able to sell their products in the EU at dumping prices without the levying of the punitive tariffs that have been applied hitherto. However, the EU will have to conduct a critical review of whether fair competition based on free market rules exists in Russia before then. The environmental and social standards that have been imposed on the Western European potash industry will also have to be taken into consideration in conducting a review.

What effect the debate on agricultural policy that is currently underway in Germany (e.g. ecological farming, obligation to declare the presence of additives etc.) will have on fertilizer sales cannot be foreseen at the present time. Given our consistent market orientation and continuous development of products, we are in a good position with our specialities and thus even see possibilities for expanding our market shares.

With respect to the COMPO, Salt as well as Waste Management and Recycling business segments, our appraisal of industry trends is positive, even if disquiet among consumers cannot be ruled out in the short term because of current tensions in the Middle East.

There are no indications at the present time of any fundamental change in industry structure deriving from, for example, the market entry of new competitors or the introduction of new technology that would not be accessible to us. Far-reaching changes stemming from the disappearance of substantial groups of customers are not expected to affect any business segment.

We are pursuing a strategy aimed at increasing the share accounted for by specialities and branded products. The expansion of our market positions in growth segments is a priority in this regard. It entails the penetration of new markets as well as acquisitions and cooperation arrangements in existing business segments. The risk that, for example, acquisitions will not fulfil the expectations placed in them is reduced in advance by conducting intensive examinations and appraisals of companies.

Risks deriving from operational areas of responsibility

The special risks deriving from operational areas of responsibility can be divided into various individual risks:

Procurement risks

To limit and control procurement risks, we use tried and tested instruments such as procurement market analyses, the careful selection of suppliers and long-term supply agreements. We use extensive quality assurance measures to respond to risks connected with materials. To avert the risks that can result from unavailability and price increases affecting special materials and supplies, such as special mining equipment with the appropriate components, as well as from logistics services, sources are diversified. This avoids dependence on individual suppliers and ensures the procurement of what is required in terms of quality and quantity. In addition, our centralized purchasing and logistics capability allows a wide range of synergies to be attained within the group.

Production risks

We possess production facilities that are in part characterized by a high degree of technical complexity and inter-linking. Extensive monitoring, probing and control systems are used to identify possible production and environmental risks early on. The disruption of production is prevented by stocking reserves of spare parts that are sometimes difficult to obtain quickly in the event of any breakdown in important individual technical components. The extraction and processing of crude salts is subject to intensive monitoring with regard to safety, the impact on third parties as well as the securing of deposits by mining authorities too. Possible mining risks related to production are additionally subject to external controls. Furthermore, we employ quality and production related indicators to identify and monitor other potential risks. The continuous improvement of all production processes as well as operational procedures, combined with quality control and certification, are further measures used to limit risks connected with the manufacture of our products. In addition, we attach great importance to the company suggestions scheme, which integrates employees actively into a process of constant improvement.

Market risks

Changes in the demand, supply and competitive situation can give rise to particular market risks. Regular analyses conducted by our marketing specialists enable us to identify opportunities and risks at an early stage. Sales risks are limited by, for example, there being no exclusive dependence on individual customers and regions. Sales forecasts have a direct impact on production plans. Demand in the Potash and Magnesium Products, COMPO, fertiva and Salt business segments is in part dependent on weather conditions. We respond to seasonal fluctuations in demand with flexible working hours models as well as more flexible stock keeping. Both these measures facilitate demand oriented production. An extensive network of storage possibilities makes it possible to supply customers at short notice. Our entire product range draws a highly positive response from our customers all over the world as a result of our stringent standards of quality.

Research and development

Our own development activities are constantly reviewed and result in appropriate implementation if there are prospects of success. We respond in a suitable manner to technological and product related enhancements on the part of other market participants. We have not identified any particular risks in the research and development field to which we may be exposed at the present time.

We provide agricultural application advice that is customer oriented. In addition, quality assurance is a key factor for the attainment of our business success. There are no patent disputes relating to our development projects.

Financing risks

The optimising of group financing and limiting financial management risks are important central tasks. Liquidity is controlled and optimised by means of group-wide rolling liquidity forecasting. Receivables are monitored at all times. Default risks relating to payments are largely covered by flat-rate export guarantees (foreign non-OECD area) or by Hermes credit insurance (domestic and foreign OECD area). In addition, we attempt to limit default risks by means of letters of credit. In the light of the growing number of insolvencies, our almost full, group-wide securing of receivables is an important risk limitation factor. The unsecured supplying of goods and services is subject to a carefully coordinated approval procedure. Any remaining residual risks are addressed using balance sheet precautionary measures.

Current forecasts of trends on the capital markets indicate that no material adverse effects can be expected as a result of exchange rate or market interest rate developments. Most of the revenues deriving from our operations arise in the euro zone and thus do not entail any exchange rate risk. Remaining currency risks related to payments, especially in the case of the US dollar or the British pound, are limited through the selective conclusion of hedging transactions. The derivative financial instruments that are used in this regard serve to hedge transactions that have already been concluded as well as concrete transactions that can be expected. We only use hedging for such future foreign currency inflows that, as a result of past experience as well as medium-term planning, can be expected with a high degree of probability (business of a repeat character). Detailed instructions on the form of derivatives, responsibility and controls exist and are observed. Until the end of 2003, possible exchange rate risks are only limited in scope as a result of the hedging transactions that have been carried out. Subsequently, adverse effects from changes in exchange rates for the euro are possible. In addition to our good liquidity positions, substantial credit lines, which can be used if need be, are available for any upcoming larger scale financial undertakings, e.g. as a result of acquisitions. There is no particular dependency on any individual lenders. No financing and liquidity shortfalls can be expected from the perspective of the present.

Financial and cash investments are subject to the risks that exist on the money and capital markets. We limit these through appropriate creditworthiness requirements, ceilings and the spreading of risk.

Legal risks

No such legal disputes, litigation or damage claims are pending or threatened that could have a material influence on the net assets, financial position and results of operations. Customer complaints are immediately dealt with by the companies responsible. To this extent, we do not expect any significant adverse effect on the development of business.

Other risks and IT risks

The security of IT systems and of data holdings is assured using numerous measures and by the application of the latest security standards. They include ensuring the availability of computer systems and networks, the daily securing of system and application data as well as protection from external attempts to gain access. The use of modern hardware and software and the rapid integration of companies that have been acquired into uniform group IT infrastructures significantly reduce IT risks. To this extent, we do not foresee any risks arising from the use of information technology.

Overall risk

We have not identified any significant risks posing a danger to companies within the business segments. No individual risks that would place continued existence in jeopardy have been identified. Even if accumulated risks and risk occurrence probabilities are taken into account, the continued existence of the K+S Group in terms of its financial basis or liquidity aspects is not in jeopardy. The ability of the group to weather crises is based on good equity capitalisation and good liquidity. The long life-cycles of our products, the maintaining of stocks of raw materials that are sufficient to cover longer periods of time as well as the relatively stable demand for our products are important factors in this regard. Through a cost management system that looks ahead, any signs of an impending change in the earnings position can be efficiently responded to. The positive development of earnings capacity forms the basis of our corporate strategy.

FORECAST REPORT

Subsequent events

No significant changes have occurred in the general environment since the close of the financial year. The economic environment has not changed to a degree that would have a significant effect on our business, nor have there been any significant changes in our position in terms of industry.

Outlook

Economic development

In our opinion, the general economic trend in our core market of Europe will also be marked in coming years by framework conditions that are in part difficult. While the economic institutes do expect exports to develop in a stable fashion, they expect domestic demand to be muted for reasons such as the decline in consumer confidence in Europe over the years.

The German economy is only expected to achieve modest growth in 2003, with the institutes forecasting a real increase in German GDP for 2003 of about 0.6% and of no more than about 1.0% for 2004. On the other hand, the tax burden once again increased at the beginning of 2003, as a result of, for example, increases in the ecology tax and social security contributions toward health and pension insurance.

Development of industry and competition

The situation on the agricultural markets is marked by increasing demand, in qualitative terms too, for foodstuffs to supply a growing number of people. Experts predict that the global population will increase significantly in the next few decades. The limited amount of arable land available will therefore have to be farmed more intensively and efficiently. This need will become all the greater because the area of the surface of the earth that can be used for agricultural purposes is declining. Mineral fertilization, which guarantees better plant nutrition and thus a higher yield per hectare of cultivated land, is therefore of central importance.

Global consumption of fertilizers, i. e. the use of nitrogen, phosphate and potash, will increase in the medium term at an annual rate of approximately 2%. In the European market, demand will weaken slightly over the next few years as a result of the more efficient use of organic fertilizers, but will remain on a relatively high level.

The "mid-term review" of the EU's Agenda 2000 includes proposals to significantly reduce the compensatory payments made to farmers in existing EU member states. The background to this is the question of the financing of direct payments to farmers in the Eastern European countries that are to be admitted to the EU. While the introduction of changes in the short term appears unlikely, the debate nevertheless indicates that as of 2006 at the latest, compensatory payments for prices in Western Europe will be reduced. This would have a negative impact on the liquidity of farming businesses in Western Europe and on the fertilizer market as a result.

In the overseas markets, especially in Asia and Latin America, we expect sustained increases in consumption on account of the greater nourishment requirements of the population, which is increasing particularly quickly there, as well as the growing intensification of farming.

Potash and Magnesium Products

Our assessment of demand on the global potash market in 2003 is favourable overall. We expect the sector to grow at 2% per year in the medium term. We expect 2003 to see a slight increase in demand for fertilizers, attributable to, among other things, better grain prices in North America as well as the increased cultivation of grain that this has prompted. In addition, we expect demand for palm oil to grow in Southeast Asia, which will be accompanied by rising prices at the same time. As already indicated, demand on the European fertilizer market over the coming years will be primarily influenced by the uncertainty surrounding European agricultural policy and EU expansion.

Following the recognition of Russia's status as a market economy by the EU, it cannot be ruled out that Russian producers will apply for a review of the anti-dumping regulations applicable to potassium chloride that have been in force since May 2000. These regulations are of great importance for us in that they provide protection against possible unfair trading practices on the part of these competitors.

Viewed from the perspective of the present, we expect 2003 revenues for the Potash and Magnesium Products business segment to be slightly higher than in 2002. Assuming that market prices only show a slight increase, higher costs connected with personnel and energy as well as inputs relating to the opening up of the Sylvinite deposit at the Unterbreizbach mine will have a depressing effect in 2003. Thus, 2003 earnings can be expected to be lower than those for 2002.

In the case of 2004 too, we see no potential for earnings to improve, as the Sylvinite project will require further inputs and the measures taken to hedge the US dollar exchange rate will have expired. It is difficult to estimate the extent to which higher costs can be offset by price increases at the present time. However, the Sylvinite project in the potash and magnesium products area should cause earnings to rise in a long-term manner as of 2005.

COMPO

The general economic situation in which consumers of our COMPO products find themselves will probably worsen somewhat in 2003, both in Germany and elsewhere in Europe, because of a decline in purchasing power caused by higher taxes and social security contributions.

However, we nevertheless assume that this market will grow, because hobby area consumers – as could already be seen over the past few years – are more inclined to make savings elsewhere and further, new market segments can be penetrated in the professional area. Competition will remain as intense as at present, but we should nevertheless be able to grow to a greater extent than the market.

Overall, we expect a further increase in revenues in 2003. In the hobby area, we want to achieve growth by developing innovative packaging for flower soil (resealable mini-packages), introducing premium lawn fertilizers (with a 6-month, slow-release effect) extending our range of plant protection agents (e.g. sticking plasters for roses to combat greenfly). In the professional area, higher market penetration for ENTEC fertilizers in particular should result in revenue growth. We expect EBIT for 2003 to be higher once again year-on-year.

In 2004, it should be possible to attain a further improvement in revenues, which will also be reflected in earnings, and we believe that growth will mainly be achieved in the professional area.

fertiva

In the nitrogenous fertilizer area, we expect to see changes in the regulations governing the production, storage and shipment of fertilizers containing ammonium nitrate. We must assume that as a result, the position of urea-based fertilizers, which we do not offer, will be further strengthened. In terms of supply, we do not expect any further capacity closure in Western Europe in the short term, which means that competition will remain intense.

We expect fertiva to post a further drop in revenues for 2003 as a result of lower market prices in general. As a result, earnings may be slightly lower than for 2002. Viewed from the perspective of the present, we envisage that the current price cycle will reach its lowest point in 2004 and that this will impact on earnings accordingly. Against the backdrop of EU expansion in 2004 and structural overcapacity in the nitrogen area in future member states, specific predictions about medium-term trends can only take a qualified form.

Salt

We expect to see no change in the market position in relation to 2002. The level of competition will remain the same and imports from Eastern Europe and from overseas will enter individual product areas on Western European markets.

Our budget for 2003 assumes slightly lower revenues than in 2002 and is based on a de-icing salt volume that corresponds to a normal year and is therefore lower than for 2002. Given this assumption, earnings exceeding those for the very good year 2002 are not expected, despite improvements in sub-segments.

We expect both revenues and earnings in 2004 to be higher year-on-year. In particular, it should be possible to leverage a substantial part of the synergies sought through the formation of the joint venture in a way that will impact on earnings.

Waste Management and Recycling

Financial year 2003 will see a slight decline in the volume of waste in Germany and pressure in terms of competition and prices will remain high, especially in the field of underground waste management. We assume that we will be able to successfully defend our high market share in Germany. We see good opportunities for further expanding our business on waste management markets elsewhere in Europe. In the case of the recycling of salt slag originating from the secondary aluminium industry, we expect the course of business to be good in 2003 once again.

Overall, we expect a slight increase in revenues in 2003. This is because we expect a major project involving the disposal of heavily contaminated substances. It will also have a positive impact on the earnings of the business segment.

In 2004, it should be possible to attain further improvements in revenues and earnings as a result of increases in the quantities of waste received for disposal from other European countries.

Services and Trading

Although framework conditions are not straightforward, we anticipate that the course of business for this business segment will be stable. Revenues for 2003 can be expected to achieve the good level attained in 2002. However, as a result of higher costs, earnings might fall somewhat.

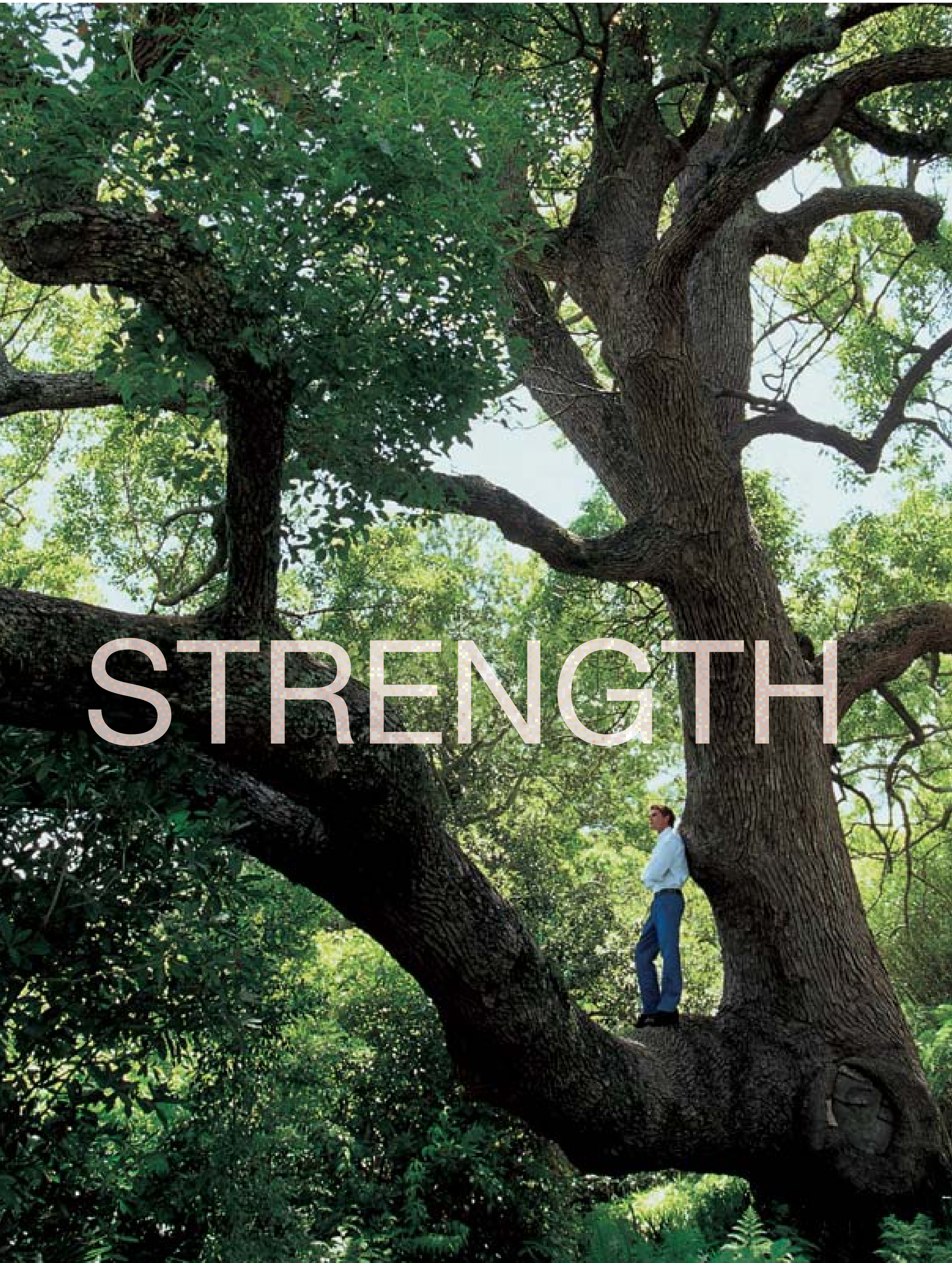
The providing of a forecast for 2004 is not possible at the present time as a result of the heterogeneous character of this business segment.

Overall Outlook for the K+S Group

Given the danger of a war with Iraq and of terrorist attacks as well as their impact on the economy, forecasts about the course of business are exceptionally uncertain at present.

Nevertheless, the course of business operations for the K+S Group should in general remain positive in 2003 too. In view of the higher costs that can be expected, especially in Germany, we currently assume that the high level of EBIT will show a decline for 2003 in relation to 2002. In the case of the fertilizer business in particular, it will be difficult to pass on higher costs in the marketplace. This situation can be expected to continue in 2004. The level of net income will also be affected by conditions on the capital markets. Should there be a recovery, this would result in the possibility of an increase in the value of our securities.

Forward-looking statements
This annual report contains facts and forecasts that relate to the future development of the K+S Group and its companies. The forecasts are estimates that we have made on the basis of all the information available to us at this moment in time. Should the assumptions underlying these forecasts prove not to be correct or risks – such as those described in the risk report – should arise, actual events may deviate from those expected at the present time.


STRENGTH

“The rings inside a tree that show its age are nature’s balance sheets. They make it possible to follow its development exactly.”

Our high earnings capacity and healthy financial structure, especially the good liquidity position, place us in the position of being able to approach our external growth targets from an intrinsically strong financial basis.

Profit and loss account 1 January – 31 December 2002

in T€	Notes	2002	2001
Revenues	(1)	2,258,516	2,179,394
Cost of sales		1,512,721	1,474,773
Gross profit		745,795	704,621
Selling expenses		546,498	527,855
General and administrative expenses		53,289	54,838
Research costs		13,225	13,642
Other operating income	(2)	105,684	135,146
Other operating expenses	(3)	105,695	122,832
Earnings before interest and taxes (EBIT)		132,772	120,600
Income from investments, net	(4)	1,162	822
Write-downs on financial assets and short-term securities	(5)	17,700	1,057
Interest income, net	(6)	– 2,357	733
Result from ordinary operations/ earnings before income taxes		113,877	121,098
Taxes on income	(7)	10,074	2,777
Net income		103,803	118,321

Balance sheet as of 31 December 2002

in T€	Notes	2002	2001
Intangible assets		33,500	35,595
Tangible fixed assets	(11)	565,141	556,782
Financial assets	(12)	85,956	74,650
Fixed assets	(10)	684,597	667,027
Inventories	(13)	238,647	239,118
Receivables and other assets	(14)	524,505	476,482
Own shares	(15)	60,434	31,633
Other securities	(16)	102,629	69,843
Cash in hand and balances at banks, cheques		52,615	113,045
Current assets		978,830	930,121
Deferred taxes	(17)	243	889
Prepaid expenses		3,035	2,933
ASSETS		1,666,705	1,600,970

Subscribed capital	(19)	115,200	115,200
Additional paid-in capital	(20)	–	–
Reserve for own shares	(21)	60,434	31,633
Other revenue reserves and profit retained	(22)	337,741	310,756
Equity	(18)	513,375	457,589
Special reserves	(23)	328	1,607
Balance arising from capital consolidation	(24)	45,270	58,400
Provisions for pensions and similar obligations		175,277	179,455
Provisions for taxes		4,621	3,307
Other provisions		526,136	529,191
Provisions	(25)	706,034	711,953
Liabilities	(26)	400,912	370,865
Deferred items		786	556
EQUITY AND LIABILITIES		1,666,705	1,600,970

Statement of changes in equity 1 January – 31 December 2002

in T €	Subscribed Capital	Additional paid-in capital	Reserve for own shares	Profit retained/ other revenue reserves	Equity
Balance as of 1 January 2002	115,200	–	31,633	310,756	457,589
Dividend for previous year	–	–	–	– 43,397	– 43,397
Net income	–	–	–	103,803	103,803
Repurchase / disposal of own shares	–	–	28,801	– 28,801	–
Consolidation effects*	–	–	–	– 4,620	– 4,620
Balance as of 31 December 2002	115,200	–	60,434	337,741	513,375

* including currency related effects from consolidation

in T €	Subscribed Capital	Additional paid-in capital	Reserve for own shares	Profit retained/ other revenue reserves	Equity
Balance as of 1 January 2001	115,200	70,909	36,736	224,997	447,842
Dividend for previous year	–	–	–	– 37,612	– 37,612
Net income	–	–	–	118,321	118,321
Repurchase / disposal of own shares	–	–	– 5,103	5,103	–
Consolidation effects*	–	– 70,909	–	– 53	– 70,962
Balance as of 31 December 2001	115,200	–	31,633	310,756	457,589

* including currency related effects from consolidation

Cash flow statement 1 January – 31 December 2002

in T€	2002	2001
Net income	103,803	118,321
Depreciation (+)/write ups (–) on fixed assets	107,947	128,750
Increase (+) in long-term provisions	4,780	9,433
Decrease (–)/increase (+) in special reserves	– 1,279	– 15,908
Release of credit differences on capital consolidation	– 15,470	– 15,856
Write-downs (+)/write-ups (–) on short-term securities	17,070	– 107
Gross cash flow	216,851	224,633
Gains (–)/loss (+) on disposals of fixed assets	– 3,669	– 1,007
Decrease (+)/increase (–) in inventories	4,174	– 45,184
Increase (–)/decrease (+) in receivables from operating activities	– 46,665	40,720
Decrease (–) in short-term provisions	– 6,119	– 19
Increase (+)/decrease (–) in liabilities from operating activities	17,873	– 16,299
Cash flow from operating activities	182,445	202,844
Proceeds from disposals of fixed assets	33,163	22,503
Disbursements for intangible assets	– 4,411	– 5,891
Disbursements for tangible fixed assets	– 131,809	– 134,144
Disbursements for financial assets	– 32,123	– 17,648
Disbursements for acquisition of consolidated companies	– 774	– 82,729
Cash flow from investing activities	– 135,954	– 217,909
Free cash flow	46,491	– 15,065
Dividends paid	– 43,398	– 37,612
Disbursements from dept redemption	– 8,200	– 7,211
Cash flow from financing activities	– 51,598	– 44,823

Change in cash and cash equivalents affecting cash flow	– 5,107	– 59,888
Change in value of cash and cash equivalents	– 17,070	600
Changes in the scope of consolidation	– 4,452	–
Change in cash and cash equivalents	– 26,629	– 59,288

Development of fixed assets as of 31 December 2002

in T€	Gross Book Values					
	Balance as of 01.01.2002	Additions	Changes in scope of consolidation	Disposals	Reclassi-fication	Balance as of 31.12.2002
Concessions, industrial property rights and similar rights and assets, and licenses for such rights and assets	37,913	3,787	422	1,121	7,690	48,691
Goodwill	5,082	343	– 356	–	99	5,168
Payments on account	7,813	281	–	–	– 7,813	281
Intangible assets	50,808	4,411	66	1,121	– 24	54,140
Land, rights similar to land and buildings including buildings on third-party land	319,794	13,253	– 3,899	928	2,848	331,068
Technical equipment and machinery	1,015,812	76,541	54,319	2,223	18,077	1,162,526
Other equipment, fixtures and fittings	144,862	18,105	4,715	1,172	230	166,740
Payments on account and construction in progress	24,690	16,728	– 80	468	– 21,131	19,739
Tangible fixed assets	1,505,158	124,627	55,055	4,791	24	1,680,073
Investments in affiliated companies	5,396	440	–	207	36	5,665
Loans to affiliated companies	134	52	–	16	–	170
Participating interests	10,492	16	1,124	289	– 36	11,307
Loans to companies in which participating interests are held	462	206	–	30	–	638
Long-term securities	40,109	25,083	–	16,662	–	48,530
Sundry loans and other financial assets	21,734	6,326	6,551	13,805	–	20,806
Financial assets	78,327	32,123	7,675	31,009	–	87,116
Fixed assets	1,634,293	161,161	62,796	36,921	–	1,821,329

Depreciation, amortization and write-downs						Net book values	
Balance as of 01.01.2002	Additions	Changes in scope of consolidation	Disposals	Reclassi-fication	Balance as of 31.12.2002	Balance as of 31.12.2002	Balance as of 31.12.2001
13,215	5,666	339	1,120	2	18,102	30,589	24,698
1,998	595	– 49	–	– 6	2,538	2,630	3,084
–	–	–	–	–	–	281	7,813
15,213	6,261	290	1,120	– 4	20,640	33,500	35,595
162,693	14,820	6,450	664	– 113	183,186	147,882	157,101
679,632	69,423	58,375	1,545	757	806,642	355,884	336,180
106,051	16,813	3,731	851	– 640	125,104	41,636	38,811
–	–	–	–	–	–	19,739	24,690
948,376	101,056	68,556	3,060	4	1,114,932	565,141	556,782
332	–	–	–	–	332	5,333	5,064
–	–	–	–	–	–	170	134
–	614	–	–	–	614	10,693	10,492
–	–	–	–	–	–	638	462
7	10	–	–	–	17	48,513	40,102
3,338	6	–	3,147	–	197	20,609	18,396
3,677	630	–	3,147	–	1,160	85,956	74,650
967,266	107,947	68,846	7,327	–	1,136,732	684,597	667,027

Segment reporting 1 January – 31 December 2002

T€ Business Segments	2002 Total Revenues	2001 Total Revenues	2002 of which with third parties	2001 of which with third parties
Potash and Magnesium Products	1,043,291	1,024,034	992,322	967,396
COMPO	490,094	446,850	481,008	436,229
fertiva	472,703	503,435	469,513	500,186
Salt	204,563	166,858	203,351	165,123
Waste Management and Recycling	58,643	63,633	58,641	63,435
Services and Trading	94,297	91,525	51,775	47,017
Reconciliation [1]	– 105,075	– 116,941	1,906	8
K+S Group	2,258,516	2,179,394	2,258,516	2,179,394

T€ Business Segments	2002 Assets	2001 Assets	2002 Liabilities	2001 Liabilities
Potash and Magnesium Products	828,181	751,770	359,722	383,097
COMPO	355,247	344,397	203,899	196,905
fertiva	162,453	192,356	154,365	187,475
Salt	162,013	150,256	63,598	47,760
Waste Management and Recycling	30,719	33,577	2,906	7,976
Services and Trading	48,336	54,349	23,112	21,966
Reconciliation [1]	79,756	74,265	345,728	298,202
K+S Group	1,666,705	1,600,970	1,153,330	1,143,381

1) figures for business segments are shown before consolidation. Expenses and income and items that cannot be allocated to business segments are recorded separately. Both effects are shown under “Reconciliation” and result in the group figures.
2) assets less financial investments and funds, less short-term debt (provisions and liabilities)
3) tangible and intangible assets

2002 EBITDA	2001 EBITDA	2002 EBIT	2001 EBIT	2002 Gross Cash Flow	2001 Gross Cash Flow
126,897	141,090	55,623	66,940	130,304	153,366
40,675	27,803	30,769	19,750	40,735	28,636
6,709	934	6,328	591	7,784	1,080
36,879	42,242	25,983	27,507	38,529	43,295
12,525	15,345	8,247	11,153	12,533	15,348
21,945	21,134	15,433	14,899	21,443	21,961
– 5,541	– 175	– 9,611	– 20,240	– 34,476	– 39,053
240,089	248,373	132,772	120,600	216,852	224,633

2002 Invested Capital[2)]	2001 Invested Capital[2)]	2002 Capital Expenditure[3)]	2001 Capital Expenditure[3)]	2002 Employees as of 31.12./number	2001 Employees as of 31.12./number
619,293	549,477	89,061	112,614	7,612	7,577
227,712	206,355	20,135	11,422	1,152	1,077
– 77,097	– 96,752	491	2,016	55	55
92,569	112,302	7,938	6,648	840	729
26,444	24,807	1,633	2,623	238	249
17,106	15,447	7,419	8,466	401	344
– 5,603	42,795	2,361	14,067	312	315
900,424	854,431	129,038	157,856	10,610	10,346

General principles

These consolidated financial statements of the K+S Group have been prepared in accordance with the regulations contained in the German Commercial Code (HGB) and the Stock Corporation Act (AktG).

In the interests of clear presentation, the individual captions in the annual financial statements are presented in € thousands (T€).

Scope of consolidation

In addition to the parent company, K+ S Aktiengesellschaft, all significant subsidiaries have been included in the consolidated financial statements as well as, on a prorated basis, joint ventures (proportionate consolidation). Subsidiaries and joint ventures of minor importance are not consolidated. Consolidated companies are included with effect from the economic acquisition date.

The scope of the consolidation changed as follows in 2002:

> A new addition was the fully consolidated company biodata ANALYTIK GmbH, the remaining third party shares were acquired as of 1 January 2002. The salt joint venture esco-european salt company GmbH & Co. KG was formed with economic effect as of 1 January 2002. Interests in a further nine companies are held through this firm. In addition to esco GmbH & Co. KG, eight companies were consolidated on a proportionate basis.

> Four companies that were fully consolidated hitherto have been removed from the scope of consolidation. Algoflash GmbH Düngemittel was no longer consolidated on the grounds of immateriality and the companies Algoflash N.V., COMPO Partecipazioni S.r.l. as well as Jardin Finances SAS were merged or dissolved as a result of internal group restructuring measures.

Two further companies that were previously fully consolidated – Deutscher Straßen-Dienst GmbH and Frisia Zout B.V. – became jointly owned as a result of the formation of the salt joint venture and were therefore consolidated proportionately.

Internal group restructuring measures had no impact on the consolidated financial statements.

The following 18 (2001: 19) domestic and 17 (2001: 21) foreign companies have been fully consolidated in the consolidated financial statements. The K+S Group holds the entire capital of all the companies listed below in economic terms.

Germany

K+S Aktiengesellschaft, Kassel
biodata ANALYTIK GmbH, Gießen-Linden
Chemische Fabrik Kalk GmbH, Cologne
COMPO Gesellschaft mbH & Co. KG, Münster
data process GmbH, Kassel
fertiva GmbH, Mannheim
German Bulk Chartering GmbH, Hamburg
Kali und Salz Bauschutt-Recycling GmbH, Sehnde
K+S 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 KALI GmbH, Kassel
K+S Projekt GmbH, Kassel
K+S Salz GmbH, Kassel
Torf- und Humuswerke Uchte GmbH, Uchte
UBT See- und Hafen-Spedition GmbH Rostock, Rostock

Outside Germany

Algoflash S.A., Château Renault, France
COMPO Agricola Holding S.L., Barcelona, Spain
COMPO Agricoltura Spa, Cesano Maderno, Italy
COMPO Agricultura S.L., Barcelona, Spain
COMPO Agro Chile Ltda., Santiago de Chile, Chile
COMPO Austria GmbH, Vienna, Austria
COMPO Benelux N.V., Deinze, Belgium
COMPO do Brasil S.A., São Paulo, Brazil
COMPO Hellas S.A., Marousi, Greece
COMPO Horticulture et Jardin SAS, Roche-lez-Beaupré, France
COMPO Jardin AG, Allschwil, Switzerland
Gardiflor S.A., Deinze, Belgium
K+S Entsorgung (Schweiz) AG, Zurich, Switzerland
KEL Finance S.A., Saint-Pierre des Corps, France
Laboratoire Algochimie S.A., Château Renault, France
Potash Import & Chemical Corporation, New York, USA
SCAC Fisons S.A., Saint-Pierre des Corps, France

By way of proportionate consolidation, 3 (2001: 0) domestic and 6 (2001: 0) foreign companies have been included on the basis of the esco consolidated financial statements. The following companies were included in proportion to the equity interest of 62% held by the K+S Group.

Germany

Deutscher Straßen-Dienst GmbH, Hanover
esco-european salt company GmbH & Co. KG, Hanover
esco International GmbH, Hanover

Outside Germany

esco benelux n.v., Brussels, Belgium
esco France S.A., Paris, France
esco Spain S.L., Barcelona, Spain
Frisia Zout B.V., Harlingen, the Netherlands
Salines Cérébos et de Bayonne S.A., Paris, France
Vatel Companhia de Produtos Alimentares S.A., Lisbon, Portugal

General principles

The following items resulted from the consolidated financial statements of the esco group:

	T€
Fixed assets	75,730
Inventories	14,626
Receivables	77,000
Cash equivalents	3,777
Special reserves	327
Balance from capital consolidation	2,340
Long-term provisions	21,508
Short-term provisions	8,958
Long-term liabilities	12,400
Short-term liabilities	50,208
Revenues	204,563
Other income	2,268
Expenses	189,477
Earnings after taxes	17,354

The changes in the scope of consolidation had no material effect on the financial, asset and earnings position of the group.

Consolidation methods

The financial statements of the consolidated companies are prepared as of the balance sheet date for the consolidated financial statements. The assets and liabilities of the consolidated companies are recognised and measured uniformly in accordance with the policies described here and in the following notes. Apart from consolidation adjustments and differences in depreciation methods (K+S Aktiengesellschaft: declining balance method; Group: straight-line), the annual financial statements of K+S Aktiengesellschaft have been incorporated in the consolidated financial statements without amendment. The straight-line method of depreciation is used in the fully consolidated companies.

Where the accounting and valuation methods applied in the annual financial statements of the consolidated companies deviate from uniform group policies, appropriate adjustments have been made to the captions affected. Revenues, expenses and income between consolidated companies that arise while the companies affected are members of the K+S Group are eliminated in full. Similarly, receivables and liabilities between consolidated companies and intercompany profits resulting from deliveries and services between consolidated companies are eliminated, unless they are immaterial. The corresponding captions for consolidated joint ventures are eliminated on a proportionate basis. In addition, third party debtor relationships are consolidated where material.

The capital consolidation is carried out by the book value method. Thereby, the acquisition costs of the investments are set off against the share of the equity attributable to them as of the time of initial consolidation. Debit differences remaining after allocation to the assets and liabilities are then deducted from the reserves.

The credit balance arising from capital consolidation resulted from offsetting the carrying amount of the investment in Kali und Salz GmbH reported by K+S Aktiengesellschaft against the corresponding proportionate share of the equity of Kali und Salz GmbH as of 1 January 1997 (Kali und Salz GmbH was merged by absorption with K+S Aktiengesellschaft in 2001, see Note (24)). The balance is released to income in the amount of the scheduled depreciation on selected capital expenditures between 1993 and 1997 at plants in the new German states.

The credit balance of € 143.6 million resulting from the consolidation of the 49% investment in Kali und Salz GmbH, which was acquired as of 1 January 1998, was allocated to the capital surplus, since no expenses or burdens were identifiable that could have been allocated to it.

The credit balances relating to other subsidiaries result from the retention of profits during the period in which they belonged to the group but prior to their initial consolidation.

Accounting and valuation principles

Intangible assets

Purchased intangible assets are recognised at their acquisition costs and depreciated straight-line over their expected useful lives.

The expected useful lives (based on depreciation tables for tax purposes) are as follows:

Concessions, industrial property rights and similar rights and assets, and licences for such rights and assets	3 to 10 years
Goodwill	5 to 10 years

Software is reported as a disposal, once it has been fully depreciated. Special write-downs are recorded in the event of a probable permanent impairment in value.

Tangible fixed assets

Tangible fixed assets are valued at acquisition or production cost less depreciation. The production costs of plant built by the company itself include, in addition to the direct costs, a share of the overheads, including depreciation. Investment grants and premiums received are deducted from the fixed assets.

General principles

Moveable and immovable fixed assets are depreciated in the consolidated financial statements by the straight-line method. The depreciation rates are based on the normal useful lives for the business.

The expected business useful lives (based on depreciation tables for tax purposes) are as follows:

Buildings	10 to 33 years
Technical equipment and machinery	10 years
Other equipment, fixtures and fittings	3 to 10 years

Assets of low value are written off completely in the year acquired and reported as a disposal after five years.

Special write-downs are recorded in the event of a probable permanent impairment in value. If the reasons for a special write-down no longer apply, the values are reinstated. In the year under review, as in the preceding year, write-downs were recorded in accordance with Article 6b of the Income Tax Act, as permissible for German tax purposes. In addition, write-downs were recorded in accordance with Income Tax Regulation (EStR) R 35 and French tax law.

Gallery and excavation work is not capitalised.

Financial assets

Investments in affiliated companies and participating interests are valued at acquisition costs or, in the event of an expected permanent impairment in value, at the lower fair value as of the balance sheet date.

Loans are stated at acquisition costs or, in the case of interest-free loans or loans at low rates of interest, at present value. Foreseeable risks are reflected by special write-downs.

Inventories

Inventories are recorded at acquisition or production costs, taking into account the principle of the lower of cost or market, or at lower amounts permissible in accordance with German tax law. The production costs include, in addition to the direct costs, a proportional share of the over-heads, including depreciation. General administrative expenses, pension and support expenses and other social costs are not included in the production costs.

The acquisition or production costs of finished products and merchandise are primarily calculated as average costs.

Receivables and other assets

Receivables and notes are stated at cost or present value, depending on their maturities. Specific risks are reflected by write-downs, and the general credit risk by a flat-rate valuation adjustment.

Securities

Securities are valued at acquisition costs or the lower stock exchange or market prices. If the reasons for a write-down no longer apply, the values are reinstated.

Special reserves

Under certain circumstances, special reserves can be set up in accordance with German tax regulations. Releases and allocations are disclosed in notes (2) and (3).

Provisions for pensions and similar obligations

Pension provisions for employees in Germany are computed in accordance with actuarial principles applying the present value method and at an interest rate of 6%.

Pension obligations for foreign companies are computed applying similar principles and with due consideration given to country specific features.

Sundry provisions

Provisions for taxes and other provisions are recorded at the amounts expected to be required on a full cost basis. Thereby, amounts based on experience in similar circumstances are applied. Price increases that have arisen by the balance sheet date are taken into account applying specific indices for the costs affected. Provisions for mining obligations for the backfilling of mines and shafts are accumulated in instalments in accordance with the extraction period, and allocated in full when the operations are closed down. Provisions for long-service bonuses are calculated by the present value method for the years of service to date. Other long-term provisions are not discounted.

Liabilities

Liabilities are recorded at the amounts repayable.

Effects of special tax valuation measures

These result from the depreciation permitted for tax purposes under Article 6b of the Income Tax Act and from special reserves. The use of such tax options had the following impact on after-tax earnings in 2002:

	T€
Net income	103,803
Effects of special tax valuation	18,808
Adjusted net income	84,995

No material future tax charges result from the special tax valuation.

General principles

Foreign currencies

Translation of foreign currency amounts

The acquisition costs of assets purchased in foreign currencies and revenues from sales in foreign currencies are recorded at the exchange rates prevailing as of the transaction date. Since 1 July 2002, the valuation of revenues has been based on any hedging measures taken in the same currency and for the same period of time. As a result, revenues were € 19.7 million higher than if they had been valued at the exchange rates prevailing as of the transaction date.

Foreign currency receivables are translated at the benchmark rate as of the transaction date, the hedging rate or the lower rate as of the balance sheet date, and foreign currency liabilities at the benchmark rate as of the transaction date or the higher repayment amount as of the balance sheet date.

Translation of foreign currency financial statements

The foreign currency translation is carried out in accordance with the modified closing rate method. The annual financial statements of foreign companies that do not belong to the euro zone are translated as follows:

> all asset items, prepaid expenses and deferred income, liabilities and provisions at the closing rates,
> equity at the rate prevailing as of the time of initial consolidation,
> all expenses and revenues, with the exception of the result for the year, which is translated at the closing rate, at the average rate for the year,
> translation differences in the profit and loss account are allocated to other operating expenses or income,
> differences from the translation of equity are recorded in the reserves.

Foreign currency translation resulted in income of T€ 262 (2001: T€ 0) as of 31 December 2002.

The following exchange rates were applied for the translation of foreign currencies:

Exchange rates in relation to € 1	2002 Closing rate	2002 Average rate for the year	2001 Closing rate	2001 Average rate for the year
US dollars (USD)	1.042	0.945	0.881	0.896
Swiss francs (CHF)	1.455	1.467	1.483	1.510
Brazilian reals (BRL)	3.699	2.783	2.045	2.103
Chilean pesos (CLP)	749.357	652.009	573.908	568.495

Notes to the profit and loss account

The profit and loss account is presented on page 80.

(1) Revenues

The revenues of the K+S Group amounted to € 2,259 million (2001: € 2,179 million).

The breakdown of the revenues by business segments as well as intersegment revenues are presented in the segment information on page 86f. The regional breakdown of the revenues is disclosed in the notes to the segment reporting under Note (34).

(2) Other operating income

Other operating income includes the following material items with an individual value in excess of T€ 1,000:

	2002	2001
Foreign exchange gains	27,248	29,915
Release of provisions	21,760	30,991
Release of balance arising from capital consolidation	15,470	15,856
Release of specific write-downs on receivables	8,547	10,090
Rentals and leasing	3,471	3,559
Profits on disposals of tangible fixed assets	2,653	1,510
Profits on disposals of financial assets	2,099	565
Release of special reserves	1,654	16,015
Profits on disposals of short-term securities	1,116	5,182
Sundry income	21,666	21,463
	105,684	135,146

Income of some T€ 45,655 (2001: T€ 66,183; previous year's figure adjusted by the amount of T€ 30,991 for the release of provisions) is attributable to other financial years and results primarily from the release of provisions, specific write-downs on receivables and special reserves as well as profits on disposals of fixed assets.

Notes to the profit and loss account

(3) Other operating expenses

Other operating expenses include the following material items with an individual value in excess of T€ 1,000:

	2002	2001
Foreign exchange losses	29,378	20,715
Expenses for closed plants	9,491	20,144
Ancillary capital expenditure costs	4,738	3,259
Property management expenses	3,024	4,631
Write-downs in accordance with Article 6b German Income Tax Act	2,188	16,665
Other taxes	1,680	2,022
Write-downs in accordance with R 35 Income Tax Guideline	1,610	–
Pension expenses	1,216	1,722
Losses on disposals of fixed assets	1,083	1,068
Allocations to special reserves	–	107
Sundry expenses	51,287	52,499
	105,695	122,832

Expenses of T€ 1,956 (2001: T€ 5,124) are attributable to other financial years, and relate primarily to losses on disposals of fixed assets, taxes for prior years, allocations to special reserves and specific write-downs on receivables.

(4) Result from investment, net

	2002	2001
Income from investments of which affiliated companies	986 (276)	829 (156)
Income from profit transfer agreements of which from affiliated companies	186 (67)	– (–)
Expenses for absorption of losses	– 10	– 7
	1,162	822

(5) Write-downs on financial assets and short-term securities

As a result of lower exchange or market prices as of the balance sheet date, write-downs on short-term securities of T€ 17,070 (2001: T€ 80) had to be recorded. The write-downs on financial assets amounted to T€ 630 (2001: T€ 977).

(6) Interest income, net

	2002	2001
Other interest and similar income of which from affiliated companies	8,020 (157)	12,077 (171)
Income from other securities, lending and other financial assets	3,934	2,813
Interest expenses in allocations to provisions for pensions	– 10,073	– 10,020
Sundry interest and similar expenses of which to affiliated companies	– 4,238 (– 7)	– 4,137 (– 10)
	– 2,357	733

(7) Taxes

	2002	2001
Corporation tax	25	648
Trade tax on income	3,484	362
Foreign income taxes	5,919	3,760
Deferred taxes (Articles 274 and 306 HGB)	646	– 1,993
Taxes on income	10,074	2,777
Other taxes	3,031	1,614
Tax expense	13,105	4,391

The other taxes include land tax in particular and are allocated to the operating functional areas.

Notes to the profit and loss account

(8) Cost of materials

	2002	2001
Raw materials, supplies and purchased merchandise	835,836	835,184
Purchased services	214,857	211,941
	1,050,693	1,047,125

(9) Personnel expenses/number of employees

Personnel expenses	2002	2001
Wages and salaries	408,895	394,974
Social security	113,217	108,643
Pension expense	4,664	10,281
Support	1,047	852
	527,823	514,750

The pension expense does not include the interest portion of the allocation to the pension provisions. This is reported as an interest expense in interest income, net.

Stock option programme

Personnel expenses include allocations to provisions for stock option programmes in the amount of T€ 1,192 (2001: T€ 2,189).

Under the stock option programme, the Board of Executive Directors and key executives can use part of their performance-related remuneration for a basic investment in K+S shares. By acquiring and holding such basic shares, the participants receive virtual stock options that trigger a cash payment when exercised. The amount of the cash payment depends on the extent to which the K+S share outperforms the MDAX as the benchmark index and is capped at 25%. A lock-up period of two years applies to the exercise of the options and the options expire after a period of five years.

Employees (average number for the year, including employees with temporary contracts)	2002	2001
Germany	9,722	9,576
Abroad	789	667
	10,511	10,243
of which trainees	476	456

Group employees includes that proportion of the total number of employees of consolidated joint ventures that is commensurate with the 62 % interest held by K+S.

The total workforce (100%) of the consolidated joint ventures comprised:

Employees (average number for the year, including employees with temporary contracts)	2002
Germany	980
Abroad	368
	1,348
of which trainees	44

Notes to the balance sheet

The balance sheet is presented on page 81.

(10) Fixed assets

The development of the gross book values and depreciation on the individual fixed assets captions is shown separately on pages 84f.

(11) Tangible fixed assets

Special write-downs and special depreciation for tax purposes comprise:

	2002	2001
Transfer of profits on disposal in accordance with Article 6b of the Income Tax Act	2,188	16,665
Transfer of hidden reserves in accordance with Income Tax Regulation R 35	1,610	–
Depreciation in accordance with Article 4 of the Development Areas Act	–	8,565
Special write-downs in accordance with (principle of lower of cost or market) Article 253 (2) Sentence 3 HGB	–	166
	3,798	25,396

(12) Financial assets

Special write-downs on financial assets of T€ 630 (2001: T€ 972) were recorded in accordance with Article 253 (2) Sentence 3 HGB.

Long-term securities primarily comprise securities held permanently to cover future pension payments.

The list of investment holdings in accordance with Article 313 (2) and Article 285 No. 11 HGB, including the information in accordance with Article 285 No. 11a HGB on companies whose unlimited liability partners are companies in the K+S Group, has been filed with the Commercial Register in Kassel under No. HRB 2669. Shareholders may obtain a copy of this list directly from K+S Aktiengesellschaft if required.

The main investments are:

Name and registered office	Holding in capital (in %)	Equity (€ thousand)	Earnings for the year (€ thousand)
Algoflash S.A., Château Renault, France	100.0	12,809	– 1,232
COMPO GmbH & Co. KG, Münster	100.0	63,258	10,512
COMPO Agricoltura S.p.A., Cesano Maderno, Italy	100.0	2,507	– 192
COMPO Agricultura S.L., Barcelona, Spain	100.0	8,247	3,213
COMPO Horticulture et Jardin SAS, Roche-lez-Beaupré, France	100.0	18,618	3,585
data process GmbH, Kassel[1)]	100.0	5,050	949
esco benelux n.v., Brussels, Belgium	62.0	10,105	536
esco - european salt company GmbH & Co. KG, Hanover	62.0	133,960	23,651
esco France S.A., Paris, France	62.0	7,163	1,496
fertiva GmbH, Mannheim[1)]	100.0	1,684	4,920
Frisia Zout B.V., Harlingen, the Netherlands	62.0	12,951	2,104
Kali und Salz Entsorgung GmbH, Kassel[1)]	100.0	7,506	4,167
K+S KALI GmbH, Kassel[1)]	100.0	429,362	57,862
K+S Salz GmbH, Kassel[1)]	100.0	75,679	286
Kali-Transport Gesellschaft mbH, Hamburg[1)]	100.0	7,158	9,354
Salines Cérébos et de Bayonne S.A., Paris, France	62.0	5,987	154

1) profit and loss transfer agreement with K+ S Aktiengesellschaft (net income before transfer)

Notes to the balance sheet

(13) Inventories

	2002	2001
Raw materials and supplies	96,062	86,190
Work in process	4,962	2,637
Finished products and merchandise	133,238	141,048
Payments on account	4,385	9,243
	238,647	239,118

Special write-downs for tax purposes of T€ 702 (2001: T€ 964) were recorded on the basis of current conditions in the marketplace on inventories in conjunc-tion with the going-concern write-down by the inverse method of determining the cost price.

(14) Receivables and other assets

	2002	of which residual term > 1 year	2001	of which residual term > 1 year
Accounts receivable – trade	437,195	–	398,798	–
Receivables from affiliated companies	4,163	–	5,324	–
Receivables from companies in which participating interests are held	1,599	–	1,862	–
Other assets	81,548	1,034	70,498	753
	524,505	1,034	476,482	753

Specific adjustments of T€ 10,210 (2001: T€ 5,996) and flat-rate adjustments of T€ 2,807 (2001: T€ 3,506) had to be made to receivables as of 31 December 2002.

The foreign currency receivables included hidden reserves of T€ 55 (2001: T€ 1,719) as a result of a higher closing rate as of 31 December 2002.

(15) Own shares

The balance on 1 January 2002 of own shares held by K+S Aktiengesellschaft amounted to 1,717,125 shares (= 3.82% of the share capital or T€ 4,396).

They included 1,716,356 own shares (= 3.81% of the share capital) acquired pursuant to the authorization granted by the Annual General Meeting on 9 May 2001. On the basis of this authorization, a further 336,344 own shares (= 0.75% of the share capital) were bought at an average price of € 22.78 per share. In February of the year under review, 450,000 shares (= 1% of the share capital) were sold to an investor at a price of € 21.50 per share.

On the basis of this authorization granted by the Annual General Meeting on 8 May 2002, K+S Aktiengesellschaft bought a total of 1,819,585 own shares (= 4.04% of the share capital) at an average price of € 18.55 per share.

K+S Aktiengesellschaft held a total of 3,422,285 repurchased own shares (= 7.61% of the share capital) as of 31 December 2002.

The own shares held on 1 January 2002 also included 769 own shares that were acquired for transferring to K+S Group employees. During financial year 2002, a further 246,693 own shares (= 0.55% of the share capital) were bought at an average price of € 18.37 per share.

Of these shares, 186,520 (= 0.41% of the share capital) were sold to employees of the K+S Group as employee shares at an average price of € 9.99 per share. As of 31 December 2002, K+S Aktiengesellschaft held 60,942 own shares (= 0.14% of the share capital) for transferring to employees.

In total, 3,483,227 own shares (= 7.74% of the share capital or T€ 8,917) were held as of the balance sheet date; they were valued at the exchange price on 31 December 2002 (€ 17.35 per share) and the average price at which they were acquired was € 18.93 per share.

(16) Other securities	2002	2001
Fixed interest securities	5,228	5,252
Fund units	33,963	36,087
Shares	29,938	22,100
Sundry securities	33,500	6,404
	102,629	69,843

The market or stock exchange value of the other securities amounted to T€ 104,825 (2001: T€ 92,016).

Notes to the balance sheet

(17) Deferred taxes

	2002	2001
Deferred tax assets	2,806	2,236
Deferred tax liabilities	2,563	1,347
	243	889

The caption comprises tax deferrals in accordance with Article 274 in conjunction with Article 298 (1) and Article 306 HGB. The deferred tax assets result from the elimination of intercompany profits. The deferred tax liabilities are mainly due to the adjustment of depreciation to the straight-line depreciation method. An average tax rate of 40 % was applied when calculating the deferred taxes.

(18) Equity

The development of individual equity captions is shown separately on page 82.

Pursuant to a resolution of the Annual General Meeting dated 8 May 2002, the Board of Executive Directors was authorized, with the approval of the Supervisory Board, to increase the share capital of K+S Aktiengesellschaft on one or more occasions until 1 May 2007 against cash or contributions in kind and by up to no more than € 57.6 million in the aggregate through the issuance of no more than 22.5 million new no par value bearer shares (authorized capital). Existing shareholders essentially hold subscription rights in respect of such increases. The Board of Executive Directors may, with the approval of the Supervisory Board, exclude the statutory subscription rights of shareholders in the following cases and in relation to an amount corresponding to € 28.8 million of the share capital (the equivalent of 11.25 million no par value shares):

> in respect of fractional amounts arising from such subscription rights;
> in the case of capital increases against cash contributions, if the capital increase does not exceed 10% of the share capital and the issue price of the newly created shares is not significantly lower than the relevant exchange price, which is the weighted average of the exchange prices of the shares in the XETRA computerized trading system for the five exchange trading days preceding the subscription of the new shares;
> in the case of capital increases against contributions in kind, if the new shares are to be used for the acquisition of a company or an equity interest in a company.

The Board of Executive Directors is authorized to determine further details pertaining to the carrying out of a capital increase from authorized capital with the approval of the Supervisory Board.

(19) Subscribed capital

The subscribed capital of K+S Aktiengesellschaft amounts to € 115.2 million. It is divided into 45 million no par value bearer shares.

(20) Additional paid-in capital

In previous years, balances from capital consolidation totalling T€ 179,467 were deducted from additional paid-in capital.

(21) Reserve for own shares

The reserve was set up for own shares held by K+S Aktiengesellschaft, as explained in note (15), and developed as follows:

Balance as of 1 January 2002	31,633
Appropriation from profit retained and other revenue reserves	28,801
Balance as of 31 December 2002	60,434

(22) Other revenue reserves and profit retained

Other revenue reserves and profit retained are reported in the consolidated financial statements as a single caption in order to reflect the peculiarities of the consolidation.

Balance as of 1 January 2002	310,756
Adjustment due to consolidation measures	– 4,620
Dividend payment for 2001	– 43,397
Appropriation to reserve for own shares	– 28,801
Net income of K+S Group	103,803
Balance as of 31 December 2002	337,741

The prorated consolidation of the esco companies as of 1 January 2002 produced, inclusive of special loss account in accordance with Article 17 (4) of the D-Mark Balance Sheet Act, a balance on the asset side of T€ 9,736.

In total, balances of T€ 10,579 were set off against reserves in 2002.

Other K+S Aktiengesellschaft revenue reserves

Other K+S Aktiengesellschaft revenue reserves developed as follows over financial year 2002:

Balance as of 1 January 2002	7,000
Withdrawal for allocation to reserve for own shares	– 1,000
Balance as of 31 December 2002	6,000

Notes to the balance sheet

Profit retained of K+S Aktiengesellschaft

The dividend distribution is based on the annual financial statements of K+S Aktiengesellschaft. The Board of Executive Directors of K+S Aktiengesellschaft intends to propose to the Annual General Meeting that a dividend of € 1.00 per share be distributed to the shareholders. On the basis of this assumption, the profit retained of K+S Aktiengesellschaft as of the balance sheet date is made up as follows:

Balance as of 1 January 2002	45,698
Dividend payment for 2001	– 43,397
Allocation to reserve for own shares	– 27,801
Net income of K+S Aktiengesellschaft	71,048
Balance as of 31 December 2002	45,548

(23) Special reserves

	2002	2001
Reserve per Article 6b Income Tax Act	1	1
Reserve per R 35 Income Tax Regulations	–	1,606
Reserve per French tax law	327	–
	328	1,607

(24) Balance arising from capital consolidation

A credit balance of T€ 42,930 on capital consolidation relates to the former Kali und Salz GmbH and results from the initial consolidation of the 51% interest as of 1 January 1997. In addition, a credit balance of T€ 2,340 derives from the first-time consolidation of the esco Group.

Balance as of 1 January 2002	58,400
Released	15,470
Allocation from first-time consolidation	2,340
Balance as of 31 December 2002	45,270

The merger of Kali und Salz GmbH into K+S Aktiengesellschaft with economic effect as of 1 October 2001 has no influence on the presentation and treatment of the credit balance arising from capital consolidation.

For the purposes of the consolidated financial statements of the K+S Group, the special loss accounts in accordance with Article 17 (4) of the D-Mark Balance Sheet Act reported on the assets side of the balance sheets of K+S KALI GmbH and esco-european salt company GmbH & Co. KG in the amount of T€ 47,858 (2001: T€ 50,791) have been set off against the equity of the respective companies.

(25) Provisions

Pension provisions

The provisions for pensions and similar obligations are mainly for employees in Germany. When setting up the provisions for these employees, the pension expectancy is determined for each pension beneficiary in accordance with actuarial principles on the basis of the situation as of the balance sheet date; changes in value are not taken into account. The provisions are calculated applying the 1998 Heubeck mortality tables and an interest rate of 6%. There are no shortfalls.

As of 31 December 2002, T€ 1,658 were allocated to pension provisions (2001: T€ 7,514).

Other provisions

The other provisions take adequate account of all foreseeable risks.

	2002	of which short-term	2001	of which short-term
Mining obligations	303,905	6,095	307,866	6,382
Obligations to employees	89,173	26,432	75,823	19,914
Obligations under sales transactions and purchase contracts	49,867	49,867	41,499	41,499
Maintenance and repairs	18,315	2,877	20,259	5,861
Other	64,876	20,812	83,744	37,154
	526,136	106,083	529,191	110,810

The expected costs of the mining obligations are accumulated by instalments over the probable extraction period. These mainly consist of obligations to backfill mines and shafts. In addition, provisions have been set up for mining damage risks and the maintenance of stockpiles.

The obligations to employees primarily comprise provisions for long-service bonuses, pre-pension part-time work, social plan expenses and year-end deferrals.

The obligations under sales transactions relate in particular to rebates and price concessions; the provisions resulting from purchase contracts are for outstanding invoices.

The provision for maintenance and repairs includes deferred maintenance measures as of the balance sheet date and obligations resulting from duties imposed by the authorities.

The caption “other” relates to numerous other provisions that cannot be included under other captions.

Notes to the balance sheet

(26) Liabilities

2002	Total	Residual term < 1 year	Residual term > 1 year < 5 years	Residual term > 5 years
Bank loans and overdrafts	47,755	47,755	–	–
Prepayments received	368	368	–	–
Accounts payable – trade	253,550	253,550	–	–
Liabilities to affiliated companies	4,631	4,631	–	–
Other liabilities	94,608	94,378	–	230
	400,912	400,682	–	230

2001	Total	Residual term < 1 year	Residual term > 1 year < 5 years	Residual term > 5 years
Bank loans and overdrafts	28,169	19,969	1,000	7,200
Prepayments received	2,049	2,049	–	–
Accounts payable – trade	299,521	299,010	511	–
Liabilities to affiliated companies	4,064	4,064	–	–
Liabilities to companies in which participating interests are held	4	4	–	–
Other liabilities	37,058	37,058	–	–
	370,865	362,154	1,511	7,200

The other liabilities include:

	2002	2001
Taxes	11,453	1,851
Social security liabilities	16,109	14,809

(27) Contingent liabilities

	2002	2001
Warranty agreements	767	6,808
Discounted notes	1,008	–

(28) Other financial commitments

	2002	2001
Commitments under uncompleted capital expenditure projects	14,778	23,916
Commitments under long-term rental and leasing contracts		
due in following year	3,021	3,472
due in 2 to 5 years	4,050	8,439
due after 5 years	2,674	4,389
	24,523	40,216

The other financial commitments are carried at nominal value.

(29) Derivative financial instruments

Derivative financial instruments are used to hedge currency risks resulting from business operations. In this connection, use is made of forward exchange contracts in particular. Exchange rate risks primarily exist in the case of payments in US dollars and British pounds.

The use of derivative financial instruments is regulated by an internal guideline. A strict segregation of functions is ensured between trading, settlement and control. Transactions are only concluded with banks that have a first class credit standing.

The following positions were open as of the balance sheet date (in T€):

	Notional amounts 2002	Fair value 2002
Forward exchange transactions		
in US dollars	288,716	51,666
which hedge sales already made	107,425	20,727
which hedge sales anticipated	181,291	30,939

The notional amounts do not reflect the risk for the K+S Group from the use of derivatives. Risks tend to result from fluctuations in the fair values. The fair values represent the difference between the purchase and redemption value on premature fictitious termination of the financial derivatives on the balance sheet date. The terms of the derivatives employed vary and extend until March 2004.

Where the forward exchange transactions are covered by open receivables from sales already made, valuation units are formed together with hedging transactions with the same maturities; the fair values of these transactions are thus already reflected in the result for the year. By contrast, positive fair values from derivatives hedging future anticipated sales are not recognized.

Notes to the segment reporting

We have prepared the segment reporting in accordance with Accounting Standard No. 3 (DRS 3) of the Deutsche Rechnungslegungs Standards Committee e.V. (DRSC). It is presented on pages 86f.

(30) Definition of segments

The segments are defined by product types. This corresponds to the internal organisation and reporting structure of the K+S Group.

The Potash and Magnesium Products business segment combines the production and marketing of potash fertilizers and fertilizer specialities, and potash and magnesium compounds for technical, industrial and pharmaceutical applications.

The COMPO business segment produces and markets branded products for the garden sector (garden and lawn fertilizers, plant care products and flower soil) and special fertilizers for the professional sector (horticulture, special crops and agriculture).

The fertiva business segment bundles the marketing and sales activities for nitrogenous fertilizers, which are purchased from various manufacturers.

The Salt business segment comprises the production and marketing of table salt, industrial salt and salt for chemical transformation, de-icing salt and sodium chloride brine.

The Waste Management and Recycling business segment combines underground waste reutilization and disposal in the caverns created by the extraction of potash and salt, and special recycling services.

Business units providing services for the K+S Group and which also offer services to third parties when capacity is available are assigned to the Services and Trading business segment. This segment comprises logistics, IT and analytical and consulting services as well as the contract-based production of the Catsan® animal hygiene product and trading.

(31) Principles of allocation of assets and liabilities

Assets, deferred items, provisions and liabilities are allocated to the segments in accordance with their utilization or origin. If they are utilized or originated in more than one segment, they are allocated on the basis of appropriate keys.

Financial assets and long-term financial liabilities are not allocated to the segments.

Notes to the segment reporting

(32) Principles of transfer prices between segments

Transfer prices are defined for deliveries and services between segments, which would have to be paid in the respective specific situation and under the same circumstances by a non-related third party. The nature and amount of the billing is determined in accordance with the value and extent of the delivery or service, taking into account the underlying legal relationship. The method of determining the transfer prices is documented on a timely basis and retained without interruption. The price comparison method, the resale price method, the cost-plus method or a combination of these methods can be applied in determining the transfer prices for deliveries. Thereby, the method chosen is that which is closest to that under which arm's length prices are determined in comparable markets.

(33) Reconciliation

The reconciling items between the segment figures and the corresponding items in the financial statements of the K+S Group comprise items allocated to central functions and consolidation effects.

The main items are:

	2002	2001
Segment results		
Proceeds from release of credit balance on capital consolidation	15,470	15,856
Other consolidation effects	– 417	– 5,103
Expenses of the central functions	– 24,664	– 30,993
	– 9,611	– 20,240
Segment assets		
Tangible and intangible fixed assets	23,784	20,936
Financial assets	85,956	74,650
Receivables/prepaid expenses	20,058	19,131
Cash and cash equivalents	187,746	151,855
Consolidation effects	– 237,788	– 192,307
	79,756	74,265
Segment liabilities		
Balance on capital consolidation	45,270	58,400
Special reserves	328	–
Provisions for pensions and similar obligations	149,080	155,181
Other provisions	157,065	163,549
Liabilities/deferred items	54,422	12,795
Consolidation effects	– 60,437	– 91,723
	345,728	298,202

Segment capital expenditure

The capital expenditures primarily concern the building of the new head office in Kassel and the K+S research institute.

(34) Geographical breakdown of revenues

The breakdown of revenues by geographical regions is as follows:

	2002	2001
Germany	556,688	560,041
Rest of Europe	1,179,400	1,129,218
Overseas	522,428	490,135
	2,258,516	2,179,394

(35) Geographical breakdown of assets

The breakdown of the assets of the K+S Group by geographical regions is as follows:

	2002	2001
Germany	1,539,055	1,295,126
Rest of Europe	98,637	265,977
Overseas	29,013	39,867
	1,666,705	1,600,970

(36) Geographical breakdown of capital expenditure

The breakdown of capital expenditure on intangible and tangible fixed assets by geographical regions is as follows:

	2002	2001
Germany	121,446	152,470
Rest of Europe	7,574	5,083
Overseas	18	303
	129,038	157,856

Notes to the cash flow statement

We have prepared the cash flow statement in accordance with Accounting Standard No. 2 (DRS 2) of the Deutsche Rechnungslegungs Standards Committee e.V. (DRSC). It is presented on page 83.

(37) Cash flow from investing activities

The caption disbursements for acquisition of consolidated companies relates to the expenditure on companies acquired during the financial year.

	2002	2001
Purchase price	– 858	– 77,121
Cash and cash equivalents acquired	123	2,182
Financial liabilities assumed	– 39	– 7,790
	– 774	– 82,729

(38) Cash and Cash Equivalents

	2002	2001
Own shares	60,434	31,633
Other short-term securities	102,629	69,843
Cash in hand, bank balances, cheques	52,615	113,045
Short-term financial liabilities	– 47,755	– 19,969
	167,923	194,552

Other information

Total remuneration of the Supervisory Board and the Board of Executive Directors

	2002	2001
Total remuneration of Supervisory Board	456	444
of which fixed	190	161
of which performance related	266	283
Total remuneration of Board of Executive Directors	2,174	3,178
of which fixed	912	1,164
of which performance related	801	1,622
of which exercise of stock option programme	461	392
Total remuneration of former members of the Board of Executive Directors and surviving dependents	1,195	1,145
Pension provisions for former members of the Board of Executive Directors and surviving dependents	6,845	6,035

The total remuneration of the Board of Executive Directors was for four board members in 2002 and for six board members (in some cases pro rata) in the previous year. The performance related remuneration of the Board of Executive Directors for the previous year includes T€ 262 that is unrelated to the accounting period.

The members of the Supervisory Board did not receive any remuneration or other benefits for the services rendered by them personally from the company.

Shares held by the members of the Board of Executive Directors and the Supervisory Board

Total K+S shares held by all the members of the Board of Executive Directors and Supervisory Board as of 31 December 2002 amounted to less than 1% of the outstanding shares of the company.

In accordance with Article 15a of the Securities Trading Act (WpHG), members of the Board of Executive Directors and Supervisory Board as well as their spouses and relatives in the first degree must report purchases or disposals of shares to K+S Aktiengesellschaft without delay. No disclosure pursuant to Article 15a of the Securities Trading Act was required in financial year 2002.

Conformity declaration concerning the German Corporate Governance Code

The declaration on conformity pursuant to Article 161 of the Stock Corporation Act concerning the recommendations made by the “Government Commission for the German Corporate Governance Code” has been made by the Board of Executive Directors and Supervisory Board for financial year 2002 and can be accessed by the shareholders on the K+S homepage on the Internet (www.k-plus-s.com). The conformity declaration in respect of 2003 will also be published on the K+S homepage on the Internet.

Other information

Members of the Supervisory Board and the Board of Executive Directors

Supervisory Board*

Gerhard R. Wolf, Worms, chairman,
former member of the Board of Executive Directors of BASF AG

> further Supervisory Board appointments:
K+S KALI GmbH (chairman)
Hornbach Holding AG (chairman)
Hornbach Baumarkt AG (chairman from April 2002)
Südzucker AG
STINNES AG

Manfred Kopke, Neukirchen-Vluyn, vice chairman,
former member of the Managing Main Board of the Mining,
Chemicals and Energy Trade Union

> further Supervisory Board appointments:
K+S KALI GmbH (vice chairman)

Leonhard H. Fischer, Frankfurt am Main,
former member of the Boards of Executive Directors of Allianz AG
and Dresdner Bank AG

> further Supervisory Board appointments:
Axel Springer Verlag AG
Deutsche Börse AG (vice chairman)
Eurex Clearing AG
Eurex Frankfurt AG

> other appointments to corporate bodies:
Dresdner Kleinwort Benson North America Inc. (chairman)
Dresdner Kleinwort Wasserstein Group Inc. (member of Board of Directors)
Eurex Zürich AG
Fördergesellschaft für Börsen- und Finanzmärkte in Mittel- und Osteuropa mbH

Karl-Heinz Georgi, Haltern,
principal of the Haltern Education Centre of the Mining,
Chemicals and Energy Trade Union

* as of 31 December 2002

Rainer Grohe, Otterstadt,
managing director of VIAG invent! GmbH

> further Supervisory Board appointments:
Atlas Copco Holding GmbH
Ball Packaging Europe GmbH
Clickwaste AG
Frankfurter Versicherungs AG
Hydro Aluminium Deutschland GmbH
LOGIKA AG

Axel Hartmann, Neuhof, from 14 August 2002
vice chairman of the Works Council at the Neuhof-Ellers potash plant,
part of K+S KALI GmbH

Rüdiger Kienitz, Geisa,
member of the Works Council of the Werra potash plant,
part of K+S KALI GmbH

Klaus Krüger, Wolmirstedt,
chairman of the Group Works Council of the K+S Group

Helmut Mamsch, London, Great Britain,
former member of the Board of Executive Directors of VEBA AG

> further Supervisory Board appointments:
Readymix AG

> other appointments to corporate bodies:
Logica plc., Great Britain
RMC plc., Great Britain

Hans Peter Schreib, Düsseldorf,
solicitor, Member of the Presidium of Deutsche Schutzvereinigung
für Wertpapierbesitz e.V. (DSW)

> other Supervisory Board appointments:
Gildemeister AG
Metro AG

Dr. Eckart Sünner, Neustadt an der Weinstraße,
Head of the Central Legal Affairs, Tax and Insurance Department of BASF AG

> further Supervisory Board appointments: BASF Schwarzheide GmbH
> other appointments to corporate bodies: BASF Corporation, USA

Hans-Dieter Winkelhake, Rehburg-Loccum, until 31 May 2002
chairman of the Sigmundshall potash plant, part of K+S KALI GmbH

Dr. Helmut Zentgraf, Burghaun,
manager of the Werra potash plant, part of K+S KALI GmbH

Other information

Board of Executive Directors

Dr. Ralf Bethke, Kassel, chairman
Potash and Magnesium Products business segment
COMPO business segment
fertiva business segment
Investor Relations
Communications
Corporate Development and Strategic Controlling

> further Supervisory Board appointments:
VINCI Deutschland GmbH

Peter Backhaus, Essen
Personnel Director
Personnel
Properties

Gerd Grimmig, Söhrewald
Waste Management and Recycling business segment
Mining and Geology
Research and Development
Engineering and Energy Management
Environment and Industrial Safety, Quality Management

Norbert Steiner, Baunatal
Salt business segment
Services and Trading business segment
Purchasing and Materials Management
Finance
Legal Affairs, Tax and Insurance
Audit

Kassel, 25 February 2003

K+S Aktiengesellschaft
The Board of Executive Directors

AUDITORS' REPORT

We have audited the annual financial statements, including the accounting records of K+S Aktiengesellschaft, Kassel, and the consolidated financial statements prepared by it and management's analysis of the company and the group for the financial year from 1 January to 31 December 2002. The preparation of these documents in accordance with German commercial law is the responsibility of the company's Board of Executive Directors. Our responsibility is to express an opinion on the annual financial statements, including the accounting records, and the consolidated financial statements prepared by it and management's analysis of the company and the group based on our audit.

We conducted our audit of the annual financial statements and the consolidated financial statements in accordance with Article 317 of the German Commercial Code and the German generally accepted standards for the audit of financial statements promulgated by the German Institute of Certified Public Accountants (Institut der Wirtschaftsprüfer). Those standards require that we plan and perform the audit such that material misstatements affecting the presentation of the net assets, financial position and results of operations in the annual financial statements and the consolidated financial statements in accordance with German principles of proper accounting and in management's analysis of the company and the group are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and evaluations of possible misstatements are taken into account in the determination of the audit procedures. The effectiveness of the system of internal accounting control relating to the accounting system and the evidence supporting the disclosures in the accounting records, the annual financial statements and the consolidated financial statements and in management's analysis of the company and the group are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting 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 and the consolidated financial statements and in management's analysis of the company and the group. The declaration on conformity with the German Corporate Governance Code contained in management's analysis of the position of the company and the group did not form part of the subject of this audit. We believe that our audit provides a reasonable basis for our opinion. Our audit has not led to any reservations.

In our opinion, the annual financial statements and the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of K+S Aktiengesellschaft, Kassel, and the group in accordance with German principles of proper accounting. Taken as a whole, management's analysis of the company and the group provides a suitable understanding of the position of the company and the group and suitably presents the risks of future development.

Hanover, 26 February 2003

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Künnemann	Scharpenberg
Auditor	Auditor

Glossary

DEFINITIONS OF KEY FIGURES

Book value per share $= \dfrac{\text{Equity + 50\% of special reserve + balance arising from capital consolidation}}{\text{Outstanding shares as of 31 Dec.}}$

Dividend yield $= \dfrac{\text{(Proposed) dividend per share}}{\text{Exchange price (XETRA) as of 31 Dec.}}$

Enterprise Value = Market capitalisation + pension provisions – net cash and cash equivalents

Market capitalisation = Total number of shares as of 31 Dec. x exchange price (XETRA) as of 31 Dec.

Return on Capital Employed (ROCE) $= \dfrac{\text{Earnings before interest and taxes (EBIT)}}{\text{Intangible assets + tangible assets + inventories + receivables/deferred items – short-term provisions – operating liabilities}}$

Return on equity $= \dfrac{\text{Net income}}{\text{Equity + 50\% of special reserve + balance arising from capital consolidation}}$

Return on total investment $= \dfrac{\text{Earnings before taxes + interest expenses}}{\text{Balance sheet total}}$

Working capital = Inventories + receivables and other assets – short-term provisions – operating liabilities

BUSINESS TERMS

e-procurement
The procurement of materials or products with the help of electronic market places (> Emaks).

Emaks
A virtual market place developed by data process, in which tenders are issued by the K+S purchasing departments and increasingly by third parties.

ENTEC
The brand name of a fertilizer that is exclusively marketed by COMPO. What makes ENTEC fertilizers special is their higher degree of nitrogen efficiency, which is achieved through the ammonia stabilizer ENTEC (nitrification inhibitor). ENTEC delays the transformation of ammoniacal nitrogen into nitric-nitrogen, which can be easily washed away. The likelihood of this happening is reduced, making more of the nitrogen fertilizer available to plants.

ESTA
A process developed and patented by K+S in order to separate potash crude salts by means of an electric tension field without the use of water and in an environmentally friendly way.

Fertigation
A hybrid word formed from “fertilize” and “irrigate”. Fertilizers are applied during irrigation.

GMP
Good Manufacturing Practice guidelines regulate the environment and production conditions for the manufacture of pharmaceuticals and pharmaceutical substances.

Joint Venture
Agreement between various partners or companies to operate a business enterprise jointly.

Knowledge management
The structured development, group-wide dissemination and coordination of knowledge to avoid duplication of effort among other things.

Nitrification inhibitors
> ENTEC

OECD
Organisation for Economic Cooperation and Development in Europe.

Sustainable Development
A term used to denote sustainable management of resources in a way that takes account of economic, ecological and ethical aspects.

Glossary

FINANCIAL AND ECONOMIC TERMS

Added value
The difference between the goods and services produced and the input necessary for this, such as purchased materials, personnel expenses or services.

Cash flow
Net balance of incoming and outgoing payments during a reporting period.

Deferred taxes
Arise as a result of differences in the accounting policies applied in the statutory financial statements and the tax balance sheet. They can arise in two forms, firstly as a tax claim by the company (deferred tax assets) and secondly as a tax obligation (deferred tax liabilities).

Dividend
Part of retained profit distributed to shareholders.

DVFA
Short for German Association for Financial Analysis and Investment Consultancy. The DVFA earnings developed by this association are intended to represent as objective as possible a comparison yardstick for evaluating the earnings strength of business enterprises.

EBIT
Earnings before interest and taxes.

Enterprise Value
Is an indicator of the value of a company frequently used by financial analysts (> Definitions). Enterprise Value is frequently compared with other figures (EBIT, EBITDA, revenues), which produces what are known as Enterprise Value multiples.

Free float
The number of shares not held by investors owning more than 5% of the shares of a company (with the exception of shares held by asset managers and investment companies).

Gross domestic product
Value of the economic performance that comprises all the goods and services produced in a country within a reporting period.

Hermes cover
A guarantee in common use in the export business with which the payment for the exported goods is secured for the exporter.

Investor Relations
Corporate communications addressed to financial analysts, investment advisers and both private and institutional investors.

Mid Caps
Term used for medium-sized quoted companies, in particular companies included in the MDAX stock market index.

Volatility
Refers to the range of fluctuation in, for example, share prices or currencies.

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Index

Five-year summary K+S Group

Revenues, earnings, cash flow		2002	2001	2000	1999	1998
Revenues	€ million	2,258.5	2,179.4	2,087.9	1,191.9	1,139.3
Earnings before interest, taxes, depreciation and amortization (EBITDA)	€ million	240.1	248.4	252.2	206.2	190.3
Earnings before interest and taxes (EBIT)	€ million	132.8	120.6	126.8	88.5	72.3
Earnings before income taxes	€ million	113.9	121.1	130.4	95.9	81.8
Net income	€ million	103.8	118.3	119.8	98.5	83.7
DVFA earnings	€ million	69.4	70.2	87.2	80.9	81.5
Gross cash flow	€ million	216.9	224.6	241.4	228.3	206.6
Balance sheet						
Equity[1]	€ million	558.8	516.8	530.9	536.1	561.7
Tangible and intangible assets	€ million	598.6	592.4	557.6	509.0	502.5
Capital expenditure[2]	€ million	129.0	157.9	141.7	106.1	84.1
Depreciation[2]	€ million	107.3	127.8	125.4	120.4	118.0
Balance sheet total	€ million	1,666.7	1,601.0	1,580.1	1,337.5	1,249.5
Outstanding shares as of 31 Dec.[3]	million	41.5	43.3	42.8	45.3	50.0
Average number of shares[4]	million	42.8	43.4	44.1	48.2	50.0
Employees						
Number of employees as of 31 Dec.[5, 6]		10,610	10,346	9,983	9,632	8,723
of which trainees		542	533	479	473	434
Personnel expenses	€ million	527.8	514.8	475.1	410.4	405.1
Key Data						
Net income per share[7]	€	2.43	2.73	2.72	2.04	1.67
DVFA earnings per share	€	1.62	1.62	1.98	1.68	1.63
Dividend per share	€	1.00	1.00	0.85	0.57	0.36
Dividend yield	%	5.8	4.6	4.8	4.1	3.1
EBITDA margin	%	10.6	11.4	12.1	17.3	16.7
EBIT margin	%	5.9	5.5	6.1	7.4	6.3
Return on revenues	%	4.6	5.4	5.7	8.3	7.3
Return on total investment	%	7.7	8.5	9.0	8.0	7.3
Return on equity	%	18.6	22.9	22.6	18.4	14.9
Book value per share	€	13.47	11.94	12.40	11.83	11.23
Gross cash flow per share	€	5.07	5.18	5.47	4.74	4.13

1) incl. 50% special reserves and balance from capital consolidation
2) tangible and intangible assets
3) 45 million bearer shares less the number of own shares held by K+S as of the balance sheet date
4) 45 million bearer shares less the average number of own shares held by K+S
5) the number of employees for 2002 includes a prorated number of esco employees commensurate with the equity share in esco held by K+S (62%)
6) workforce including temporary employees (without students and interns)
7) after shares of third parties

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Financial calendar

Dates

Annual General Meeting 2003, Kassel	7 May 2003
Interim report 31 March 2003	7 May 2003
Dividend payment	8 May 2003
Interim report 30 June 2003	13 August 2003
Interim report 30 September 2003	13 November 2003
Press and analyst conference, Frankfurt	13 November 2003
Report on business in 2003	March 2004
Press and analyst conference, Frankfurt	March 2004
Annual General Meeting 2004, Kassel	5 May 2004

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