

“You can’t tie knots with one hand.”



Annual Report 2001

People, Nature, Our World.



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"A community is not the sum of the interests, but of devotion."

Antoine de Saint-Exupéry

Our aim in this 2001 Annual Report is to demonstrate in a special way our endeavour to link our experience going back over many decades with the future-orientation of the K+S Group. For this purpose, we have juxtaposed intelligent statements and portraits of children.

The quotations represent a serious and subject-related discussion with the business world. The children's portraits provide an emotional counterpole, which symbolises the future of the world or the K+S Group.

We already want to work today within the Group on the solution of the tasks of tomorrow. As a versatile and international business enterprise, we are aware of this responsibility.

At a glance

K+S Group

Revenues and earnings

€ million

	2001	2000
Revenues	2,179.4	2,087.9
Potash and Magnesium Products	967.4	963.2
COMPO	436.2	331.6
fertiva	500.2	552.2
Salt	165.1	114.9
Waste Management and Recycling	63.5	76.8
Services and Trading	47.0	49.2
Earnings before interest and taxes (EBIT)	120.6	126.8
Earnings before income taxes (EBT)	121.1	130.4
Net income	118.3	119.8
DVFA earnings ¹⁾	70.2	87.2
Gross cash flow	224.6	241.4

Balance sheet

Equity	458.4	456.6
Return on equity	22.9	22.6
Fixed assets ²⁾	592.4	557.6
Capital expenditure ²⁾	157.9	141.7
Depreciation ²⁾	127.8	125.4
Balance sheet total	1,601.0	1,580.1
Return on total investment	8.5	9.0

Employees

Employees as of Dec. 31	number	9,775	9,402
of whom trainees	number	533	479
Personnel expenses		514.8	475.1

Data per share

Net income	€	2.73	2.72
DVFA earnings ¹⁾	€	1.62	1.98
Net dividend	€	1.00	0.85
Gross dividend	€	1.00	1.14
Net dividend yield	%	4.6	4.8

¹⁾ Prior year figures adjusted

²⁾ Tangible and intangible fixed assets

Our world – products and services for life and growth

One of the greatest challenges of our age is to bring into harmony the growth of the world population and a caring relationship with nature.

You can find our products, which are based on indigenous raw materials, in agriculture, many branches of industry and in private households. We are present in Europe and worldwide as market leaders with a large number of specialities and brands. Our raw materials flow as primary products into the products of other manufacturers. We offer our customers our wide-ranging experience, innovative processes and a large number of tailored solutions.

Comprehensive and farsighted planning and the strategic, technical and economic interlinking of all business fields characterise our Group of business enterprises, which is oriented to long-term success. We create bases for life and growth.

Welcome to our world!

Preface



Dear Shareholders,

We can once again look back together on a successful year for our K+S Group. We have positioned ourselves with a broader and intermeshed business portfolio in a strategically favourable and future-oriented manner. We have strengthened our ability to face up to economic and seasonal influences in individual working fields. K+S is synonymous with a “k”räftige (English: strong) and “s”tarke (English: robust) brand.

All the people and companies that have joined K+S have established themselves quickly and smoothly under the umbrella of our Group, so as to achieve our joint aims from a position of greater strength.

We have succeeded with our traditional and new activities in increasing our revenues by 4% to € 2.2 billion. The net income of € 118.3 million almost reached the record level of the year 2000, which had also benefited from special effects. Against the background of the more difficult general world economic environment, we regard the repeating of the best earnings in the history of our company as a success.

One of our aims was to again increase the dividend paid to you as our shareholders. The Supervisory Board and Board of Executive Directors will propose to the Annual General Meeting a dividend of € 1.00 per share for the past business year. This represents an increase of 18% compared with last year.

We have implemented a large number of trend-setting operational and strategic measures, which will further strengthen our market positions and structures. We will also further reduce our costs and therefore open up new earnings potentials.

A further important step, aimed at enabling us to manage our K+S successfully in the long term, was the streamlining of our corporate structures. All the significant business segments will work in the future in independent companies, to enable them to develop an even greater earnings orientation and identity. This step was carried out observing the strategic interlinking of the business fields, in order to make optimum use of mutual synergy effects.

A further key event last year was the signing of the agreement for the Salt Joint Venture with the Belgian company, Solvay S.A. The joint venture company, esco - european salt company, in which K+S and Solvay hold respectively 62% and 38% of the shares, will take up its activities, following the approval by the cartel authorities, with economic effect from January 1, 2002. esco combines and augments the strengths and competence of both partners in an ideal manner and fulfils all of the requirements for the attainment of a leading position in the European salt business.

In the waste management business, we have taken a further important step along the way to becoming a system supplier. The investment in AAE Abfall- und Altlasten-Entsorgungsgesellschaft mbH, which gives us access to the thermal treatment of organically contaminated soil, will help us to open up new growth segments and exploit synergies with our existing waste management activities.

Selective capital expenditure and investments continuously broaden our customer and market-oriented portfolio of products and services. One outstanding project was the commissioning of the new production plant for the magnesium and sulphur fertilizer speciality, Kieserite. This increase in capacity will strengthen our position as the global market leader in this product segment and provide us with the space for further growth of our special fertilizers.

The better than average development of our share price in 2001 reflects the consequent implementation of our corporate strategy, and also the great dedication of our employees, our financial performance and its presentation to the general public. The market capitalisation exceeded € 1 billion in 2001 for the first time, compared with some € 800 million at the end of 2000.

We are confident that we will succeed once again in meeting ambitious targets in the business year 2002. Our strong market positions, the streamlined corporate structure and growth potentials in almost all areas of the business open up good opportunities to lead the K+S Group successfully into the future.

Our strategy is characterised by controlled, healthy growth based on innovative products and services and also on the augmentation of our business through cooperation agreements and acquisitions. These cornerstones of our corporate concept should also in the future result in earnings that enable us to pay attractive dividends and allow the appropriate participation of our employees in the success of the company.

Our special thanks are due to our employees. Their willingness, outstanding performance and high level of competence have made a major contribution to the maintenance of the success of the K+S Group.

I would like to thank all of our customers and business associates for the good cooperation. Their confidence in our products and services strengthens us in our ambitious targets.

I wish to express my thanks to you, my dear shareholders, also on behalf of my colleagues, for the confidence you have placed in us. We are well on the way to continued success in the future.

Yours sincerely



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



Norbert Steiner

Lawyer
Salt
Services and Trading
Finance
Legal Affairs, Taxes and Insurance
Purchasing and Materials Management

Gerd Grimmig

Engineering graduate
Waste Management and Recycling
Mining and Geology
Research and Development
Environment and Industrial Safety
Engineering and Energy Management



Dr. Ralf Bethke

Chairman of the Board of Executive Directors

Business administration graduate

Potash and Magnesium Products

COMPO

fertiva

Investor Relations

Communication

Corporate Development and Strategic Controlling

Peter Backhaus

Industrial clerk

Director of Personnel

Personnel

Properties



Ladies and gentlemen,

The Supervisory Board has concerned itself exhaustively with the strategic development of the business enterprise and its business fields, and discussed a large number of individual topics.

The K+S Group successfully continued on its course in 2001 of the sustained strengthening of its earning power. Manifold measures purposively strengthened its six business segments. This applies to a particular degree to the Salt Segment, which will catch up with the leading European suppliers with the establishment of the esco joint venture company.

The Supervisory Board applied due care in carrying out the tasks imposed on it by law and the company's statutes, and monitored the work of the Board of Executive Directors on a regular basis.

Four regular meetings and one extraordinary meeting of the Supervisory Board were held during the past business year. These mainly covered a number of decisions of strategic importance for the business enterprise. It was necessary to ensure the requirements for the successful start of the salt joint venture with Solvay S.A. in Brussels, and its favourable development. We are convinced that the "european salt company" with its proximity to its customers, its efficient structure and its products tailored to the needs of the market will prove to be a success in the European market. We furthermore considered intensively the growth potential of the COMPO segment. The French Algoflash Group was acquired in conjunction with the desired expansion. A further main focus of our work was the corporate restructuring of the K+S Group. The spin-off of the operative business segments, Potash and Magnesium Products and Salt, into independent companies, with the intention that they position themselves clearly and continue to develop in a future-oriented manner, and the merger of Kali und Salz GmbH into K+S Aktiengesellschaft, are important steps for the K+S Group.

As in the previous year, we involved ourselves in the development and mode of operation of and the measures implemented by the risk management system.

The Board of Executive Directors provided us with detailed written and verbal reports. We considered the situation of the company, the key financial ratios, the investment and rationalisation projects and the corporate planning in detail, and discussed these with the Board of Executive Directors. The Chairman of the Supervisory Board maintained regular contact with the Board of Executive Directors on significant matters.

No occasion arose during the year to call the Mediation Committee foreseen in accordance with Article 27 (3) of the Codetermination Act. The Personnel Committee met twice during the past year on account of changes in K+S Aktiengesellschaft's Board of Executive Directors.

Wollert-Elmendorff Deutsche Industrie-Treuhand GmbH was elected auditors by the Annual General Meeting, and appointed by the Supervisory Board. They have audited the annual financial statements of K+S Aktiengesellschaft for the year ended December 31, 2001, the consolidated financial statements of the K+S Group and the joint business review of K+S Aktiengesellschaft and the K+S Group, together with the bookkeeping system. Both sets of financial statements received unqualified opinions. The auditors forwarded the financial statements of K+S Aktiengesellschaft and the K+S Group to all members of the Supervisory Board, provided detailed comments on their long-form audit reports at the meeting of the Supervisory Board on March 13, 2002, and answered all questions. We concur with the audit conclusions of the auditors, and see no occasion to raise any objections. We have approved the annual financial statements of K+S Aktiengesellschaft and the K+S Group prepared by the Board of Executive Directors; the annual financial statements of K+S Aktiengesellschaft are hereby adopted. The Supervisory Board furthermore concurs with the proposal of the Board of Executive Directors on the appropriation of the profits, that the dividend be increased from € 0.85 to € 1.00.

Mr. Axel Hollstein retired on October 3, 2001 at the end of his term of office. Mr. Hollstein had worked for our Group since 1963. He was appointed to the Board of Executive Directors of K+S Aktiengesellschaft in 1989, with responsibility for Engineering and Energy Management, Production and Research and Development. Since the end of 1999, he was also responsible for the Salt and COMPO Segments. He played a key role in the successful integration of the new COMPO Segment and the establishment of the salt joint venture. We thank Mr. Hollstein for his work over the years, his dedication and his service for the K+S Group.

The Supervisory Board appointed Mr. Markus Haug to the Board of Executive Directors of K+S Aktiengesellschaft with effect from April 1, 2001. Mr. Haug left the company again on October 31, 2001, by mutual consent.

We wish to express our heartfelt thanks to the Board of Executive Directors, the management boards of the subsidiaries, the representatives of the employees and the entire staff of the K+S Group for their tremendous commitment and excellent work.

Kassel, March 13, 2002

On behalf of the Supervisory Board



Gerhard R. Wolf
Chairman

Supervisory Board of K+S Aktiengesellschaft

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

Member of the Boards of Executive Directors of Allianz AG and Dresdner Bank AG

Karl-Heinz Georgi

Principal of the Haltern Education Centre of the Mining, Chemicals and Energy Trade Union

Rainer Grohe

Managing Director of VIAG invent! GmbH

Rüdiger Kienitz

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

Solicitor

Dr. Eckart Sünner

Head of the Central Legal Affairs, Tax and Insurance Department at BASF AG

Hans-Dieter Winkelhake

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

Dr. Helmut Karl Zentgraf

Manager of the Werra potash plant of Kali und Salz GmbH

The K+S share

"To be ready is a lot, the ability to wait is more,"

Arthur Schnitzler



The K+S share once again proved in 2001 to be a more attractive than average investment for private and institutional investors. Successful acquisitions, the good development of the earnings and the dividend and our intrinsic strength encouraged the confidence of the investors in our company and our strategy. This is reflected by the price trend of the K+S share. It once again considerably outperformed the DAX and also the MDAX.

The K+S share



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

MDAX
DAX 100 Index
DAX 100 Machinery & Industrial Index
CDAX Overall Index
CDAX Basic Resources Index

Interest in Mid Caps

The slowdown in the global economy and disenchantment with the stock market affected the general willingness to invest in shares in 2001. The DAX, whose consolidation had already commenced in the spring of 2001, moved in a broad spread between a peak of not quite 6,800 points and a low close to 3,500 points. This reflected the insecurity of the investors. The MDAX, the index for the 70 German shares traded most intensively outside the DAX, proved to be much more resilient. Many investors placed their money, even if hesitantly at the outset, to an increasing degree on so-called Mid Caps. This index fell as a consequence of the events of September 11 in the USA temporarily below 4,000 points. It had recovered however by the end of the year to 4,326 points; compared with the end of 2000, therefore, it only declined moderately by 8%, and closed on February 22, 2002 with 4,309 points.

Key figures for the K+S share

ISIN: DE 0007162000/WKN: 716200

		2001	2000
Net income	€	2.73	2.72
DVFA earnings*	€	1.62	1.98
Net dividend	€	1.00	0.85
Cash flow	€	5.18	5.48
Highest share price	€	22.25	18.60
Lowest share price	€	15.75	12.50
Year-end share price (trading floor in Frankfurt)	€	21.90	17.70
Number of shares on 31.12.	million	45.0	45.0
Stock exchange turnover (Jan.-Dec.)	€ million	468.5	409.1
Market capitalisation on 31.12.	€ million	985.5	796.5
P/E ratio (Year-end share price/net income)		8.0	6.5
P/E ratio (Year-end share price/DVFA)		13.5	8.9
Total dividend payment**	€ million	43.4	37.6
Net dividend yield	%	4.6	4.8
Return on total investment	%	8.5	9.0
Return on equity	%	22.9	22.6
Market Value Added	€ million	338.4	213.8
Economic Value Added	€ million	40.2	71.5
Enterprise Value (EV)	€ million	970.4	719.4

* The DVFA changed the calculation of DVFA earnings in May 2001. Contrary to the previous calculation method, the proceeds from the release of the credit balance on capital consolidation no longer have to be adjusted for. The prior year figure was corrected accordingly.

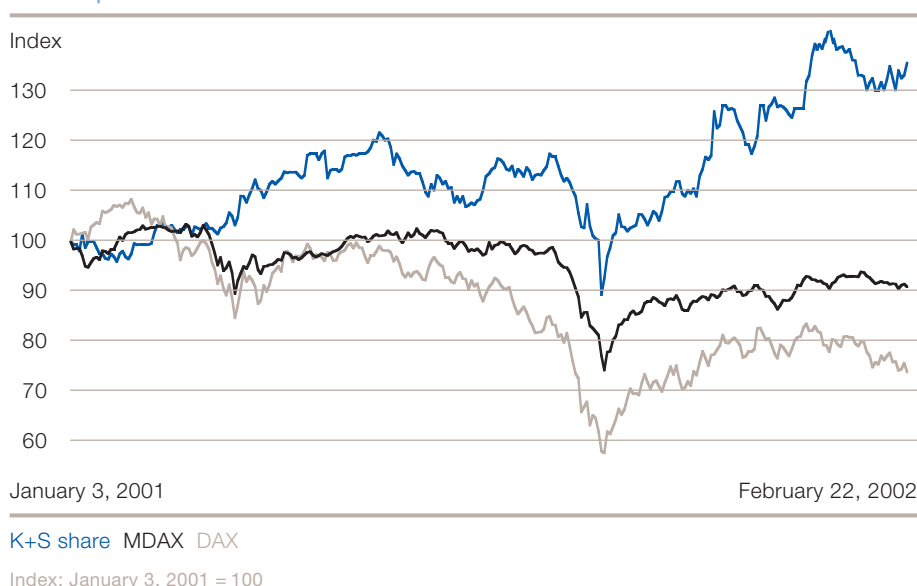
** The actual total dividend payment for the year 2001 will depend on the number of shares entitled to dividends on the day of the Annual General Meeting.

Continued success of the K+S share

With an increase of approximately 25% in 2001, our share price maintained its upward trend of the previous year. It once again considerably outperformed the DAX and the MDAX. Following an initial fall in the share price in January, it climbed continuously until June. The share price then fell by € 2.00 as a consequence of the generally negative news from the stock market. After the attacks in the USA, the world stock markets passed through their troughs in what was in any case a difficult stock exchange year. Although the terrorist attacks did not have any direct effects on the operative business of the K+S Group, our share fell on September 20 in line with the general trend to its lowest price for the year of € 15.75.

The market responded positively to the announcements on the continued good earnings trend and bore our share on December 13 to a high for the year of € 22.25. The year-end share price was € 21.90. The moving average share price over 200 days amounted to € 19.69 at the end of the year. Our share price on February 22, 2002 was € 23.47. The positive trend therefore also continued at the beginning of 2002.

Development of K+S share 2001/2002



Increased weighting of K+S

The stock market value of K+S increased at the end of the year to € 986 million. Our market capitalisation went up by altogether 164% over the last five years. By comparison, the value of the MDAX increased during the same period by 17%, and that of the DAX by 32%.

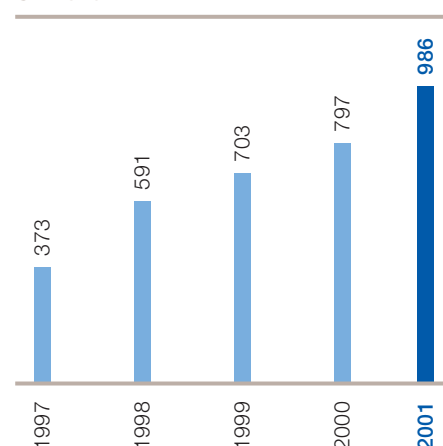
Higher shareholder value

In 2001 the good development of the business corroborated the increase in the market value of our total capital. Our market value added increased compared with the previous year by € 124.6 million to € 338.4 million, which means that we have further increased our shareholder value.

Economic value added represents the difference between the business result and the capital costs, and with € 40.2 million in 2001, was once again clearly positive. This shows that our generated earnings exceed the capital costs. With a return on investment of 11.3%, the return on the capital employed in the business was better than a comparable investment in the capital market.

Market capitalisation 1997-2001

€ million 31.12.



The K+S share

Earnings per share

€

Basis: Net income

2000	2.72
2001	2.73

Basis: DVFA earnings

2000	1.98
2001	1.62

Scope for an increase in the share price

The net income per share of € 2.73 was slightly higher than last year's figure. The DVFA earnings however declined to € 1.62 per share (2000: € 1.98 per share), because the adjustments that had to be made in the DVFA earnings were this time € 15.5 million higher than in the previous year. These adjustments include fictitious income taxes and amortisation on goodwill and the elimination of special depreciation. The calculation is based on the average of 43.4 million shares held outside the company, and therefore entitled to dividends, compared with 44.1 million in 2000.

The K+S share continues to have a moderate price earnings ratio. The valuation of our share is also expressed by relatively low enterprise value multipliers. In this connection, the enterprise value is compared with EBITDA (EV/EBITDA) or EBIT (EV/EBIT). The multipliers of 3.9 and 8.0 respectively calculated for K+S are much lower than those for comparable companies.

It remains an important task of our Investor Relations work to present and explain the current and future earnings power of the K+S Group in the German and foreign capital markets even more intensively.

Dividends per share

€

2000	0.85
2001	1.00

Proposed dividend at a high level

The K+S share is a high-yield investment. We will propose a dividend of € 1.00 per share to the Annual General Meeting. On the basis of the yearend share price of € 21.90, our proposed dividend will result in a dividend yield of 4.6%. All K+S shares, with the exception of the company's own shares held by K+S, are fully entitled to dividends. We will therefore achieve our aim of a further increase in our dividend.

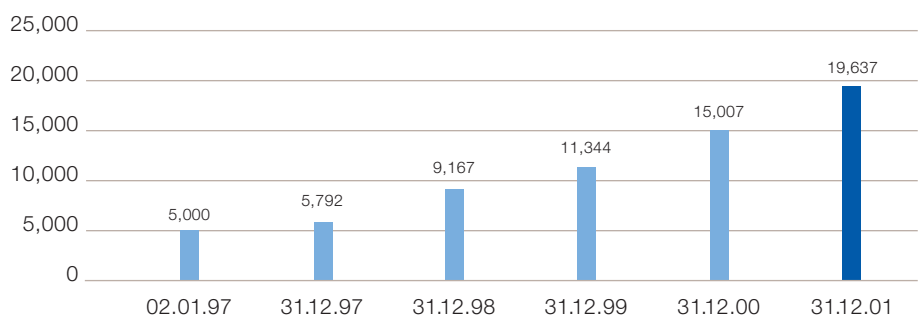
Substantial increase in the value of the K+S share

The K+S shareholder who invested € 5,000 in K+S shares in the beginning of 1997 and reinvested his dividends since then in further K+S shares discovered that his holding was worth approximately € 19,600 on December 31, 2001. The value of his holding increased by approximately 290% over this five-year period. This corresponds to an annual yield of approximately 31%.

Development of the K+S holding

€

(incl. reinvestment of gross dividends and residual amount of cash)



New share buy-back programme

The resolution of the Annual General Meeting on May 9, 2001 empowered us to purchase 5% of our own shares. This new power runs until October 31, 2002. The Board of Executive Directors of K+S Aktiengesellschaft resolved in August 2001 to make use of this power. We intend to use the bought-back shares, as appropriate, for acquisitions.

As of December 31, 2001, we held approximately 1.7 million of our own shares or 3.8% of the share capital of € 115.2 million. The average purchase price amounted to € 18.42 per share.

High free float characterises the shareholder structure

Some 79.2% of our shares are in scattered holdings (free float). These primarily include institutional investors, and also a large number of private investors. Based on our current estimates, there are approximately 30,000 private investors, including alone some 9,500 K+S employees. According to the information available to us, BASF holds approximately 17%.

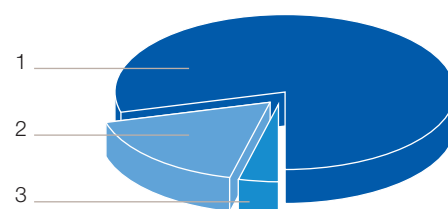
Transparent Investor Relations

Investor Relations (IR) means for us up-to-date, transparent communications, which create confidence. We provide comprehensive information on a timely basis on all significant events relating to the K+S share and the development of the K+S Group. We maintain close contacts with financial analysts, institutional and private investors, and business journalists; our regular press and analysts conferences each spring and autumn serve the same purpose. We are presenting the K+S Group to an increasing degree at roadshows at home and abroad. Our discussions with financial experts are reflected by the increasing number of research reports, documenting the greater interest of the capital market. We report each quarter on the business trends and provide information parallel to this in the Internet under www.k-plus-s.com. Since November, K+S's new presentation in the worldwide web offers even more service: Anyone who obtains information about us here will be able to find, amongst other things, answers to the most frequently asked questions on an own IR-page. A newsletter obtainable on a subscription basis includes all current press releases. Please contact our IR-Team directly at:

We will also in the future follow the developments precisely in the Investor Relations field and implement improvements that are meaningful for our investors.

Shareholder structure

in % 31.12.2001



1 Free float	approx. 79.2 %
2 Permanent holding (BASF AG)	approx. 17.0 %
3 Own shares	3.8 %

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“You can’t tie knots with one hand.”

Mongolian proverb



Our six segments work hand in hand and intermesh strategically, technically and economically. All segments are linked by a strategic archway. This crosslinking provides special opportunities to enable us to be successful in our markets, at our customers and in the competition. We support and encourage this strategic archway with group-wide information management and carefully considered acquisition and cooperation policies. In this way, we offer our customers wide-ranging services and a broad product portfolio, so that we can fulfil their requirements as completely, cheaply and efficiently as possible. The K+S Group is more than just the sum of its parts.



Segment

Potash and Magnesium Products

“The vitality of an era does not lie
in what it reaps, but in what it sows.”

Ludwig Börne



Just like human beings and animals, plants require nourishment, in the form of vital minerals. The farmers return to the soil what the plants take out. K+S extracts these raw materials from its mineral deposits and, following processing, offers them as high quality fertilizers. Our customers, the farmers, make an important contribution to the nourishment and health of the world through well-informed use of our products. These minerals and products are however also indispensable as industrial primary products in the manufacture of active pharmaceutical substances and many industrial intermediates.



The Potash and Magnesium Products Segment extracts crude potash and magnesium salts at six mines in Germany. Firstly, a large number of fertilizers is developed from these, while, secondly, they are processed into products for technical, industrial and pharmaceutical applications. Harvests withdraw nutrients, such as potash, magnesium, and also sulphur and sodium from arable land and meadows, which have to be returned to the soil if its fertility is to be maintained. To also enable ecological farmers to do this, a third of the K+S fertilizers are officially licensed for ecological farming. Potassium chloride, potassium sulphate and magnesium sulphate are indispensable for many technical and pharmaceutical purposes. Utilisation in electrolysis, the production of paper and the extraction of crude oil are only a few examples. K+S products can also be found on many occasions in the world in dialysis solutions, dyestuffs and detergents. The segment cooperates closely with COMPO and fertiva.

A strong producer and market leader

The K+S Group is one of the largest suppliers of Potash and Magnesium products. It covers about 13% of the worldwide demand for potash. Each year K+S produces considerably more than 7 million t of product and is the market leader in Europe by a wide margin. It has extended its position as world market leader as a supplier of fertilizers containing sulphate and magnesium. K+S is also the leading producer worldwide of natural magnesium products such as Kieserite or Bittersalz (Epsom salts).

The revenues went up marginally compared with the previous year to € 967.4 million. This was primarily due to the shift in the product portfolio in favour of more highly enriched potassium sulphate and industrial potash. Improved prices also benefited the growth in revenues. The sales volume of 7.4 million t of potash and magnesium products in 2001 was only slightly lower than the figure for the very good previous year.

Animal diseases and the weather affect the fertilizer business

Fertilizer sales of 6.3 million t of product slightly exceeded the high figure of the year 2000. The animal diseases, BSE and foot and mouth disease, shook the farmers, and the unfavourable weather in the spring and the extremely high rainfall had a negative effect on the fertilizer business. Despite this, K+S strengthened its position in some key market regions and product segments significantly.

Potassium chloride deliveries did not quite reach the previous year's high level. While the negative events in the agricultural markets in Europe slowed down the demand for potash fertilizers, the sales in important overseas markets increased. The strategic position especially in the Brazilian market was strengthened. K+S also delivered potassium chloride in 2001 to India as a contribution to German development cooperation.

The delivery volume of fertilizer specialities was 2% lower than the previous year's volume. The cold and wet spring and the BSE and foot and mouth problem in Europe had a negative effect on the special potash varieties favoured here. This

Key figures

€ million	2001	2000
Revenues	967.4	963.2
EBIT	66.9	77.2
Capital expenditure	112.6	93.9
Employees as of 31.12. (number)	7,148	7,031

applied in particular to Korn-Kali and Magnesia-Kainit. Demand for Thomaskali was also 18% weaker, but it maintained its relative market position. Patentkali was however less severely affected by these problems.

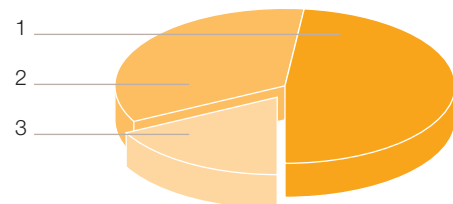
Sales of potassium sulphate both to Europe and also overseas increased sharply. The market position improved, despite the continued high supply and the price pressure triggered off by the competing product, potassium nitrate, due to the continued intensive processing of the market.

Two new special products augmented the potash product range. Potassium sulphate “turf” is a granular product developed specially for the fertilization of lawns and golf courses. Potassium sulphate “plus”, a potash-magnesium-sulphur fertilizer, is specially designed for the specific requirements of certain Southeast Asian market regions.

The ESTA Kieserite business suffered from a temporary weakness of the markets in Southeast Asia. There, the fertilization of the oil palms, the most important target crop for ESTA Kieserite “fein”, was reduced considerably in the course of the year on account of the extremely low palm oil prices. On the other hand, additional quantities were sold of the higher priced product, ESTA Kieserite “gran”, which is mainly applied for direct use in European agriculture.

Revenues by product groups

in %



1 Potassium chloride	48.2%
2 Fertilizer specialties	34.4%
3 Industrial products	17.4%

Successful development of the industrial products business

The upward trend of the industrial products portfolio continued. The sales volume increased in the reporting period by 2% to 1.1 million t. This was due in particular to further market penetration in Europe. Better prices provided an additional boost to the revenues. The expansion of the capacity for potassium chloride 99% came at the right moment to meet the increased demand for this product and ensure the continuous ability to deliver.

In the magnesium products segment, K+S once again achieved the good level of sales volumes and revenues of the previous year. The growth of magnesium chloride solution, which is used in winter service, was able to make up for the declines in the use of Bittersalz and anhydrous magnesium sulphate. The price levels in this important niche segment developed positively.

Prospects:

Economically sensible expansion within the Group

No other potash producer offers a more varied portfolio of tailored products for every requirement on the basis of its own raw materials. For profitability reasons, K+S concentrates on the European home market. K+S will however continue to supply strategically important customers also in selected overseas markets. A significant aim, which is partly being tackled together with COMPO and fertiva, is to expand the business with higher priced products for special application areas and high customer benefit.

Production offers new opportunities, too. In addition to the planned opening up of a new, high-quality crude salt deposit, further improvements in the working processes are being implemented at the large Werra combined potash mine. The main focus is on a concept for making the working hours more flexible. These increases in efficiency and tight cost management strengthen the profitability and therefore at the same time the international competitiveness of K+S.

In addition, we are investigating worldwide alliances and cooperation agreements aimed at the local expansion of our market positions.

*“Flowers are the beautiful words and hieroglyphs of nature,
with which she shows us how much she loves us.”*

Johann Wolfgang von Goethe



Hobby gardeners derive even more pleasure from their plants and flowers if they use COMPO products. COMPO products are also the first choice, when it comes to the fertilization of sports turf and special crops, such as wine, vegetables, fruit and other agricultural crops. In Germany, the grass in more than 70% of the soccer Bundesliga stadia and on two-thirds of all the golf courses is fertilized with COMPO specialities.



COMPO offers hobby gardeners a comprehensive assortment of high-quality branded products; the portfolio ranges from potting soil, plant care products, lawn and garden fertilizers to pesticides. COMPO is also a highly regarded partner in the professional sector. The portfolio ranges from special complex fertilizers for horticulture and special crops, slow release fertilizers for lawns, sports fields and public green spaces, to specialities for nurseries and the demanding cultivation of ornamental plants.

The high-quality products are manufactured at several of locations. COMPO has a large plant in Krefeld for special fertilizer containing potassium sulphate. Part of the fertilizer portfolio is produced at the BASF plants in Antwerp and Ludwigshafen. Liquid fertilizers are manufactured at COMPO plants in Germany and France. The COMPO sites for the production and packaging of potting soil are located in Germany, Belgium, France and Italy.

The revenues in the COMPO Segment increased in 2001 to € 436.2 million, mainly due to the consolidation and acquisition of new companies. The revenue from the “former” COMPO business (before acquisitions) also grew. This increase has to be regarded as pleasing, against the background of stagnating or even falling revenues in the difficult year 2001. COMPO covers a large number of topics jointly with the fertiva and Potash and Magnesium Products Segments.

The pleasure derived by hobby gardening increases further

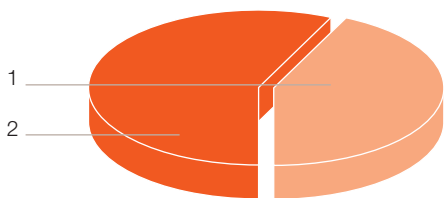
COMPO is the market leader in the hobby markets in Europe in four of the five product groups: potting soil, flower care, lawn fertilizers and outdoor fertilizers. COMPO is at present the No. 3 for pesticides.

Supported by the acquisition of Gesal and Algoflash, the hobby business grew sharply by almost 50% in 2001. The Gesal business, which was taken over at the end of 2000, comprises liquid fertilizers, garden fertilizers and pesticides, which are sold in several European markets under the Gesal, Plantavit and Belflora brands. The acquisition of the French company, Algoflash S.A., as of January 1, 2001, has augmented COMPO's portfolio reasonably in the fast growing leisure and hobby sector with further well-known brands. As a result of these acquisitions, COMPO can organise its logistics even more efficiently, is even closer to its customers and benefits in addition from a further plant for the production of fertilizer specialities.

COMPO Sana Compact potting soil, a mini bale as a new packaging unit, is a new product for the green market. The new user-friendly pack with considerable sales chances will be introduced to the retail trade in 2002.

Revenues by product groups

in %



1 Hobby business	43%
2 Professional/Industrial business	57%

Key figures

€ million	2001	2000
Revenues	436.2	331.6
EBIT	19.7	21.8
Capital expenditure	11.4	5.2
Employees as of 31.12. (number)	997	810

ENTEC fertilizers as the drawing card

COMPO's professional sector grew in the reporting period by approximately 21%. In the overall segment of horticulture, public green spaces and special crops, COMPO is the No. 1 in Europe with approximately 17%.

An expected slightly reduced demand for special mineral fertilizers was compensated by the most positive development of the revenues with the new, nitrogen-inhibited fertilizer generation. The specialties marketed under the ENTEC trade name contain an ammonium stabiliser developed in many years of research work, which ensures that the crops are supplied with measured doses of nitrogen, i.e. with smaller losses and therefore even more efficiently than previously. At the same time, it makes possible high yields and opens up labour-management advantages in the customers' operations; they have taken up the new innovative ENTEC fertilizers extremely well.

The particular advantages of the fully coated slow release fertilizers and micronutrient fertilizers convince an ever-greater number of users, supported by qualified advice from the COMPO team.

One-off effects influence earnings

Despite the many successes in the market and the sharp increase in revenues, the COMPO Segment's earnings are lower than in the previous year. Two significant factors influenced the earnings, firstly the relatively high integration costs for the Algoflash companies taken over at the beginning of the year and secondly the much higher raw material costs for the nitrogen components of the special mineral fertilizers, the ENTEC portfolio and various long-term and lawn fertilizers. These high additional costs could not be passed on to the market in full through the prices.


Prospects:

Convincing customers with innovations

The excellent image of the umbrella brand, COMPO, the outstanding quality of the products, the continuous development of product innovations and know-how in marketing and sales are the bases of the success in the market. In order to maintain these also in the long term, COMPO is further expanding its sales network covering the whole of Europe and at the same time strengthening its market leadership in Europe. This is helped by strong local brands and the firm intention to distinguish itself further compared with the competition with innovative products and services. The transfer of innovations from the professional to the hobby sector is also to be intensified and the offering in the pesticide area expanded. COMPO intends to exploit new sales regions and to orientate itself even more internationally, also by means of acquisitions and cooperation agreements.

www.compo.de





“Nature does nothing uselessly.”

Mineral fertilizers are indispensable for ensuring and increasing soil yields. As a worldwide supplier with strong producers as partners, fertiva sets demanding standards in the fertilizer sector and contributes to the healthy, improved nourishment of the world.



The K+S Group's nitrogenous agricultural fertilizer activities are combined in the fertiva Segment. fertiva markets the agricultural fertilizers produced exclusively for it by BASF and in addition makes use of the research and development of the BASF Group. fertiva also sells products purchased in from other renowned European producers. The customers benefit from a high-quality product and service portfolio and the international experience of the fertiva team going back over many years. fertiva cooperates closely with the COMPO and Potash and Magnesium Products Segments.

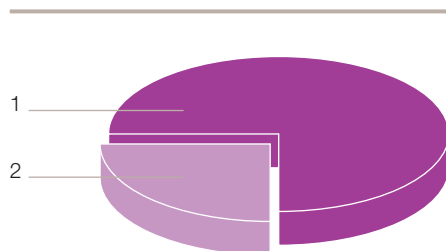
A leading supplier in Western Europe

With a market share of approximately 10%, fertiva is one of Western Europe's leading suppliers of nitrogenous fertilizers. About 75% of the revenues are recorded in Europe, and the remaining quarter mainly with Asian and Latin American customers. The main product under the complex fertilizers is the global brand, Nitrophoska, with approximately 50 different formulas or combinations of nutrients. fertiva supplies 95% of its well-established straight nitrogen nitrate fertilizers, such as calcium ammonium nitrate and ammonium sulphate nitrate to European customers.

fertiva's third prop is the sulphurous nitrogenous fertilizer, ammonium sulphate, which is mainly sold in overseas markets.

Revenues by regions

in %



1 Europe	75%
2 Asia & Latin America	25%

Problems of European agriculture burden the business

fertiva's sales volume of 4.2 million t in 2001 was considerably lower (~20%) than the admittedly very high prior year level. As a result of higher prices, which succeeded in particular in compensating the higher raw material costs, the revenues only declined by 9% to € 500.2 million.

The extremely high rainfall during the spring in Germany, France and other Western European countries inhibited the demand. The fields were in some cases flooded and impassable at important fertilizing dates. In addition, BSE and foot and mouth disease exacerbated the situation of agriculture in Europe during 2001. These difficult market conditions affected all product areas at fertiva to an equal degree and resulted in some cases in extraordinarily large decreases in consumption.

Key figures

€ million	2001	2000
Revenues	500.2	552.2
EBIT	0.6	0.3
Capital expenditure	2.0	–
Employees as of 31.12. (number)	55	50

While demand for complex fertilizers in Western Europe declined sharply, the overseas business was stable. Deliveries to Southeast Asia turned out to be much more difficult in certain countries because of severe currency devaluations. Despite this, fertiva maintained its good position in key markets.

The straight nitrogen fertilizer business was concentrated once again in Europe. The prices increased sharply, and partly compensated the declines in revenues resulting from the sales volumes again. In France, the explosion at a fertilizer factory in Toulouse triggered considerable public discussion, resulting in restrictions in the logistics and storage of ammonium nitrate. This development restricted the market potential to some extent in the autumn in the important French market.

Germany is a very important market for ammonium sulphate saltpetre (ASS). fertiva maintained its leading position in the nitrogen/sulphur segment. ASS also has good chances in the future. Numerous field tests have confirmed the advantages of the special combination of nutrients in this product. A comprehensive advertising campaign in the retail trade and agriculture has emphasised these very successfully.

Sales of ammonium sulphate, similarly a nitrogen fertilizer with sulphur, were 7% below the previous year's level due to limited availability at our suppliers. Good demand overseas and a stronger dollar led to pleasing increases in the prices. fertiva is the world market leader for this product.

Prospects:

Continued success through concentration on strategic target markets

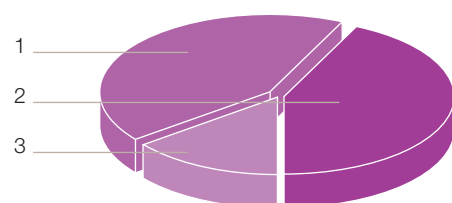
fertiva will also concentrate in the future on Western Europe and selected profitable overseas markets. It will maintain its position as the global market leader in the ammonium sulphate segment.

The production of complex fertilizers in Ludwigshafen will cease in March 2002. fertiva will counter this step and close this gap in its offering appropriately through purchase agreements and an optimised market portfolio.

In June 2001, fertiva transferred its head office from Limburgerhof to Mannheim, where 55 staff are employed. Also in June, fertiva established with fertiva France at Levallois-Perret in France its third subsidiary as an important regional sales platform alongside fertiva Asia Pacific in Singapore and fertiva latinoamericana in Buenos Aires. As a result, regional know-how and local market presence have been strengthened in the target markets. These are good prerequisites for the financial success of fertiva.

Revenues by product groups


in %



1 Multi-nutrient fertilizers	42.5%
2 Straight nitrogen fertilizers	43.0%
3 Ammonium sulphate/ Ammonium sulphate nitrate	14.5%



Saint Isidor von Sevilla



“Nothing is more useful than salt and sun.”

Salt is an element of life. Salt from K+S is almost everywhere. It can be found in glass, paper and plastics, or is important for their manufacture. Salt is vital for health, seasoning, colouring and disinfecting, and not least for safety on the roads. Our life is inconceivable without salt.



The K+S products are of the highest purity and quality, and are also extremely esteemed for this reason by the customers. K+S is one of Western Europe's leading suppliers of rock and evaporated salts. The product portfolio in line with the demands of the market meets the requirements of the endusers and processing firms. K+S reacts flexibly to customer wishes and is also capable of delivering, even at times of peak demand. The transport know-how and other advantages of the K+S Group are exploited in order to optimise the value added chain in all segments of the salt business. The main regional focus is the comparatively low-freight markets in Northern, Western and Central Europe; smaller quantities are also sold continuously to various overseas countries.

Salt business stable, despite weak economic situation

The weak economic situation, especially in Germany, only had a minor effect on the salt business in the past year. In general, the sales of the salt industry to the various customer sectors, such as the foodstuff wholesale and retail, subsequent processing levels and the chlorinate of potash industry were stable.

The revenues in the Salt Segment increased compared with the previous year by 44% to € 165.1 million. The de-icing salt business was largely responsible for this. The sales in the business year amounted in total to 3.0 million t of solid salt products, an increase of 50% compared with the previous year. In addition to de-icing salt, salt for chemical transformation from Frisia Zout B.V. in the Netherlands, which was acquired in the summer of 2000, was largely responsible for this. Table salt and industrial salt also recorded pleasing increases.

Increase in delivery volumes

The business with food grade salts exceeded the previous year's good level. Approximately 50% in each case of the quantities were sold at home and abroad. The share of specialities with the trace elements, iodine and fluoride, continues to grow. Based on many years of experience, the World Health Organisation (WHO) supports the use of fluorinated iodine salt, because it makes an important contribution to the prevention of iodine deficiency illnesses and tooth decay.

The good market share at home for industrial salts was maintained, despite the strong competition. In the foreign business, sharp declines were recorded in both volumes and revenues. Fishery, feed and hide curing salts have a significant share in this segment. The offering also includes various salts for water softening.

In the business with salts for chemical transformation, the sales were increased considerably compared with the previous year through the acquisition of Frisia Zout B.V. The integration of our Dutch subsidiary in association with the German product locations, Bernburg and Brunswick-Lüneburg, progressed gratifyingly. Frisia Zout's works is excellently located from a logistical point of view, and, with a capacity of 1.2 million t of evaporated salt, primarily supplies large customers in the chemical industry in Northern and Western Europe. With its products, Frisia Zout complements the existing product portfolio ideally and successfully strengthens the international basis of the K+S salt business.

Key figures

€ million	2001	2000
Revenues	165.1	114.9
EBIT	27.5	4.9
Capital expenditure	6.6	6.8
Employees as of 31.12. (number)	702	695

Road safety accentuated

The winter conditions at the beginning and end of last year led to a considerable increase in sales of de-icing salts of altogether 62%. The advance purchasing business during the year also increased by an above-average amount compared with the previous year. The customers for K+S de-icing products are the public road authorities and large commercial customers. Used in a measured and controlled manner, de-icing salt is an environmentally friendly, indispensable substance for safety on the roads and footpaths. K+S will also devote itself in the future, together with the VDS German Salt Industry Association, to the task of disseminating this knowledge.

Our well-tried “anti-rutsch” (“anti-slip”) brand has been available to private households in various packaging forms for over 30 years. A hand spreader for the fine dosing of de-icing salt has been well accepted by the customers.

Successful brine business

A further focus of the Salt Segment is the manufacture of sodium chloride brine. In addition to our own requirements for the evaporated salt plants at the works in Bernburg, Saxony-Anhalt, and Harlingen, the Netherlands, various customers are supplied in the immediate proximity of the Bernburg works by pipeline. We succeeded in increasing this business compared with the previous year.

The caverns resulting from the extraction of brine are to some extent used for the liquefied petroleum gas underground storage and transshipment business. The cold winter weather had a favourable influence on the earnings from this complementary business.

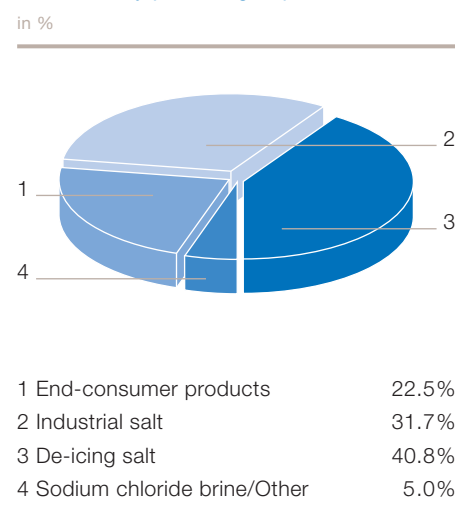
Prospects:

Bundle strengths, optimise processes, sustainably improve earnings-esco

Uncompromising customer-orientation, high product quality and the ability to deliver at all times are the cornerstones of the strategy in the salt business. The technologies will be kept up-to-date as a result of continuous capital expenditure. Restructuring in the logistics and innovative working hours models are responses to seasonal peaks in demand, especially for de-icing salt.

The EU competition authorities in Brussels approved the joint venture between K+S and Solvay S.A. in January 2002. The most urgent task now is to bring together the people and the various locations into the company, esco - european salt company, which has to be newly established, and to orientate them to the joint aims. esco will be especially favourably located from a logistical point of view in many key European markets. With its broad product offering and new efficient structures, esco will be one of the leading European salt producers.

Revenues by product groups





Karl F. Gutzkow

“Only he who devotes himself to his age also owns the ages that follow.”



The protection of the environment is a major social responsibility in all areas of life that also challenges us. With our waste management systems, we provide safe, problem-oriented solutions. We are therefore facing up aggressively to the tough competition in the German and the European waste management and recycling markets. An example is reprocessed, high-quality aluminium granulates, which are fed back into the added value chain.



The Waste Management and Recycling Segment uses the cavities in the active mines created by underground extraction of the crude salts. The K+S Group is one of the leading technological and most renowned system provider for underground waste management ensuring safety over a long period of time in Europe. Development of and compliance with the highest quality and safety standards have contributed decisively to our outstanding position in the European waste management market. Tailor-made solutions for the recycling requirements of the customers characterise the marketing and sales, which are managed by Kali und Salz Entsorgung GmbH.

Opportunities exploited

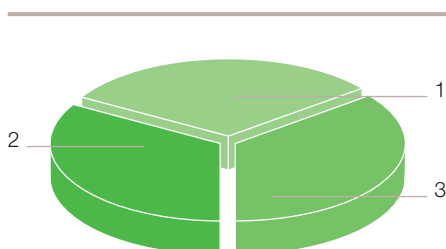
K+S has confirmed its position as the German market leader for underground waste management for instance of fly ashes, which is a strong growth segment. We further expanded the recycling of salt slag from the secondary production of aluminium.

The entire know-how available throughout the Group for the solution of chemical, mining and geological problems is used for the provision of advice to the customers. This all-embracing approach to the waste management offering distinguishes K+S from many of its competitors. The scope of services ranges from analyses, through development of the concept to the approval procedures, and from packaging, through logistics to waste disposal without the necessity for any further treatment.

The entry to the thermal soil treatment business in 2001 expanded the portfolio of waste management services by a fast-growing segment, which has manifold synergies with our previous activities.

Revenues by segments

in %



1 Disposal	35.6%
2 Reutilization	33.4%
3 Recycling	31.0%

Handling of the market also outside Germany

As expected, the quantities disposed of in the two underground depositories did not reach the record level of the previous year, because a major project involving the clean-up of inherited environmental burdens in Saxony-Anhalt came to an end in 2001. The quantity of waste from this project in 2001 only amounted to one-fifth of the previous year's volume. Despite this, the works in Herfa-Neurode and Zielitz were well employed.

We selectively expanded the exploitation of the European market. The main focuses are Switzerland, Italy and Austria.

In underground waste reutilization, the approach of offering all-embracing waste management concepts to an increasing degree in other European countries has proved to be successful. A total of 286,300 t of waste suitable for disposal in mines was reutilised as back-fill, an increase of 12% compared with the previous year.

Key figures

€ million	2001	2000
Revenues	63.5	76.8
EBIT	11.2	24.6
Capital expenditure	2.6	2.0
Employees as of 31.12. (number)	231	220

Popular supplier of recycling services

In the recycling business, strong demand from the automobile industry for secondary aluminium has encouraged the sale of smelting salt. The Rekal plant at the Sigmundshall works and therefore the slag processing capacity were very well employed. The aluminium yield increased accordingly.

In the case of building rubble, the large additional quantities of soil and building rubble in the previous year resulting from EXPO 2000 could not be completely replaced. Nevertheless, the plant also processed a higher than average volume of 441,200 t in 2001, even though it was 16% lower than in the previous year.

With its waste management and recycling offering, the segment generated revenues of € 63.5 million, which were € 13.3 million less than in the previous year (€ 76.8 million). EBIT amounted to € 11.2 million and fell by 55%. The relatively sharp decline is due to postponements from the fourth quarter of 2001 to the first quarter of 2002 as a result of the weather.

Prospects:

Further development to a supplier of system solutions

The Waste Management and Recycling Segment will strengthen its good market positions in Germany. It will push ahead with the expansion of the business in selected European markets; in this connection, the quality and safety advantages and its further development to a provider of system solutions are in the foreground. By entering the thermal soil cleaning sector, K+S is turning for the first time to the processing of organic waste, a market with good prospects. In addition, strategic cooperation agreements are being investigated in some product areas.

All in all, the Waste Management and Recycling Segment sees good opportunities for growth in the coming years on the basis of what has now been achieved.

www.k-plus-s.com



John F. Kennedy



“Man is still the most extraordinary computer of all.”

Information technology is not merely an entrepreneurial necessity for K+S, for the customers also benefit from our experience with bits and bytes. K+S passes on its knowledge, and also its expertise in analysis to its customers. The service offering of K+S ranges from the chartering of ships to the implementation of SAP software products.



Varying activities are bundled in the Services and Trading Segment. These include the granulation of the Catsan® animal hygiene product for Masterfoods GmbH and the logistics subsidiaries, Kali-Transport Gesellschaft mbH (KTG) and German Bulk Chartering GmbH (GBC) in Hamburg as well as UBT See- und Hafen-Spedition GmbH Rostock. They offer, in addition to product handling, also the chartering of ships, and work in addition as seaport forwarders and ship agents.

The IT-activities of data process GmbH, the trading business of Chemische Fabrik Kalk GmbH (CFK) in Cologne and the analytical and consulting services of K+S Consulting GmbH and its subsidiary, Bio-Data GmbH, also belong to this segment.

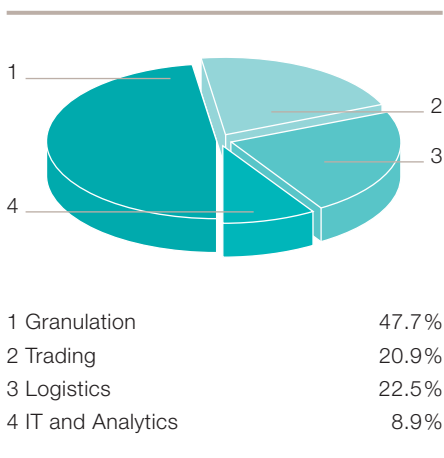
The segment's revenues decreased in the reporting period by 4% to € 47.0 million. EBIT increased however by 46% to € 14.9 million, due in particular to the increased contribution to the earnings by the IT activities from services within the K+S Group.

Granulation of Catsan® increased

We have succeeded in an outstanding manner in the former potash plant at Salzdetfurth in continuing to use existing equipment. K+S granulates the Catsan® animal hygiene product here for Masterfoods GmbH from raw materials that are delivered to the facility. The quantity granulated has increased once again. With € 22.4 million, the revenues increased by approximately 2% compared with the previous year.

Revenues by segments

in %



Logistics business stable

The logistics business unit was able to repeat the high revenues of the previous year and improve its earnings once more.

KTG did not quite repeat the very high product handling quantity of the previous year in the reporting period. The transshipment volume amounted altogether to 3.8 million t, a decline of 0.7 million t. The volume of grain exports, which KTG handles on a job contract basis, decreased sharply. The development of the chartering company, GBC, with a volume of 4.1 million t (2000: 3.0 million t), was extraordinarily good. UBT in Rostock, which is now fully integrated, also made a pleasing contribution to the forwarding and ships agents segments.

Self-developed IT instruments play an important role in K+S logistics. Already in 2000, K+S was the first large forwarder to put out inland shipping contracts for tender via the Internet. In this way, success was also achieved during the past year in the purchase of freight rates and internal procedures further improved.

Key figures

€ million	2001	2000
Revenues	47.0	49.2
EBIT	14.9	10.2
Capital expenditure	8.5	5.6
Employees as of 31.12. (number)	343	317

IT services strengthened

The revenues of data process in the business year were at the previous year's level. Demand for SAP consulting services within the K+S Group continues to be high. As a consequence, consulting services could only be offered in the market to a limited degree. Our self-developed "emaks" electronic market place was also accepted very promisingly by the first outside customers.

Satisfactory earnings from trading business

CFK's trading business with the de-icing agent, calcium chloride, was much better than in the previous year, on account of the weather. Pleasing increases were also recorded for caustic soda. The business with the remaining traded products reached the previous year's level. CFK increased its revenues in 2001 by € 2.3 million to € 9.8 million and generated a positive trading margin.

Analytical services expanded

The analytical services mainly concentrate on investigations of relevance for the environment, such as analyses of soil and water, and raw materials and product analyses. The spectrum ranges from mobile air monitoring to measurements at the workplace. A competent team of analysts is available for this at K+S Research Institute and in the plant laboratories. Some of the employees participate in German and European panels for the standardisation and development of the analysis methods.

The offering of analytical services was considerably expanded in the reporting period by the investment in Bio-Data GmbH in Giessen, which was acquired at the end of 2000. In order to improve the competitiveness of the offering and the market position, K+S Consulting GmbH took over all of the outside interests in Bio-Data GmbH as of January 1, 2002. Internal processes have been streamlined and tasks reassigned, so that the quality of the service and the consulting has improved.

Prospects:

Centralised marketing of experience and capacities

In close cooperation with the other segments, the segment is strengthening the logistics know-how available here. KTG and UBT are looking into logistics cooperation agreements with third parties. The expansion of the consulting and analytical activities and the third party business in the EDP area are further aims. Successful job contract production for third parties represented by the granulation of the Catsan® animal hygiene product confirms the fundamental aim of not only using the experience gained over many years in the Group, but also offering it to customers.

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

"Life is wanting to grow together."



Friedrich Nietzsche



Minerals are needed to maintain or improve the fertility of the soil, to enable us to sit at nature's table. People require salt in order to remain healthy. For the K+S Group, caring and preserving dealing with these resources is part and parcel of its entrepreneurial activities. It is a particular challenge for our employees to extract the raw materials always with an eye on the requirements of the environment and to offer them as a product with the corresponding services. For more quality of life for ever more people.



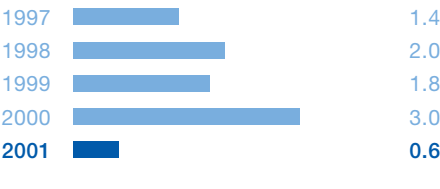
ECONOMIC REPORT

General environment in 2001

Worldwide downturn of the overall economy

This report combines management's analysis of the K+S Group and K+S Aktiengesellschaft. The information relates primarily to the consolidated financial statements, as the position of K+S Aktiengesellschaft is very largely determined by the position of the K+S Group.

Percentage increase
in gross domestic product
in 1995 prices



Source: Federal Statistical Office

Gross domestic product increased in real terms by only 0.6% in 2001 compared with the previous year. The economic institutes account for the weak growth in Germany on the one hand with the negative global economic environment and on the other hand with the temporary oil price “shock”. During the past year, the price per barrel of oil of the Brent reference quality increased to up to \$ 32. At the same time, however, homemade factors also slowed down the development in Germany. During the past business year 2001, the burdens imposed by the state increased once again as a result of electricity tax and mineral oil tax on fuels. The high ratio of taxes and levies of more than 55 percent burdens the inhabitants and business enterprises. Reforms of the labour market and the social system are overdue. Germany’s international competitiveness as an industrial location has declined further. Germany brought up the rear in the euro zone with a budget deficit of 2.7%. General consumer spending in Germany stagnated. Real domestic demand fell by 0.1 percentage points, having increased by two points in 2000. Amongst other things, the increase in prices turned out to be an impediment. They went up in 2001 by 2.5%; this increase of 0.6 percentage points compared with the previous year is due, in addition to higher energy costs, also to state burdens and the effects of the BSE and foot and mouth disease problems.

German exports remained at a high level, despite the downturn in the world economy. Deliveries in particular to countries that do not belong to the euro zone supported the development of the exports.

The attacks of September 11 in the USA inhibited further economic development worldwide. The effects will continue to be felt far into 2002, and possibly beyond that. The tragic events have however so far had no significant effects on the operative business of the K+S Group.

Markets and competition

In Western Europe, farm policy decisions and the unfavourable weather in the spring had a negative effect on the demand for fertilizers. In the second half of the year, the good grain harvests blocked the warehouses and generally prevented the advance storage of fertilizers. Overseas, high inventories inhibited the demand in the main customer countries of China, India and Brazil, while the decline in the price of palm oil in Indonesia and Malaysia also hampered consumption. There are no signs of a rapid and substantial recovery in Eastern Europe and the states of the former Soviet Union. There has still been virtually no improvement in the framework conditions there for agriculture.

Demand on the world potash market weakened in the past year by 0.5 million t of K_2O to 25.2 million t of K_2O . The worldwide output of potash amounted in 2001 to approximately 26 million t of K_2O , and was therefore at around the previous year's level. Output in Western Europe was slightly higher than in the previous year. The CIS potash producers and the producers on the Dead Sea reported increases in output. In North America, on the other hand, the falling output corresponded with the weaker demand due to the weather.

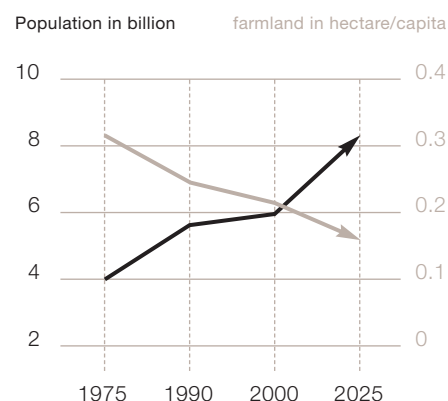
The development of the worldwide agricultural markets is primarily determined by the tendency for areas used for agriculture to decline in relation to the constant increase in world population. The development of special products and the serving of attractive niches enables us to participate successfully in the growing world market. With our broad, market-related portfolio, tight cost management and optimised production processes, we are a strong producer and supplier in the global potash business.

The entire green market and therefore the COMPO market grew once more in 2001, if only moderately. Stricter requirements imposed by the authorities in the area of small packages for pesticides slowed down the growth in consumption. Despite continued intensive competition, our COMPO business grew faster than the market. With new developments and our good name, as well as our brand image, we are very successful both in the professional and in the hobby sector. More innovations will further consolidate our good positions.

Different trends emerged in the market relevant for fertiva. There continued to be increasing demand overseas for nitrogenous fertilizers, which was however largely restricted to urea, a product not supplied by fertiva, which is also not unproblematic for the environment. In Western Europe, the prices for nitrogenous fertilizer increased sharply compared with the previous year due to the raw material costs, despite weaker demand. The consolidation and adjustment of the capacity in the Western European fertilizer industry continued. Further amalgamations between the individual producers cannot be excluded in 2002.

We will offer our customers a high benefit potential with the high-quality fertiva product and service portfolio. At the same time, we will exploit the manifold synergies in the K+S group.

Population growth
and arable farmland



Source: FAO, IFDC, IPI





The European Salt markets only have a limited growth potential. There is overcapacity in Western Europe, resulting in pressure on supply. In addition, new offers from neighbouring countries in Eastern Europe and countries outside Europe are forcing their way into the market. The price trend was nevertheless stable. There were price increases as a consequence of the energy costs for certain products or in certain markets.



Against the background of increasing competition, our esco - european salt company joint venture with Solvay offers the best prerequisites for the maintenance of our market position. With efficient structures and a broad product portfolio, esco will assume a leading position in the European market.

The Waste Management business in Germany was also marked by strong competition for a volume of waste, which is tending to stagnate. The existing waste management capacities were not fully employed. We offer our customers in this difficult but for us attractive market waste management concepts that are as all-embracing as possible. We are further expanding our positions in certain other European markets, concentrating on Switzerland, Italy, Spain and Austria.

The customers of our Recycling business, which comprises in particular the processing of aluminium slag, are mainly located in Germany. We also supply the smelting salts required by the secondary aluminium industry to other European countries. Here we are competing increasingly with other recycling smelting salts. Our foreign representative offices in Italy and Switzerland and cooperation agreements with experienced partners in further European countries ensure competence on the spot. Our consulting services and our offering of system solutions makes us a sought-after special provider in the European recycling and waste management market.

Development of the business in 2001

New corporate structure

Our internal structures are continuously under review. We have also changed our corporate structure for this reason. Kali und Salz GmbH was merged with economic effect from October 1, 2001 into its 100% parent company, K+S Aktiengesellschaft, with the entry in the Commercial Register at the District Court in Kassel on February 14, 2002. Prior to this, the operative "Potash and Magnesium Products" and "Salt" Divisions were spun off with economic effect from October 1, 2001 by Kali und Salz GmbH into its subsidiaries, K+S KALI GmbH and K+S Salz GmbH. Both companies are now 100% subsidiaries of K+S Aktiengesellschaft, with which controlling and profit and loss absorption agreements have been concluded in each case.

The Bergmannsseggen-Hugo and Sigmundshall works in Lower Saxony, the Neuhoof-Ellers works in Hesse, the Werra works in Hesse and Thuringia, with the exception of the K+S Research Institute located there, and the Herfa-Neurode underground despository and Zielitz mine in Saxony-Anhalt, as well as the units at the head office in Kassel and the field sales force that previously worked for the Potash and Magnesium Products Division belong to K+S KALI GmbH. In addition, the company provides services for the Waste Management and Recycling Segment through the operation of the underground facilities and the recycling of salt slag (REKAL).

K+S Salz GmbH will run the operative salt business until it is transferred into the joint venture company with Solvay S.A.

The main operative segments of the K+S Group now also have a corporate identity defined under company law. The holding and support functions are combined in K+S Aktiengesellschaft. These steps will enable us to make the K+S Group even more market and earnings-oriented.



esco - european salt company:

We have achieved a new milestone in the history of our company with the establishment of the “esco - european salt company” joint venture, a joint venture between K+S and Solvay S.A. of Brussels. esco will take up its work with economic effect from January 1, 2002. The main aim is to serve the European market optimally with efficient structures and a broad product portfolio from logistically advantageous product locations. The joint venture company, in which K+S holds 62% and Solvay 38%, will produce approximately 5 million tonnes of salt in its production and operating facilities each year. Revenues of approximately € 300 million will be generated with 1,400 employees; the earnings targets are ambitious.

The two joint venture partners are bringing their entire salt activities that are intended for marketing to third parties into the joint venture company. For K+S, these comprise marketing and sales and the production facilities in Bernburg, Grasleben near Helmstedt and Harlingen (the Netherlands). In addition to the German location at Borth on the Lower Rhine, Solvay is bringing in operations in Belgium, France, Portugal and Spain. Solvay is only retaining the salt production (captive use) required for the company’s own manufacture of soda and electrolysis products.



Sharp increase in revenues

With € 2,179.4 million, we have once again increased our revenues in the financial year 2001, this time by roughly € 91.5 million. The increase in revenues results in the main from the acquisitions in the COMPO and Salt Segments. We also however recorded an increase overall in our traditional business, where we profited in particular from stronger deliveries of de-icing salt due to the weather.

Management's analysis 2001

Sales by business segments

€ million	2001	2000
Potash and Magnesium Products	967.4	963.2
COMPO	436.2	331.6
fertiva	500.2	552.2
Salt	165.1	114.9
Waste Management and Recycling	63.5	76.8
Services and Trading	47.0	49.2
K+S Group	2,179.4	2,087.9

In the Potash and Magnesium Products Segment, the revenues increased marginally to € 967.4 million. Renewed growth of higher priced industrial potash products, considerable growth of potassium sulphate and the favourable exchange rate of the dollar contributed to this.

In the COMPO Segment, the revenues jumped by almost a third to € 436.2 million. Of the increase of € 104.6 million, € 59.7 million was due to acquisitions or the consolidation of new companies. We recorded internal revenue growth in particular with the innovative ENTEC fertilizers.

fertiva's revenues of € 500.2 million were € 52.0 million lower than in the previous year. This was due to the lower demand for straight and complex nitrogenous fertilizers on account of the poor weather. In addition, many warehouses in Europe were blocked by the good grain harvest. Furthermore, some of our customers still had high inventories at the end of the season.

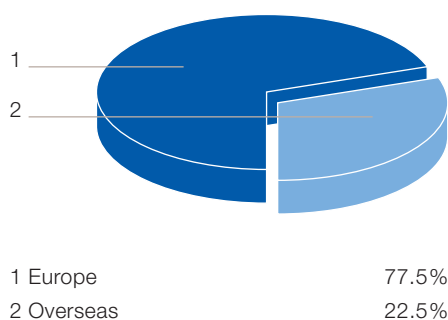
In the Salt Segment, in particular the strong demand for de-icing salt led to a sharp 44% increase in revenues to € 165.1 million. In addition, we succeeded in individual cases in imposing price increases for consumer and industrial products, which helped us to absorb the sharp increases in energy costs. The revenues also include a acquisitions-related effect of € 16.2 million due to the inclusion of Frisia Zout B.V. for a full year.

We generated revenues of € 63.5 million (2000: € 76.8 million) with Waste Management and Recycling. As expected, we were unable to repeat the extraordinarily high level of revenues of the previous year, following the completion of a large project relating to the clean-up of inherited environmental burdens. The decline in revenues was partly compensated by increases in the underground waste reutilization business and in recycling.

The revenues in the Services and Trading Segment amounted to € 47.0 million (2000: € 49.2 million). Increases in the trading business with winter service products and favourable business trends in the granulation of CATSAN® were not quite able to compensate declines in the logistics business.

Revenues by regions

in %



European home market

We recorded revenues of € 1,689.3 million in our European home market, and therefore an increase of 6% compared with the previous year, so that approximately 78% of the total revenues were in this for us especially important region. The revenues in Germany included in this figure fell to € 560.0 million. We consolidated our strategic positions in our target overseas markets, and increased the revenues slightly to € 490.1 million. As a consequence, we also continue to be a significant market participator in key markets outside Europe.

EBIT slightly below last year's level

Earnings before interest and taxes (EBIT) of € 120.6 million almost reached the previous year's record level of € 126.8 million. In the COMPO Segment, the relatively high one-off costs especially for the integration of the acquisitions and higher raw material costs reduced the earnings. In addition, the earnings in the Potash and Magnesium Products Segment were also lower. Here, EBIT failed to achieve the previous year's high level, which had benefited in particular from lower energy costs.

EBIT by business segments

€ million	2001	2000
Potash and Magnesium Products	66.9	77.2
COMPO	19.7	21.8
fertiva	0.6	0.3
Salt	27.5	4.8
Waste Management and Recycling	11.2	24.6
Services and Trading	14.9	10.2
Transitional amounts*	- 20.2	- 12.1
K+S Group	120.6	126.8

*Contrary to the previous year, the information on business segments is presented before consolidation. In addition, expenses and revenues that cannot be allocated to the business segments are shown separately. Both effects are reported in the line "transitional amounts" and provide the bridge to the figures for the group. The prior year figures have been adjusted accordingly.

The earnings situation at fertiva was clearly positive. In accordance however with the contractual arrangements, BASF was entitled to almost all of the earnings for the last time. In the Salt Segment, we multiplied the previous year's EBIT several times due to the much higher de-icing salt deliveries and the year-round inclusion of Frisia Zout B.V. for the first time for a full year. Although the EBIT of our Waste Management activities did not reach the previous year's exceptionally high level, it achieved the expected good magnitude. The earnings growth in the Services and Trading Segment is due, in addition to the logistics business unit, to the increased contribution to the earnings from our IT subsidiary, data process GmbH, from services within the K+S Group.

Condensed profit and loss account

€ million	2001	2000
Revenues	2,179.4	2,087.9
EBIT	120.6	126.8
Financial result	0.5	3.6
Earnings before income taxes	121.1	130.4
Net income	118.3	119.8

Management's analysis 2001

Financial result

The financial result of € 0.5 million declined markedly by € 3.1 million and was much lower than the previous year's figure, because of the decline of interest income, net from € 6.3 million to € 0.7 million. This was lower than the previous year, in particular on account of the smaller balance of cash funds, lower interest rates and factoring costs deliberately entered into. Write-downs on financial assets and short-term securities and the result from investments more or less compensated one another at € 1 million in each case. Much higher write-downs were necessary in the previous year.

Net income at the previous year's level

Earnings before taxes on income of € 121.1 million were 7% or € 9.3 million lower than the previous year's level. In 2000, there was a much higher corporation tax charge as a result of the partial utilisation of untaxed equity (old reserves) for the dividend distribution. The lower earnings of COMPO GmbH & Co. KG also resulted in smaller tax payments in the reporting period. In addition, the tax charge for the year 2001 is offset by higher deferred tax assets, resulting from the elimination of intercompany profits. The total tax expense for the reporting period accordingly only amounted to € 2.8 million, compared with € 10.7 million in the previous year. The K+S Group's net income of € 118.3 million was therefore almost at the previous year's high level.

DVFA earnings

DVFA earnings amounted to € 70.2 million, a decrease of € 17.0 million. Corrections of altogether € 48.1 million had to be charged compared with the actual net income in accordance with the German Commercial Code (HGB) in order to arrive at the DVFA earnings, or € 15.5 million more than in the previous year. Of the corrections that had to be made, alone € 40.0 million resulted from a fictitious tax charge, which would have arisen but for the utilisation of our relatively high tax-loss carry-forwards. It is expected that these tax losses will continue to be available for several years. The decline in the DVFA earnings compared with the previous year is due in particular to the change in the special reserve and the higher amortization of goodwill following the acquisition of the Algoflash Group.

In May 2001, the DVFA changed the calculation method for the DVFA earnings once again. Since then, proceeds from the release of the credit balance on capital consolidation no longer have to be corrected. We have adjusted the previous year's figures accordingly.

DVFA earnings

€ million	2001	2000
Net income	118.3	119.8
Deferred tax adjustments	- 40.0	- 40.9
Amortisation of goodwill	- 10.6	- 5.6
Special depreciation on tangible fixed assets	14.9	14.4
Change in special reserves	- 9.4	2.3
Other adjustments	- 3.0	- 2.8
DVFA earnings	70.2	87.2
DVFA earnings per share in €	1.62	1.98
Net income per share in €	2.73	2.72

Net income 1997–2001

€ million

1997	68.3
1998	83.7
1999	98.5
2000	119.8
2001	118.3

Sound net assets and capital structure

The balance sheet total of the K+S Group increased slightly as of December 31, 2001 to € 1,601.0 million.

On the assets side, the fixed assets increased by € 35.7 million to € 667.0 million on account of the higher capital expenditure. Their share of the balance sheet total increased compared with the previous year by 2 percentage points to 42%. The inventories and receivables increased to altogether € 719.5 million as of the balance sheet date. This increase of € 27.4 million or 4% compared with the previous year corresponds with the revenue growth. The balance of liquid funds fell to € 214.5 million because of the higher spending on capital expenditure and acquisitions.

The structure of the equity and liabilities does not display any significant changes at the end of the reporting period compared with the previous year. Equity increased slightly to € 458.0 million. In this connection, the growth, in the amount of the net income, is compensated by the dividend payment and the complete offset of the goodwill on the acquisition of the French Algoflash Group against the reserves. The equity ratio (according to the balance sheet) amounted to 29% (2000: 28%).

The balance on capital consolidation (credit difference) still amounts to € 58.4 million, after the scheduled release of € 15.9 million.

The long-term provisions of € 598.7 million were most unchanged. With a share of 37%, they continue to be the largest caption within the equity and liabilities. The short-term provisions went up by € 2.6 million to € 114.1 million. The liabilities increased to € 371.4 million.

The balance sheet structure shows that the assets are mainly financed by long-term capital. The coverage of the long-term assets by long-term capital is a large figure of 158%. Our high earning power and the healthy financial structure, especially the good liquidity position, put us in a position to also approach our external growth targets from an intrinsically strong financial basis.

Higher capital expenditure

In 2001, we invested with € 157.9 million a total of € 16.2 million more in tangible and intangible fixed assets than in the previous year.

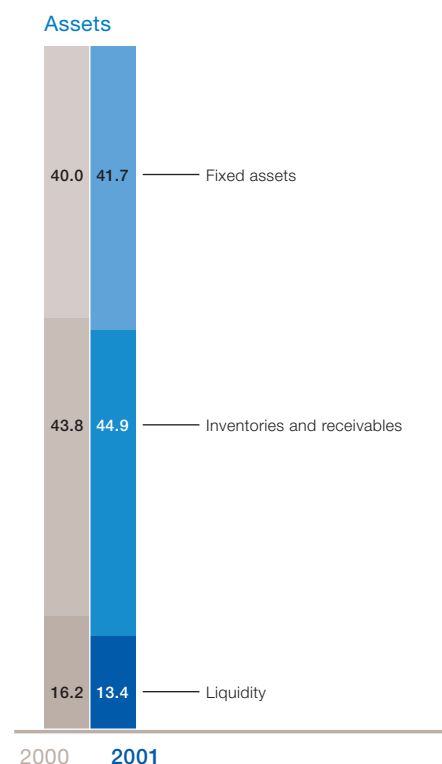
The new head office building in Kassel also served the aim of shortening decision paths and accelerating the flow of information in the K+S Group. Prior to this, the employees were spread over eight leased locations in the City of Kassel. The new building enables us to work together, effectively and also more cheaply under one roof. An additional plus is the favourable location from a communications point of view directly adjacent to the Kassel-Wilhelmshöhe Intercity Railway Station.

The Potash and Magnesium Products Segment commissioned the production plant for Kieserite at the Sigmundshall site near Hanover. With € 42 million, this was the K+S Group's largest individual project in 2001. The additional capacity of 300,000 tonnes of ESTA Kieserite will strengthen our global market leadership with this fertilizer speciality.

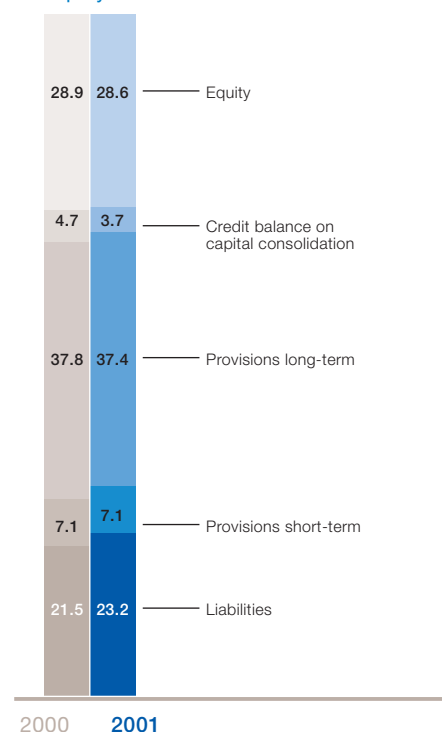
Net assets and financial position

Graph of balance sheet structure

in %



Equity and liabilities



Capital expenditure

€ million

2000	141.7
2001	157.9

We increased the capacity for the industrial potash product, potassium chloride 99%, at the Zielitz and Sigmundshall sites very cost-effectively by eliminating bottlenecks. In order to ensure our sales opportunities for high purity salts, we converted our production processes to the American "Good Manufacturing Practice" (GMP) standard. We had already started to do this in the previous year at the Werra works. This important task will be completed at the beginning of 2002. The new technical findings obtained in this connection are flowing at the same time into the conversion of the production process for Epsom Salt.

At COMPO, we concentrated, in addition to the acquisition of Gesal and Algoflash, on the expansion of our production capacities for our potting soils, special mineral fertilizers and ENTEC fertilizers at the German locations. Two newly commenced, major logistical projects in Krefeld and Münster will increase our deliver service, and will reduce the logistics costs overall. A new packing facility at the Uchte peat and humus plant went into operation at the end of the year. In order to guarantee the long-term resources, planning commenced for the exploitation of a peat deposit in Saxony, which will deliver peat for the first time in 2002.

In the fertiva Segment, the optimisation of the production facilities initiated by us at the BASF site in Antwerp was also in the foreground. The fertiva team has benefited, since the removal in June 2001, from the central location with excellent communications of its new premises in the immediate vicinity of the Intercity Railway intersection in Mannheim.

In the Salt Segment, we implemented further improvements in the logistics at our German locations. As a result, we reduced the loading and turnaround times of our transport partners. At the Bernburg works, we modernised the electrical and weighing facilities. At the Brunswick-Lüneburg works, we invested in new mobile facilities for the loading of de-icing salt. In addition, we expanded our plant for the optical sorting of rock salt. This has further improved the quality of the rock salt products. At our Dutch location in Harlingen, planning commenced for the exploitation of a new brine field. The exploitation of the field will help to ensure the resources for the coming decade.

Most of the capital expenditure in the Services and Trading Segment was incurred at our IT service provider, data process. We extended our computer centre for new applications such as e-Commerce and Business Warehouse. The computer centre, data back-up and data network were expanded and further automated.

Cash flow statement

€ million

	2001	2000
Net income	118.3	119.8
Gross cash flow	224.6	241.4
Cash flow from operating activities	202.8	284.8
Cash flow from investing activities	- 217.9	- 230.7
Cash flow from financing activities	- 44.8	- 86.8
Change in cash funds	- 59.3	- 34.0



High gross cash flow

The gross cash flow generated in the financial year 2001 of € 224.6 million was once again at a high level, even though it fell € 16.8 million short of the previous year's record figure.

Cash flow from operating activities amounted to € 202.8 million. They were therefore € 82.0 million lower than the previous year's figure. As a result of the increased business activities following the complete takeover of COMPO and the Algoflash Group, the funds tied up in working capital increased significantly. We see further potential here for optimisation.

The outflow of funds for investing activities was € 12.8 million lower than in the previous year and was largely financed by the cash flow from operating activities.

The cash flow from financing activities comprises with € 37.6 million the dividend for the year 2000. In addition, loan liabilities of the acquired Algoflash companies were paid back. In the previous year, this item was affected to the tune of € 69.4 million by the withdrawal of our own shares.

The outflows from the investing and financing activities, which were not covered by the inflows from operating activities, were financed out of the balance of liquid funds. The latter fell as of the balance sheet date by € 59.3 million to € 194.5 million.

Yields continue at a high level

The continued high earning power of the K+S Group is also clear from the yields generated in the reporting period:

Our return on equity after income taxes of 22.9% exceeded the already very high figure for the previous year of 22.6%.

The return on total investment before income taxes of 8.5% on the other hand was slightly below the previous year's figure. The return on capital employed (ROCE) amounted for the reporting period to 14.1% (2000: 15.7%) and was therefore on target.

The return on revenues amounted to 5.4%. It has to be taken into account that the revenues of fertiva in the amount of € 500.2 million are included in the calculation, whereas that company did not yet contribute to the earnings in 2001.

Gross cash flow

€ million

2000	241.4
2001	224.6

Return on equity

in %

2000	22.6
2001	22.9

Return on total investment

in %

2000	9.0
2001	8.5

ROCE

in %

2000	15.7
2001	14.1

Management's analysis 2001

Dividend distributions

€ per share

1997	–
1998	0.36
1999	0.57
2000	0.85
2001	1.00

Much higher proposed dividend

K+S Aktiengesellschaft, as the holding company of the K+S Group, generated net income of € 46.0 million in the financial year 2001 (2000: € 59.6 million). These earnings include an interim dividend of € 40.0 million (2000: € 60.0 million) from Kali und Salz GmbH, which was paid before its merger into K+S Aktiengesellschaft.

The dividend of € 37.6 million for the year 2000 was paid out of the profit retained of € 38.3 million at the beginning of 2001. After the changes during the year in the reserve for own shares and the transfer of € 6.1 million from the net income for the year to the revenue reserves, a profit retained of € 45.7 million remains as of December 31, 2001.

We will propose to the Annual General Meeting that a dividend of € 1.00 per share entitled to participate in dividends be paid. Taking into account the own shares held by us as of February 22, 2002, which will therefore not participate in the dividend, the total dividend will amount to € 43.4 million.

Condensed version of the annual financial statements of K+S Aktiengesellschaft Profit and loss account

€ million	2001	2000
Revenues	43.7	54.6
Earnings before income taxes	46.6	64.6
Taxes on income	0.6	5.0
Net income	46.0	59.6

Balance sheet

Tangible/intangible fixed assets	26.6	26.3
Financial assets	339.4	493.8
Fixed assets	366.0	520.1
Inventories and receivables	173.1	88.1
Cash and cash equivalents	145.2	107.4
Current assets	318.3	195.5
Total assets	684.3	715.6
Equity*	232.3	231.8
Provisions*	274.9	206.8
Liabilities	177.1	277.0
Total capital	684.3	715.6

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

The balance sheet structure of K+S Aktiengesellschaft has changed as a result of the merger of Kali und Salz GmbH into K+S Aktiengesellschaft. The net assets of Kali und Salz GmbH were transferred into the balance sheet of K+S Aktiengesellschaft without any effect on earnings, and replaced the previous carrying amount of Kali und Salz GmbH. As a result, the financial assets declined, while the current assets increased.

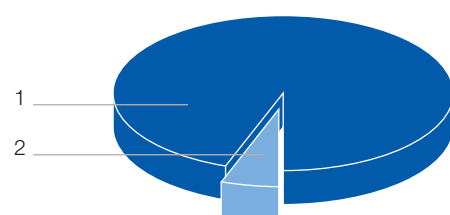
*including 50% of the special reserves

Our employees

Our employees identify themselves to a high degree with our products and services and with their responsibility to the company and society. The number of employees increased by 373 persons compared with the previous year, firstly because the scope of the consolidation has increased and secondly because we converted employment contracts concluded for a limited period of time into unlimited contracts and increased our engagement in vocational training. As of December 31, 2001, the K+S Group employed 9,775 staff worldwide.

The personnel expenses amounted in 2001 to approximately € 514.8 million and were therefore almost € 40 million higher than in the previous year. This is due to the increase in the workforce and the collective pay increases already agreed in 2000. We paid wages and salaries of € 395.0 million and social security contributions of € 108.6 million. The expenses for company pensions and support amounted to € 11.2 million.

Employees



1 Employees	9,775
2 thereof: Trainees	533

Sharing in the success of the company

We once again allowed our employees to participate in the success of the company in 2001. Our annual bonus amounted to 145% of the monthly remuneration (2000: 150%). In addition, we offered the staff of the domestic K+S Group companies employee shares at a discount, as in the previous year. About 52% took advantage of this offer. This programme cost some € 1.8 million.

The performance and profit-based remuneration system introduced step-by-step from 2000 was extended in 2001. All of the executive staff of K+S are now included in profit-based remuneration systems.

Smooth transition to the retirement pension

The opportunity is available in the K+S Group on the basis of collective and company agreements to apply for pre-retirement part-time work and therefore to elect a smooth transition to retirement. By December 31, 2001, 322 employees had signed pre-retirement part-time work agreements in accordance with the so-called block model. In accordance therewith, they work fulltime for the first half of the part-time work period, and are released from work in the second half. We are filling the positions made free as a result of the pre-retirement part-time work again, especially with young persons who have received their vocational training at K+S. This has enabled us to reduce the average age of our workforce and at the same time to make an important contribution for the labour market.



Career prospects for young people

Our engagement in vocational training is an important contribution to ensuring the availability of our own workforce in the future. In addition, we offer prospects to the young people at our locations. We have created further positions, and 533 young persons (2000: 479) are receiving an optimum start to their careers at our company in 15 modern, future-oriented professions. Our trainee ratio of 5.5% exceeds once again the already high previous year's level (5.1%) and therefore continues to be higher than the average level for German industry. We want to create the prerequisites in good time for the coverage of our future requirements for specialist and executive staff with the help of special training programmes, especially in the computer science and business management fields.

Further training – an investment in our employees

We again extended our wide-ranging further training offering in the year 2001. As a result of the increase in the size of the K+S Group and the increasingly international orientation, we have broadened the subjects covered, so that the number of participants has increased.

We are endeavouring in particular to intensify the awareness of the risk of accidents at the workplace through special further training measures. Nevertheless, 84 accidents occurred in 2001, compared with 91 reportable accidents in the previous year. As a result, the K+S Group reduced the figure to 5.2 industrial accidents per million working hours (2000: 5.8). We will not relax in our efforts to further reduce the accident figures.

Ideas from our employees – a huge asset

Our employees participated to a greater degree in the company suggestion scheme, with 2,022 suggestions for improvements (2000: 1,723 suggestions). Their ideas opened up a savings potential of € 1.05 million (2000: € 0.97 million) in the past year. We are encouraging our employees with selective measures to participate with their suggestions even more intensively in the happenings at the company.

Value added of the K+S Group

Source

€ million	2001	2000
Revenues	2,179.4	2,087.9
Other income	179.9	147.7
Company output	2,359.3	2,235.6
Cost of materials	1,047.1	988.8
Depreciation	129.8	128.9
Other expenses	541.2	508.5
Total input	1,718.1	1,626.2
Added value	641.2	609.4

Application

€ million

Shareholders	43.4	36.4
Employees	514.7	475.1
Public sector	4.4	13.9
Lenders	3.8	0.6
Company	74.9	83.4
Added value	641.2	609.4

Increased value added

The value added statement presents the difference between the output of the company and the amounts consumed for the necessary inputs. The application statement shows the allocation to the participants in the value added process.

The value added by the K+S Group of € 641.2 million was 5% higher than in the previous year (€ 609.4 million). As always, our employees accounted with 80% or € 514.7 million for by far the largest portion of this. Our shareholders received € 43.4 million. The public sector participated with € 4.4 million and our lenders with € 3.8 million. The remaining € 74.9 million was retained for the internal strengthening of the Group.

RESEARCH AND DEVELOPMENT REPORT

Future-oriented know-how

Our research and development activities (R+D) are aimed at innovations for our broad portfolio of field and special fertilizers, the optimisation and enhancement of the efficiency of our extraction, production and packaging procedures and the guarantee of the permanent safety of the underground cavities. The search for savings potentials in all process chains is also a continuing and important leitmotif behind the selection of our research projects.

In addition to our own capacities, we also use the potential available of BASF for our R+D-projects; we have also concluded a large number of cooperation agreements with universities. We will increase the proportion of research aimed at product innovations.

Research shows its effect

We spent € 13.6 million in the reporting period for research and development projects on the improvement of the products and process technology. The largest share of € 6.2 million went on Potash and Magnesium products, followed by € 4.0 million for the large number of innovations in the COMPO Segment. Fifty-two people work fulltime in the K+S Group on research and development. In addition, production personnel are also involved in decentralised research and development tasks in the segments. Our holding of industrial property rights at the present time comprises 456 patents and 2,691 trademark rights.

Practical recommendations

Our applications consulting is also concentrating its agricultural research work on the economic and environmentally compatible use of fertilizers. Special information, which permits the selective determination and evaluation of fertilizer quantities, nutrition forms and fertilization dates in line with the particular locations, is requested to an increasing degree. At the same time, we take special account of the needs of our customers. We check the results of our research in practice-oriented field tests all over the world. In addition, we test new developments, such as leaf and soil fertilizers containing micronutrients, for their effect. We also derive specific fertilization recommendations from this for practical applications.

Cost advantages from new plant

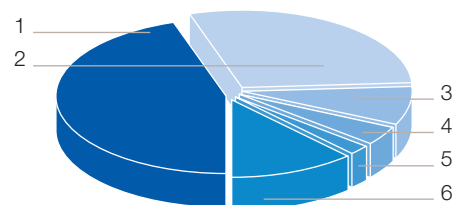
Our R+D-activities in the process technology field created important innovations for the new Kieserite production plant at the Sigmundshall works in the Potash and Magnesium Products Segment. We successfully solved a highly complex problem with the realisation of this project. We integrated new electrostatic separation plant in a production process combining flotation, hot dissolution and crystallisation, with manifold cost savings compared with the existing systems.

Research costs

€ million

2000	14.8
2001	13.6

Research costs by segments



1 Potash and Magnesium Products	45%
2 COMPO	29%
3 fertiva	8%
4 Salt	4%
5 Waste Management	2%
6 Central R+D	12%

Broader applications for ENTEC corroborated

For the COMPO Segment, we were not only able to corroborate the technical and economic effectiveness of the newly introduced ENTEC fertilizers for further crops, but could also prove their outstanding environmental compatibility. ENTEC fertilizers provide plants with nitrogen during their growth periods in line with their requirements, while it is largely protected from being washed out, for instance by rain. Our work in the area of slow release fertilizers was also successful, and we have applied for a licence for a new kind of long-term fertilizer. The special feature of this development is the optimum supply of nutrients from the new substance for the target crops. The nutrients are passed on to the plants continuously and over a long period. The target segments for this are horticulture and lawns and sports turf.

Further progress with underground automation

The modernisation and automation process underground has made further progress. The test phase for the first machine for an automatic area extraction system has been completed. The core of this project is a mobile loader, which moves automatically underground by means of a light band recognition procedure. It is linked to the control station on the surface via a system of guidance cameras, aerials, radio and fibre optic cables. An employee there steers the machine with a joystick. As a result of this project, long journeys to and from the face by the gang could be saved in the pit operations. In addition, waiting times while explosion gases in the panel disperse can be reduced. The first machine has been used successfully since September 2001, and two further machines will come into operation in March 2002.

We achieved an important success with the certificate for a shaft barrier, which will remain safe and tight over a long period of time, in order to secure the shafts and remaining cavities after the mine has been closed down. With this we have set a milestone in a project in Bad Salzdetfurth operated and co-financed with the Federal Ministry of Education and Research.

FURTHER INFORMATION

Active communications – promptly and timely

We want to present events in the company to the internal and external world promptly and transparently. One of our main aims is to communicate the K+S Group to our partners as an intrinsically strong and future-oriented group of companies, that develops and offers bases and ideas for life and growth.

For this reason we published a new K+S information brochure during the reporting period. It augments the broad spectrum of the presentations of our segments and the product information prepared especially for our customers. The brochure is intended to further improve our public and also internal images.

We have restructured our homepage at www.k-plus-s.com and matched it to the growing K+S Group with its organisational and corporate changes. The appearance, which was implemented by our subsidiary, data process, makes the content the most important matter, without neglecting the design. We regard the constant improvement of the offering of information for our many partners as a continuing process.

Our newsletters for shareholders, journalists and on the subject of fertilizers proved to be very popular; many new interested persons also took out new registrations for these services in 2001.

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We reported on a broad and timely basis on the developments at our Group. We exploited our contacts to journalists and analysts for the continuous dissemination of information at our press and analysts conferences. Four quarterly reports explained the business trends during the reporting period. Our comprehensive annual report, the personnel and social report and the environment report are also available to our partners in the public sector.

In addition, we present our concerns and expectations nationally and internationally in political bodies and important public institutions and associations.

Our segments present their product and service portfolios selectively at trade fairs and exhibitions and advertise their products and services through the media.

We make use of the completion of major investments and other important happenings for events, which enable us to talk to customers, journalist, politicians, interested parties and neighbours. The most important events of this nature in 2001 were the commissioning of the Kieserite factory at the Sigmundshall site and the official opening of the new head office building in Kassel, in the presence of a large number of prominent guests from industry and politics.

We support social and cultural concerns to an appropriate degree, especially in the areas surrounding our locations.

Intensive communications at all levels in the company make a significant contribution to the fact that people who have joined K+S in recent years feel at home and integrated in our group of companies. We report four times a year in the company's own staff newspaper and provide information on an ongoing basis via the K+S-wide Intranet.

Following the corporate restructuring at the end of 2001, the operative segments have been concentrated in independent companies. A significant focus of the communication work in 2002 will be the presentation of the performance of these companies to the public.

Environmental protection and industrial safety always under consideration

The permanent protection and preservation of our environment is a significant component of a constantly renewable contract between the generations. K+S pursues this principle at all its domestic and foreign locations. Our guidelines for environmental protection and industrial safety and their strict observance in the K+S Group help us to guarantee the industrial safety and protection of the health of our employees in a comprehensive manner and to use production processes and services thriftily with regard to the consumption of energy and resources. We report in detail on the results of our work in a separate environment report.

In order to coordinate the supra-company needs of the protection of labour, health and the environment in the K+S Group, we set up a committee in 2001, to which executives and representatives of the employees of all of the segments belong. The main task of this committee is to evaluate the incidents in the company on a regular basis. It suggests improvements and investments in industrial safety and the protection of the environment.

A further important aim is to relieve the roads wherever possible within the framework of our business activities, and to transfer more traffic to the railways and waterways. Our container project, with which we are replacing transportation by lorry selectively with inland navigation, is an example of this.

We invested € 6.8 million (2000: € 6.1 million) in environmental protection during the reporting period. We spent € 81.9 million (2000: € 67.5 million) on the operation of our plant for the protection of the environment.

Logistics further optimised

During the past year, we established a regular inland waterways service for the transportation of containers from Haldensleben on the Mittellandkanal to Hamburg. This is a cheaper and environmentally more acceptable alternative for the transportation of containers from our Bernburg and Zielitz works to Hamburg, compared with lorries. Approximately 700 trips by lorry are saved per year in this way in the first stage through switching to inland waterways ships. This alternative means of transport is also available for use by other forwarders, and will relieve the roads on a permanent basis.

Two logistics projects in Münster and Krefeld also underline our desire to continuously optimise means of transportation. The design of concepts with this aim is a permanent task.

We have further intensified our cooperation with the German Railways subsidiary, DB Cargo, which is our most important transport partner. The newly introduced EDIFACT data transfer system simplifies the scheduling of the trains and the administrative expenses.

K+S in the meantime handles more than a third of its potash transports by rail.

Improved quality management

The certified quality management systems at our Group were extended in 2001. Following the re-certification of the group company, Frisia Zout, and the COMPO company in France, more than a quarter of our employees work in certified QM-systems. The 14 certificates that already existed were extended or confirmed.

We have made the appropriate preparations for the production of our pharmaceutical substances in order to implement "Good Manufacturing Practice". We are therefore optimally prepared for the planned stricter legal provisions in the EU. We will continue to implement ISO 9001:2000.



Knowledge management

The aim of our knowledge management is to intensify the awareness of all employees for new findings and discernment, in order to pass these on actively and maintain them. A team of knowledge-holders who coordinate the knowledge management serves us as a platform. We carry out the documentation, administration and distribution thorough our existing SAP network. Virtual libraries, chat forums and colloquia round off the possibilities. We are well aware that such a new knowledge network has to be filled with life by every individual participant, and have therefore intensified our efforts on this within the company on this.



The Euro

Our accounting system has been working already since January 1, 2000 in the new euro currency. We completed the remaining conversion work in accordance with the plan and the deadlines. The main focus of our sales is in Europe and therefore in the euro zone. The influence of the dollar on our group revenues in past years has been reduced due to this focus. We expect a positive impulse overall from the common European currency. The euro not only improves the economic framework conditions in Europe, but also encourages competition on the product, service, labour and capital markets, with the consequence of cost savings that are also perceptible for us.

e-Commerce on the advance

We are exploiting the opportunities of e-Commerce techniques. We had already successfully carried out the first online auctions in the purchasing area in earlier years. We are now applying the positive experience achieved in the capital goods area since then with our “emaks” auction platform in the procurement of consumable items. One example is the electronic ordering system for office supplies, consumable EDP materials, tools and selected industrial safety products that was installed at K+S at the end of 2000. In connection with electronic payment transactions, new standard processes are created that reduce the process costs. In order to make more consequent use of the system advantages, we will further increase the number of users. We also intend to include the employees of the foreign K+S subsidiaries into this system.

We are involved in cc-chemplorer, the leading Internet market place for the chemical industry. This enables us to quickly access a large number of proven suppliers in the industry, which are capable of delivering on an international basis. We will already expand the offering portfolio shortly; we will procure electronic components and laboratory and safety materials electronically. The aim is to handle about 50% of the K+S procurement volumes via electronic ordering systems or cc-chemplorer by 2003. e-Commerce will then characterise the daily business in the purchasing area throughout the Group.

RISK MANAGEMENT REPORT

Every entrepreneurial activity is associated with opportunities and risks, and aimed at the optimum exploitation of opportunities, while limiting the risks to the greatest possible extent. Opportunities and risks must be in an appropriate relationship to one another. Their timely recognition, evaluation and systematic management are decisive prerequisites for ensuring our longterm business success.

The risks are recorded permanently in all relevant observation areas. The methods applied range from analyses of the market and the competition to the continuous observation of risk indicators. The measurement, analysis and evaluation of risks comply with quantitative and also qualitative aspects. Comprehensive systems are available for the monitoring and management of risks, which provide extensive information on a timely basis, and which are continually being refined and further developed. The instruments are tailored to the varying requirements. The entire risk management system is integrated in the company working procedures, the reporting system and the uniform Group planning and currently adjusted forecast system; the possible effects of risks and opportunities are presented here. The way in which the monitoring system works is documented, and this is reviewed at regular intervals by a working party from all parts of the Group and the internal auditors to make sure that it is functioning and efficient, and developed further.

Risks relating to the overall economy

Our segments are influenced by risks from the development of the economy as a whole. To the extent that economic developments and economic policy measures in the relevant markets can be estimated in advance, we do not expect any significant problems. Furthermore, significant political, legal and tax developments at the national and EU level are possible, which could affect the course of business. These include in particular influences on the development of prices in the energy markets, the outcome of the discussion on emission trading and the resolved introduction of a toll for lorries on the German motorways from 2003 onwards.

Industry risks

We assess the economic development in the fertilizer business as positive overall, because worldwide demand for fertilizers in the coming years will increase further. Particular influences will result from farm policy reforms in the EU and the anti-dumping regulations for nitrogen and potash fertilizers. Without these measures, all Western European fertilizer producers would be exposed to considerable disadvantages, because producers in the CIS countries would force their way into EU countries with extremely low price offers, without consideration of their costs. The effects of the farm policy discussions in Germany (e.g. the standards in ecological farming and the declaration obligation for additional substances) on the consumption of fertilizers cannot be completely estimated at the present time. Part of our specialties portfolio already meets such standards today. It can however be assumed that the aspired expansion of nature conservation areas under the European natura 2000 Programme will result in a further limited reduction in the areas used for farming and will tend to further reduce the sales of fertilizers in Europe.

New technologies or a decline in the number of consumers, which would result in significant changes in the various markets, are not discernible in the segments at the present time. We intend to expand our positions in the markets further through innovations, optimisation of the technical processes, the exploitation of new markets and through acquisitions and cooperation agreements. In this connection, there is a fundamental risk that companies acquired will not always completely fulfil the expectations, despite intensive due diligence reviews and careful assessments of the markets.

Procurement risks

We counter the risks relating to unavailability and price increases for special materials and supplies and also the special mining equipment of importance for us through substantiated procurement market analyses, the careful selection of suppliers, and also medium and long-term delivery contracts, as well as intensive technical cooperation with various suppliers.

Production risks

In the production areas below and above the ground, production plant is in use that is characterised by relatively high technical complexity and cross-linking. Comprehensive monitoring, exploratory and control systems are in use to identify possible production risks at an early stage. We counter the risk of interruptions to production due to the breakdown of individual key technical components by stocking special reserve parts, which are partly difficult to obtain quickly.

In the traditional extraction and processing of crude salts, the operational processes and structures are subject to a comprehensive set of legal rules. Thus, a large number of regulations, which are also controlled by the public, avoid and limit possible mining risks in the production process. All operating processes are analysed and optimised on an ongoing basis. Importance is attached for instance to the company suggestion schemes, which integrate the employees actively in a continuous improvement process.

Market risks

We analyse the demand, supply and competitive situation regularly in order to identify opportunities and risks in the markets on a timely basis and orientate our activities in an optimum manner. Demand in the Potash and Magnesium Products, fertiva, COMPO and Salt Segments is partly influenced by the weather. Flexible working hours models exist in order to compensate seasonal fluctuations in demand, which make possible production in accordance with the demands. In addition, a ramified network of storage possibilities ensures economic distribution of the products close to the customers.

Research and development

We cannot discern any particular risks from research and development, which could jeopardise the long-term maintenance of the value of the business enterprise. We are intensively engaged in the provision of advice on agricultural applications. Production processes are continuously being further developed, and product innovations carefully investigated and new applications pursued. In addition, quality assurance is important for the achievement of our business success. No patent disputes exist in connection with our development projects.

Financial management risks

The major proportion of our revenues in the operative business is concentrated in the euro zone, and is therefore free from direct foreign currency risks. We counter the remaining currency risks, in particular in US-dollars and British pounds, by concluding hedging transactions. The derivative financial instruments used for this purpose hedge underlying business that has already been carried out or is expected. In the hedging of expected underlying business, we only include those future receipts of foreign currencies, which can be expected with the greatest degree of probability on the basis of historical experience and the medium-term planning and assessment of the market. Responsibilities, the types of permitted derivatives and the controls are precisely defined for the purpose of the management of these risks. As a result of the hedging deals already concluded, the foreign exchange risks for the years 2002 and 2003 are only minimal. The current forecasts of the capital markets furthermore only allow the expectation of limited risks to our earnings positions as a result of the development of exchange rates and market interest rates.

Receivables balances are permanently monitored and analysed. Defaults risks on payments are covered either by flat-rate export guarantees (foreign non-OECD area) or by Hermes credit insurance (Inland and foreign OECD area). We also make use of the possibility of receivables forfaiting (factoring) as an alternative to Hermes cover. The financial structure is marked by a high equity ratio and very low bank loans and overdrafts. Group-wide liquidity planning monitors and controls the liquidity on a continuous basis. In addition to our liquidity situation, large credit lines are available that can be used if necessary for injections of liquidity, if the need arises.

Legal risks

No litigation or damage claims are pending or threatened that could have a material influence on the net assets, financial position and results of operations.

IT risks

The security of the EDP systems and of the data stocks is ensured as a result of manifold measures and up-to-date security standards. We accordingly do not expect any risks from the information technology in use.

Overall risk

The continuous development of our risk management system helps to clearly define responsibilities and continuously maintain the awareness of the opportunities and risks. We have not identified any significant risks in the segments that jeopardise the business undertaking, and therefore see no threat to the continued existence of the K+S Group. This assessment is based on the positive development of the earning power and the good equity capitalisation and liquidity situation. This and the market opportunities open up good prospects for the K+S Group.



FORECAST REPORT

Subsequent events

There were no relevant changes in the general environment for the K+S Group after the end of the financial year. The economic environment did not change to a degree that had a significant effect on our business, nor have there been significant changes in the situation of the industry.

On January 10, 2002, the EU competition authorities approved the establishment of esco. No conditions are attached to the approval. The necessary steps to amalgamate the companies commenced immediately, and will probably be completed in May. esco will be included from 2002 onwards in the consolidated financial statements of the K+S Group proportionately as a joint venture company. In line with our capital holding, therefore, 62% of esco's assets and liabilities will be taken up in the consolidated financial statements. The profit and loss account of the K+S Group will include the corresponding share of the revenues, other income, expenses and earnings of esco.

Outlook

Economic development

In our opinion, the overall economic development in our core market in Europe will also be marked in the coming years by favourable framework conditions for us. The economic institutes assume that exports will recover and expect domestic demand to increase. The economy should accordingly revive; the institutes see a real increase of 0.75% in gross domestic product in 2002. The tax burden from mineral oil tax and value added taxes will however probably increase successively. Tax increases in 2002 and 2003 have already been resolved in conjunction with the ecological tax reform.

We are following with great concern the EU Commission's plans for the introduction of compulsory emission trading for companies across national borders. In our opinion, the system announced so far cannot be harmonised with the voluntary undertakings of German industry on the protection of the climate based on solidarity within particular industries. With every industry-transcending sale of emissions rights without taking into account the respective starting off situation, the business basis for these self-obligations will cease automatically.



If we take into account the fact that EU-wide emission trading will in Germany come at the same time as ecological taxes and additional burdens from the Renewable Energy Law and the Law on the Promotion of Co-generation, it is to be feared that an uncoordinated, competitively distorting multiple burden will once more be imposed on business enterprises like the K+S Group, which are sensitive to energy prices. Against the background of the EU proposal, we have appealed together with other German companies in a joint letter to the German chancellor, Gerhard Schröder. In this letter we have in particular pointed out the large contribution (40%) made by German industry to the reduction of emissions in the EU countries. We too have for many years been making successful efforts to reduce these emissions. The CO₂ emissions of the K+S Group in 1990 still amounted to approximately 4.7 million t. By 2001, we had succeeded in reducing these emissions by approximately 3.7 million t, i.e. by 79%, to approximately 1 million t. We have also expressed our worries on account of the plans, which we believe to be counterproductive with regard to climate policies.

Development of the industry and the competition

The situation on the agricultural markets is marked by the increasing demand for foodstuffs for more and more people. According to the forecasts, the population of the world will increase from its present figure of approximately 6 billion people to approximately 9 billion in 2050. The limited amount of arable land available will therefore have to be farmed more intensively. At the present time, approximately 9% of the surface of the earth is used for agriculture, with a declining tendency. Mineral fertilization, which guarantees the better nutrition of the plants, is therefore of central importance.

According to the experts, global consumption of fertilizers, i.e. the use of nitrogen, phosphates and potash, will increase in the medium term at an annual rate of approximately 2%. We estimate that the demand in the world potash market is similar.

In the European market, demand will weaken slightly over the next few years due to more efficient use of organic fertilizers, but continue to be at a relatively high, interesting level. In the overseas markets, in particular in Asia and Latin America, we expect further increases on account of the greater nourishment requirements of the population, which is increasing particularly quickly there.

In the Potash and Magnesium Products Segment, we expect stronger competition for potassium chloride in the coming year, due to relatively high inventories at our competitors and the processing industry. The intensive price and quantity competition for potassium sulphate will continue for the foreseeable future. We expect demand for the special potash varieties and Thomaskali to increase again, because consumption of potash in Europe during 2001 was significantly lower, due to the influence of the weather and the agricultural crises, as indicated by the long-term development of the market. The commissioning of the production facility for ESTA Kieserite at our Sigmundshall works has provided us with a new production basis, with which we can secure and expand our market position for magnesium sulphates in the long term. In the coming years, we will work on the further expansion of our already strong market positions for industrial products, also with more intensive competition in certain markets.

COMPO is entering the year 2002 with an ambitious revenues and earnings plan. Altogether, we expect a sharp increase in revenues and earnings, which will be considerably in excess of those in 2001. The non-incurrence of one-off costs, synergy effects with Algoflash, price and quantity increases and tight cost management will contribute to this. We also want to further increase not only our revenues but also our earnings in the coming years. In this connection, we will rely in the hobby area on our European multi-brand strategy. We intend to ensure the further growth in the professional area. We will continue to push the sales of ENTEC fertilizers, extend the market positions for coated slow release

fertilizers and further diversify our product offering for pesticides by geographical growth in new target markets.

fertiva's business will slow down slightly over the next few years. While the demand for nitrogenous fertilizers in Europe will decline somewhat, we expect increasing requirements in the overseas markets. The existing surplus of urea is dominating the worldwide market and price situation. We shall have to wait and see whether China's membership of the WTO can bring about stability. We also regard the long-term market opportunities for ammonium sulphate nitrate (ASN) as favourable.

We expect stable, good sales trends in the salt business. The de-icing salt business, which is dependent on the weather, can have a further positive influence on the earnings. The customer-oriented offering in the remaining product areas and our delivery and service strength will ensure our market positions, also in view of the unchanged strong competitive situation in Europe. We are confident that the ambitious hopes placed in our salt joint venture will be met and that the manifold synergies will result in an increase in earnings at the latest in 2003 through the optimisation of our organisation and structure.

In the Waste Management and Recycling business, we returned to the normal level again after the record year 2000, and assume that the business will continue in 2002 at the lower quantity and revenue level. The underground waste disposal business is influenced to a high degree by major projects associated with the clean-up of inherited environmental burdens and our market success in the other European countries. We expect a good level of employment in 2002 in the underground depositories. We intend to compensate the completion of a further major project in the current year by new acquisitions. We are assuming continued favourable framework conditions for the underground waste reutilization and the recycling business. We should be able to maintain the level of revenues that has been achieved. The shaping of the national laws on waste and decisions of the EU in Brussels will also in the future provide the relevant framework for our waste management business. We expect a decision from the European Court in 2002 on the classification of underground waste reutilization. Depending on the outcome of the proceedings, we will orient our business concept so that we will be able to exploit the new opportunities arising under the changed legal framework in the best possible way for us.

We are confident that we will once again be able to strengthen our earning power of our Services and Trading activities. Despite an unfavourable general environment in some cases, we expect that our logistics activities will once again develop positively. Our IT subsidiary, data process, is aiming for revenues and earnings at the previous year's level in 2002. We expect a sharp increase in the third party revenues from consulting services from 2003 onwards, in particular from our SAP know-how.

We are optimistic that the downturn in the world economy will reverse in 2002, and that investors and consumers will shake off their insecurity. The cross-linking of our newer segments with our traditional fields of activities offers us, compared with the competition, with very good prerequisites in individual markets and also on the cost side, for continued success as the K+S Group. Capital expenditure, which will strengthen our substance and provide important components for our aspired growth, will also contribute to this. We also intend to generate high earnings once again in the current financial year.

Future-related statements

This annual report includes information and statements relating to the future development of the K+S Group and its companies. The forecasts represent estimations, which we have made on the basis of all the information available to us at the present time. Should the assumptions on which these forecasts are based fail to materialise or if the risks referred to in the risk report occur, the actual results could vary from the results expected at the present time.

“You have to weigh the years, not just count them.”



Sigmund Graff

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Profit and loss account January 1-December 31, 2001

€ thousand	Notes	2001	2000
Revenues	(1)	2,179,394	2,087,938
Cost of sales		1,474,773	1,417,872
Gross profit		704,621	670,066
Selling expenses		527,855	495,051
General and administrative expenses		54,838	34,206
Research costs		13,642	14,825
Other operating income	(2)	135,146	118,892
Other operating expenses	(3)	122,832	118,075
Earnings before interest and taxes (EBIT)		120,600	126,801
Income from investments, net	(4)	822	1,045
Write-downs on financial assets and short-term securities	(5)	1,057	3,675
Interest income, net	(6)	733	6,268
Result from ordinary operations/ earnings before income taxes		121,098	130,439
Taxes on income	(7)	2,777	10,662
Net income		118,321	119,777

Balance sheet as of December 31, 2001

€ thousand	Notes	2001	2000
Intangible assets		35,595	24,416
Tangible fixed assets	(11)	556,782	533,220
Financial assets	(12)	74,650	73,634
Fixed assets		667,027	631,270
Inventories	(13)	239,118	187,070
Receivables and other assets	(14)	476,482	503,378
Own shares	(15)	31,633	36,736
Other securities	(16)	69,843	100,476
Cash in hand and at banks, cheques		113,045	119,486
Current assets		930,121	947,146
Deferred taxes	(17)	889	–
Prepaid expenses		2,933	1,675
ASSETS		1,600,970	1,580,091
Subscribed capital	(18)	115,200	115,200
Additional paid-in capital	(19)	–	70,909
Reserve for own shares	(20)	31,633	36,736
Other revenue reserves and retained profit	(21)	310,756	224,997
Equity		457,589	447,842
Special reserves	(22)	1,607	17,514
Balance arising from capital consolidation	(23)	58,400	74,256
Provisions for pensions and similar obligations		179,455	176,714
Provisions for taxes		3,307	8,716
Other provisions		529,191	514,513
Provisions	(24)	711,953	699,943
Liabilities	(25)	370,865	340,018
Deferred income		556	518
EQUITY AND LIABILITIES		1,600,970	1,580,091

Development of fixed assets as of December 31, 2001

€ thousand	Gross book values					
	Balance at 1.1.2001	Additions	Changes in scope of consolidation	Disposals	Reclassi- fications	Balance at 31.12.2001
Concessions, industrial property rights and similar rights and assets, and licences for such rights and assets	25,004	3,843	11,280	51	– 2,163	37,913
Goodwill	2,914	275	–	357	2,250	5,082
Payments on account	6,108	1,773	–	–	– 68	7,813
Intangible assets	34,026	5,891	11,280	408	19	50,808
Land, rights similar to land, and buildings, including buildings on land owned by others	280,673	21,302	566	2,464	19,717	319,794
Technical equipment and machinery	927,010	72,059	961	13,700	29,482	1,015,812
Other equipment, operational and office equipment	120,940	22,678	980	2,364	2,628	144,862
Payments on account and construction in progress	40,701	35,926	–	91	– 51,846	24,690
Tangible fixed assets	1,369,324	151,965	2,507	18,619	– 19	1,505,158
Investments in affiliated companies	6,524	594	– 1,722	–	–	5,396
Loans to affiliated companies	5,000	–	– 4,850	16	–	134
Participating interests	907	9,539	1,430	1,430	46	10,492
Loans to companies in which participating interests are held	66	–	–	33	429	462
Long-term securities	40,155	–	–	–	– 46	40,109
Sundry loans and other financial assets	23,682	9,389	214	11,122	– 429	21,734
Financial assets	76,334	19,522	– 4,928	12,601	–	78,327
Fixed assets	1,479,684	177,378	8,859	31,628	–	1,634,293

Depreciation, amortization and write-downs					Net book values	
Balance at 1.1.2001	Additions	Disposals	Reclassi- fications/ write-ups	Balance at 31.12.2001	Balance at 31.12.2001	Balance at 31.12.2000
8,088	5,167	40	–	13,215	24,698	16,916
1,522	833	357	–	1,998	3,084	1,392
–	–	–	–	–	7,813	6,108
9,610	6,000	397	–	15,213	35,595	24,416
135,799	27,396	505	3	162,693	157,101	144,874
609,671	76,909	6,952	4	679,632	336,180	317,339
90,634	17,468	2,044	– 7	106,051	38,811	30,306
–	–	–	–	–	24,690	40,701
836,104	121,773	9,501	–	948,376	556,782	533,220
332	–	–	–	332	5,064	6,192
–	–	–	–	–	134	5,000
–	–	–	–	–	10,492	907
–	–	–	–	–	462	66
2	5	–	–	7	40,102	40,153
2,366	972	–	–	3,338	18,396	21,316
2,700	977	–	–	3,677	74,650	73,634
848,414	128,750	9,898	–	967,266	667,027	631,270

Segment reporting January 1-December 31, 2001

€ thousand	2001	2000	2001	2000
Business segments	Total revenues	Total revenues	thereof revenues with third parties	thereof revenues with third parties
Potash and Magnesium Products	1,024,034	979,069	967,396	963,189
COMPO	446,850	341,241	436,229	331,595
fertiva	503,435	553,156	500,186	552,243
Salt	166,858	114,913	165,123	114,907
Waste Management and Recycling	63,633	77,225	63,435	76,849
Services and Trading	91,525	90,003	47,017	49,155
Transitional amounts ¹⁾	- 116,941	- 67,669	8	-
K+S Group	2,179,394	2,087,938	2,179,394	2,087,938

€ thousand	2001	2000	2001	2000
Business segments	Assets	Assets	Liabilities	Liabilities
Potash and Magnesium Products	751,770	721,884	383,097	334,425
COMPO	344,397	263,470	196,905	110,631
fertiva	192,356	199,091	187,475	199,018
Salt	150,256	152,802	47,760	43,328
Waste Management and Recycling	33,577	37,105	7,976	6,887
Services and Trading	54,349	41,682	21,966	20,104
Transitional amounts ¹⁾	74,265	164,057	298,202	417,856
K+S Group	1,600,970	1,580,091	1,143,381	1,132,249

In 2001, the definitions of business segments have partially changed. The prior year figures have been adjusted accordingly. Further explanations regarding the business segment reporting can be found on pages 98 and 99.

¹⁾ The information on business segments is presented before consolidation. Expenses and income, that cannot be allocated to the business segments, are recorded separately.

Both effects are combined in the line "transitional amounts" and provide the bridge to the figures for the Group.

²⁾ Assets less cash and cash equivalence and less short-term debt (provisions and liabilities).

³⁾ Tangible and intangible fixed assets.

2001	2000	2001	2000	2001	2000
EBITDA	EBITDA	EBIT	EBIT	Gross cash flow	Gross cash flow
141,090	166,663	66,940	77,220	153,366	177,302
27,803	27,162	19,750	21,803	28,636	29,769
934	345	591	343	1,080	265
42,242	22,554	27,507	4,804	43,295	22,732
15,345	29,877	11,153	24,632	15,348	30,785
21,134	17,725	14,899	10,156	21,961	11,245
- 175	- 12,124	- 20,240	- 12,157	- 39,053	- 30,684
248,373	252,202	120,600	126,801	224,633	241,414

2001	2000	2001	2000	2001	2000
Invested capital ²⁾	Invested capital ²⁾	Capital expenditure ³⁾	Capital expenditure ³⁾	Employees as of 31.12./number	Employees as of 31.12./number
549,477	557,818	112,614	93,910	7,148	7,031
206,355	159,908	11,422	22,186	997	810
- 96,752	- 81,369	2,016	1	55	50
112,302	122,852	6,648	6,844	702	695
24,807	29,345	2,623	1,986	231	220
15,447	12,644	8,466	5,647	343	317
42,795	8,544	14,067	11,122	299	279
854,431	809,742	157,856	141,696	9,775	9,402

Cash flow statement January 1-December 31, 2001

€ thousand	2001	2000
Net income	118,321	119,777
Depreciation (+)/write-ups (-) on fixed assets	128,750	127,130
Increase (+) in long-term provisions	9,433	6,150
Decrease (-)/increase (+) in special reserves	- 15,908	4,493
Release of credit difference on consolidation	- 15,856	- 17,401
Write-downs (+)/write-ups (-) on short-term securities	- 107	1,265
Gross cash flow	224,633	241,414
Gain (-)/loss (+) on disposals of fixed assets	- 1,007	- 5,066
Increase (-) in inventories	- 45,184	- 14,729
Increase (-)/decrease (+) in receivables from operating activities	40,720	- 136,519
Decrease (-)/increase (+) in short-term provisions	- 19	30,398
Decrease (-)/increase (+) in liabilities from operating activities	- 16,299	169,283
Cash flow from operating activities	202,844	284,781
Proceeds from disposals of fixed assets	22,503	22,318
Disbursements for intangible assets	- 5,891	- 18,025
Disbursements for tangible fixed assets	- 134,144	- 119,553
Disbursements for financial assets	- 17,648	- 18,290
Disbursements for acquisition of consolidated companies	- 82,729	- 97,108
Cash flow from investing activities	- 217,909	- 230,658
Free cash flow	- 15,065	54,123
Withdrawal of own shares	-	- 69,358
Dividends paid	- 37,612	- 25,650
Proceeds from taking up financial loans	-	8,200
Disbursements for debt redemption	- 7,211	-
Cash flow from financing activities	- 44,823	- 86,808
Change in cash and cash equivalents affecting cash flow	- 59,888	- 32,685
Changes in value of cash and cash equivalents	600	- 1,265
Change in cash and cash equivalents	- 59,288	- 33,950

The annual financial statements of the K+S Group have been prepared in accordance with the regulations in the German Commercial Code (HGB) and the German Stock Companies Act (AktG).

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

Scope of consolidation

In addition to the parent company, K+S Aktiengesellschaft, all significant subsidiaries have been included in the consolidated financial statements. Subsidiaries of minor importance are not consolidated. Companies acquired during the financial year have been included with effect from the economic acquisition date. The scope of the consolidation changed as follows in 2001:

Eleven companies are consolidated for the first time:

- The French Algoflash Group, which was acquired as of January 1, 2001, with 8 companies.
- As of October 1, 2001, the Potash and Magnesium Products and Salt Divisions were spun off from Kali und Salz GmbH, and brought into 100% subsidiaries, which had not been consolidated in the past for reason of immateriality. These subsidiaries then changed their names to K+S KALI GmbH and K+S Salz GmbH respectively.
- COMPO Jardin AG, Allschwil, Switzerland, which was formed at the end of 2000, has been included in the consolidated financial statements since January 1, 2001.

Three previously fully consolidated companies, Kali und Salz GmbH, COMPO Agro Chile S.A. and K+S do Brasil Ltda. have been withdrawn from the consolidation. These companies were merged with other consolidated companies in conjunction with restructuring measures within the group.

General principles

The effect of the changes in the scope of the consolidation in 2001 was as follows:

	€ thousand
• Fixed assets	+ 8,266
• Inventories	+ 3,284
• Receivables	– 6,073
• Provisions	+ 3,122
• Liabilities	+ 6,427
• Revenues	+ 30,269
• Earnings before income taxes	+ 67

The restructuring measures within the group had no effect on the consolidated financial statements.

The following 19 (2000: 17) domestic and 21 (2000: 15) foreign companies are included in the consolidated financial statements:

Germany

K+S Aktiengesellschaft, Kassel
 Algoflash GmbH, Elmshorn
 Chemische Fabrik Kalk GmbH, Cologne
 COMPO Gesellschaft mbH & Co. KG, Münster
 data process GmbH, Kassel
 Deutscher Straßen-Dienst GmbH, Kassel
 fertiva GmbH, Mannheim
 German Bulk Chartering GmbH, Hamburg
 Kali und Salz Bauschutt-Recycling GmbH, Sehnde
 Kali und Salz Consulting GmbH, Kassel
 Kali und Salz Entsorgung GmbH, Kassel
 Kali-Transport Gesellschaft mbH, Hamburg
 Kali-Union Verwaltungsgesellschaft mbH, Kassel
 K+S Beteiligungs GmbH, Kassel
 K+S 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

Abroad

Algoflash S.A., Château Renault, France
 Algoflash N.V., Louvain la Neue, Belgium
 COMPO Agricola Holding S.L., Barcelona, Spain
 COMPO Agricoltura Spa, Cesano Maderno, Italy
 COMPO Agricoltura 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 Ltda., São Bernardo do Campo, Brazil
 COMPO Hellas S.A., Maroussi, Greece
 COMPO Horticulture et Jardin SAS, Roche-lez-Beaupré, France
 COMPO Jardin AG, Allschwil, Switzerland
 COMPO Partecipazioni S.r.l., Cesano Maderno, Italy
 Frisia Zout B.V., Harlingen, the Netherlands
 Gardiflor S.A., Gembloux, Belgium
 Jardin Finances SAS, Château Renault, France
 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

All of the German and foreign subsidiaries included in the consolidation are fully consolidated.

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 the 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.

Where the accounting and valuation methods applied in the annual financial statements of the consolidated companies deviate from these 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 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 January 1, 1997. The credit balance can therefore be attributed the character of a provision, because it represents expenditure in the form of depreciation on capital expenditure carried out in order to clean up damage to the environment. The balance is being 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 January 1, 1998, was allocated to the capital surplus, since no expenses or burdens are identifiable, which could be 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. Since these amounts were earned while they were members of the group, they have been transferred to the revenue reserves.

General principles

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 are as follows:

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

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, which 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 previous year, special depreciation was recorded against investments in the new German states in accordance with Article 4 of the Development Areas Act (Fördergebietgesetz). In addition, write-downs are recorded in accordance with Article 6b of the Income Tax Act, as permissible for German tax purposes.

Gallery and excavation work is not capitalized.

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 lower of cost or market, or at lower amounts permissible in accordance with German tax law. The production costs include, in addition to direct costs, a proportional share of the overheads based on the normal utilization of the capacity of the production plant, 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

Special reserves can be set up at German companies in certain circumstances in accordance with the German tax regulations. Releases and allocations are disclosed in notes (2) and (3).

Provisions for pensions and similar obligations

Pension provisions are computed in accordance with actuarial principles applying the present value method as defined in the German Income Tax Act and an interest rate of 6%.

General principles

Sundry provisions

Provisions for taxes and other provisions are recorded at the amounts expected to be required. 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.

Effect of special tax valuation measures

These result from special depreciation allowable for German tax purposes and special reserves. The results for the year 2001 were affected as follows by the exploitation of such tax options:

	€ thousand
• Net income	118,321
• Effect of special tax valuation	10,103
Adjusted net income	128,424

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

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. Items covered by specific hedging measures are recorded at the hedged rate.

Foreign currency receivables are translated at the buying rate as of the transaction date or the lower rate as of the balance sheet date, and foreign currency liabilities at the selling rate as of the transaction date or the higher rate 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 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.

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

	2001	2001	2000	2000
Exchange rates in relation to 1 €	Closing rate	Average rate for the year	Closing rate	Average rate for the year
US-dollars (USD)	0.881	0.896	0.931	0.924
Swiss francs (CHF)	1.483	1.510	1.523	1.558
Brazilian reals (BRL)	2.045	2.103	1.815	1.690
Chilean pesos (CLP)	573.908	568.495	532.543	497.958

Notes to the profit and loss account

The profit and loss account is presented on page 68.

(1) Revenues

The revenues of the K+S Group amounted to € 2,179 million (2000: € 2,088 million).

The breakdown of the revenues by business segments is presented in the segment information on page 72. The geographical breakdown of the revenues is disclosed in the notes to the segment reporting under Note (33).

(2) Other operating income

Other operating income includes the following material items in excess of € 1 million:

	2001	2000
• Release of provisions	30,991	23,813
• Foreign exchange gains	29,915	35,797
• Release of special reserves	16,015	2,090
• Release of balance arising from capital consolidation	15,856	17,401
• Release of specific write-downs on receivables	10,090	8,355
• Profits on disposals of short-term securities	5,182	209
• Rentals and leasing	3,559	3,618
• Profits on disposals of tangible fixed assets	1,510	7,341
• Damage claims	567	8,516
• Sundry income	21,461	11,752
	135,146	118,892

Income of some € 35,191,000 (2000: € 44,711,000) is attributable to other financial years, and results primarily from the release of provisions, specific write-downs on receivables and special reserves, and profits on disposals of fixed assets.

(3) Other operating expenses

Other operating expenses include the following material items in excess of € 1 million:

	2001	2000
• Exchange losses	20,715	36,831
• Expenses for closed plants	20,144	19,289
• Write-downs in accordance with Article 6b German Income Tax Act	16,665	1,959
• Housing expenses	4,631	3,613
• Other taxes	2,022	96
• Pension expenses	1,722	2,783
• Losses on disposals of fixed assets	1,068	1,769
• Allocations to special reserves	107	6,604
• Ancillary capital expenditure costs	3,259	3,946
• Sundry expenses	52,499	41,185
	122,832	118,075

Expenses of some € 5,124,000 (2000: € 10,575,000) are attributable to other financial years, and relate primarily to allocations to special reserves, losses on disposals of fixed assets, taxes for prior years, and specific write-downs on receivables.

(4) Result from investments, net

	2001	2000
• Income from investments	829	845
– of which from affiliated companies	(156)	(214)
• Income from profit transfer agreements	–	200
• Expenses from absorption of losses	7	–
	822	1,045

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

Write-downs on short-term securities of some € 80,000 (2000: € 1,932,000) had to be recorded on account of lower stock exchange or market prices as of the balance sheet date. Write-downs on financial assets amounted to Some € 977,000 (2000: € 1,743,000).

Notes to the profit and loss account

(6) Interest income, net

	2001	2000
• Other interest and similar income	12,077	17,249
– of which from affiliated companies	(171)	(–)
• Income from other securities, loans and other financial assets	2,813	1,068
• Interest expense included in allocations to provisions for pensions	– 10,020	– 9,998
• Sundry Interest and similar expenses	– 4,137	– 2,051
– of which to affiliated companies	(10)	(7)
	733	6,268

(7) Taxes

	2001	2000
• Corporation tax	648	4,970
• Trade tax on income	362	2,178
• Foreign income taxes	3,760	3,758
• Deferred taxes (Articles 274 and 306 HGB)	– 1,993	– 244
Taxes on income	2,777	10,662
Other taxes	1,614	3,299
Tax expense	4,391	13,961

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

(8) Cost of materials

	2001	2000
• Raw materials, supplies and purchased merchandise	835,184	798,837
• Purchased services	211,941	189,939
	1,047,125	988,776

(9) Personnel expenses/number of employees

Personnel expenses	2001	2000
• Wages and salaries	394,974	364,087
• Social security	108,643	101,363
• Pension expense	10,281	9,000
• Support	852	678
	514,750	475,128

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

Average number of employees during the year (including employees with temporary contracts)

	2001	2000
• Germany	9,576	9,374
• Abroad	667	324
	10,243	9,698
of whom trainees	456	417

The change in the scope of consolidation resulted in the addition of 68 employees (annual average).

Notes on the balance sheet

The balance sheet is presented on page 69.

(10) Fixed assets

The development of the gross book values and depreciation on the individual fixed assets captions is shown separately on pages 70 and 71.

(11) Tangible fixed assets

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

	2001	2000
• Depreciation in accordance with Article 4 Development Areas Act	8,565	25,565
• Transfer of profits on disposal in accordance with Article 6b German Income Tax Act	16,665	1,959
• Transfer of hidden reserves in accordance with R 35 German Income Tax Regulations	–	440
• Special write-downs in accordance with (principle of lower of cost or market) Article 253 (2) Sentence 3 HGB	166	–
	25,396	27,964

(12) Financial assets

Special write-downs of some € 972,000 (2000: € 1,741,000) were recorded against other loans 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. 11 a 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	15,287	1,324
COMPO GmbH & Co. KG, Münster	100.0	63,258	6,469
COMPO Agricoltura Spa, Cesano Maderno, Italy	100.0	901	– 1,528
COMPO Agricoltura S.L., Barcelona, Spain	100.0	4,897	1,172
COMPO Horticulture et Jardin SAS, Roche-lez-Beaupré, France	100.0	15,033	– 2,525
data process GmbH, Kassel	100.0	5,050	1,522 ¹⁾
fertiva GmbH, Mannheim	100.0	1,684	75
Frisia Zout B.V., Harlingen, the Netherlands	100.0	10,847	1,641
Kali und Salz Entsorgung GmbH, Kassel	100.0	7,506	4,434 ¹⁾
K+S KALI GmbH, Kassel	100.0	429,362	5,972 ¹⁾²⁾
K+S Salz GmbH, Kassel	100.0	75,679	9,841 ¹⁾²⁾
Kali-Transport Gesellschaft mbH, Hamburg	100.0	7,158	9,081 ¹⁾

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

²⁾ Beginning of operative business: October 1, 2001

Notes on the balance sheet

(13) Inventories

	2001	2000
• Raw materials and supplies	86,190	77,562
• Work in process	2,637	2,931
• Finished products and merchandise	141,048	104,979
• Payments on account	9,243	1,598
	239,118	187,070

Special write-downs for tax purposes of some € 964,000 (2000: € 563,000) were recorded on the basis of current conditions in the marketplace on inventories in conjunction with the going-concern write-down by the inverse method of determining the cost price.

(14) Receivables and other assets

	2001	of which residual term > 1 year	2000	of which residual term > 1 year
• Accounts receivable – trade	398,797	–	421,324	–
• Receivables from affiliated companies	5,324	–	4,304	–
• Receivables from companies in which participating interests are held	1,862	–	2,576	–
• Other assets	70,498	753	75,174	298
	476,481	753	503,378	298

The foreign currency receivables included hidden reserves of some € 1,719,000 (2000: € 962,000) due to a higher closing rate as of December 31, 2001.

(15) Own shares

The balance at the beginning of the year of own shares held by K+S Aktiengesellschaft amounted to 2,213,656 shares (= 4.92% of the share capital). Of these, 377 shares were sold, following the purchase of a further 64 shares at a price of € 17.73 per share, in January 2001 to employees of the K+S Group at a price of 9,83 € per share. As a result of the authorization granted by the Annual General Meeting on May 11, 2000, a further 163,487 of the company's own shares (= 0.36% of the share capital) were purchased at an average price of € 17.32 per share. In February, 126,830 shares (= 0.28% of the share capital) were handed over as consideration for the acquisition of the Algoflash Group at a price of € 18.03 per share. A further 1,500,000 shares (= 3.33% of the share capital) were sold to an Investor at the beginning of May at € 19.34 per share.

As a result of the authorization granted by the Annual General Meeting on May 9, 2001, K+S Aktiengesellschaft purchased 966,356 of its own shares (= 2.15% of the share capital) in 2001 over the stock market for an average price of € 19.82 per share.

In 2001, the company purchased a further 218,491 of its own shares (= 0.49% of the share capital) for an average price of € 18.65 per share for the purpose of issuing them to employees of the K+S Group.

Of these shares, 22,120 were sold to non-tariff staff of the K+S Group at a price of € 9.27 per share. A further 195,602 shares (= 0.43% of the share capital) were sold to employees of the K+S Group in conjunction with the 2001 staff share programme at an average price of € 10.34.

K+S Aktiengesellschaft held 1,717,125 (= 3.82% of the share capital) of its own shares as of December 31, 2001; they are valued at cost.

(16) Other securities

	2001	2000
• Fixed interest securities	5,252	5,252
• Fund units	36,087	76,962
• Shares	22,100	11,940
• Sundry securities	6,403	6,322
	69,842	100,476

The market or stock exchange value of the other securities amounted to some € 92,016,000 (2000: € 129,388,000). The decline in the fund units is due to the dissolution of special funds.

Notes on the balance sheet

(17) Deferred taxes

	2001
• Deferred tax assets	2,236
• Deferred tax liabilities	– 1,347
	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. In the previous year, the deferred tax assets and liabilities resulted in a credit balance of some € 1,103,000, which was reported under provisions for taxes.

(18) Subscribed capital

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

(19) Additional paid-in capital

The additional paid-in capital developed as follows:

• Balance as of January 1, 2001	70,909
• Offset of differences on capital consolidation	70,909
Balance as of December 31, 2001	–

The offset of differences on capital consolidation includes a debit difference of some € 71,364,000 resulting from the consolidation of the Algoflash companies, which were acquired in 2001. Hereof, some € 70,840,000 were deducted from the capital reserve. The remaining balance was offset against retained earnings. In previous years, debit balances of altogether € 108,627,000 arising from capital consolidation were deducted from the additional paid-in capital.

(20) Reserve for own shares

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

• Balance as of January 1, 2001	36,736
• Release due to disposal of own shares	27,079
• Appropriation from profit retained	21,976
Balance as of December 31, 2001	31,633

(21) 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 January 1, 2001	224,997
• Adjustment due to consolidation measures	– 53
• Dividend payment for 2000	– 37,612
• Appropriation to reserve for own shares	5,103
• Net income of K+S Group	118,321
Balance as of December 31, 2001	310,756

Notes on 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 and the Supervisory Board of K+S Aktiengesellschaft propose to the Annual General Meeting that a dividend of € 1.00 per share of no par value 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:

• Profit brought forward	38,279
• Dividend payment for 2000	– 37,612
• Allocation to reserve for own shares	5,103
• Allocation to other revenue reserves	– 6,100
• Net income of K+S Aktiengesellschaft	46,028
Balance as of December 31, 2001	45,698

(22) Special reserves

	2001	2000
• Reserve per Article 6b Income Tax Act	1	15,909
• Reserve per R 35 Income Tax Regulations	1,606	1,605
	1,607	17,514

(23) Balance arising from capital consolidation

The credit balance on capital consolidation relates to the former Kali und Salz GmbH and results from the initial consolidation of the 51% interest as of January 1, 1997.

• Balance as of January 1, 2001	74,256
• Released	15,856
Balance as of December 31, 2001	58,400

For the purposes of the consolidated financial statements of the K+S Group, the special loss account 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 K+S Salz GmbH in the amount of € 50,791,000 (2000: € 50,821,000) has been set off against the equity of the respective companies.

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

(24) 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. The provisions are calculated applying the 1998 Heubeck mortality tables and an interest rate of 6%. There are no shortfalls. The pension obligations of foreign companies are determined in accordance with comparable principles, taking into account the local situation.

Other provisions

The other provisions take adequate account of all foreseeable risks.

	2001	of which short-term	2000	of which short-term
• Mining obligations	307,866	6,382	311,473	6,041
• Obligations to employees	75,823	19,914	60,625	14,893
• Obligations under sales transactions and purchase contracts	41,499	41,499	45,037	45,037
• Maintenance and repairs	20,259	5,861	18,393	3,274
• Other	83,744	37,154	78,985	33,579
	529,191	110,810	514,513	102,824

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.

Notes on the balance sheet

(25) Liabilities

2001

	Total	Residual term ≤ 1 year	Residual term > 1 year and ≤ 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

2000

	Total	Residual term ≤ 1 year	Residual term > 1 year and ≤ 5 years	Residual term > 5 years
• Bank loans and overdrafts	11,059	2,859	800	7,400
• Accounts payable – trade	294,688	294,584	–	104
• Liabilities to affiliated companies	2,924	2,924	–	–
• Other liabilities	31,347	31,347	–	–
	340,018	331,714	800	7,504

The other liabilities include:

	2001	2000
• Taxes	1,851	5,433
• Social security liabilities	14,809	16,275

26) Contingent liabilities

	2001	2000
• Guarantees	–	9
• Warranty agreements	6,808	3,781
• Discounted notes	–	2,304

(27) Other financial commitments

	2001	2000
• Commitments under uncompleted capital expenditure projects	23,916	21,843
• Commitments under long-term rental and leasing contracts		
– due in following year	3,472	5,711
– due in 2 to 5 years	8,439	5,416
– due after 5 years	4,389	2,223
	40,216	35,193

Notes on the balance sheet

(28) Derivative financial instruments

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

Currency risks from the financing of subsidiaries in Brazil and Chile are hedged with non-deliverable forwards.

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

The following positions were open as of the balance sheet date:

	Notional amounts 2001	Fair values 2001
• Forward exchange transactions in US-dollars	590,037	– 607
• Forward exchange transactions in British pounds	3,758	– 32
• Non-deliverable forwards in Brazilian reals	6,338	– 520
• Non-deliverable forwards in Chilean pesos	9,073	– 529

The notional amounts do not reflect the risk for the K+S Group from the use of derivatives. Risks result on the contrary 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 December 2003.

In the cases in which fair values are lower than the notional values, provisions for contingent losses on pending transactions in the total amount of some € 4,649,000 have been set up for forward exchange transactions not covered by open US-dollar receivables from sales already made. Where the forward exchange transactions are covered by open US-dollar receivables from sales already made, valuation units are formed together with hedging transactions with the same maturities.

We have prepared the segment reporting in accordance with German Accounting Standard No. 3 (GAS 3) of the German Accounting Standards Committee (GASC). It is presented on pages 72 to 73.

(29) Definition of segments

The segments are defined by product types. This corresponds with the internal organisation and reporting structure of the K+S Group. In 2001, the definition of sub-areas within the segments was changed. The prior year figures were adjusted accordingly. This relates primarily to the business segment results of Potash and Magnesium Products as well as Services and Trading.

The Potash and Magnesium Products 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 Segment produces and markets branded products for the garden sector (garden and lawn fertilizers, plant care products and flower moulds) and special fertilizers for the professional sector (horticulture, special crops and agriculture).

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

The Salt Segment comprises the production and marketing of food grade salt, industrial salt and salt for chemical transformation, de-icing salt and sodium chloride brine.

The Waste Management and Recycling 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 also sectors that offer services to third parties are assigned to the Services and Trading Segment. This segment includes logistical, IT and analytical and consulting services, as well as job contract production of the Catsan® animal hygiene product and trading businesses.

(30) 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

(31) 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 is chosen that is closest to that under which arm's length prices are determined in comparable markets.

(32) Reconciliations

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:

	2001	2000
• Segment results		
– Proceeds from release of credit balance on capital consolidation	15,856	17,401
– Other consolidation effects	– 5,103	– 3,314
– Expenses of the central functions	– 30,993	– 26,244
	– 20,240	– 12,157
• Segment assets		
– Tangible and intangible fixed assets	20,936	19,416
– Financial assets	74,650	73,634
– Receivables	3,255	4,148
– Cash on hand, bank balances, cheques	151,855	234,499
– Consolidation effects	– 176,431	– 167,640
	74,265	164,057
• Segment liabilities		
– Balance on capital consolidation	58,400	74,256
– Special reserves	–	15,909
– Provisions for pensions and similar obligations	155,181	153,934
– Other provisions	163,549	174,119
– Liabilities	15,698	16,902
– Consolidation effects	– 94,626	– 17,264
	298,202	417,856

• Segment capital expenditure

The capital expenditures concern primarily the new building of the head office in Kassel.

(33) Geographical breakdown of revenues

The breakdown of revenues by geographical regions is as follows:

	2001	2000
• Germany	560,041	603,959
• Rest of Europe	1,129,218	994,662
• Overseas	490,135	489,317
	2,179,394	2,087,938

(34) Geographical breakdown of assets

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

	2001	2000
• Germany	1,295,126	1,344,302
• Rest of Europe	265,977	208,147
• Overseas	39,867	27,642
	1,600,970	1,580,091

(35) Geographical breakdown of capital expenditure

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

	2001	2000
• Germany	152,470	129,055
• Rest of Europe	5,083	12,473
• Overseas	303	168
	157,856	141,696

Notes to the cash flow statement

We have prepared the cash flow statement in accordance with German Accounting Standard No. 2 (GAS 2) of the German Accounting Standards Committee (GASC). It is presented on page 74.

(36) Cash flow from investing activities

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

• Purchase price	– 77,121
• Cash and cash equivalents acquired	2,182
• Financial liabilities assumed	– 7,790
	– 82,729

(37) Cash and cash equivalents

	2001	2000
• Own shares	31,633	36,736
• Other short-term securities	69,842	100,476
• Cash on hand, bank balances, cheques	113,045	119,486
• Short-term financial liabilities	– 19,969	– 2,859
	194,551	253,839

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

	2001	2000
• Total remuneration of the Supervisory Board	444	752
• Total remuneration of the Board of Executive Directors	3,178	2,202
• Total remuneration of former members of the Board of Executive Directors and surviving dependents	1,145	713
• Pension provisions for former members of the Board of Executive Directors and surviving dependents	6,035	6,053

The total remuneration of the Board of Executive Directors was for six board members (in some cases pro rata) in 2001 and for five board members in the previous year. In 2001, total remuneration included for the first time payments related to the exercise of stock option programs.

Members of the Supervisory Board and the Board of Executive Directors**Supervisory Board¹⁾****Gerhard R. Wolf, Worms**

Chairman, former member of the Board of Executive Directors of BASF AG

further Supervisory Board appointments: Kali und Salz GmbH (Chairman), Hornbach Holding AG (Chairman), Hornbach Baumarkt AG (Vice Chairman), 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: Kali und Salz GmbH (Vice Chairman), Allgemeine Deutsche Direktbank AG

Leonhard H. Fischer, Frankfurt am Main

member of the Boards of Executive Directors of Allianz AG and Dresdner Bank AG

further Supervisory Board appointments: Deutsche Börse AG (Vice Chairman), Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH, Eurex Clearing AG, Eurex Frankfurt AG, itelligence AG, NorCom Information Technology AG

further control bodies: Dresdner Luxembourg S.A., Dresdner Kleinwort Wasserstein (Japan) Limited (Chairman), 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- and Osteuropa mbH

¹⁾ as of December 31, 2001

Other information

Karl-Heinz Georgi, Haltern

Principal of the Haltern Education Centre of the Mining, Chemicals and Energy Trade Union

Rainer Grohe, Munich

Managing Director of VIAG invent! GmbH

further Supervisory Board appointments: Atlas Copco Holding GmbH, Clickwaste AG, Frankfurter Versicherungs AG, LOGIKA AG, Schmalbach-Lubeca AG, VAW Aluminium AG

Rüdiger Kienitz, Geisa

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

Klaus Krüger, Wolmirstedt

Chairman of the 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,

further control bodies: Logica plc, Great Britain

Hans Peter Schreib, Düsseldorf

Solicitor

further Supervisory Board appointments: Gildemeister AG, Metro AG

Dr. Eckart Sünner, Neustadt an der Weinstraße

Head of the Central Legal, Tax and Insurance Department at BASF AG

further Supervisory Board appointments: BASF Schwarzheide GmbH

further control bodies: BASF Corporation, USA

Hans-Dieter Winkelhake, Rehburg-Loccum

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

Dr. Helmut Karl Zentgraf, Burghaun

Manager of the Werra potash plant of Kali und Salz GmbH

Board of Executive Directors

Dr. Ralf Bethke, Kassel

Chairman

Potash and Magnesium Products Segment, COMPO Segment, fertiva Segment, Communication,
Corporate Development and Strategic Controlling

further appointments: VINCI Deutschland GmbH

Peter Backhaus, Essen

Director of Personnel

Personnel

Properties

Gerd Grimmig, Söhrewald

Waste Management and Recycling Segment, Mining and Geology, Research and Development,
Engineering and Energy Management, Environment and Industrial Safety

Markus Haug, Vaterstetten

1.4.2001 until 31.10.2001

Axel Hollstein, Kassel

until 3.10.2001

Norbert Steiner, Baunatal

Salt Segment, Services and Trading Segment, Purchasing and Materials Management, Finance,
Legal Affairs, Taxes and Insurance

Kassel, February 27, 2002

K+S Aktiengesellschaft

The Board of Executive Directors

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 January 1 to December 31, 2001. 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. 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, February 28, 2002

Wollert-Elmendorff Deutsche Industrie-Treuhand GmbH
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Emmerich
Auditor

Vogel
Auditor

Business assets	=	Balance sheet total + goodwill set off against reserves – differences on capital consolidation – operative liabilities and short-term provisions
Business earnings	=	DVFA earnings before deferred taxes + amortization of goodwill + interest expense
Cost of capital	=	Business assets (average for the year) x capital cost rate
Economic value added	=	Business earnings – cost of capital
Equity per share	=	$\frac{\text{Equity} + 50\% \text{ of special reserve} + \text{balance arising from capital consolidation}}{\text{Number of shares (45 million)}}$
Market value added	=	Market capitalization + pension provisions + other long-term provisions – business assets
Net dividend yield	=	$\frac{\text{Proposed dividend per share}}{\text{Share price as of balance sheet date}}$
Price earnings ratio	=	$\frac{\text{Share price as of balance sheet date}}{\text{DVFA earnings per share}}$
Return on equity	=	$\frac{\text{Net income}}{\text{Equity} + 50\% \text{ of special reserve} + \text{balance arising from capital consolidation}}$
Return on total investment	=	$\frac{\text{Earnings before income taxes} + \text{interest expense}}{\text{Balance sheet total}}$
Working capital	=	Inventories + receivables and other assets – short-term provisions – operating liabilities

Captive use	Use within the company of products manufactured for the own business that are not intended for sale to third parties.
Cash flow	Net balance of incoming and outgoing payments during a reporting period.
cc-chemplorer	A virtual market place in the Internet for chemical products that is also used by K+S. The founders of this market place include BASF, Henkel and Degussa.
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).
Derivative financial instruments	Are used to hedge possible risks, which can result from underlying share, annuity or foreign currency transactions. At K+S they are used exclusively to hedge existing foreign currency positions resulting from revenues in foreign currencies.
Due diligence	A careful review of business enterprises or part of business enterprises, which is carried out prior to acquisitions.
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.
e-Commerce	An electronic information and communication network within and between business enterprises, customers or public institutions.
Electrolysis	A process for separating solutions, here for instance potassium chloride solution, into their component parts using electricity.
emaks	A virtual market place developed by data process, in which tenders are issued by the K+S purchasing departments and incrementally by third parties.
Emission trading	Trading with emission certificates, which is being discussed against the background of problem of the protection of the climate.
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 in an environmentally friendly way.
Factoring	The sale of receivables to a third party, generally a bank.
Flotation	A separation process, in which potash crude salts are introduced to a salt solution, after being ground to a fine particle size. The flotation of the combined potassium chloride elements is achieved by adding a special agent.

Free float	The number of shares not held by investors owning more than 5% of the shares of a company (scattered holdings).
GMP	Short for Good Manufacturing Practice. An American quality seal for optimum manufacturing processes.
Goodwill	Derived from the difference between the purchase price and the net assets of an investment taken over on an acquisition.
Gross domestic product	Value of the economic performance, which results from the production activities in the country during the 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.
Hot dissolution	Here, the different temperature properties of the individual elements of the crude salts are exploited to separate the potash crude salt.
Investor Relations	Communications between the business enterprise, the financial markets and investors.
Joint venture	Agreement between various partners or companies to operate a business enterprise jointly.
Knowledge management	The structured development, dissemination through-out the group and management of knowledge, amongst other things to avoid duplication of effort.
Mid Caps	Term for medium-sized quoted companies, in particular companies in the MDAX stock market index.
natura 2000	A network of connected, special protection areas, which are to be defined by the year 2004. They include important withdrawal areas for plants and animals whose European habitat is threatened.
OECD	Organisation for Economic Cooperation and Development in Europe.
Risk management	Controlled steering of economic risks, their continuing assessment and monitoring and their management, in order to identify and solve emerging problems at an early stage.
Value added	The difference between the goods and services produced and the input necessary for this, such as purchased materials or services.
Working capital	Anglo-Saxon term for current assets less short-term provisions and liabilities. It is used by the company for the short-term financing of its operative business.
WHO	Short for World Health Organisation, which has given itself the task of ensuring the quality of world health.
WTO	Short for World Trade Organisation – Association of countries, which have promised to maintain certain minimum standards for fair world trade.

Glossary of Quotations

Title	Page 28
Mongolian proverb	Saint Isidor von Sevilla (560–636) Bishop and theologian
Inside cover	
Antoine de Saint-Exupéry (1900–1944)	
French humanist, novelist, story-teller and pilot	Page 32
	Karl F. Gutzkow (1811–1878) German dramatist, story-teller and journalist
Page 8	
Arthur Schnitzler (1862–1931)	
Austrian author	Page 36
	John F. Kennedy (1917–1963) American politician, 35 th President of the USA (1961–1963)
Page 14	
Mongolian proverb	
Page 16	Page 40
Ludwig Börne (1786–1837)	Friedrich Nietzsche (1844–1900) German philosopher
German author and critic	
Page 20	Page 66
Johann Wolfgang von Goethe (1749–1832)	Sigmund Graff (1898–1979) German author and aphoristic
German author	
Page 24	
Aristotle (384–322 B.C.)	
Philosopher and naturalist of the Occident	

Five-year summary

K+S Group

Revenues and earnings

€ million	2001	2000	1999	1998	1997
Revenues	2,179.4	2,087.9	1,191.9	1,139.3	1,111.5
Potash and Magnesium Products	967.4	963.2	935.6	926.6	886.2
COMPO	436.2	331.6	–	–	–
fertiva	500.2	552.2	–	–	–
Salt	165.1	114.9	147.8	130.2	132.6
Waste Management and Recycling	63.5	76.8	67.2	37.6	40.1
Services and Trading	47.0	49.2	41.3	44.9	52.6
Earnings before interest and taxes (EBIT)	120.6	126.8	88.5	72.3	62.7
Earnings before income taxes (EBT)	121.1	130.4	95.9	81.8	69.8
Net income	118.3	119.8	98.5	83.7	68.3
DVFA earnings ¹⁾	70.2	87.2	80.9	81.5	44.6
Gross cash flow	224.6	241.4	228.3	206.6	132.3

Balance sheet

Equity	458.4	456.6	444.4	451.4	538.4
Return on equity %	22.9	22.6	18.4	14.9	14.7
Fixed assets ²⁾	592.4	557.6	509.0	502.5	538.1
Capital expenditure ²⁾	157.9	141.7	106.1	84.1	101.4
Depreciation ²⁾	127.8	125.4	120.4	118.0	93.5
Balance sheet total	1,601.0	1,580.1	1,337.5	1,249.5	1,353.4
Return on total investment %	8.5	9.0	8.0	7.3	5.9

Employees

Employees as of Dec. 31	number	9,775	9,402	9,176	8,472	8,507
of whom trainees	number	533	479	473	434	385
Personnel expenses		514.8	475.1	410.4	405.1	376.7

Data per share

Net income ³⁾	€	2.73	2.72	2.04	1.67	1.06
DVFA earnings ¹⁾	€	1.62	1.98	1.68	1.63	0.89
Net dividend	€	1.00	0.85	0.57	0.36	–
Gross dividend	€	1.00	1.14	0.81	0.51	–
Net dividend yield	%	4.6	4.8	4.1	3.1	–

¹⁾ Prior year figures adjusted

²⁾ Tangible and intangible fixed assets

³⁾ After minority interests

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Financial timetable

Dates

Interim report March 31, 2002	May 8, 2002
Annual General Meeting 2002, Kassel	May 8, 2002
Dividend payment	May 10, 2002
Interim report June 30, 2002	August 8, 2002
Interim report September 30, 2002	November 2002
Press and analyst conference, Frankfurt	November 2002
Report on business in 2002	March 2003
Annual report press and analyst conference, Frankfurt	March 2003
Annual General Meeting 2003, Kassel	May 7, 2003

