

Growth Is Not
a Matter of Luck.



Experience growth.

Growth lies at the heart of our vision.

K+S is one of the world's leading suppliers
of speciality and standard fertilizers, plant care and salt products.
Achieving healthy and **sustained growth**
is our goal as a company and a challenge at the same time.

We offer agriculture, industry and private consumers
a **broad range of services** in the form of tailor-made
products and branded goods that serve as the basis for growth
in almost all areas of day-to-day life.

In doing so, we assume active **responsibility** for the sustained
development of our society. Our more than 10,000 employees
display their commitment toward this goal day in day out by
applying all their knowledge and experience.

K+S
Experience growth.

Revenues, earnings, cash flow

		2003	2002	2001	2000	1999
Revenues	€ million	2,287.8	2,258.5	2,179.4	2,087.9	1,191.9
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	€ million	223.7	240.1	248.4	252.2	206.2
Earnings before interest and taxes (EBIT)	€ million	115.7	132.8	120.6	126.8	88.5
Profit before income taxes	€ million	111.6	113.9	121.1	130.4	95.9
Net income	€ million	101.3	103.8	118.3	119.8	98.5
DVFA earnings	€ million	64.1	69.4	70.2	87.2	80.9
Gross cash flow	€ million	209.1	216.9	224.6	241.4	228.3
Capital expenditure ¹⁾	€ million	126.6	129.0	157.9	141.7	106.1
Depreciation ¹⁾	€ million	108.0	107.3	127.8	125.4	120.4

Balance sheet, shares

		2003	2002	2001	2000	1999
Equity ²⁾	€ million	584.9	558.8	516.8	530.9	536.1
Tangible fixed and intangible assets	€ million	659.8	598.6	592.4	557.6	509.0
Cash and cash equivalents	€ million	215.4	167.9	194.6	253.8	287.8
Balance sheet total	€ million	1,754.5	1,666.7	1,601.0	1,580.1	1,337.5
Total number of shares as of 31 Dec.	million	42.5	45.0	45.0	45.0	50.0
Outstanding shares as of 31 Dec. ³⁾	million	42.5	41.5	43.3	42.8	45.3
Average number of shares ⁴⁾	million	41.8	42.8	43.4	44.1	48.2

Employees

		2003	2002	2001	2000	1999
Employees as of 31 Dec. ^{5) 6)}	number	10,627	10,610	10,346	9,983	9,632
- of which trainees	number	550	542	533	479	473
Personnel expenses	€ million	550.3	527.8	514.8	475.1	410.4

Ratios

		2003	2002	2001	2000	1999
Net income per share ⁷⁾	€	2.42	2.43	2.73	2.72	2.04
DVFA earnings per share	€	1.53	1.62	1.62	1.98	1.68
Dividend per share ⁸⁾	€	1.00	1.00	1.00	0.85	0.57
Dividend yield ⁸⁾	%	4.6	5.8	4.6	4.8	4.1
EBITDA margin	%	9.8	10.6	11.4	12.1	17.3
EBIT margin	%	5.1	5.9	5.5	6.1	7.4
Return on revenues	%	4.4	4.6	5.4	5.7	8.3
Return on capital employed (ROCE)	%	12.7	14.7	14.1	15.7	12.7
Return on total investment	%	7.2	7.7	8.5	9.0	8.0
Return on equity	%	17.3	18.6	22.9	22.6	18.4
Book value per share	€	13.76	12.42	11.48	11.80	10.72
Gross cash flow per share	€	5.00	5.07	5.18	5.47	4.74

¹⁾ tangible fixed and intangible assets²⁾ incl. 50 % special reserves and balance from capital consolidation³⁾ total number of shares less the number of own shares held by K+S as of the balance sheet date⁴⁾ total number of shares less the average number of own shares held by K+S over the period⁵⁾ the number of employees for 2003 and 2002 includes a prorated number of esco employees commensurate with the equity share in esco held by K+S⁶⁾ workforce including all temporary employees (without students and interns)⁷⁾ after shares of third parties⁸⁾ the figure for 2003 corresponds to the proposed dividend



Potash and Magnesium Products		2003	2002	%
Revenues	€ million	1,004.7	992.3	+ 1.2
EBIT	€ million	31.6	55.6	- 43.2
Capital expenditure	€ million	81.6	89.1	- 8.4
Employees	number	7,575	7,612	- 0.5

Potash and magnesium crude salts are extracted at six mines in Germany. We use them to produce a large number of fertilizers. In addition, we process our crude salts for technical, industrial and pharmaceutical applications.



COMPO		2003	2002	%
Revenues	€ million	490.4	481.0	+ 2.0
EBIT	€ million	25.4	30.8	- 17.5
Capital expenditure	€ million	16.8	20.1	- 16.4
Employees	number	1,199	1,152	+ 4.1

COMPO offers hobby gardeners an assortment of high-quality potting soils, garden fertilizers and pesticides. COMPO is also active in the professional business sector, supplying complex fertilizers for special crops, horticulture, sports fields and public green areas.



fertiva		2003	2002	%
Revenues	€ million	474.1	469.5	+ 1.0
EBIT	€ million	6.6	6.3	+ 4.8
Capital expenditure	€ million	0.0	0.5	- 100.0
Employees	number	56	55	+ 1.8

fertiva manages the K+S Group's activities relating to nitrogenous agricultural fertilizers. fertiva markets agricultural fertilizers that are produced exclusively for it by BASF and also trades in goods purchased from other well-known European manufacturers.



Salt (62% esco)		2003	2002	%
Revenues	€ million	206.2	203.4	+ 1.4
EBIT	€ million	27.2	26.0	+ 4.6
Capital expenditure	€ million	18.7	7.9	+ 136.7
Employees	number	846	840	+ 0.7

Salt products of the highest purity and quality are used as table salt, industrial salt and salt for chemical transformation as well as in the form of de-icing salt applied by winter road clearance services to ensure road safety. Production takes place in Germany and in other Western European countries.



Waste Management and Recycling		2003	2002	%
Revenues	€ million	54.6	58.6	- 6.8
EBIT	€ million	4.2	8.3	- 49.4
Capital expenditure	€ million	1.5	1.6	- 6.3
Employees	number	236	238	- 0.8

This business segment uses the caverns and the infrastructure available in active K+S-mines. The K+S Group is one of Europe's leading providers of systems for underground waste management ensuring safe disposal over long periods of time. In addition, we also offer solutions that accommodate the recycling wishes of our customers.



Services and Trading		2003	2002	%
Revenues	€ million	56.4	51.8	+ 8.9
EBIT	€ million	17.0	15.4	+ 10.4
Capital expenditure	€ million	7.2	7.4	- 2.7
Employees	number	393	401	- 2.0

Our services activities are pooled in this business segment: CATSAN® granulation; logistics connected with product handling and the loading of ships as well as our IT activities and consulting and analytical services. These services are essential for the K+S Group and offered at an economical price both internally as well as to third parties.

Contents

Five-year summary K+S Group	
Business Segments At a Glance	
Preface	2
Supervisory Board Report	6
K+S Group	18
The particular value of the K+S business model	18
Potash and Magnesium Products	19
COMPO	21
fertiva	23
Salt	24
Waste Management and Recycling	25
Services and Trading	27
Salt – an essential natural product	30
The K+S share	36
Corporate Governance	41
Management`s Analysis 2003 K+S Group and K+S Aktiengesellschaft	46
Economic Report	46
Business Development 2003	49
Our employees	59
Research and Development Report	62
Transparent communications – comprehensive and up-to-date	64
Environmental Protection, Industrial Safety and Quality Management	65
Procurement	67
Risk Management Report	68
Forecast Report	72
Consolidated financial statements of the K+S Group	78
Glossary	104
Information order form	107
Contact	
Index	
Financial calendar	



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

Dear Shareholders,

Your K+S Group can once again look back at 2003 as a year that was satisfactory overall. Demand for the products offered in our broad, balanced portfolio has developed well in the markets that are important for us. With global fertilizer needs continuing to grow, we have managed to achieve price increases in many markets, albeit not always to the extent we wanted. Our joint venture esco – european salt company has further consolidated its leading position on European salt markets. We were able to successfully defend or enhance our strong positions in almost all the areas in which we operate, despite the environment being one that presented difficulties in part.

In terms of revenues, we have slightly exceeded the good level of a year ago. EBIT for 2003 has, however, declined as a result of external influences. In particular, we had to deal with the rising cost of energy and raw materials as well as lower US dollar hedging arrangements, and weather conditions were also less favourable. However, as a result of the significant improvement in the financial result, net income almost attained its 2002 level. The operating trend is not entirely in line with our targets and that is why we have created further conditions for new, controlled growth. They include various measures to optimise processes and cut costs as well as the stepping up of marketing and sales activities to improve our market positions and results.

We strengthened the earnings capacity of the K+S Group once again through capital expenditure designed to raise the productivity of our facilities and processes. The rapid development of a new, very rich potash deposit in the Werra area merits particular mention in this regard. We want to begin operational testing in the fourth quarter of 2004 and achieve full production as of January 2005, with the result that specific costs will be lower and the product range on offer higher. Other areas in which capital expenditure is being focussed include a new COMPO logistics and filling site in Spain as well as the expansion of the esco brine field in the Netherlands in order to ensure a supply of raw materials over the long term.

As there has been almost no change in the level of net income, we want to maintain the dividend for financial year 2003 on a constant level; the Supervisory Board and the Board of Executive Directors will therefore propose the distribution of € 1.00 per share to the Annual General Meeting once again. With a dividend yield of 4.6 % as of 31 December 2003, K+S thus occupies an excellent position among Germany's publicly traded companies.

In relation to financial year 2004, the saying "don't wait but act" applies more than ever before. As part of a consistent approach to cost management, we are seeking to strengthen the K+S Group for the future in a lasting manner and to further improve the level of our earnings above all. Growing demand in almost all markets, our particular competencies and the K+S open corporate culture create optimal preconditions for continued healthy growth as well as high earnings capacity for the group. On an on-going basis, we review the possibilities available for strengthening our core business segments through acquisitions and cooperation arrangements as well as for investing in the development of new opportunities while taking account of sound balance sheet and financial relations. We are enhancing relationships with our customers in a determined manner by introducing innovative developments of our assortment. This is because at K+S, we not only look to tomorrow, but also to the day after tomorrow.

We see ourselves facing great challenges, but new opportunities are also opening up before us. On the one hand, it is still necessary to ensure that the general environment for the fertilizer business is conducive to fair competition in Europe. This calls for intelligent cooperation among all the parties concerned with a view to providing protection against unfair trading practices in a European Union that is increasing in size. On the other hand, we see a trend toward scarcity worldwide in the case of important agricultural products and thus to increased demand for both our standard and speciality fertilizers. Prospects in the remaining markets of importance to us are also largely positive.

I would like to express my gratitude to all our employees, those in Germany and abroad, for making a major contribution to the success of the K+S Group through the high degree of commitment displayed by them. I would like to thank our customers, suppliers and all our company's partners for the good and fruitful cooperation that we have been able to engage in during financial year 2003.

I would like to thank you personally, dear shareholders, as well as on behalf of my colleagues on the Board of Executive Directors for the confidence that you have placed in your K+S Group. You can be sure that we will address the challenges that face us with undiminished commitment and will work with all our vigour to achieve our demanding goals to ensure the lasting success of the K+S Group.



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



Dr. Ralf Bethke, 61

Business administration graduate
Chairman of the Board
of Executive Directors

ORGANISATIONAL DIVISION 1

- Potash and Magnesium Products Business Segment
- fertiva Business Segment
 - Investor Relations
 - Communications
- Controlling and Capital Expenditure



Norbert Steiner, 49

Lawyer

ORGANISATIONAL DIVISION 2

- Salt Business Segment
- Services and Trading Business Segment
 - Finance
 - Purchasing and Logistics
- Legal Affairs, Taxes and Insurance
 - Audit





Gerd Grimmig, 50
Engineering graduate

- ORGANISATIONAL DIVISION 3
- Waste Management and Recycling Business Segment
 - Mining and Geology
 - Research and Development
 - Environmental Protection/
Industrial Safety/
Quality Management
 - Engineering/Energy



Dr. Thomas Nöcker*, 45
Lawyer
Personnel Director

- ORGANISATIONAL DIVISION 4
- Personnel
 - Property Management
 - Knowledge Management

* from 1 August 2003



Joachim Vogt*, 51
Engineering graduate, MBA

- ORGANISATIONAL DIVISION 5
- COMPO Business Segment
 - Corporate Development
 - Consumer Goods Coordination

* from 1 January 2003



Gerhard R. Wolf
Chairman

Ladies and gentlemen,

The K+S Group has continued to follow a successful course despite weakness in the global economy as well as in the German economy in particular and given an atmosphere of uncertainty prompted by the war in Iraq and by terrorist attacks. As an international company offering products for life and growth, it has performed well in its markets.

The Company has responded to rising costs in a timely manner with a new cost-cutting programme and aggressive marketing measures. The negative effects of a falling dollar on our export earnings have largely been averted by means of the forward-looking hedging of exchange rates. Although EBIT has declined, earnings after taxes were almost as good as a year ago because of the better financial result. That is why the Board of Executive Directors and the Supervisory Board propose maintaining the dividend at its current level.

The K+S Group remains on course for attaining internal and external growth. Of the several important projects that are underway, two are of particular importance. In Thuringia, a new deposit with above-average potash content is being developed. In the case of the Salt business segment, negotiations are being conducted with Solvay on the acquisition of its 38%-share of the successful joint venture esco. esco gives the K+S Group a leading position in Europe's markets.

The Supervisory Board was briefed by the Board of Executive Directors regularly and extensively. Five meetings were held during which the Supervisory Board dealt in depth with written and oral reports presented by the Board of Executive Directors on the course of business, important individual events, the position of the company as well as strategic development, investments and acquisitions, reviewing them and advising the Board of Executive Directors. Similarly, all motions relating to resolutions were carefully scrutinised. With regard to the inspecting of and commenting on the annual financial statements, the Supervisory Board invited the auditors Deloitte & Touche to take part in the meeting held on 10 March 2004.

The auditors Deloitte & Touche have issued an unqualified certificate. They also found once again that the risk management system is suitable for the specific requirements of the K+S Group. As the findings of its own inspection provided no basis for raising any objections, the Supervisory Board approved the annual financial statements for K+S Aktiengesellschaft and the consolidated annual financial statements as well as the joint management's analysis of financial year 2003. The annual financial statements of K+S Aktiengesellschaft were thus ratified.

The chairman of the Supervisory Board kept in touch with and exchanged views with the chairman of the Board of Executive Directors on an on-going basis.

Matters discussed have included the new version of the German Corporate Governance Code, previously the subject of comprehensive examination, and the risk management system.

Before issuing a declaration on conformity under the German Corporate Governance Code for the first time in 2002, the Supervisory Board held two meetings during which it dealt with the relevant subject matter in great depth and carefully examined the extent to which the K+S Group implements the recommendations contained in the Code in practice while taking account of those circumstances that are specific to the company. We concluded then, just as we have today, that to a large extent executive management thinks and acts in accordance with the relevant principles and rules of good, responsible corporate governance. Under the new version of the code, the declaration on conformity of March 2004 deviates from the "should" recommendations in four respects.

The suitability of the risk management system became apparent during the past financial year, especially with regard to identifying and appraising foreign currency risks in a timely manner. The fertilizer business could find itself exposed to a risk if hitherto EU Commission principles and measures directed against unfair competition and trading practices were to be relaxed after the new members accede to the EU and as a result of Russia's economic system being deemed a free market economy. The Board of Executive Directors is very active in using facts and convincing arguments to induce the EU Commission to adhere to the principles of fair competition in the area of foreign trade and payments. We take a confident view from the perspective of the present.

The composition of the Supervisory Board changed during the course of 2003 as the twelve members previously serving on the Supervisory Board completed their terms of office with the close of the Annual General Meeting held on 7 May 2003. In accordance with the statutory provisions contained in the German Co-Determination and Stock Corporation Acts, the number of Supervisory Board members has been increased from 12 to 16. The eight members representing the shareholders were elected at the Annual General Meeting on 7 May 2003. The eight employee representatives were elected on 28 March 2003. The newly-elected members of the Supervisory Board are: Ms Jella S. Benner-Heinacher; Mr. Renato De Salvo; Dr. Karl Heidenreich; Mr. Dieter Kuhn; Mr. Heinz-Gerd Kunaschewski; Dr. Bernd Malmström; Dr. Rudolf Müller and Mr. Michael Vassiliadis. Mr. Leonhard H. Fischer, Mr. Axel Hartmann, Mr. Manfred Kopke and Mr. Hans Peter Schreiber have stepped down. The Supervisory Board has elected Mr. Gerhard R. Wolf to serve as chairman and Mr. Michael Vassiliadis to serve as his deputy.

The personnel committee met twice. Acting on a recommendation made by it, the Supervisory Board appointed Dr. Thomas Nöcker to the Board of Executive Directors and to the position of personnel director of K+S Aktiengesellschaft with effect from 1 August 2003. He was latterly a member of the Board of Executive Directors, holding the same responsibilities, at RAG Saarberg AG. As head of personnel, Dr. Nöcker succeeded Mr. Peter Backhaus, who retired with effect from 31 July 2003.

We would like to thank the Board of Executive Directors, the managers of the subsidiaries, employee representatives as well as all the employees of the K+S Group for their work and the great commitment that they demonstrated in a difficult 2003.

Kassel, 10 March 2004
On behalf of the Supervisory Board



Gerhard R. Wolf
Chairman

Supervisory Board

Gerhard R. Wolf
Chairman
Former Member of the Board
of Executive Directors of BASF AG

Michael Vassiliadis
Vice Chairman
Union Secretary of the Mining,
Chemicals and Energy Trade Union

Jella S. Benner-Heinacher
Federal Manager of the Deutsche
Schutzvereinigung für
Wertpapierbesitz e.V.

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

Rainer Grohe
Executive Director of Galileo

Dr. Karl Heidenreich
Member of the Board
of Executive Directors
of Landesbank Baden-Württemberg

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

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

Dieter Kuhn
Member of the works council of
the Bernburg plant, esco - european
salt company GmbH & Co. KG

Heinz-Gerd Kunaschewski
Vice Chairman of the Group Works
Council of the K+S Group

Dr. Bernd Malmström
Chairman of the Board
of Executive Directors
of Stinnes AG and Member
of the Board of Executive Directors
of Deutsche Bahn AG

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

Dr. Rudolf Müller
Member of the Board of Executive
Directors of Südzucker AG

Renato De Salvo
Member of the works council
of the Sigmundshall potash plant
of K+S KALI GmbH

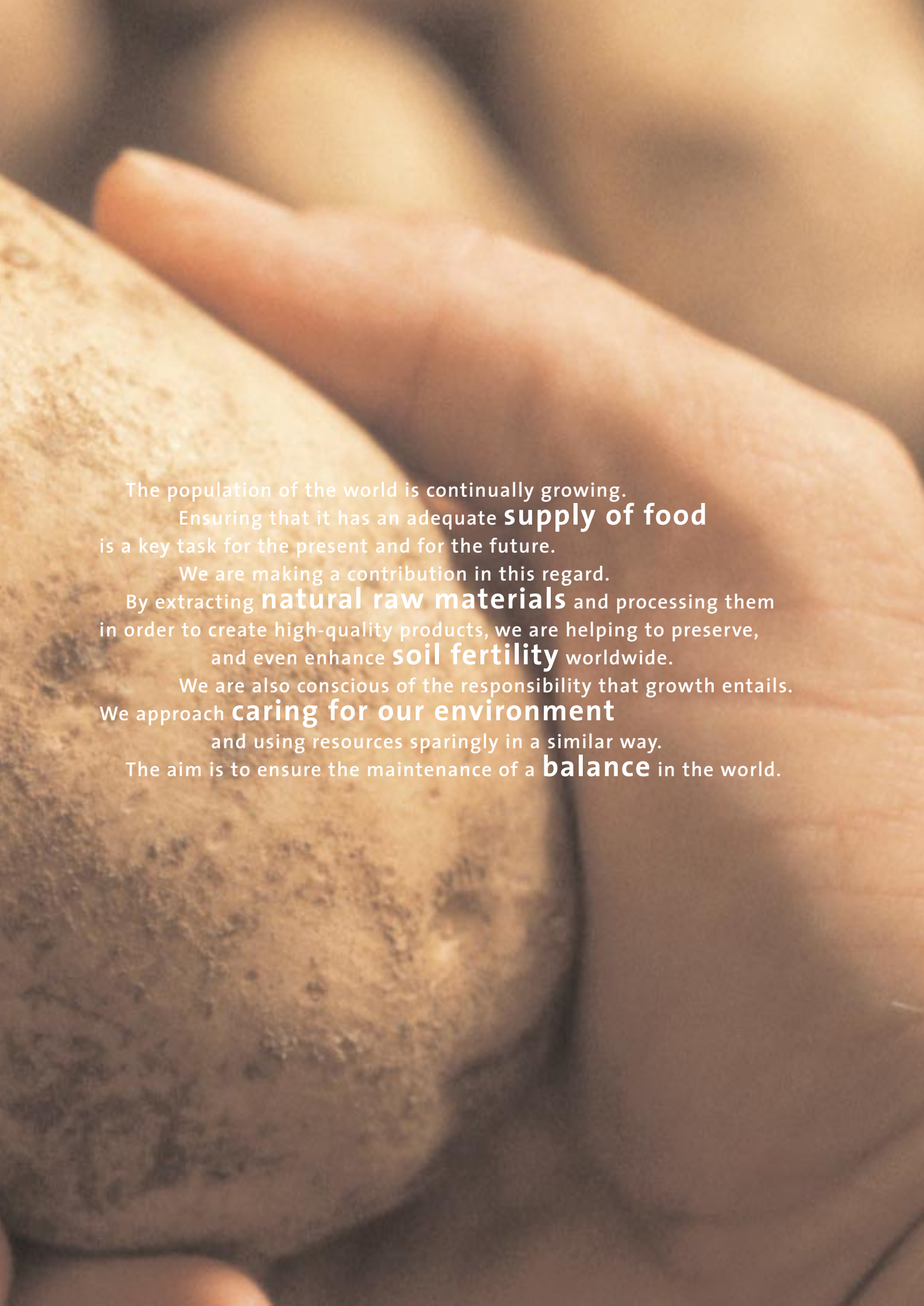
Dr. Eckart Sünner
Head of the Central Legal Affairs,
Tax and Insurance Department
of BASF AG

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

As of 31 December 2003

+ Growth
requires
RESPONSIBILITY.





The population of the world is continually growing.
Ensuring that it has an adequate **supply of food**
is a key task for the present and for the future.

We are making a contribution in this regard.
By extracting **natural raw materials** and processing them
in order to create high-quality products, we are helping to preserve,
and even enhance **soil fertility** worldwide.

We are also conscious of the responsibility that growth entails.
We approach **caring for our environment**
and using resources sparingly in a similar way.
The aim is to ensure the maintenance of a **balance** in the world.



+ **Growth
calls for SENSITIVITY.**

The key to **sustainable** success lies in being able to deal with each other in a respectful and understanding manner.

This not only applies to society but also to our company.

In accordance with the principles set forth in the German Corporate Governance Code, our management approach is based on **responsibility** and **transparency**, on internal

and external communications marked by openness, with the aim of collectively creating long-term value, and in order to consolidate our position as a supplier

of **specialities** and branded products on the market.

The result makes not only us **feel good**.





+ Growth needs COMPETENCE.

Mineral fertilizers are essential for life. They improve **soil fertility** and ensure the **supply of food** to the population of the world. We have been making our contribution in this regard for almost 120 years, employing specific **agricultural advisory** services, which cover detailed soil analyses as well as **tailor-made** fertilizer recipes. In addition, we set market standards for **innovation**, holding over 200 patents today. And that will not change in the future, too.



A person wearing a white lab coat is holding a green plant. The plant has several white identification tags attached to its stems. The background is a blurred green field. The text is overlaid on the white lab coat.

+ Growth thrives on new IDEAS.

Only someone who always thinks one step ahead can play a key role on global markets in **the future** too, using **innovative** ENTEC® fertilizers, for example.

These special fertilizers not only boost **yield quality** but also generate **cost benefits** for our customers. We are working to transfer the unique principle on which they operate to other product groups.

That is because **ideas** exist in order to be realized.



+ **Growth**
is based on **TEAMWORK.**



Togetherness is what makes us stronger.
By **interconnecting** our business segments,
we use our **know-how** and resources
in a way that generates higher profits.
This **close dovetailing** allows us to develop
our product range more efficiently.
Moreover, it gives us additional **flexibility**
in responding more rapidly to changing
market needs. This means that we cut
our costs **together** and increase
our **competitiveness.**

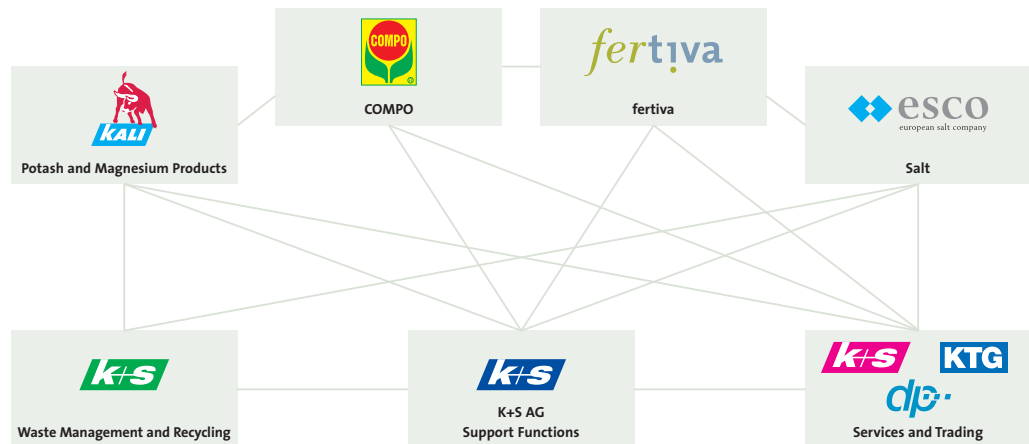


The particular value of the K+S business model

- The K+S business model leverages market- and cost-related synergies
- The Potash and Magnesium Products business segment develops new, rich deposit
- COMPO business segment enhances its position as European market leader
- K+S is in promising negotiations concerning the acquisition of the Solvay share in esco

Our business segments work together hand in hand and are deliberately interconnected. Externally, they combine efforts in a market-related respect whereas internally, the cooperation is technical in character. They have the backing of the service and support functions provided by group headquarters. This type of corporate interlinking opens up great opportunities for being particularly successful in our dealings with customers. In terms of costs, too, it is possible to achieve significant savings in relation to many of our business processes.

Combined operational and strategic action within the K+S Group is backed by group-wide, active knowledge management as well as a strategy-oriented policy on acquisitions and cooperation. In this way, we are able to offer our customers specialised services and a broad product range that is geared towards needs. We thus create value for the shareholders of the K+S Group that amounts to more than simply the sum of the parts.



Technology and production

The mineral crude salt components available to us for the production of fertilizers and salts, such as potassium chloride, sodium chloride or magnesium sulphate, are the result of a common history extending over millions of years and share the same geological characteristics. K+S mainly extracts these minerals in mines. The know-how that employees need to possess and the machines, equipment and processes used in production are to a large extent identical in the case of both potash and salt mines. Given that professional requirements with regard to the employees in these business segments are the same, there is flexibility in the transfer of employees, and the same applies to production-related capacity adjustments within the group. In addition, research and development activities are managed centrally. That production facilities at disused mines need not be “scrap” is borne out by, for example, the granulation of CATSAN® on a contractual basis; surface facilities located at a disused potash plant are being successfully used for the production of this animal hygiene product.

The wealth of experience that has been gained by our employees in both the potash and salt sectors over decades helps in fulfilling requirements laid down by public agencies, implementing safety measures that have been proven over time as well as in meeting environmental requirements. The Waste Management and Recycling business segment also benefits from this knowledge, because the caverns created underground as a result of the extraction of crude salts are in part used by the Waste Management and Recycling business segment for the safe disposal of waste over the long term and for waste recycling. Thus, back-fill operations to ensure that mines remain safe are performed by the business segment in a way that generates earnings, because suitable waste materials can be used for this purpose. A significant advantage in this regard is that waste management draws on the available infrastructure at active potash or salt mines. Significant synergies also exist in the COMPO and fertiva business segments. Both business segments have a substantial part of their products manufactured at the same plants, which

makes it possible to exercise optimal control over production depending on the requirements of the given business segment. Joint use of capacity results in a higher and more balanced level of plant utilisation, thus yielding a reduction in unit costs. In addition, some of the raw materials subsequently processed are supplied by the Potash and Magnesium Products business segment, with the remainder bought jointly on the world market.

Marketing and sales

There are many similarities in the know-how that is necessary to successfully sell fertilizers offered by the Potash and Magnesium Products business segment, the COMPO professional area and fertiva. The products are marketed through a similar distribution chain. Common know-how with regard to markets and the needs of customers gives rise to numerous synergies. A marketing forum that has been set for the three business segments helps with the attainment of the market success being sought for various product groups. An integral part of this coordinated approach is the constant provision of state-of-the-art application advice to agriculture and to wholesalers. Furthermore, in the case of certain selected target markets, distribution is effected through joint companies or distribution platforms, ensuring an individualised approach to attending to customers.

Logistics, IT and analysis

The Services and Trading business segment occupies a special place within the group. The segment combines those service activities that are fundamental to the K+S Group as a whole such as logistics, IT and analysis. Furthermore, these services are also offered to third parties when capacity is available. We deliberately expose these activities to competition to ensure quality of service that is efficient and meets market standards internally, too.

The Logistics business unit handles a large part of material flows for the K+S Group, which makes it possible to bundle shipping and other services for the different business segments and to optimise individual process chains. Taken together, both these elements yield significant savings on logistics costs.

All K+S Group IT activities are pooled in the wholly-owned subsidiary data process GmbH. As far back as the 1970s, K+S decided to adopt a group-wide SAP-based IT platform. The standardisation of IT systems yields significant cost benefits in terms of installation processes and in the form of lower service and maintenance costs. In addition, it provides a high, interconnected standard of quality for users.

The Consulting and Analysis business unit conducts specialised geological analyses that are of great importance not only for salt mining. Ongoing inspections and analyses have also become indispensable in the Waste Management and Recycling business segment as well as in the case of all fertilizer products; in this case, too, we are able to offer these services efficiently and on market terms.

Centralised support functions

In addition, other organisational units at headquarters level provide central business and technical support and service functions to all business segments. They include centrally managed functions such as finance and accounting, purchasing, logistics, reporting, taxation, legal affairs and personnel as well as engineering technology, environmental protection, industrial safety, research and geology.

Potash and Magnesium Products

The Potash and Magnesium Products business segment extracts potash and magnesium crude salts at six mines in Germany. The vital minerals contained in these natural raw materials, such as potassium, magnesium and sulphur, are then processed to produce high-grade mineral fertilizers. Farmers throughout the world use K+S fertilizers to produce food more efficiently and in doing so, they make an essential contribution to securing the world's supply of food. With the branded products at our disposal, we can offer customers solutions that are in line with their needs. The business segment is represented on the market by K+S KALI GmbH, which can rely on the support of its own distribution companies in all important market regions.

www.kali-gmbh.com



		2003	2002	%
Revenues	€ million	1,004.7	992.3	+ 1.2
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	€ million	104.1	126.9	- 18.0
Earnings before interest and taxes (EBIT)	€ million	31.6	55.6	- 43.2
EBIT margin	%	3.1	5.6	
Capital expenditure	€ million	81.6	89.1	- 8.4
Employees as of 31 December	number	7,575	7,612	- 0.5

Detailed comments on the course of business can be found in the section Management's Analysis.

K+S Group plays in the premier league worldwide

With a potash segment share of about 13 %, the Potash and Magnesium Products business segment is the fourth-largest single producer in the world and the clear leader in Western Europe. In the potash sulphate and magnesium sulphate fertilizers sector, we are even the global leader. Products containing magnesium and sulphur such as ESTA® Kieserite and EPSO Top® are increasing in importance. In addition to standard and speciality fertilizers with a wide range of uses in agriculture, the Potash and Magnesium Products business segment offers a broad range of products for industrial applications. This is another category in which we are among the leading suppliers worldwide, and by far the number one in Europe.

Potassium chloride – a classic

In terms of business segment revenues, potassium chloride is the product that generates the most revenues. It is a single-nutrient fertilizer with universal applications and is used for the most common major crops, such as cereals, corn, rice and soya beans, and in almost all types of soil worldwide for agricultural purposes.

We supply potassium chloride as a fine-grain standard product as a raw material for the complex fertilizer industry, which processes it along with other nutrients. In the case of these products, the raw materials are frequently combined in a liquid state phase and then granulated together. This ensures optimal distribution of nutrients at all times, with each grain containing the same proportions of nutrients.

In granulated form, potassium chloride possesses excellent spreading properties and can be applied evenly over fields using fertilizer sprinkling systems. Increasingly, our granulate is also used by bulk blenders, who mix it in a dry state along with other single nutrient fertilizers in accordance with various formulas. The ready product is then also used as a complex fertilizer in agriculture. The evolution of bulk blending has varied regionally: in Brazil, our most important overseas market, it is of very great importance, while classic complex fertilizer production is of more significance in Europe, especially in the case of fertilizer specialities.

K+S fertilizer specialities in demand worldwide

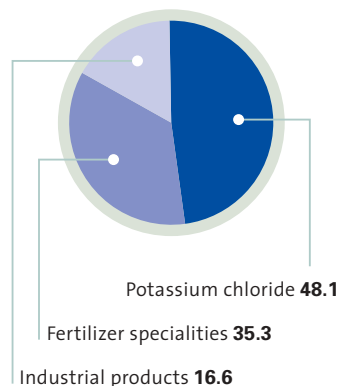
The fertilizer specialities offered by our Potash and Magnesium Products business segment differ from classic potassium chloride as a result of additional processing. Tailor-made nutrient formulas with magnesium, sulphur or trace elements too create attractive markets for special products worldwide.

The most important fertilizer specialities, such as Korn-Kali and Kieserite, are mainly used for soil and crops, which have a greater need for magnesium and sulphur in addition to potash, such as rape, potatoes and sugar beet. Special fertilizers that contain sulphur, such as potassium sulphate and Patentkali® as well as Kieserite and EPSO Top®, are primarily used for special crops like citrus fruits, potatoes, wine and vegetables that are sensitive to chloride. We offer a broad range of special fertilizers for application in liquid form as well as for ecological farming, too.

K+S industrial products possess a variety of possible applications

Our industrial products stand out in terms of particular qualitative properties, such as a high degree of purity or special grain size. They have various possible applications: Potassium Chloride 99 %, which we produce, is, for example, a product that is particularly suitable for chlorine-alkaline electrolysis in the

Revenues by product group (in %)



chemical industry as well as use in metallurgical processes and has been successfully sold in Germany and elsewhere for many years. Our potassium chloride is also used in the mineral oil industry, to make drilling fluids, for example. In the form of our Potassium Sulphate 93% and Magnesium Sulphate (anhydrous), we offer the building materials industry substances that possess special qualitative features and can be used to pour floors and to produce special gypsum, dry-wall and lightweight building slabs.

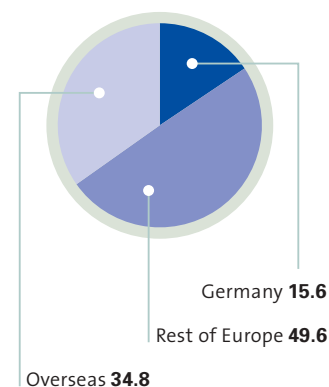
Our Epsom salt product offers the broadest range of applications: It is employed in the paper and pulp industry to aid environmentally friendly oxygen bleaching, added to detergents to protect fibres and used in the production of synthetic materials for the purpose of separating the desired end products. In addition, through their use in the pharmaceutical and foodstuff industries our high-purity potassium and magnesium products make an important contribution to preserving health in dialysis and as a raw material in the production of pharmaceuticals, for example.

Unique product mix and new deposit create good opportunities

We offer our customers a unique product range derived from potash and magnesium crude salts that is more comprehensive than that offered by any other producer of potash in the world. That is why the production of specialities for markets throughout the world is one of our strategic goals. With regard to standard products, the regional sales focus for our potash and magnesium products is in Europe for shipment reasons, while specialities are sold in selected overseas markets to a larger extent, too.

A very important project for the enhancing of productivity and the expansion of the potash business is the opening up of a new sector of the Werra deposits ("Sylvinitite Project") where the crude salt contains an above-average quantity of potash. The use of this potash crude salt should give a tangible boost to earnings as of 2005.

Revenues by region
(in %)



COMPO

When hobby gardeners use COMPO® products, their plants and flowers give them great pleasure. COMPO has a broad range of particularly high-quality products that help turn a garden into a private paradise. COMPO® products also stand for the highest quality and appropriate yields when it comes to professional uses. This applies to the efficient supplying of fertilizers to special crops such as grapes, vegetables and fruits but also to sports turf. In Germany, for example, COMPO® products are the fertilizers used for the grass in three out of every four Bundesliga soccer stadiums and for two out of every three golf courses.

		2003	2002	%
Revenues	€ million	490.4	481.0	+ 2.0
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	€ million	35.9	40.7	-11.8
Earnings before interest and taxes (EBIT)	€ million	25.4	30.8	-17.5
EBIT margin	%	5.2	6.4	
Capital expenditure	€ million	16.8	20.1	-16.4
Employees as of 31 December	number	1,199	1,152	+ 4.1

Detailed comments on the course of business can be found in the section Management's Analysis.

COMPO® quality products lead in Europe

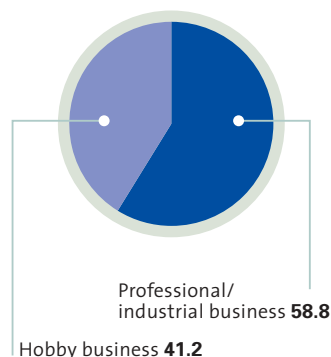
The COMPO business segment is the market leader in continental Europe, with a share of over 20% of the hobby markets. In terms of the four product groups of potting soil, plant care, lawn fertilizers and garden fertilizers, we are well ahead of the main international competitors and with regard to plant protection agents, we occupy third place in the markets that we currently serve.

In the professional segment (agricultural and horticultural applications), too, the COMPO business segment is an innovative and driving force in Europe. In the special fertilizer area, COMPO occupies an unchallenged position of leadership in Europe.

www.compo.de



Revenues by segment
(in %)



A recipe for success in the hobby segment: country-specific brand strategies

In the case of the hobby segment the business segment's brand portfolio covers the brands COMPO® and ALGOFLASH®, which are complemented by the brands SEM®, GESAL® and GARDIFLOR® in individual countries. Potting soil accounts for the most important product group: A wide range of products is offered and sold across Europe under the COMPO SANA® brand.

The various COMPO sites for the production and packaging of potting soil are located in Germany, Belgium, France and Italy. High-quality peat with volcanic rock aeration particles and the root stimulant Agrosil® offer a sound base for plants. Depending on the type of plant, quartz sand, humus, clay minerals as well as slow-release fertilizers with all the important main and trace nutrients can be added. Thus, the formula for a rhododendron potting soil can be completely different from that for a rose or orchid potting soil. A latest innovation offered by COMPO under the brands referred to above are convenient potting soil mini packages, which have found a high degree of acceptance among customers.

With respect to fertilizers, our COMPO® and ALGOFLASH® liquid and lawn fertilizers play a great role. In addition, we offer the well-known COMPO® universal, special and guano fertilizers in almost all European countries. The fertilizers are used for room, balcony and garden plants. COMPO FLORANID® lawn fertilizers merit particular mention in this regard, as we launched a new six-month slow-release fertilizer for the premium segment in 2003. In addition to being produced at our own sites in Germany and France, some of the products are made for us on an exclusive basis by BASF.

After a promising start to the marketing of high-quality lawn seeds in Germany under the brand name COMPO SAAT, COMPO will introduce a full assortment in the rest of Europe. In the plant protection segment, COMPO is banking on innovative concepts in terms of effectiveness and packaging. In this way, we want to ensure that our positioning is clear and unambiguous. With regard to the use of plant protection products, we pay particular attention to user friendliness and safety in addition to effectiveness. In this respect, COMPO was and is very successful, having won a large number of awards.

Our potting soils, fertilizers and plant protection agents are offered by DIY superstores, garden centres, cooperatives, hypermarkets and supermarkets as well as by nurseries, florists and drugstore markets.

Professional segment impresses with successful product innovations

Compared to the competition, COMPO's professional segment possesses the broadest brand portfolio for agricultural and horticultural applications. Our most important product remains NITROPHOSKA®, our "classic" product and a complex fertilizer containing sulphur, which is the market leader for the cultivation of fruit, grapes and vegetables. Similar importance has been acquired by the nitrogen-stabilised ENTEC® fertilizers that were introduced just a few years ago and which are also used to some extent for major agricultural crops such as cereals and corn.

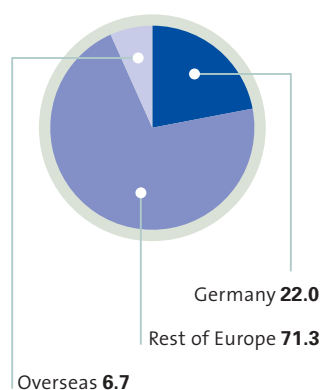
Other important products include FLORANID® slow-release fertilizers for the professional lawn sector and BASACOTE®, which is used in the cultivation of ornamental plants. We offer the HAKAPHOS® brand in the watering fertilizer segment, which is growing rapidly in Southern Europe in particular, and want to expand even more in this lucrative application sector through the introduction of a new line, ENTEC® SOLUB. High-quality foliar and micronutrient fertilizers complete the assortment for this important customer segment.

Fertilizers for our professional customers are produced at our plant in Krefeld and at BASF sites. They are mainly distributed through agricultural wholesale and retail channels as well as through cooperatives.

Top quality, customer satisfaction and innovation ensure success

The development of new products and their advancement is a constant challenge for the COMPO business segment. The aim is to continue growing faster than the market. In this regard, customer satisfaction and an excellent product quality are the key benchmarks towards which our corporate actions are directed. The consistent expansion of international marketing activities, the ongoing transfer of product innovations from the professional to the hobby area (e.g. in the case of ENTEC® and premium lawn fertilizers), a range of services that is tailored to regional needs as well as the focussed enhance-

Revenues by region
(in %)



ment of pesticide activities constitute the cornerstone of future, sustained growth for the COMPO business segment. In addition to organic growth, on which medium-term planning is based, external opportunities offered by acquisitions and cooperation are reviewed on an on-going basis.

fertiva

The K+S Group's marketing and distribution activities relating to nitrogenous agricultural fertilizers are pooled in the fertiva business segment. Fertilizers that contain nitrogen are essential for maintaining and increasing soil yields after they have diminished as a result of harvesting. This is because in addition to light, water, air and other nutrients such as potash and magnesium, nitrogen is a very important factor for plant growth. Nitrogen is also referred to as the "motor of plant growth". As a global supplier of nitrogen single-nutrient and complex fertilizers, fertiva sets itself demanding goals for the international fertilizer market and contributes to a healthy and improved world diet as a result of the products it supplies to all important international markets.

		2003	2002	%
Revenues	€ million	474.1	469.5	+1.0
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	€ million	6.9	6.7	+3.0
Earnings before interest and taxes (EBIT)	€ million	6.6	6.3	+4.8
EBIT margin	%	1.4	1.3	
Capital expenditure	€ million	0.0	0.5	-100.0
Employees as of 31 December	number	56	55	+1.8

Detailed comments on the course of business can be found in the section Management's Analysis.

fertiva

www.fertiva.de

fertiva leads the Western European market for nitrogenous fertilizers

fertiva is an important supplier of nitrogenous fertilizers in Western Europe. We market the agricultural fertilizers, produced exclusively for us by BASF, in selected markets. In addition, fertiva also distributes products from other well-known manufacturers to a limited extent. With respect to the trade in nitrogenous fertilizers, the fertiva business segment holds a share of about 8% in Europe. In the case of the ammonium sulphate fertilizer, which we source on an exclusive basis from BASF as well as from Bayer, we are the global leader. Given the limited supply available, our primary goal is not to gain market share, but to optimise earnings potential – for our customers and for us.

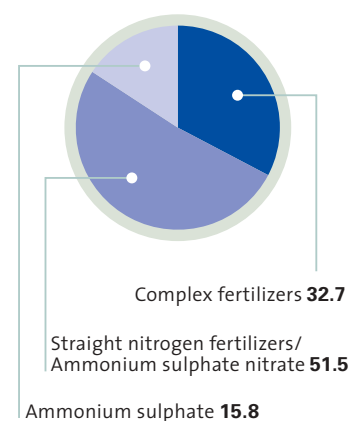
Complex fertilizers – a balanced nutrient mix

Complex fertilizers that contain nitrogen are fertilizers that include other additional nutrients, too. Traditionally, these are potash and phosphate. In addition to these three main nutrients, many complex fertilizers contain magnesium, sulphur as well as, in part, important trace elements. In the case of the complex fertilizers marketed by fertiva, the basic raw materials are combined in a liquid state and then granulated together. This ensures the optimum proportions of nutrients, which is advantageous for customers when it comes to applying the fertilizers. Predominantly, complex fertilizers are used for major agricultural crops, such as cereals, corn, rape, sugar beet as well as grassland. Generally, they are used when fertilizers are applied for the first time at the beginning of vegetation.

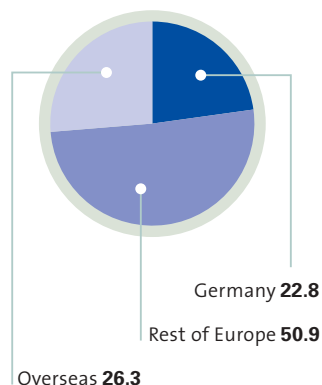
Straight nitrogen fertilizers

Calcium ammonium nitrate and ammonium nitrate are the main products in the segment. Moreover, the product group includes ammonium sulphate nitrate, which additionally contains the nutrient sulphur. Straight nitrogen fertilizers are used to supply nutrients in a particular way to plants cultivated for agricultural and horticultural purposes. The period during which it is applied extends over the entire phase of vegetative growth – in continental Europe, this essentially applies to the period between February and May. To optimise the effect on plants, the total amount of fertilizer is generally divided into several doses. Ammonium sulphate nitrate is mainly used for crops that require substantial quantities of sulphur such as winter rape.

Revenues by product group (in %)



Revenues by region
(in %)



Ammonium sulphate has various application possibilities

The ammonium sulphate sold by fertiva is a fine-crystalline product. It contains 21% nitrogen as well as 24% sulphur and is a by-product formed during the process of producing caprolactam in the chemical industry. Ammonium sulphate has two main applications. In Europe, it is almost exclusively used by our customers as a raw material in the production of fertilizers. Here it serves as a source of nitrogen and sulphur. Overseas, ammonium sulphate is used in agriculture directly as a fertilizer in addition to being used in production. The application means used by small-scale farmers overseas (e.g. manual application or dissolving of the fertilizer in water) permit this fine, non-granulated product to be used.

fertiva impresses with efficiency and proximity to the market

fertiva activities are focussed on Western Europe and lucrative regions overseas. The market and product portfolio is constantly analysed and optimised with respect to earnings targets. fertiva intends to further consolidate its position as the global market leader for ammonium sulphate and as market leader in Europe for fertilizers containing sulphur. Low-risk trading business to complement the basic business round off the range of fertiva activities.

Salt

Salt is a fundamental part of life. It aids our health, is used for seasoning, dyeing and disinfecting and, last but not least, for road safety purposes. However, salt is also present in glass, paper and synthetic materials or is important for their production. We cannot imagine life without salt.



www.esco-salt.com

(figures relate to 62% of esco)		2003	2002	%
Revenues	€ million	206.2	203.4	+ 1.4
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	€ million	38.5	36.9	+ 4.3
Earnings before interest and taxes (EBIT)	€ million	27.2	26.0	+ 4.6
EBIT margin	%	13.2	12.8	
Capital expenditure	€ million	18.7	7.9	+ 136.7
Employees as of 31 December	number	846	840	+ 0.7

Detailed comments on the course of business can be found in the section Management's Analysis.

A significant step toward strengthening the position of K+S on the European salt market was taken in 2002 with the formation of the joint venture esco – european salt company with Belgium's Solvay. We contributed our entire salt activities to the joint venture with economic effect as of 1 January 2002. With integration having reached a very advanced stage in the meantime, we are now holding promising negotiations on the acquisition of the remaining 38% of esco shares from Solvay. esco is the leading supplier of rock and evaporated salts in Western Europe. The business segment operates three mines in Germany where rock salt is extracted as well as several evaporated salt facilities in Western Europe.

Consumer products are an indispensable part of daily life

esco consumer products include table and pickling salt, water softening salt as well as de-icing salt supplied in small packs. Table and pickling salts are used in foodstuffs for human consumption. It enhances taste and is particularly essential in the production of foodstuffs such as meat, sausages, bread and cheese. In addition, we offer table salt containing iodine and fluoride to supply the body with vital minerals and prevent deficiencies from arising. Water softening salt in the form of tablets and dishwasher salt are used in water softening equipment. Our factories produce about 60 million such tablets each day. Our offer to private households for the winter includes the tried and tested de-icing salt 'anti-rutsch', which has been on the market for decades and is supplied in suitably small packages.

The base product for the broad range of consumer products is mainly high-purity evaporated salt. However, rock salt in its natural form is also used for table salt to some extent. After additional ingredients such as iodine and fluoride have been added, the salt is packed in fully automated packing plants for Europe's various regional markets. At all stages in the process, our extensive quality management system ensures that the products possess the purity we guarantee.

Industrial salt – a raw material with numerous applications

Industrial salts are used in a wide variety of forms by dyeing works, in the production of foodstuffs for animals, to preserve fish, in the glazing of ceramic products, in drilling fluids used in extraction of oil and natural gas and in many other industrial areas. As a key element of infusion solutions, it can save lives and also appears in numerous medicines as pharmaceutical salt. Lickstones used for livestock and non-domesticated animals complete the assortment.

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

Salt for chemical transformation purposes is one of the most important raw materials used in the chemical industry. Chlorine – a fundamental product for the entire PVC industry and many other chemical base and intermediate products – is extracted from the salt by means of chlorine-alkaline electrolysis.

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

Measured out and used in a controlled manner, de-icing salts for winter road clearance services are environmentally friendly and indispensable products for ensuring safety on motorways, roads and footpaths. A study commissioned by the Federal Department of the Environment from the Ökoinstitut Freiburg [Freiburg Institute of Ecology] has shown that the use of grit by winter road clearance services is neither an economic nor an ecological alternative to the safety product de-icing salt. This is because de-icing salt – used efficiently – is the most effective and economical substance that can be employed to keep roads and motorways free of snow and ice.

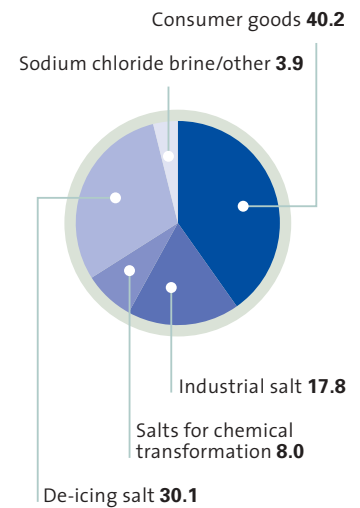
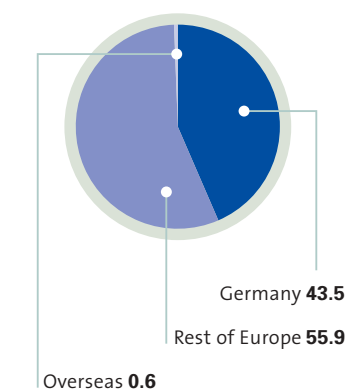
In addition, particularly intelligent and cost-effective applications, such as the pre-wetted salt technique, allows the amount of de-icing salt spread to be reduced while enhancing the de-icing effect at the same time and thus improving safety on our roads. esco de-icing agent customers are mainly public road construction authorities and large commercial customers. In Germany, about 60% of the de-icing salt products are used on federal roads and motorways.

Brine business complete the esco assortment

The brine sector comprises the supplying of sodium chloride brine and magnesium chloride solutions as well as certain other services provided by esco. In addition to captive use connected with the production of evaporated salt, sodium chloride brine is also used by the chemical industry as a raw material; magnesium chloride solutions are used in wet de-icing agents employed by winter road clearance services.

Our strategy: pooling strengths and optimising processes further

Being customer-oriented in a consistent manner, high-product quality and the ability to make deliveries at all times are important cornerstones of our salt business strategy. By investing constantly, we ensure that our plant technology is state-of-the-art. In the case of production and logistics, we see there being more potential for optimisation, and working hours models that allow for flexibility are the right answer to seasonal peaks in demand, especially in the case of de-icing salt. After two successful years of integration, the expansion of customer relations and the further optimisation of cooperation among our sites are the next tasks to be addressed. With a product range that meets market requirements, high standards of service and structures that have been further improved, esco should and indeed will maintain its leading position among Europe's salt producers in the future.

Revenues by product group (in %)**Revenues by region (in %)**

Waste Management and Recycling

Environmental protection is a vital and responsible task for all areas of life – and it presents us with a particular challenge. We offer reliable and safe solutions that solve problems using the latest in waste management and recycling systems. The Waste Management and Recycling business segment is the technological leader in Europe for the provision of underground waste management ensuring the safe disposal of contaminated waste over long periods of time. We are active on the market through K+S Entsorgung GmbH, which is responsible for the business segment's marketing and distribution in selected European markets.



www.ks-entsorgung.com

		2003	2002	%
Revenues	€ million	54.6	58.6	-6.8
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	€ million	8.4	12.5	-32.8
Earnings before interest and taxes (EBIT)	€ million	4.2	8.3	-49.4
EBIT margin	%	7.7	14.2	
Capital expenditure	€ million	1.5	1.6	-6.3
Employees as of 31 December	number	236	238	-0.8

Detailed comments on the course of business can be found in the section Management's Analysis.

Strong market position in Germany

With respect to our core business, the disposal of polluted flue gas cleaning residues from incineration plants, we occupy the leading position in Germany, holding a market share of about 40%. With regard to underground waste management, we are by far the largest service provider in Europe in terms of volume and revenues. On the German waste management market, we have a market share of almost 20% for all relevant forms of special waste. However, the market is one that is also being intensively serviced by other suppliers of disposal services for special waste both above ground and below ground level. In the case of recycling salt slag from the secondary aluminium industry, we hold substantial market shares in Germany, about 26%, and in Europe, about 11%.

Underground disposal is the most secure long-term waste disposal solution

Disposal applies to waste that cannot be prevented or recycled. Such waste is to be disposed of in a manner that is safe over the long term for the sake of the public good. The Waste Management and Recycling business segment operates two underground storage sites for waste disposal purposes. To this end, we use the caverns that are created in our active mines as a result of the mining of crude salt. We only use compact and intact salt rock formations that are free of water and impermeable for gas. An excellent standard of safety is assured by a combination of geological and artificial barriers. The waste stored in these facilities is isolated from the biosphere permanently and in a way that is safe over the long term – no landfill facility can offer the same standards and the same degree of safety.

Underground re-utilisation uses the K+S infrastructure

In contrast to disposal, making use of waste is the aim of recycling. We operate four underground re-utilisation facilities in active K+S mines. As in the case of underground storage sites, cooperation within the group makes it possible to use the infrastructure available above and below ground level as well as shafts and conveyor systems. The material properties of non-mining waste are exploited for the purpose of filling selected caverns. Special techniques and defined physical properties of waste are employed to produce a supporting effect that ensures the stability over extremely long, that is, geological periods of times.

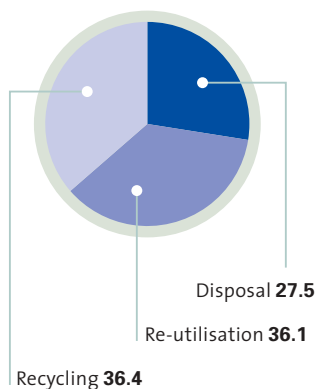
Recycling pays – for us and for our customers

The Waste Management and Recycling business segment supplies high-quality smelting salts for the purpose of optimising yields in secondary aluminium smelting. After taking back the salt slag produced during the aluminium smelting process in the form of a waste product, we then reprocess it in our REKAL facility. The aluminium granulate extracted from the salt slag is then reintroduced into the substance cycle. In addition, the recycling process yields potash salt, ammonium sulphate and a substrate that is used for the planting of grass on our potash tailings piles. We operate a recycling plant for building materials in connection with the re-cultivation of another potash tailings pile. Uncontaminated and slightly contaminated soil and rubble are re-used and they serve as a secondary building material in road construction and civil engineering in addition to being employed in re-cultivation.

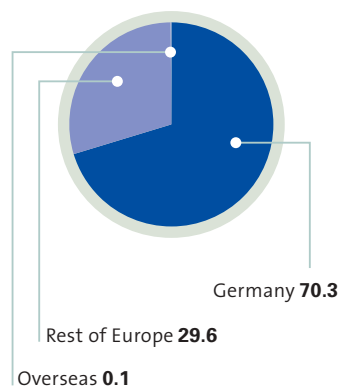
Waste management and recycling fit for the future

In the future too, the Waste Management and Recycling business segment will successfully defend its very good market positions in Germany against strong competition. Moreover, we will expand our sales and distribution operations in selected European markets in a focussed manner. That is why we see there being good prospects over the coming years for a return to the path of revenue and earnings growth from current levels, which we do not consider satisfactory.

Revenues by segment (in %)



Revenues by region (in %)



Services and Trading

Modern logistics and innovative information technology are of central economic importance for the K+S Group's interconnected business segments. The competence that has been gained in this regard over decades constitutes a competitive advantage that also benefits our customers.

		2003	2002	%
Revenues	€ million	56.4	51.8	+ 8.9
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	€ million	23.9	21.9	+ 9.1
Earnings before interest and taxes (EBIT)	€ million	17.0	15.4	+ 10.4
EBIT margin	%	30.1	29.7	
Capital expenditure	€ million	7.2	7.4	- 2.7
Employees as of 31 December	number	393	401	- 2.0

Detailed comments on the course of business can be found in the section Management's Analysis.

Various activities of importance for the K+S Group are bundled in the Services and Trading business segment in addition to CATSAN® granulation. They primarily consist of basic services such as logistics, IT and analysis that are used by all business segments. These services are also offered to third parties to a limited extent. The activities are thus exposed to competition, ensuring that the services generated within the group are subject to market conditions.

Over 30 million tons per year: logistics is of central importance for K+S

The focus of K+S logistics is on optimising logistics chains and the best possible exploitation of the potential for synergies within the K+S Group. The "Kalikai" facility at the port of Hamburg makes the logistics business unit one of Europe's largest operators in the field of bulk handling for imports and exports. The modern facility has a total storage capacity of more than 325,000 tons as well as the ability to receive and handle about 5 million tons of bulk goods moved by rail, ship and lorry annually. In addition, we are also active as freight forwarders and ships' agents at the ports of Rostock, Wismar, Hamburg and Lübeck, where the logistics business unit organises handling and storage for our customers as well as all before and after seaport processing if need be. Moreover, in addition to handling export and import customs formalities and clearing for incoming and outgoing vessels, we also offer the provision and clearance of lorries to the K+S Group as well as to third parties to a limited extent. Shipping brokerage is another area in which the logistics unit is active. Our logistics team handles the overseas shipment of all K+S Group products sold on a cif basis, i.e. all products with a price that covers the cost of shipment to customers.

Wide-ranging know-how bundled for new services

An excellent means has been found of successfully using existing plants and a large part of the infrastructure at the former Salzdettfurth potash plant. We use the site to granulate the animal hygiene product CATSAN® for Masterfoods GmbH from raw materials supplied by it. Our subsidiary data process GmbH offers extensive specialised IT services based on SAP R/3. The range of services offered covers almost all areas of information technology: from a full-range IT service along with a complete system solution to the development of specific, individual applications. The main clients hitherto have been companies belonging to the K+S Group. In addition, we are also working methodically on expanding the circle of customers by developing business with third parties. Trading in chemicals and magnesium metals is another business segment unit. They include calcium chloride, an important component of wet application de-icing agents used by winter road clearance services. Finally, we offer numerous analytical services that involve conducting investigations of relevance for the environment, such as analyses of soil and waters, raw materials and products, as well as mobile air monitoring. Experienced teams of analysts are available for these purposes at biodata Analytik GmbH, the K+S Research Institute and in plant laboratories.

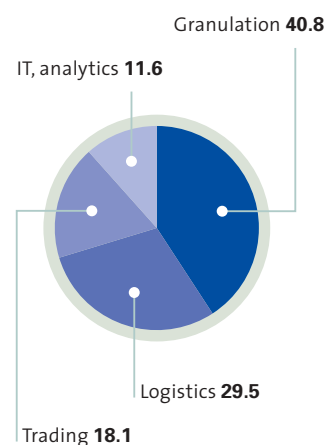
Stepping up the marketing of competencies and capacities

In close cooperation with other K+S business segments, individual units of the business segment are increasingly focussing on marketing available know-how to third parties. Successful production for Masterfoods in the form of granulating the animal hygiene product CATSAN® on a contractual basis confirms the basic direction of not only using the many years of experience available within the group itself but of also offering it to third parties if possible.

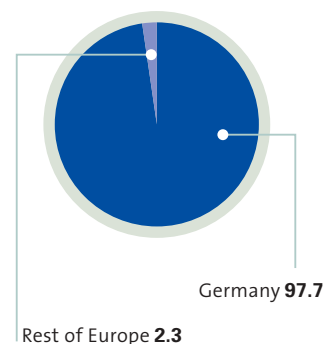



www.biodata-analytik.com
www.dataprocess.de
www.kali-transport.com
www.ubtnet.com

Revenues by segment
(in %)



Revenues by region
(in %)





+ **Growth begins
deep down inside the EARTH.**

Salt is firmly rooted in our daily lives.

It is used in **foods, fertilizers and raw materials**
as well as to ensure **safety on our roads.**

We set global standards for the careful extraction and
processing of raw materials located underground.

The criteria for success in all cases are **quality and efficiency.**

By being consistently **customer-oriented**
and possessing extensive market knowledge
as well as products that meet needs, we have managed
to secure a **leading position** in the European market.

We will further enhance this position.



Salt – an essential natural product

- Salt is vital for nutrition and health
- Many products in daily life would be inconceivable without salt
- Salt is an important raw material in the chemistry field
- esco is Europe's largest supplier of salt

Salt is a gift from the sea

How did salt originate? There have been several attempts to provide a scientific explanation, but the most likely one seems to be the "barrier theory". This theory states that during the Upper Permian Age – over 230 million years ago – major parts of Central Europe and other regions were covered by an inland sea which was largely separated from the oceans by shallow sea barriers. Due to intense heat from the sun – the climate in our part of the world was desert-like then – the water vaporised as if in a giant salt pan. The salt concentration increased, and the salt crystallised according to its solubility. In parts, the salt developed into layers several hundred meters deep, which, during the earth's subsequent development, became covered with layers of sediment that were impervious to water. In this way, the salt was protected from being dissolved. That is why today we have a natural product at our disposal that was created by the heat of the sun out of pure sea water at a time when there was no environmental pollution.



Salt was and is more than just a condiment

Salt, often referred to as common salt to distinguish it from other types of salt, consists of the two elements sodium (Na) and chlorine (Cl), which together form a compound called sodium chloride (NaCl). The oceans contain some 50 thousand billion tons of salt, and almost another four billion tons are to be found in the salt deposits that have been discovered so far. Despite this abundance, salt was a rare and very valuable commodity for thousands of years. It was an object of trade and barter, and wars were even fought over it. Pirates on the seas and robber barons on land made the old salt trade routes unsafe. Salt was a legal means of payment. Idioms such as "auf Heller und Pfennig" or "kein roter Heller" show that salt was also used as a means of payment in the German-speaking area. The word "Heller", derived from "Hall", is thought to be a Celtic word and means nothing other than salt. Names of places like Hall, Halle, Hallein or Hallstatt indicate that salt was discovered there.

Salt extraction is a high-tech process today

Modern technology permits efficient salt extraction. Salt can be produced in a number of ways:

- Mining (rock salt)
- Brine production
- Evaporated salt production
- Sea salt extraction

Rock salt is typically found in deposits located several hundred metres deep inside the earth. To bring it to the surface, two shafts are usually dug and connected with each other by underground channels. The salt is normally obtained by drilling and the use of explosives. Large, highly-efficient mobile equipment is used for this. The splintered crude salt is carried to the winding shaft by conveyor belts and processed on the surface. By means of mechanical crushing, grinding and sifting, the extracted rock salt is then processed into various granularities. Apart from its natural properties, including the presence of valuable minerals in traces, a particular advantage of rock salt is its numerous special applications and its suitability for special problem solutions.

Brine, salt dissolved in water, is usually produced using controlled boreholes that are sunk into rock salt deposits from the surface. Freshwater is poured through the holes in order to dissolve the salt. The saturated brine is then brought to the surface through a separate duct. Brine is used primarily in the chemical industry as a raw material, but is also used in the production of evaporated salt. Because of the density of the rock salt deposit, the cavities (caverns) that remain after the brine has been extracted are very suitable for the storage of petroleum, natural gas and liquid gas.

Evaporated salt is produced from previously purified brine in large, industrial salt works. The brine is fed into a vaporiser, where it is vaporised by means of various processes in a manner that uses energy sparingly. The resultant salt mush is removed from the vaporiser, spun in a centrifuge and thickening device to remove excess moisture, and dried further using drying equipment. Thanks to the careful way in which

brine is treated, evaporated salt products are pure and are therefore of particular use in chlorine-alkaline electrolysis as well as for high-quality applications, e.g. in the pharmaceuticals sector.

The production of **sea salt** depends on particular climatic factors, therefore in Europe it is only produced in the Mediterranean region. Sea water is fed into large, flat basins known as salt gardens, and vaporised by the sun. The resultant salt crystals are then “harvested”, after which the salt is washed, dried and sorted into the required granularities.

Salt – indispensable for life

Prehistoric single-cell creatures needed the salt in the primeval sea in order to develop. Likewise, no living organism can do without salt today. Salt controls important body functions: it is vital for life. Today it has exceeded its physiological importance and, thanks to technological progress, is finding new applications all the time. In a figurative sense as well, it is true to say that we cannot imagine life without salt. This may sound somewhat exaggerated, but a brief survey will make it clear very quickly that salt is a constant companion in our daily lives: soda, caustic soda and chlorine are all extracted from salt on a large scale. World-wide, the chemical industry uses some 120 million tons of salt per year to produce these important substances, which it then uses to produce an enormous quantity of processed products. Thus, salt is a universal raw material, a part of daily life.

Salt and its uses

In use, salt is divided into table salt, industrial salt, salt for chemical transformation and de-icing salt.

Table salt is intended for human consumption. It enhances taste and is particularly essential in the production and preservation of foodstuffs such as meat, sausages, bread and cheese. Therefore, table salt is subject to exhaustive food regulations. It is used in the prevention of bodily deficiencies, serving, for instance, as a carrier for such substances as iodine and fluoride. The World Health Organisation encourages the use of iodised salt with added fluoride in the prevention of not just caries, but also iodine deficiencies. In Germany, table salt accounts for some 3% of total salt production, in other words some 420,000 tons of salt.

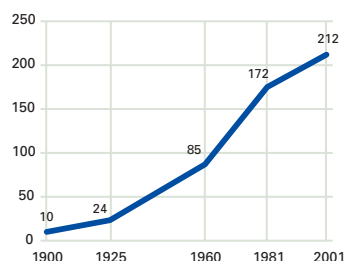
Industrial salt is used in a wide variety of industrial and commercial processes, by, for example, dyeing works, the leather industry, in the production of foodstuffs for animals, to preserve fish, in the glazing of ceramic products, in drilling fluids used in the extraction of oil and natural gas. As an infusion solution, it saves lives and is an ingredient of medicines. Automatic water-softening facilities in industry and at home – including dishwashers – need salt. Almost all the dyes used for wallpaper and textiles come into contact with salt at some stage during their production. As a major ingredient of bath salts, salt serves beauty, relaxation and regeneration. Natural brine is used in many wellness spas. There are so many different possibilities of using salt that, understandably, they cannot all be discussed here in detail.

Salt for chemical transformation purposes is one of the most important raw materials used in the chemical industry. Here, chemical transformation processes are used to produce synthetic soda, and chlorine and caustic soda are produced by means of chlorine-alkaline electrolysis. Soda is essential for the manufacture of glass, dyes and washing powder. Chlorine and caustic soda paved the way for the manufacture of plastics, medicines and disinfectants. Without salt, there would certainly be no soap or aluminium industry, too.

De-icing salt is the most effective and economical substance that can be employed to keep roads and motorways free of snow and ice. Were it not for the use of the safety product de-icing salt, a sudden spell of freezing rain or snow would quickly paralyse road traffic. Thus, the use of de-icing salt in winter increases road safety and reduces the number of accidents. Thanks to improved sprinkling techniques and the introduction of pre-wetted salt technology, the quantity of salt used for de-icing has been considerably reduced, thus benefiting the environment.

Wet salt is a special de-icing salt which is more effective because it sticks to the road surface better and reduces the quantity of de-icing salt blown away by traffic. Whereas in the 1960's 40 gram and more of de-icing salt were used for every square metre of road surface, today only 10 to 20 gram/square metre are used. Fortunately, road safety and environmental protection need no longer be irreconcilable.

Worldwide salt production since 1900
(in million tons)



As a building block of life, salt is precious. It is a condiment in daily life, and an essential ingredient in industrial production. One cannot imagine a future without salt.

The development of salt production

Worldwide salt production has developed impressively over the space of the past 100 years (please see the accompanying chart). This extraordinary growth is the result of a drastic increase in the industrial use of sodium chloride, primarily attributable to a worldwide expansion of soda production and chlorine-alkaline electrolysis in connection with the manufacture of plastics.

The world's biggest salt producers are the United States (42.2 million tons), China (34.5 million tons), India (14.3 million tons), Canada (13.6 million tons) and Germany (12.7 million tons). These five countries together account for over 55 % of the world's salt production. In 2001, almost 60 million tons of salt were produced in Western and Eastern Europe, accounting for 27 % of the world's salt output.

Europe's most important salt producing countries

Germany	millions of tons	12.7
France	millions of tons	7.2
Great Britain	millions of tons	6.1
The Netherlands	millions of tons	5.7
Spain	millions of tons	4.2
Poland	millions of tons	3.5
Italy	millions of tons	3.3
Russia	millions of tons	2.8
Ukraine	millions of tons	2.3
Romania	millions of tons	2.2
Other	millions of tons	7.7
Europe (total)	millions of tons	57.7

Source: British Geological Survey 1997-2001

Europe's largest and most efficient salt provider is esco – the european salt company. Further major providers are: Akzo Nobel Salt, Salins Group, Südsalz, Salt Union, Italkali and several salt producers in Poland. In addition, there are a large number of European salt manufacturers of more regional significance.

What is behind esco?

On 1 January 2002, K+S and the Belgian company Solvay pooled their salt operations into the "esco – european salt company", in which K+S has a 62 % share and Solvay a 38 % share.

The most important objective of this was to provide optimum service to the European market with efficient structures as well as a broad and customer-friendly range of products shipped from logistically convenient production sites. After two successful years of integration and reorientation in the markets, K+S is now holding very promising negotiations on the acquisition of the remaining 38 % of esco shares from Solvay.

esco has production sites in six European countries (Germany, the Netherlands, France, Belgium, Spain and Portugal), and is also represented in all major European countries through its own distribution companies or partners. The geographical distribution of these sites is primarily the result of the natural location of salt deposits. Output in 2003 comprised over 5 million tons of rock salt, evaporated salt and sea salt.

In addition, an annual production capacity of some 8 million tons provides sufficient reserves with which to satisfy what is usually a sudden surge in demand for de-icing salt in winter. esco, which employs more than 1,300 people, posted revenues of about € 330 million for 2003. The esco range of products is impressive. Apart from industrial and de-icing salts, it includes the most varied industrial salts for specific uses, as well as high-grade products in the form of table salts, water-softening tablets and pharmaceutical goods. The core of business lies in Europe, but, to a certain extent, specialised products are also marketed around the world. The offer comprises some 800 different salt products for over 80 sectors.

What distinguishes esco's particular salt competence?

esco has a clear vision. It determines day-to-day action and the strategic direction of the entire company: esco is eager to affirm its position of market leadership continuously and to do so by means of a Europe-wide presence, customer proximity, the most modern forms of organisation and skilled employees. That represents a great challenge, but is a realistic objective nonetheless.

The customers and users of esco salt products derive many advantages from cooperation with the leading European company in this area. International customers in particular benefit from our broad geographical presence. Furthermore, consistently high product quality, coupled with professional skill and reliability, represents a special service.

Anyone who says that "salt is salt" is not aware of the variety of ways in which esco offers this precious natural product. After all, food manufacturers have different requirements than the pharmaceutical industry, and the chemical industry expects a different product quality than road services, which need salt in winter. esco has geared itself to fulfilling the particular demands of customers for products that are in line with market requirements. It goes without saying that esco subjects its products to regular strict controls in its own laboratories in order to guarantee a consistently high standard of quality. This purpose is also served by the certified QM system that has been in force for a long time now.

The future, too, is unimaginable without salt

The chemist Justus von Liebig called salt "the most precious of all precious stones". Today, it has earned another accolade. In our view, it is "the most versatile of all minerals".

But just as in von Liebig's day, salt means life today, too. We need it in our food, for medicines and safety, and as a basic chemical component. We have sufficient reserves to last for decades.

With our qualified employees, state-of-the-art production facilities and skills which have been put to the test many times, we shall remain a reliable "salt" partner for our customers in the future as well.



The background of the image is a close-up, high-resolution view of wood grain, showing concentric growth rings in shades of orange, brown, and red. A white diagonal line runs from the top right towards the bottom left, and a white horizontal line runs across the middle of the image. In the bottom-left corner, there is a rectangular inset showing a lush green forest with many trees.

+ Growth
creates **STRENGTH.**

The background of the entire page is a close-up photograph of a tree trunk, showing concentric growth rings in shades of brown and orange. The rings are more distinct on the left side and become more blurred towards the right.

Share performance averaging **19 % per year**
confirms our course. Not short-term success
but **sustained growth** forms the basis
for the enhancement and further development of our business.
By means of acquisitions and cooperation arrangements
that make strategic **sense**, we will make further advances
in **enhancing enterprise value**
over the long term for shareholders, customers and employees,
thus consolidating our strong position on the market.

The K+S share

- MDAX gains 47.8% during the year under review – value stocks in demand once again
- K+S performance (including dividends) over the past five years: 122.5%
- 2.5 million shares cancelled at the end of the first quarter
- High K+S free float
- Analyst recommendations for the K+S share largely positive
- Dividend of € 1.00 leads to relatively high dividend yield

K+S Share Key Indicators:

ISIN: DE0007162000 / WKN: 716200 / Bloomberg: SDF

		2003	2002	2001	2000	1999
Net income per share	€/share	2.42	2.43	2.73	2.72	2.04
DVFA earnings per share	€/share	1.53	1.62	1.62	1.98	1.68
Dividend per share ¹⁾	€/share	1.00	1.00	1.00	0.85	0.57
Gross cash flow per share	€/share	5.00	5.07	5.18	5.47	4.74
Book value per share	€/share	13.76	12.42	11.48	11.80	10.72
Year-end closing price (XETRA)	€	21.76	17.35	21.90	18.00	14.00
Highest price (XETRA)	€	21.76	24.51	22.30	18.55	15.50
Lowest price (XETRA)	€	15.81	16.83	15.69	12.25	10.85
Year-end market capitalisation	€ million	924.8	780.8	985.5	810.0	700.0
Total stock exchange turnover (Jan. to Dec.)	€ million	416.3	469.4	468.5	426.8	513.2
Average daily turnover	€ million	1.6	1.9	1.9	1.7	2.0
MDAX weighting	%	1.9	2.2	0.8	n.a.	n.a.
Total number of shares as of 31 Dec.	million	42.5	45.0	45.0	45.0	50.0
Shares outstanding ²⁾	million	42.5	41.5	43.3	42.8	45.3
Average number of shares ³⁾	million	41.8	42.8	43.4	44.1	48.2
Total dividend payment ^{1) 4)}	€ million	42.5	41.5	43.4	37.6	25.7
Dividend yield (closing price) ¹⁾	%	4.6	5.8	4.6	4.7	4.1
Return on equity	%	17.3	18.6	22.9	22.6	18.4
Return on capital employed (ROCE)	%	12.7	14.7	14.1	15.7	12.7
Enterprise value (EV) on 31 Dec.	€ million	882.3	788.1	970.4	732.9	586.2
Enterprise value to revenues (EV/Revenues)	x	0.4	0.3	0.4	0.4	0.5
Enterprise value to EBITDA (EV/EBITDA)	x	3.9	3.3	3.9	2.9	2.8
Enterprise value to EBIT (EV/EBIT)	x	7.6	5.9	8.0	5.8	6.6

¹⁾ the figure for 2003 corresponds to the proposed dividend

²⁾ total number of shares less the own shares held by K+S as of the balance sheet date

³⁾ total number of shares less the average number of shares held by K+S over the period

⁴⁾ in the case of 2003, contingent on the number of shares carrying a dividend entitlement on the day of the Annual General Meeting

The special qualities of the K+S Group had a positive impact on the share price during 2003. The renaissance of value stocks and a return to valuations based on fundamentals continued among institutional and private investors. Attractive earnings and dividends as well as what remains an exceptionally healthy balance sheet and strong financial position boosted investor confidence in our company as well as our strategy.

Optimism returns to global stock markets

The first three months of 2003 were marked by a high degree of international uncertainty. War in Iraq was imminent, and the sharp rise in the price of oil that it prompted caused the investment climate for equities to deteriorate tangibly. However, even leaving aside the Iraq conflict, global economic indicators pointed to stagnation at best.

Yet by the second quarter, the end of the war in Iraq and encouraging corporate figures meant that share prices worldwide managed to recover significantly. The return of a mood of cautious optimism induced investors on both sides of the Atlantic to increase their readiness to accept risk and thus raise the equity component of their portfolios.

Investors focus on value stocks

Following a bear market that lasted almost exactly three years, the German DAX stock market index reached

its lowest point in the spring of 2003, more or less in tandem with the other international exchanges. On 12 March, it stood at 2,203 points, a seven-year low. The index has been able to post significant gains since then, closing at 3,965 points on 31 December 2003. All the losses that arose at the beginning of the year were made up for and by the end of the year, the index was even 37.1 % up on its level at the beginning of the year.

The stock market index of greater relevance to us, the MDAX, which consists of the next fifty most heavily traded stocks from more traditional industries after those included in the DAX, also hit a low point on 12 March. Since then, the trend towards recovery displayed by the MDAX has been even more pronounced than in the case of the DAX, a development mainly attributable to the re-discovery of value stocks, which were labelled “boring” not so long ago.

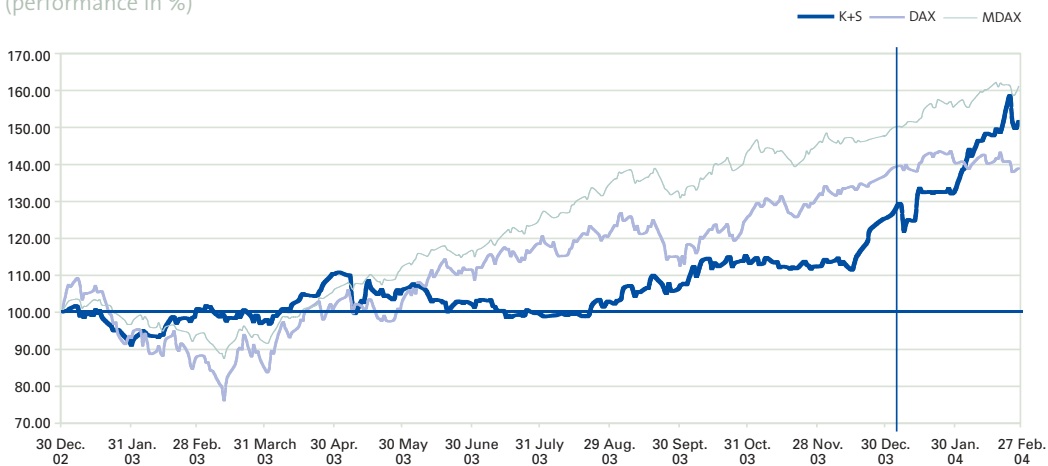
Performance in %	1 year 2003	5 years 1999-2003
K+S share (excluding dividends)	+ 25.4	+ 85.0
K+S share (including dividends)	+ 31.2	+ 122.5
DAX (performance index)	+ 37.1	- 20.7
MDAX (performance index)	+ 47.8	+ 13.9

Source: Bloomberg, 31 Dec. 2003

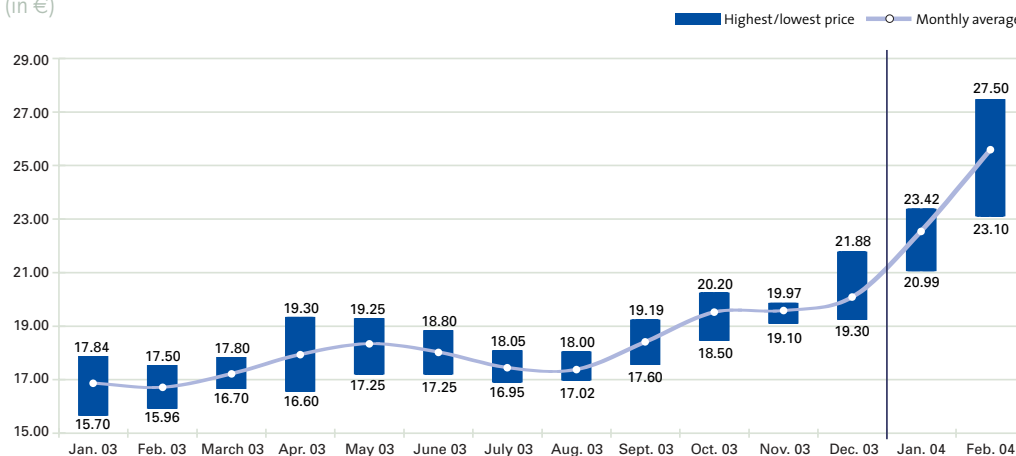
K+S share gained 25 % during the year under review

Until the day of the dividend payment at the beginning of May 2003, the growth in the value of the K+S share significantly exceeded the DAX and MDAX comparative indices. After that, the high ex-dividend markdown of more than 5 % led to a relative performance ultimately proving to be somewhat weaker.

Performance of the K+S share in relation to the DAX and MDAX since 30 December 2002 (indexed)
(performance in %)



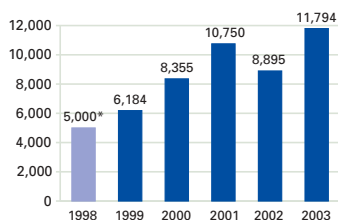
K+S share price since 1 January 2003: Monthly highest, lowest and average price
(in €)



On 30 December 2003, the K+S share closed at € 21.76 in XETRA trading, and was thus quoted at 25.4 % above its closing price of a year ago. The DAX (3,965 points) and MDAX (4,469 points) also showed gains for the first time in a long time – DAX +37.1 % and MDAX +47.8 %. It should be noted in this regard that the DAX and MDAX performance indices neutralise the ex-dividend markdown for individual equities, while the K+S price trend takes account of it. If the amount of the dividend (€1.00) were included, the gain would be +31.2 % and the difference in relation to the DAX and MDAX much smaller.

On 27 February 2004, the K+S share was quoted at € 26.31. This means that the price of our share was once again significantly higher in relation to the end of the preceding year (+20.9 %).

Performance of portfolio of K+S shares
(in €, as of 31 Dec.)



*investment
Including reinvestment of dividends on the day after the Annual General Meeting and cash remaining.

An investment in K+S shares has grown 19 % per year over the past five years

Although the trend in share prices evident on global exchanges during the years 2000 to 2002 was a declining one, an investment in K+S shares over a five-year period has paid off. K+S shareholders who acquired K+S shares for € 5,000 on 30 December 1998 and reinvested dividend payments made over the following five years in K+S shares found that their portfolio was worth about € 11,794 on 31 December 2003. The growth in the value of the portfolio over the five years averaged 18.7 % per year. Over the same period, the DAX and MDAX provided annual yields of -4.5 % and +2.6 % respectively.

2,500,000 shares cancelled

We cancelled own shares for the second time at the end of the first quarter of 2003. The number of shares was thus reduced by 2.5 million to 42.5 million and the share capital of K+S Aktiengesellschaft accordingly by 5.6 % from € 115.2 million to € 108.8 million. We have thus improved important valuation criteria, such as earnings per share and return on equity.

Since 1999, we have repurchased and cancelled 7.5 million shares, or 15 % of the share capital at that time.

Fifth share repurchase programme approved

Pursuant to a resolution adopted by the Annual General Meeting on 7 May 2003, we have again been authorised to acquire up to 10 % of our own shares; however, no use of such authorisation has been made hitherto. Having already implemented four share repurchase programmes in the past, we do not rule out further repurchasing although any decision in this regard depends on market conditions as well as acquisition and investment considerations. The authorisation to purchase own shares expires on 31 October 2004.

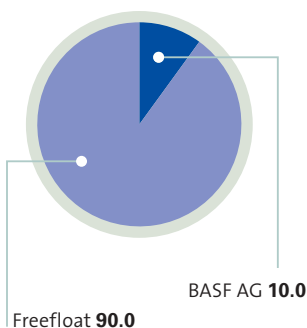
As of 31 December 2003, we no longer held any shares acquired under our share repurchase programme after about 900,000 shares were transferred to a long-term investor at a price of € 18.60 per share at the end of the third quarter.

High free float characterises shareholder structure

BASF AG holds about 10 % of our shares and has thus sold about 7.6 % of its K+S shares. As K+S Aktiengesellschaft does not hold any own shares at present and no other shareholder has reported a holding of more than 5 % in accordance with the German Securities Trading Act (WpHG), the remaining shares meet the free float definition. Thus, the free float rose from 75.6 % to 90.0 % year on year. The shares are mainly held by German and foreign institutional investors and by a large number of private investors as well as K+S employees.

Section 15 a of the WpHG requires the reporting without delay by members of boards of executive directors and of supervisory boards of public listed companies and by members of their families of transactions involving shares in those companies with which they are connected (directors' dealings) if the value of such transactions in relation to the total number of transactions carried out by someone to whom the reporting obligation applies within a period of 30 days exceeds € 25,000. Such reports are also carried on our website immediately. However, no relevant reports needed to be disclosed during the period until 31 December 2003.

Shareholder structure
(in %, as of 31 Dec. 2003)



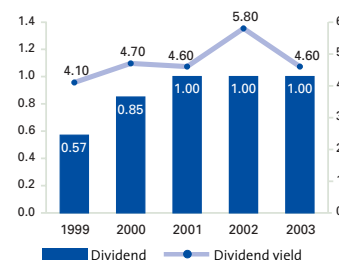
Dividend proposed remains high

We will continue to follow our reliable earnings-based policy on dividends this year, too. The K+S share remains an investment offering a high yield: The Supervisory Board and the Board of Executive Directors will once again propose a dividend of € 1.00 per share to the Annual General Meeting. All shares carry a dividend entitlement.

On the basis of the year-end closing price of € 21.76, the proposed dividend will result in a dividend yield of 4.6 %. That the K+S share is attractively priced can be inferred from this relatively high figure, and the yield has always exceeded 4 % over the past five years.

In terms of the distribution level of about 42 % (in relation to net income for the K+S Group) and against the background of our medium-term earnings expectations, a dividend of a similar size should remain a very realistic goal for the future.

Dividend per share in € and dividend yields* in %



* without inclusion of corporate income tax; based on XETRA year-end closing prices

Reorganisation of stock market segments successful

K+S Aktiengesellschaft has been included in the "Prime Standard" segment, the segment with the highest Deutsche Börse AG information requirements, since 24 March 2003. We continue to be quoted in the MDAX, which has been reduced in size from 70 to 50 shares as a result of reorganisation, and according to the rankings for January 2004, we are currently 21st in terms of market capitalisation and 26th in terms of trading volume. A Prime Standard listing involves assuming a whole series of duties, which include the use of international accounting standards in reporting. The relevant EU directive requires the implementation of international accounting standards by 2005. We have already implemented extensive measures connected with the changeover and will present IFRS figures for the first time in the quarterly report as of 31 March 2005.

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

- MDAX
- HDAX
- CDAX Overall Index
- Prime Allshare Index
- Classic Allshare Index
- Mid Cap Market Index
- Prime Sector Chemicals
- Industry Group Chemicals/Commodity
- STOXX TMI
- MSCI Germany Small Cap

Financial analysts largely positive in their assessments of K+S

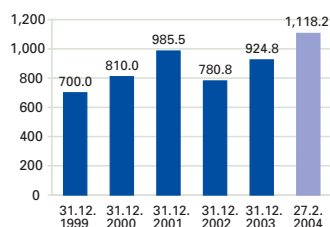
In relation to net income, the K+S share continues to display a relatively favourable price/earnings ratio. In addition, financial analysts often use what are known as enterprise value multiples to assess share prices. This entails viewing the value of a company, consisting of market capitalisation and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

Of the 17 research reports published over the past six months, 14 banks give us a buy/accumulate recommendation, two a hold/neutral recommendation and one study gives a reduce/sell recommendation. The "Investors Relations" section of our homepage now carries an up-to-date overview of current research recommendations as well as their revenue and earnings forecasts.

Overview of banks regularly publishing research reports on K+S:

- Bank Julius Bär
- Bankhaus Lampe
- Berenberg Bank
- Cazenove
- Commerzbank
- DZ Bank
- Deutsche Bank
- HVB
- Helaba Trust
- HSBC Trinkaus & Burkhardt
- KBC Peel Hunt
- LBBW
- M. M. Warburg & Co.
- SEB
- UBS
- West-LB
- WGZ-Bank

**Market capitalisation of
K+S Aktiengesellschaft**
(€ million, XETRA)



Investor relations as an important medium linking the company and the capital market

For us, investor relations means transparent financial communications for the purpose of creating confidence on the capital market. Our goal is to provide information that is as comprehensive, timely and objective as possible on our strategy and on all developments concerning trends within the K+S Group. We methodically cultivate our contacts with domestic and foreign financial analysts, institutional investors, private investors and business journalists, pursuing this end through the press and analysts conferences that we hold in the spring and autumn of each year, too. In 2003, we staged roadshows in England, France, Germany, Italy, Switzerland and the United States, and once again held a teleconference with analysts in connection with the publication of our six-month figures. We noted that interest on the part of British and North American investors continues to increase.

In the course of 2003, we once again developed the content and format of our interim reports and hope that the expectations of investors and analysts will be met even better. These reports are simultaneously published on the Internet at www.k-plus-s.com. Anyone who wishes to find out more about us by accessing the site will also find a special investor relations page carrying frequently asked questions as well as the latest company presentations, conference calls and video webcasts. You can also subscribe to a special newsletter on our homepage, which will ensure that you are automatically provided with current press releases and company news by e-mail.

You can also simply contact our IR team directly:

K+S Aktiengesellschaft

Investor Relations

Bertha-von-Suttner-Straße 7

34131 Kassel (Germany)

phone: +49 (0) 561/9 301-16 87

fax: +49 (0) 561/9 301-24 25

e-mail: investor-relations@k-plus-s.com

website: www.k-plus-s.com/aktie/ir.cfm

Corporate Governance

- **K+S attaches great importance to corporate governance**
- **Four exceptions to the Corporate Governance Code recommendations**
- **Compliance with Code suggestions to the greatest possible extent**

The term “Corporate Governance” denotes responsible and transparent management and control oriented toward the creation of long-term value. These principles have formed the basis of K+S decision-making and control processes for a long time. For us, German law, especially the legislation that governs stock corporations, co-determination and the capital markets, our articles of association and, with a few exceptions, the German Corporate Governance Code, have formed the legal basis on which management and control within the company has been shaped.

Declaration on conformity and explanatory comments

The Board of Executive Directors and the Supervisory Board have resolved the following declaration on conformity in relation to the German Corporate Governance Code in accordance with Section 161 of the Stock Corporation Act.

The recommendations made by the Government Commission on the German Corporate Governance Code have been complied with and will be complied with in 2004 with the following exceptions:

- Those figures contained in the notes to the consolidated financial statements that relate to the remuneration received by members of the Board of Executive Directors and the Supervisory Board are not individualised (Code items 4.2.4 and 5.4.5, paragraph 3).
- The Supervisory Board has not appointed an audit committee (Code item 5.3.2).
- Chairmanship and membership of Supervisory Board committees do not attract separate remuneration (Code item 5.4.5, paragraph 1, sentence 3).
- The consolidated financial statements and interim reports will be prepared under observance of internationally recognised accounting principles (IFRS) for the first time in relation to financial year 2005 (Code item 7.1.1, sentence 2).

For the future, this declaration is referenced to the German Corporate Governance Code in the version of 21 May 2003.

This declaration on conformity is also carried on the Internet at www.k-plus-s.com.

The reasons for the exceptions to the **recommendations** contained in the German Corporate Governance Code are as follows:

- The total remuneration received by the Board of Executive Directors and the Supervisory Board is in each case already broken down into fixed and variable components, with details provided of option rights for the Board of Executive Directors. Given the structure and reasonable character of the total amount of remuneration, its individualisation would not yield any additional information gain.
- The Supervisory Board is of the opinion that the formation of an audit committee is not necessary at present because those subjects that would be examined by such committee can also be dealt with in plenary sessions without quality being adversely affected given the characteristics of the company. However, should these characteristics change, the Supervisory Board will consider an appropriate adjustment.
- Chairmanship and membership of existing committees (mediation committee, personnel committee) do not attract separate remuneration, because those Supervisory Board members serving on such committees have waived any entitlement to additional remuneration.
- In the light of the legal uncertainty that still surrounds the treatment of certain company peculiarities, it appeared advisable to prepare consolidated annual financial statements and interim reports in accordance with international accounting principles (IFRS) for the first time in relation to financial year 2005.

K+S also implements in practice those **suggestions** contained in the Code to the maximum possible extent.

Shareholders and the Annual General Meeting

The Annual General Meeting is the body through which the will of the shareholders is formulated. Shareholders participate in the making of fundamental decisions affecting K+S Aktiengesellschaft by exercising their voting rights. Each share carries one vote (one share, one vote principle).

All documents of decision-making importance are made available to the shareholders on the company's website as well. Shareholders also have the possibility of having their voting rights exercised by an authorised representative of their choice or by a proxy designated by the company and to whom instructions can be issued.

Board of Executive Directors and Supervisory Board cooperation

The Board of Executive Directors cooperates closely with the Supervisory Board. It briefs the Supervisory Board at regular intervals in a timely and comprehensive manner about all issues that are of relevance to the company as a whole and concern company strategy, planning, the development of business and the financial and earnings position of the company as well as about any particular risks and opportunities of relevance to the company. Important decisions made by the Board of Executive Directors – e.g. larger acquisitions, investment programmes and special financial measures – must be approved by the Supervisory Board. The company has taken out D&O insurance, which provides for an adequate deductible on the part of members of the Board of Executive Directors and of the Supervisory Board.

The Board of Executive Directors

The Board of Executive Directors, which has five members, is bound by the interests of the company and, in this respect, seeks to continuously enhance its value. Cooperation among board members and the distribution of business responsibilities among them are regulated by bylaws.

The Board of Executive Directors is particularly responsible for the strategic direction of the company as well as for the internal control and risk management system operated within the K+S Group. The system is being continually developed and adjusted to take account of changed conditions. Please see the section entitled "Risk Management" in the section "Management's Analysis" (page 68 of the annual report).

The remuneration received by the Board of Executive Directors comprises fixed and variable, performance-related salary components. In addition, it is possible for income to be obtained by exercising stock options as a variable component of remuneration with a long-term incentive and risk character. This takes the form of a virtual option model with demanding comparative parameters that cannot be subsequently changed. In addition, the possible benefit is subject to a cap. The basic features of the remuneration system and the concrete form of the stock option programme are set out in the Notes to the consolidated financial statements (page 100 of the annual report) as well as on the company's website.

The Supervisory Board

The Supervisory Board has had sixteen members since 7 May 2003. As required by the German Co-Determination Act, its members include an equal number of representatives of the shareholders and of the employees. The term of office of the Supervisory Board members lasts five years.

The Supervisory Board oversees and advises the Board of Executive Directors in connection with the carrying on of business. The bylaws binding on the Supervisory Board are reviewed and modified to conform to changed conditions. Details concerning the activities of the Supervisory Board during the year under review are set out in the Supervisory Board report (page 6 of the annual report).

The Supervisory Board has formed two committees from among its members. The personnel committee is responsible for making preparations connected with the appointment of members of the Board of Executive Directors as well as the determination of the terms and conditions of their contracts of employment. The mediation committee performs the tasks set forth in Section 31 Paragraph 3 Sentence 1 of the Co-Determination Act. The chairman of the Supervisory Board is simultaneously the chairman of both the committees.

In accordance with Article 12 of the Articles of Association, Supervisory Board members receive, in addition to the reimbursement of expenses, fixed remuneration of € 10,000 and a variable component based on the level of dividend payment. A member of the Supervisory Board receives € 250 for each cent by which the dividend exceeds the amount of € 0.20.

No consultancy or other service and specific task agreements between members of the Supervisory Board and the company were in force during the period under review.

Transparency

K+S regards the principle of equal treatment as a matter of high priority. Information about the position of the company and about all significant changes in business affecting it is provided to our shareholders, all capital market participants, financial analysts, shareholders associations, the media and the interested general public by means of regular, open and current communications at the same time and in an equal manner. All important information is also simultaneously published on the Internet. The financial calendar, which provides details of important financial reporting dates, can be found in our annual and quarterly reports as well as on the Internet at www.k-plus-s.com. All shareholders as well as other interested parties can subscribe to an electronic newsletter that reports on current group developments and important events as well as carries ad hoc and other press releases.

The figures required by item 6.6 of the Code concerning transactions engaged in by members of the Board of Executive Directors and of the Supervisory Board with shares of the company and their respective holdings in K+S shares are set out in the Notes to the consolidated annual financial statements (page 101 of the annual report).


Accounting and audit policies

The accounting standards applied by K+S Aktiengesellschaft and the K+S Group conform to the principles set forth in the German Commercial Code. The financial statements are audited by Deloitte & Touche GmbH, Hanover. The auditors are appointed by the Supervisory Board, which also determines fees and the main points to be covered by the audit process in consultation with the auditors.

It has been agreed with the auditors that the chairman of the Supervisory Board is to be immediately advised of any grounds giving rise to exclusions or objections that may arise during the audit if they cannot be eliminated at once. Furthermore, the auditors should immediately advise of all findings and developments of relevance to the tasks of the Supervisory Board that may arise during the audit. In addition, the auditors are required to advise the Supervisory Board or make an appropriate note in the audit report if, during the course of the audit, the auditors ascertain such facts that may suggest any incorrectness in the declaration issued by the Board of Executive Directors and the Supervisory Board in accordance with Section 161 of the Stock Corporation Act.



+ Growth calls
for COMMITMENT.



And not only tomorrow but also the day after tomorrow.

Wise **investments** in production and distribution processes as well as focused **training** for our employees lay the groundwork for both internal and external growth.

This is the way in which we increase our **effectiveness** and meet the needs of the market even better.

The **strategy** is one that benefits everyone – customers, partners, shareholders and ultimately us.

Economic Report

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

Economic environment in 2003

German GDP in 2003 decreased by 0.1% in real terms year-on-year. This means that Germany has been experiencing a period of stagnation for the past three years. Economic research institutes attribute weak growth to the uncertain global economic environment on the one hand and to structural factors that are disadvantageous particularly to the German economy on the other.

The burden borne by citizens and companies in the form of taxes and other levies remains higher than the international average. Germany urgently needs fundamental reforms to be instituted in the labour market as well as in the social security system. The measures initiated hitherto fall far short of what is necessary to bring about a sustained improvement in the international competitiveness of the German economy and in consumer behaviour.

	2003	2002	2001	2000	1999
Percentage change in German GDP (in 1995 prices)	- 0.1	+ 0.2	+ 0.6	+ 3.0	+ 1.8

Source: Federal Statistical Office

The European Union also experienced growth on a modest scale during 2003. The low rate of growth is mainly attributable to capital expenditure being on the decline while private consumption has latterly increased somewhat.

In the United States, the Federal Reserve Bank repeatedly cut interest rates until June 2003 to assist the economy and at 1.0% now, they are at their lowest level in 45 years. In the eurozone, the European Central Bank lowered its base rate to 2.0% in June 2003, with the result that it too fell to historic low.

The euro appreciated strongly in relation to the US dollar over the course of the year. The US budget and trade deficits caused an increase in the mood of uncertainty among market participants worldwide. This was reflected in the fact that by the end of the year, the value of the US dollar in relation to the euro was about 18% down year-on-year, which had a particularly adverse effect on export opportunities for suppliers manufacturing in the eurozone.

Nevertheless, there are increasing signs of an end to the period of weak growth in the eurozone. As a result of an improvement in macroeconomic leading indicators, key economic research institutes expect GDP to grow by just under 2% in 2004. Thus, the recession would appear to have bottomed out, although the short-term outlook remains uncertain in view of the weakness of the US dollar. Particularly in Germany the situation is said to be uncertain, which is why the growth in German GDP forecast for 2004 has been revised downwards from 1.9% to 1.5%.



Markets, competition, sector situation

Global fertilizer consumption developed satisfactorily during the 2002/2003 season as a result of increased demand. We expect to see an increase in consumption of nitrogen, phosphate and potash of the order of a good 1.5% to 2.0% per year over the medium term, with growth mainly occurring in Asia and Latin America. In Asia, the political and thus economic situation remained stable overall, while conditions in South America once again improved somewhat, which brought tangible benefits to the fertilizer business, especially in Brazil.

Poor weather conditions adversely affected the situation in European agriculture during the summer of 2003. As a result of a spell of extreme heat, the cereal harvest in Germany was lower than a year ago and quality was also significantly poorer. In the hobby and garden area, the spring season began very late. In the summer, garden-related activities almost ground to a complete halt because of the extreme heat.

Potash and Magnesium Products

The K+S Group is a leading supplier of potash and magnesium products. As the fourth-largest producer of potash, we were able to consolidate our position on the global market with a share of about 13%. In Europe, we occupy a position of leadership by a wide margin. In the field of speciality fertilizers containing potassium sulphate and magnesium sulphate, our position is even one of global leadership.

In addition to fertilizers with a wide range of uses in agriculture, the Potash and Magnesium Products business segment offers a broad range of products for industrial applications. This comprehensive assortment makes us a top-performing global supplier.

In the year under review, demand on the global potash market showed an increase that was well above average, rising by 1.9 million tons K_2O , or about 7%, to 28.3 million tons K_2O . The main reasons for this were significantly higher demand in Latin America and Asia, while consumption in Western Europe and North America remained almost unchanged. In Eastern Europe and among the former constituent states of the Soviet Union, fertilizer consumption stagnated on the same low level as a year ago.

The following factors shaped the international competitive situation in 2003: Canada's Potash Corporation of Saskatchewan (PCS) acquired a 26% interest in the Jordanian potash producer Arab Potash Company (APC) for about USD 173 million in the course of the privatisation of the latter company by the Jordanian state. The K+S Group also participated in the bidding for the stake in APC. After conducting an extensive due diligence investigation of the company on location, we made what we believed to be a reasonable offer, which was, however, clearly outbid by PCS. In addition, PCS announced that its production facilities at Rocanville, Canada, would be expanded by 2005 at a cost of USD 80 million.

In the United States, competitor Mississippi Chemicals filed for bankruptcy protection under Chapter 11. Potash is continuing to be produced and the reorganization of the company has been commenced.

Russian producer Uralkali is continuing the modernisation of its technical facilities. It has been lent USD 75 million by the European Bank for Reconstruction and Development for this purpose. In Belarus, Belaruskali has started work on the construction of two new shafts in an existing extraction deposit. It has been stated that the investment, which is primarily intended to preserve existing capacity, will total USD 180 million.

COMPO

In Europe, the COMPO business segment – in contrast to its main competitors – was able to defend its hobby segment market shares despite a decline in plant protection agents attributable to weather conditions. At the height of the summer, the number of customers visiting DIY and garden centres was low because of the heat, with the result that retailers across Europe were disappointed by the poor sales situation.

To secure a source of raw materials for our most important hobby product, potting soil, we acquired a 30% interest in Latvian Livanu Kudras Fabrika (LKF) in the summer of 2003. LKF exploits in Livani (about 170 kilometres south-east of Riga) extensive deposits of raw materials that are particularly suitable for processing into high-quality COMPO® products.

We also conducted negotiations with Humuswerke Gnarrenburg Friedrich Meiners AG with the same aim during the course of 2003. At Gnarrenburg, north of Bremen, Meiners AG also possesses extensive deposits of substances for high-quality potting soil. In addition, the good transport links of this site offer important logistical advantages for serving the Central European COMPO markets.

In the professional area, we managed to further expand our position in the cultivation of fruit, grapes and vegetables, largely as a result of the ENTEC® products that have been specially developed for this area. In the case of public green area customers, stagnation or a slight decline could be observed as a result of budgetary constraints while the golf course segment saw continued growth. We were successful in the cultivation of ornamental plants and nurseries through intensive marketing, especially involving BASACOTE® fully-coated fertilizers. Overall, the professional area was able to post a slight gain despite adverse conditions.



In addition to weather conditions that were unfavourable for us, the unstable economic situation also impacted on our business. Like almost all suppliers of branded goods, we too had to accept stronger growth in private label products within own product groups. Nevertheless, COMPO was able to defend its overall position on a high, leading level.

From the autumn of 2003 onwards, the price of ammonia, an important raw material for the production of fertilizers, reached an extremely high level in relation to the preceding year as well as in relation to the average price over a large number of years. It was not possible to pass these additional costs to customers in all areas.

fertiva

The fertiva business segment places K+S among Europe's leading suppliers of nitrogenous fertilizers. Norway's Norsk Hydro, the global market leader, is also the number one in Europe.

fertiva's positions are strongest in Germany, the Benelux states and France. In the case of ammonium sulphate, fertiva is the global leader. As a result of limited product availability, our strategy is not primarily geared towards expanding market share but is more about deliberately positioning ourselves in selected market segments that are attractive in the long term.



Financial year 2003 was characterised by what were historically extremely high prices for ammonia. This was mainly due to high gas prices in the United States. As a result, about 60 % of US ammonia production was temporarily placed on hold in favour of imports. Consequently, the surge in ammonia and nitrogenous fertilizer imports into the United States not only triggered a rapid rise in the price of ammonia worldwide but also affected those nitrogenous fertilizer products that are made from it.

Norsk Hydro's plans to turn its fertilizer division into an independent company that will be subsequently floated might cause the competitive environment to change. We expect that an independent fertilizer group will place a greater focus on satisfying capital market demands related to returns through its core business in as long-term a way as possible. Essentially, this might have a positive impact on the market situation in Europe.

Salt

The Western European salt market was in robust shape with levels high. Fluctuations in consumption in individual segments are relatively slight. To a limited extent, Western Europe is also an attractive market for exporters from Eastern Europe and from overseas.

The prospects for selling larger quantities in Western Europe are somewhat limited given the extent to which market saturation has been reached. However, potential for growth is appearing in some special product segments. Success in the attractive de-icing salt business mainly depends on weather conditions in winter as well as the ability to deliver at short notice.

Price level was generally firm during the year under review with prices for some products markedly higher than a year ago.

For this reason, the establishment of the esco – european salt company joint venture in 2002 was a strategically important step towards the general consolidation of the position of K+S salt operations in Western Europe. In its very first year of being present on the market, esco already succeeded in attaining a position of market leadership within Europe. The key to success mainly consists in the favourable geographical locations enjoyed by esco production and distribution sites in the various regions of Western Europe.

By exploiting additional synergies in production, logistics and administration, esco will be in a position to achieve an above-average increase in its earnings capacity in the future, too.

With the integration of both partners' salt operations having reached an advanced stage, we signed a letter of intent on the acquisition of the remaining 38 % of esco held by our joint venture partner Solvay. Assuming the outcome will be successful, the K+S Group would become the sole owner of the market leader in Western Europe with economic effect from 1 January 2004.

Waste Management and Recycling

The waste management market in Germany was characterized by overcapacity in the same way as in the past few years. In addition, special projects involving pre-existing environmental contamination have decreased while waste volumes have been scaled back further as a result of legal provisions concerning waste avoidance and recycling. This produces a downward trend affecting prices, especially in the field of underground waste disposal.

Our Waste Management and Recycling business segment has a high share of the German market for underground waste disposal services. In the flue gas cleaning residues growth market, which is important for underground waste re-utilisation, we hold strong positions in Germany and, to an increasing extent, in the rest of Europe. Our marketing activities in the rest of Europe have also been stepped up.

In the case of the aluminium recycling business, we also hold significant market shares in Germany and in some neighbouring countries. With the departure of one of our competitors in the area of salt slag processing, the current market situation is advantageous for us. However, a significant impact on the earnings of our business cannot be expected as utilisation levels for our plant's technical capacity are already extremely high.

Business Development 2003

Corporate structure

The operational business segments of the K+S Group have a separate corporate identity under corporate law. Holding and support functions for group companies are concentrated within K+S Aktiengesellschaft.

Our business is managed and coordinated according to the principle of strategic direction being set centrally with business-specific responsibility distributed in a decentralized manner. Direction is provided by the Board of Executive Directors and the heads of business segments. Group interests always take precedence over the interests of an individual business segment.

The K+S consolidated financial statements for 2003 include the 62 % equity interest in esco on a proportionate basis as was the case in the previous year. In addition, the year under review saw a variety of small changes affecting holdings in companies that are not consolidated.

The sale of a minority interest in Abfall- und Altlasten Entsorgungsgesellschaft mbH (AAE), Bremen, which is active in the field of thermal soil cleaning, was prompted by the economic difficulties experienced by its main shareholder, and we saw there being no possibility for sustained development in this business area if the existing partnership were to cease.

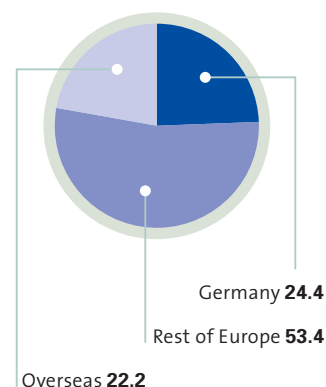
At just € 2.3 billion, revenues up slightly year-on-year

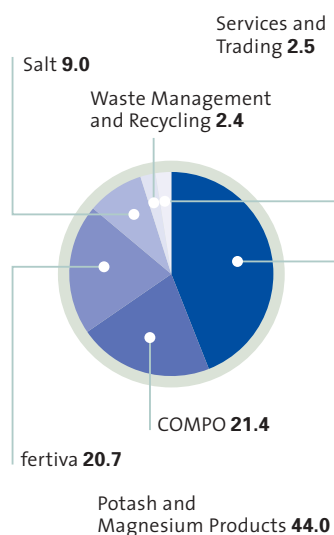
We posted revenues of € 2,287.8 million for financial year 2003, up 1.3 % year-on-year.

Revenues by business segment		2003	2002	%
Potash and Magnesium Products	€ million	1,004.7	992.3	+ 1.2
COMPO	€ million	490.4	481.0	+ 2.0
fertiva	€ million	474.1	469.5	+ 1.0
Salt	€ million	206.2	203.4	+ 1.4
Waste Management and Recycling	€ million	54.6	58.6	- 6.8
Services and Trading	€ million	56.4	51.8	+ 8.9
Reconciliation	€ million	1.4	1.9	-
K+S Group	€ million	2,287.8	2,258.5	+ 1.3

The partial fall in prices noted in 2002 was successfully offset in many spheres during the year under review. Price increases and higher sales volumes fully made up for the drop in revenues caused by exchange rates.

Revenues by region (in %)



Revenues by segment
(in %)


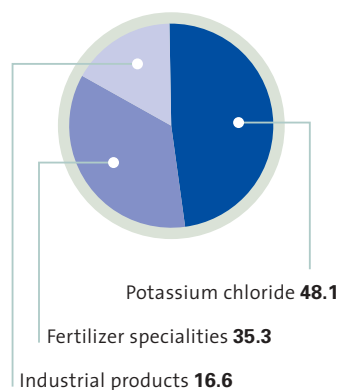
		2003	2002
Revenues	€ million	2,287.8	2,258.5
Change in revenues	€ million	+ 29.3	+ 79.1
- volume/structural factors	€ million	+ 44.6	+ 139.7
- price factors	€ million	+ 39.2	- 54.2
- currency factors	€ million	- 54.5	- 8.2
- consolidation effects	€ million	± 0.0	+ 1.8

The Potash and Magnesium Products business segment achieved the highest revenues of all the K+S Group's business segments, accounting for 44 % of total revenues, and is followed by COMPO, fertiva and Salt. In Europe, we posted revenues of € 1,779.9 million, an increase of 2.5 % on the previous year, which means that Europe accounted for about 78 % of total revenues. At € 557.6 million, the revenues for Germany included in the total virtually remained without change. The European market is particularly important for us because it enables us to leverage our advantages in terms of shipment costs. Revenues on overseas markets fell by 2.8 % to € 507.9 million, its share of total revenues decreasing by about one percentage point year-on-year.

Potash and Magnesium Products

In financial year 2003, the Potash and Magnesium Products business segment posted revenues of € 1,004.7 million, thus slightly exceeding the previous year's good level. Falls in revenues due to exchange rates and delivery pricing (excluding rather than including freight and insurance) were more than made up for by increases in prices and volume. Total sales reached 7.7 million tons of goods – an increase of about 3 %. Whilst increases in revenues as a result of volume factors were achieved on overseas markets, sales and revenues for European markets fell slightly.

Most revenues are generated within the eurozone and are therefore largely unaffected by any direct foreign exchange risk. As far as revenues invoiced for the US dollar zone are concerned, we hedge ourselves against currency risks as well as possible. In the second half of 2003, the new foreign exchange transactions that we concluded as of the spring of 2003 guaranteed us a US dollar exchange rate that was slightly above parity with the euro. Although this hedged exchange rate was less favourable than our previous dollar rate hedges, which expired in the third quarter of 2003, it was significantly better than the average spot rate for the dollar in the second half of the year. In respect of 2004, 2005 and 2006, we have hedged revenues at a rate similar to that in the second half of 2003, but these hedged transactions will only be effective if the US dollar exchange rate remains within a certain defined range over the agreed term. If necessary, we can extend the ranges by paying additional premiums.

Revenues by product group
(in %)

Potassium chloride slightly up year-on-year due to price and volume factors

During the year under review, potassium chloride revenues rose slightly, increasing by € 6.0 million or about 1 %, to reach € 483.1 million. Higher volume, successful price increases and improvements to regional portfolios more than made up for currency shortfalls and changes to freight terms. The reduced revenues, partly attributable to the conversion of delivery terms and conditions from cif (including freight and insurance) to fob (excluding freight and insurance) had no effect on the result. Whilst increasing demand for granulated products on overseas market led to a partial increase in prices as well as in sales volume, demand in Europe fell slightly.

Fertilizer specialities reach high level once again

At € 355.1 million, revenues for our fertilizer specialities during the past financial year attained the previous year's high level once again. Revenues for potassium sulphate did not quite attain the same level as a year ago; lower revenues, due to currency factors, were not entirely offset by increased sales. On the other hand, revenues for our special potash grades rose. Here, price increases balanced out a limited fall in revenues attributable to volume factors. In the case of ESTA®-Kieserite, we exploited stronger overseas demand to generate additional business.

Industrial products – an economic leading indicator

Sales of industrial products were 4 % up year-on-year, totalling € 166.4 million. The industrial potash businesses in Europe and in overseas reached the previous year's levels. We achieved a clear increase for magnesium compounds on account of increased sales to the pharmaceutical industry in the United States. A fall in revenues of Epsom salt was more than made up for by increased revenues of magnesium sulphate and magnesium chloride.

COMPO

Financial year 2003 saw revenues rise 2% year-on-year to total € 490.4 million. A major part of this increase occurred in the hobby sector, but revenues in the professional area also rose slightly. COMPO generates about 93% of its revenues in Europe, so that changes in exchange rates only have a limited impact.

Hobby area experiences further growth

The European multibrand strategy, which involves COMPO®, ALGOFLASH®, SEM®, GESAL® and GARDIFLOR® and is based on the varying degrees to which the individual brands are known in the various core markets, proved itself once more. In the hobby area, revenues for the year under review rose 2.5% to reach € 201.9 million. This growth was primarily due to price adjustments and increases in volume. The fall in revenues of pesticides as a result of extreme drought was more than made up for by increased sales of potting soils and lawn fertilizers. Whilst revenues of branded products in Northern Europe remained largely stable, we attained a clear increase in revenues of our branded products in Southern Europe, especially in Spain.

Professional area slightly up on previous year's very good level

In 2003, we posted revenues of € 288.5 million for the professional area; the previous year's very good level was slightly exceeded. As in the case of the hobby sector, we were able to increase prices, but a part of which was cancelled out by currency losses. The trend in revenues of our ENTEC® fertilizers was a positive one once again, with these fertilizers increasingly gaining acceptance given their particularly beneficial properties.

Except for weaker sales in the Benelux countries and in Germany attributable to weather conditions, COMPO achieved revenue growth with its professional products in all the remaining European markets as well as overseas. Austria and Latin America saw particularly strong growth in 2003, and in some cases, we achieved double-digit growth there.

fertiva

fertiva business segment revenues for 2003 were up 1% to total € 474.1 million. We were able to force through price increases, including some substantial ones, for all product groups. However, these increases were not sufficient to fully offset the impact on revenues of the weak US dollar in the case of overseas markets.

In Germany, very dry weather affected demand for nitrogenous fertilizers and also caused difficulties for logistics – mainly due to the low water levels in inland waterways. Despite this, our revenues in Germany attained the previous year's level. In the rest of Europe, revenues rose by 9% as a result of very good business in the case of straight nitrogen fertilizers while on the other hand, the weak US dollar caused a 12% fall in revenues generated overseas.

Revenues for complex fertilizers clearly down due to availability factors

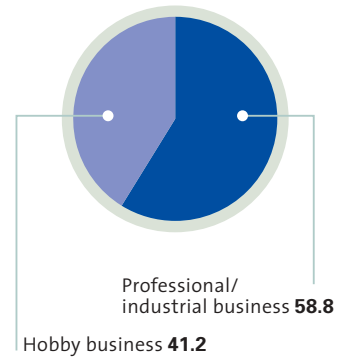
Revenues for complex fertilizers amounted to € 155.3 million during the year under review and were thus about 17% down year-on-year. The scheduled closure of the BASF complex fertilizer production facility in Ludwigshafen meant that we had smaller quantities at our disposal. Although this was partly compensated for by additional purchases made from third parties, our total sales of complex fertilizers fell considerably.

Revenues for complex fertilizers generated overseas were further reduced by the weak US dollar. A series of price increases in Europe and overseas meant that the effects of this situation could only be reduced, not eliminated.

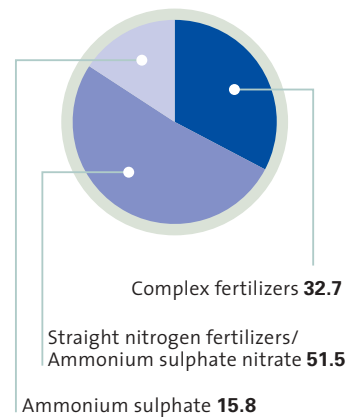
Sales of straight nitrogen fertilizers up 19%

During the period under review, sales of straight nitrogen fertilizers on account of price and volume factors developed favourably. The business segment achieved growth of 19% to total € 243.9 million; in this regard, we benefited from the continuing trend towards nitrogenous fertilizers containing sulphur. Market share for this product group in Germany rose by two percentage points to about 14% of the entire nitrogenous fertilizer market. Sales of remaining straight nitrogen fertilizers in the first half of 2003 were affected by the extremely dry weather in large parts of Europe. The losses were more than made up for in the second half of the year thanks to the high demand for nitrogenous fertilizers as a result of rising international prices. Because of the relatively low volume of sales outside the eurozone, the weaker US dollar hardly had any effect on this business segment.

Revenues by segment (in %)



Revenues by product group (in %)



Exchange rate factors cause ammonium sulphate revenues to fall

In 2003, ammonium sulphate revenues fell by € 3.3 million to € 74.9 million. The volume sold was almost exactly the same as a year ago, but the weakness of the US dollar had a particularly strong impact on ammonium sulphate, a strong export item. Despite significant price increases in some cases, it was not possible to offset the effect of currency movements entirely.

Salt (62% esco)

Salt business segment revenues in 2003 reached € 206.2 million, up 1.4% on the already very good level attained last year. The esco joint venture is included in the consolidated financial statements in proportion to our 62% holding. While prices generally remained stable in 2003, it was possible to force through increases in the case of some products. The most important market regions continue to be Germany, accounting for 43% of total revenues, and the rest of Europe, accounting for 56%.

Growth in consumer products as a result of price factors

The proportionate share of revenues for this attractive segment during the year under review rose by about 2% to € 82.9 million. The consumer products business is a very stable one, resistant to change in economic conditions. Apart from a slight increase in sales, price increases are the main reason behind the higher revenues.

Revenues for industrial salts on last year's level

Revenues for industrial salts, e.g. fishery, feed and high-purity pharmaceutical salts, amounted to € 36.6 million for the year under review, slightly up year-on-year. The main markets are Germany and other European countries that can be reached at low shipment cost.

Price increases in salts for chemical transformation

Business involving salts for chemical transformation was also stable during the year under review. We posted revenues of € 16.6 million, almost exactly as much as a year ago. Slightly smaller quantities were sold because of a fire at the premises of a major customer in Belgium, but we made up this drop almost completely by means of moderate price increases.

De-icing salt up again on previous year's already very good level

The winter weather conditions at the beginning of 2003 ensured good business with de-icing salts for the winter road clearance services. We posted revenues of € 62.1 million for the year under review. This was about 2% up year-on-year also because of good early orders.

Waste Management and Recycling

Revenues for the Waste Management and Recycling business segment fell by 7% year-on-year to total € 54.6 million. This was mainly due to a further decrease in volumes of waste for underground disposal. In addition, the business segment was exposed to particularly fierce competition in the field of underground waste re-utilisation. Successful marketing and distribution efforts in Italy and Southeast Europe partially made up for the domestic fall in revenues.

Underground disposal affected by postponement of major project

In the case of underground disposal, we posted revenues of € 15.0 million for financial year 2003, € 3.6 million less than last year. This was caused by the postponement of a follow-up project involving the cleaning-up of pre-existing environmental contamination and a shift from disposal to recycling necessitated by legal requirements.

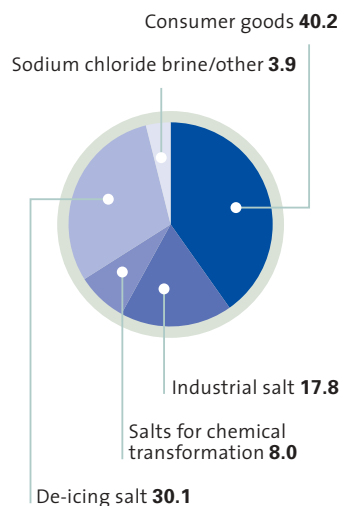
Price levels for underground waste re-utilisation under pressure

We achieved revenues of € 19.7 million in financial year 2003 for the area of underground waste re-utilisation, 2% down on the previous year. While succeeding in increasing waste volume in relation to the previous year, average revenues sank as a result of intense competition. The growth in volume was mainly due to the acquisition of new customers in some neighbouring European countries.

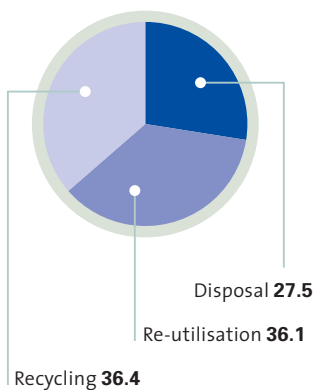
Good utilisation levels for recycling plants

The recycling area posted revenues of € 19.9 million for financial year 2003, up somewhat year-on-year. Our REKAL plant was again fully utilised, and an increase in the yield of aluminium granulate extracted from the salt slag processed led to increased sales. However, higher prices in US dollars were largely

Revenues by product group (in %)



Revenues by segment (in %)



offset by the weaker dollar exchange rate. In the case of building rubble recycling, revenues increased slightly as a result of increased average prices for more highly-contaminated waste, despite reduced volume.

Services and Trading

The Services and Trading business segment reached revenues of € 56.4 million for the year under review, up 9 % year-on-year.

Significant increase for logistics

Consolidated revenues for logistics rose by 21 % in the year under review to total € 16.7 million. This increase was the result of new business in the freight forwarding sector and higher freight volumes in the overseas business. In addition, a major part of the increase can be attributed to the conversion of the container sea freight from fob (excluding freight and insurance) to cif (including freight and insurance), which had no impact on earnings.

CATSAN® granulation up on last year due to volume factors

In 2003, revenues from the granulation of the animal hygiene product CATSAN® amounted to € 23.0 million, up about 1%. The reason for this was an increase in the size of sales orders from our partner Masterfoods.

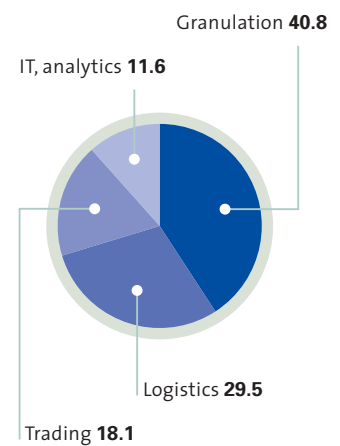
Trading business increases

At € 10.2 million, 2003 revenues for our trading business were about 10 % up year-on-year. This increase is mainly the result of volume factors and applies mainly to calcium chloride and caustic soda.

Increased demand for IT and analytical services within the K+S Group

At € 3.8 million, the external customer revenues generated by our IT subsidiary data process GmbH were up significantly year-on-year. This mainly includes the integration services for esco attributable to the non-consolidated 38 % Solvay holding. Revenues for consulting and analytical services amounted to € 2.0 million and were thus down somewhat year-on-year.

Revenues by segment
(in %)



Earnings before interest and taxes (EBIT) down 13 % year-on-year

At € 115.7 million, EBIT was down € 17.1 million, or about 13%, on last year's very good figure (€ 132.8 million). This was mainly due to increases in energy and personnel costs, higher prices for raw materials as well as capital outlays connected with the development of a new, rich potash deposit. In addition, from the third quarter onwards, the US dollar was no longer hedged on the more attractive terms that had applied previously.

EBIT by business segment		2003	2002	%
Potash and Magnesium Products	€ million	31.6	55.6	- 43.2
COMPO	€ million	25.4	30.8	- 17.5
fertiva	€ million	6.6	6.3	+ 4.8
Salt	€ million	27.2	26.0	+ 4.6
Waste Management and Recycling	€ million	4.2	8.3	- 49.4
Services and Trading	€ million	17.0	15.4	+ 10.4
Reconciliation*	€ million	3.7	- 9.6	-
K+S Group	€ million	115.7	132.8	- 12.9

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

Potash and Magnesium Products

EBIT for the Potash and Magnesium Products business segment fell by € 24.0 million to € 31.6 million. This significant decline was attributable to a variety of cost factors that were essentially external in character. The high price of oil last year meant that gas prices, which are important in the context of our use of energy, also rose, pushing up energy costs by just under 8 %. Additional costs arose as a result of collective agreement pay increases and a further significant increase in social security contributions. With regard to currencies, the attractive rate at which the US dollar had been hedged expired in the third quarter. The new hedging trans-

actions subsequently agreed were concluded at lower hedging rates because of the weakness of the US dollar. Finally, further high capital outlays related to the development of our new, rich potash deposit (Sylvinitic project) were required in 2003.

COMPO

At € 25.4 million, EBIT for the COMPO business segment was about 18 % down year-on-year. Despite the successful implementation of price increases, it was not possible to pass on higher costs in full. There were three main factors behind this. High energy prices on global markets caused the price of ammonia, an important raw material for the production of nitrogenous fertilizers, to rise sharply in the second half of the year.

In addition, a product mix change related to economic and weather conditions caused earnings to deteriorate: On the one hand, customers preferred more attractively-priced standard products and on the other, the period of extreme heat pushed down sales of high-margin pesticides. Finally, significantly higher freight surcharges for the shipment of goods as a result of water levels remaining lower over a longer period of time caused an exceptional increase in costs.

fertiva

The fertiva business segment posted EBIT of € 6.6 million, up by about 5 %. This figure includes the € 5.1 million maximum possible share of earnings attainable under the contractual arrangements with BASF as well as € 1.5 million from business with third party suppliers.

Salt (62 % esco)

In the case of the Salt business segment, the EBIT allocated to the K+S Group amounted to € 27.2 million. The result showed a further increase of about 5 % on the already very good figure obtained last year. The rise is mainly due to higher revenue growth and savings in logistics. The year under review saw significant integration expenses related to the formation of the joint venture recognised for the last time.

Waste Management and Recycling

The Waste Management and Recycling business segment generated EBIT of € 4.2 million for 2003, down € 4.1 million on the previous year. The reasons for the high decrease were lower volumes of waste for underground waste disposal, falling market prices for waste re-utilisation services and, in part, lower revenues from the sale of aluminium granulate as their euro revenues are based on exchange prices traded in US dollar.

Services and Trading

Services and Trading business segment EBIT for 2003 showed an increase of € 1.6 million on the previous year and totalled € 17.0 million. Higher turnover for logistics, additional sales orders for CATSAN® granulation as well as higher earnings from the trading business more than made up for the slight drop in IT business earnings.

Reconciliation

Expenses and income that cannot be allocated to business segments are recorded separately and disclosed under "Reconciliation". This item amounted to € 3.7 million for 2003, compared to a negative amount of € 9.6 million for the previous year. There were a number of reasons for this: Write-ups on as well as sales of short-term securities could more than make up for the loss realised on the sale of a minority interest (AAE). In addition, the scheduled release of the balance on consolidation, sales of non-operational real property as well as significantly lower provisions for the possible exercise of stock options by the Board of Executive Directors and senior management resulted in a positive balance on reconciliation.



Condensed profit and loss account		2003	2002
Revenues	€ million	2,287.8	2,258.5
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	€ million	223.7	240.1
Earnings before interest and taxes (EBIT)	€ million	115.7	132.8
Financial result	€ million	- 4.1	- 18.9
Profit before income taxes	€ million	111.6	113.9
Net income	€ million	101.3	103.8

EBITDA down slightly year-on-year

Earnings before interest, taxes, depreciation and amortisation (EBITDA) for the year under review amounted to € 223.7 million and were down about 7%, or € 16.4 million, year-on-year. This development is a reflection of higher costs related to operating activities. Despite the decline, the EBITDA margin is on a satisfactory level of just under 10% and thus attests to the cash-effective earnings strength of the K+S Group.

Financial result recovers significantly

The 2002 write-downs on short-term securities required under commercial law could in part be reversed in 2003. However, write-ups and gains realised on the sale of those securities (a total of € 9.4 million) are not included in the financial result under German accounting rules but disclosed under other operating income.

Continued low interest rates on the capital markets resulted in interest income, which was insufficient to compensate for non-cash interest expenses of € 9.7 million relating to pension provisions (2002: € 10.1 million). This resulted in a negative net interest result of € 3.9 million, compared to € -2.4 million a year ago. The result of € 0.9 million obtained from investments was somewhat weaker.

At € -4.1 million, the financial result as a whole showed a significant improvement on the previous year (2002: € -18.9 million).

Net income only slightly down year-on-year

As a result of the improvement in the financial result, earnings before income taxes totalled € 111.6 million and were thus only 2.0% down year-on-year. With income taxes almost unchanged at € 10.3 million (up € 0.2 million), we achieved net income of € 101.3 million, down just 2.4% year-on-year.

Earnings per share, on the basis of net income, amounted to € 2.42, down one euro cent or 0.4% year-on-year. This figure has been arrived at on the basis of an average 41.8 million no-par value shares (2002: 42.8 million shares) and takes account of the average number of own shares held by K+S over the year.

Net income 1999 – 2003 (€ million)

2003	101.3
2002	103.8
2001	118.3
2000	119.8
1999	98.5

DVFA earnings per share down slightly year-on-year

DVFA earnings amounted to € 64.1 million, which represents a drop of € 5.3 million or 7.6%. Downward adjustments totalling € 37.2 million were necessary in order to compute DVFA earnings, a figure € 2.8 million up on the previous year. The adjustments included € 29.1 million in fictitious taxes alone. This is done to facilitate comparison with companies that are not able to recognise any losses carried forward for tax purposes.

Computation of DVFA earnings		2003	2002
Net income	€ million	101.3	103.8
Adjustments for fictitious taxes	€ million	- 29.1	- 30.0
Goodwill amortisation	€ million	- 11.2	- 11.2
Special depreciation of tangible fixed assets	€ million	0.0	2.3
Changes in special reserves	€ million	0.0	- 0.8
Other adjustments	€ million	3.1	5.3
DVFA earnings	€ million	64.1	69.4
DVFA earnings per share	€	1.53	1.62
Earnings after taxes per share	€	2.42	2.43

Sound asset and capital structure



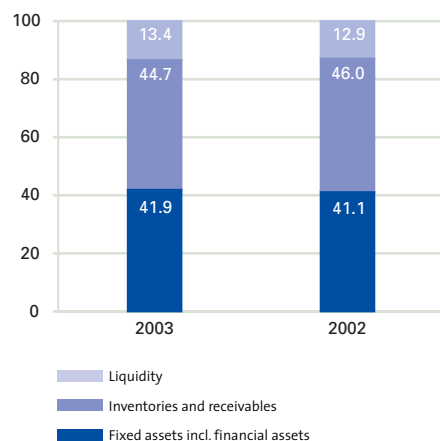
K+S Group total assets rose by 5,3 % to € 1,754.5 million as of 31 December 2003. This increase is mainly due to the application of the German Act on the Further Reform of the Laws on Stock Corporations and Accounting in relation to Transparency and the Provision of Information [TransPuG], which prohibits the recognition of extraordinary items that are purely taxation-related in consolidated financial statements. Fixed assets rose by just under € 47.0 million as a result of the reversal of special depreciation charges from previous years; the resulting effect – one not recognised in income – on the equity and liabilities side caused an increase in equity and in deferred tax liabilities (in accordance with Section 306 HGB), which are disclosed in provisions for taxes.

At 41.9 %, the share of total assets accounted for by fixed assets was somewhat higher than a year ago. Total liquid assets also rose, by 8.9 % to € 234.8 million, and thus accounted for 13.4 % of total assets. Liquidity faced bank loans amounting to € 19.4 million as of the balance sheet date.

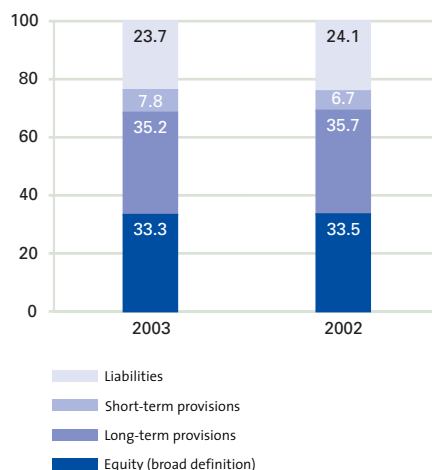
There was no significant change in the structure of the equity and liabilities side in relation to the previous year. The equity ratio in a broader sense, which includes one half of special reserves and the balance from capital consolidation, almost remained unchanged at 33,3 % of the balance sheet total. This was due to the level of net income after the deduction of the last dividend payment, the cancellation of 2.5 million own shares as well as the increase in revenue reserves resulting from the application of the TransPuG that had no effect on income. The share of total assets accounted for by long-term provisions also largely remained stable at 35.2 %, while short-term provisions rose to 7.8 %. The share of total assets accounted for by liabilities fell slightly to 23.7 %.

The structure of the balance sheet shows that assets are largely financed by long-term capital. The coverage of long-term assets by long-term capital is also a relatively high 163 %. Our high earnings capacity and healthy financial structure, especially the good liquidity position, place us in the position of being able to approach our external growth targets from an intrinsically strong financial basis.

Assets
(in %)



Equity and liabilities
(in %)



Capital expenditure falls despite special projects

In 2003, we invested a total of € 126.6 million in tangible fixed and intangible assets, about 2 % less than in the previous year. This figure also includes larger-scale special projects, such as the development of a new potash deposit (Sylvinit project) and the expansion of a brine field in the Salt business segment.

Capital expenditure by business segment		2003	2002	%
Potash and Magnesium Products	€ million	81.6	89.1	- 8.4
COMPO	€ million	16.8	20.1	- 16.4
fertiva	€ million	0.0	0.5	- 100.0
Salt	€ million	18.7	7.9	+ 136.7
Waste Management and Recycling	€ million	1.5	1.6	- 6.3
Services and Trading	€ million	7.2	7.4	- 2.7
Other	€ million	0.8	2.4	- 66.7
K+S Group	€ million	126.6	129.0	- 1.9

Potash and Magnesium Products

As planned, capital expenditure during 2003 amounted to € 81.6 million and was about 8 % down year-on-year. This means that in this field we are achieving our goal of constantly reducing expenditure on plant replacements after having modernised our facilities in preceding years.

At € 9.5 million, the Sylvinit project was the single-largest investment undertaking in the Potash and Magnesium Products business segment. Total investment in this project will amount to about € 25 million by the end of 2004. As of 2005, 1.5 million tons of Sylvinit are to be transported annually from the Unterbreizbach site using underground conveyance systems to factories at the Wintershall and Hattorf sites for processing there. In 2003, we concentrated on mining work relating to pre-processing. In addition, new sections had to be laid and three new underground bunkers constructed for the future storage of crude salt.

Further major projects during the past year included the opening up of a further excavation site at our Zielitz potash plant, the construction of a new crude salt storage shed at Unterbreizbach as well as the expansion of infrastructure for feeding excess electricity generated by our power plants into the public grid.

COMPO

COMPO business segment capital expenditure in 2003 amounted to € 16.8 million and was 16.4 % down on the previous year (€ 20.1 million). We primarily focussed investment on further enhancing capacity related to our core business.

Important projects included the modernisation of logistics facilities at the Krefeld plant as well as the construction of a stabilisation facility for complex fertilizers (ENTEC®) at BASF's Antwerp site, commissioned by us. In addition, we have begun to expand a new logistics and filling site in Spain. In the future, these three projects will contribute to raising service standards, reducing logistics costs and further improving product quality.

fertiva

Our fertiva business segment, which concentrates on the marketing of straight and complex nitrogen fertilizers to agriculture, saw virtually no capital expenditure in 2003. However, various small process improvements were formulated along with partners engaged in production, which should yield savings in terms of the cost of producing those fertilizers bought by us.

Salt (62 % esco)

Salt business capital expenditure in 2003 increased by € 10.8 million in relation to the previous year and amounted to € 18.7 million. The increase is mainly attributable to work on developing the new brine field at the Harlingen site in the Netherlands as well as new shaft conveyance equipment at the Bernburg plant.

Given that use of the existing brine field is expected to end, work on the development of the new brine field will continue until the middle of 2004 in the form of two larger-scale cavern drilling operations. As a result of the first of the two drilling operations, which reach a depth of 3,000 metres and are not simply vertical but change direction several times, we have entered new technological territory for salt extraction. After some geological and drilling problems had been solved, we performed the first successful drilling operation during the year under review. The second vertical drilling operation will be carried out in 2004.

Capital expenditure 1999 – 2003 (€ million)

2003	126.6
2002	129.0
2001	157.9
2000	141.7
1999	106.1

Waste Management and Recycling

Capital expenditure in the Waste Management and Recycling business segment during 2003 totalled € 1.5 million and was thus somewhat down year-on-year. The focus was on further improving plant technology related to underground waste management as well as recycling in order to further increase process efficiency.

Services and Trading

The bulk of the capital expenditure totalling € 7.2 million in the Services and Trading business segment was related to our logistics activities and our IT subsidiary data process GmbH. Storage capacity at Hamburg's "Kalikai" port facility was increased to ensure that very large vessels proceeding overseas can also be loaded rapidly. data process invested in data network infrastructure as well as in additional SAP licenses.

Free cash flow up significantly year-on-year

Condensed cash flow statement		2003	2002
Net income	€ million	101.3	103.8
Gross cash flow	€ million	209.1	216.9
Cash flow provided by operating activities	€ million	251.7	182.4
Cash flow used in investing activities	€ million	- 124.3	- 135.9
Free cash flow	€ million	127.4	46.5
Cash flow used in financing activities	€ million	- 84.8	- 51.6
Change in cash funds	€ million	47.5	- 26.6

Cash flow provided by operating activities rose by € 69.3 million, up 38 % year-on-year. This was mainly due to a rise in long-term provisions as well as a significant reduction in the tying up of working capital. This effect is in part attributable to a lower increase in receivables for 2003. In the light of how they expected exchange rates to change, some overseas customers preferred not take advantage of the payment terms offered by us. After taking into account lower payments related to investment and acquisition activities, we generated free cash flow of € 127.4 million, € 80.9 million higher than a year ago. Cash flow used in financing activities for the year under review covered the cancellation of repurchased own shares totalling € 43.4 million in addition to the dividend payment of € 41.5 million for 2002.

Cash and cash equivalents rose by a total of € 47.5 million from the beginning of 2003 to total € 215.4 million.

Yields slightly lower

The particularly robust earnings capacity enjoyed by the K+S Group was also apparent from the returns attained during 2003. Despite a drop in earnings in the Potash and Magnesium Products business segment, the ratios for returns remained on a good level. The high level of earnings before interest, taxes, depreciation and amortisation were reflected in an EBITDA margin of 9.8 %. The EBIT margin of 5.1 % also attests to our continued earnings strength. With respect to computing the return on revenues of 4.4 % and the earnings-related figures already referred to, it should be noted that the fertiva revenues of € 474.1 million have been included, although they only give rise to limited earnings for us because of the special contractual arrangements with BASF. Our return on equity after income taxes amounted to 17.3 % and was down on the high figure for the previous year because the increase in equity resulting from the application of the TransPuG, which is not recognised in income, had a dilutive effect. For the same reason, the total return on investment before income taxes of 7.2 % was down on the previous year. The return on capital employed (ROCE), which is important for us, was 12.7 % for the year under review (previous year: 14.7 %) and thus markedly exceeded our cost of capital.

Proposed dividend remains high

K+S Aktiengesellschaft, as the holding company of the K+S Group, generated net income of € 69.3 million for financial year 2003 (2002: € 71.0 million). The dividend payment of € 41.5 million for 2002 was paid out of the retained profit of € 45.5 million as of the beginning of 2003. After changes made during the course of

EBIT margin (in %)



EBITDA margin (in %)



Return on total investment (in %)



ROCE (in %)



the year under review to the reserve for own shares and allocations to revenue reserves, the profit retained as of 31 December 2003 amounted to € 55.9 million.

We will once again propose to the Annual General Meeting the payment of a dividend of € 1.00 per share for each share entitled to participate in the dividend, the allocation of a sum of € 12.5 million to revenue reserves and the carrying forward of the remaining sum of € 0.9 million as profit. Assuming that we will not hold any own shares on the date of the Annual General Meeting, this will yield a dividend payment of € 42.5 million. Thus, the rate of dividend distribution related to the K+S Group net income amounts to 42.0 %.

Dividend per share (in €)

2003		1.00
2002		1.00
2001		1.00
2000		0.85
1999		0.57

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

Profit and loss account		2003	2002
Revenues	€ million	53.5	68.0
Profit before income taxes	€ million	69.0	71.0
Taxes on income	€ million	- 0.3	0.0
Net income	€ million	69.3	71.0
Balance sheet			
- Tangible fixed/intangible assets	€ million	20.0	23.4
- Financial assets	€ million	350.9	354.7
Fixed assets	€ million	370.9	378.1
- Inventories and receivables	€ million	131.8	157.7
- Cash and cash equivalents	€ million	277.5	262.3
Current assets	€ million	409.3	420.0
Total assets	€ million	780.2	798.1
Equity	€ million	244.4	259.9
Provisions	€ million	250.8	264.5
Liabilities	€ million	285.0	273.7
Total equity and liabilities	€ million	780.2	798.1

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

Our employees

The K+S Group employed a total of 10,627 persons on 31 December 2003. This figure includes the core workforce, trainees and temporary employees (without students and interns). Therefore, the number is virtually the same as at the end of the previous year (10,610 employees). The esco work force of 1,364 persons was included in proportion to our 62 % holding (846 employees). The situation was similar in terms of averages: During the year under review, K+S employed an average of 10,610 people, 99 or 0.9 % more than in 2002. This increase was mainly due to a reorganisation of distribution activities in the COMPO business segment in Spain and Brazil; operations, previously carried out by third parties, are now performed by us.

Further details are to be found in the separate K+S personnel and social report.

Personnel expenses rise

Group personnel expenses for 2003 increased by € 22.5 million in relation to the previous year and amounted to € 550.3 million, an increase of 4.3 %. In addition to the slight increase in the average number of employees, the reasons for the increase in expenses were the conclusion of collective pay agreements and, most of all, an increase in compulsory social security contributions. These rose disproportionately as a result of an increase in the contribution qualifications limits in pension and unemployment insurance as well as an increase in the contribution rates to pension insurance.

During the year under review, we paid a total of € 422.8 million in wages and salaries (+ 3.4 %) as well as € 118.2 million in social security contributions (+ 4.4 %). Expenses relating to company pensions and support this year rose by € 3.6 million and reached € 9.3 million.

During the year under review, personnel expenses per employee amounted to € 51,866 (2002: € 50,216).

Performance-related remuneration and above-average social benefits

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

Employees covered by collective pay agreements receive an agreed annual bonus which, in the potash and salt segments, was paid out in November 2003 and amounted to 80 % of a monthly basic salary. In the COMPO and fertiva business segments, a bonus of 95 % has been paid on the basis of the collective pay agreement for chemical workers. In addition, all employees covered by collective pay agreements will receive a performance-related payment in May 2004, calculated on the basis of the result for 2003. Furthermore, just like in the previous year, we offered employees of German K+S Group companies employee shares at reduced prices. As in recent years, about half of all employees have taken advantage of this offer. In 2003, 173,709 K+S shares discounted by € 2.3 million (including the employer's share of the social security contributions) were sold.

Since the creation as of 2002 of the legal prerequisites for company pensions on the basis of pension funds (Altersvermögensgesetz), we offer all employees this option through the chemical industry pension fund. In this regard, K+S pays a contribution of 13 % up to the income limit for assessment of contributions.

In addition, a remuneration model that assesses and – to a limited extent – rewards company success as well as personal performance in relation to agreed benchmarks applies to employees that are not covered by collective pay agreements. This system was initially introduced in 2000 in relation to certain senior management employees and has been gradually extended to encompass all employees that are not covered by collective pay agreements. Finally, a virtual option model available to the Board of Executive Directors and key executives has been in existence for a number of years. This model requires an own risk-bearing investment in K+S shares. The options cannot be exercised for a period of two years and only if the K+S share outperforms the MDAX index; in addition, the model sets a cap of 25 % on outperformance. With the help of these additional components of remuneration, the interests of employees are linked even more closely with those of the company.

Employment focus is on Europe and Germany in particular

With more than 90 %, the overwhelming majority of our employees is employed in Germany. This is primarily linked to the geographical location of the crude salt deposits for the Potash and Magnesium Products and Salt business segments. With the esco joint venture and the successful expansion of the COMPO business in Europe, the proportion of employees working in other European countries has, however, increased.

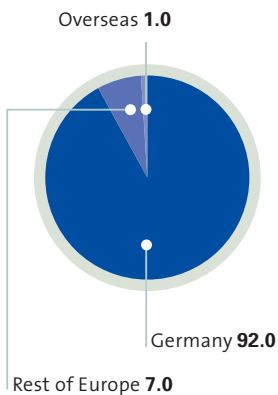
Employee identification and loyalty to K+S

K+S Group employee identification and loyalty is particularly apparent from length of service. Over 60 % of the workforce has been employed by the K+S Group for more than 16 years. Long length of service and an employee fluctuation of under 1 % confirm that in addition to providing appropriate wages and salaries, substantial social benefits and modern incentive models, the K+S Group offers good career prospects and is thus perceived by employees as an attractive employer.

Ensuring a stream of next generation employees as an investment in the future

Many years of service and the wealth of experience that this produces are one consideration and the training of the next generation of employees is another. This is an area in which we are already systematically laying the groundwork for tomorrow's growth. In 2003, 151 young people began vocational training with K+S in 16 professions and in 12 training locations, which means that we virtually repeated the previous year's high level. With 550 trainees as of 31 December 2003, our trainee ratio was on a very high level once again at 5.2 % (2002: 5.1%), placing us above the average figure in German industrial companies.

Employees by region (in %)



Length of service 2003 – excluding foreign companies (in %)

Up to 5 years	22.2
6 to 10 years	7.0
11 to 15 years	9.2
16 to 20 years	14.6
21 to 25 years	16.1
More than 25 years	30.9

The training that we provide, which is geared towards needs and quality, ensures that in the future we will have the necessary availability of employees who will work in industrial, commercial, chemical and IT areas of activity. For this, we spent about € 7.5 million in 2003 and hired about 85 % of the trainees who obtained qualifications – even if for a limited initial period.

In addition, we have stepped up our presence at college and training fairs, offer students practical “on-the-job” training and assist students about to graduate with the completion of their dissertations.

The provision of further training to our employees is becoming increasingly important because of rising and increasingly international requirements as well as technical developments. We regard our activities in the field of providing initial and further training as an investment in our employees and thus in the future of the K+S Group. During the year under review, 3,281 people benefited from them. We invested about € 3 million in further training.

Flexible part-time working for people approaching retirement

Since the year 2000, collective and company agreements have made it possible within the K+S Group to apply to work part-time on approaching retirement and thus opt for a gradual transition to retirement. In the meantime, over 700 employees have taken advantage of this possibility. In 2003, 119 employees began working on the basis of what is known as the “block model”. Under it, they work full-time for the first half of the part-time work period and are then released from the obligation to work during the second half of it. We preferably filled the positions that become vacant as a result of pre-retirement part-time work with young people who have completed their vocational training with K+S.

New company suggestions scheme boosts efficiency

We provide various incentives to our employees to help the company achieve progress through the company suggestions scheme, too. Following the successful test phase of the “continuous improvement process” at one of our potash plants, this new, even more efficient company suggestions scheme will be gradually extended to the remaining business segments.

The year 2003 was an exceptionally successful year in this regard because over 5,150 suggestions for improvement were submitted – 26 % more than in the previous year. The participation ratio for “suggestions per 1,000 employees” rose from 491 in 2002 to 569, and thus attained the average level for all companies in Germany. As in 2002, about 55 % of all the suggestions were implemented. The sustainable savings achieved in 2003 as a result of calculable suggestions for improvement, assessed according to their savings potential, amounted to about € 2.0 million after deduction of bonuses.



Knowledge management – a pool of competence

Our knowledge management's goal is to make all employees more aware especially of the kinds of findings and ideas that are important to us. We have created a network of knowledge managers in order to incorporate knowledge management into business processes. By creating competence centres, colloquia as well as virtual libraries and chat forums, the resulting possibilities are exploited to link together islands of knowledge and to improve the quality of our decisions. Our SAP system plays a key role in the efficient documentation and distribution of knowledge.

Further slight increase in value added

The value added statement sets out the difference between the output of the company and the value of the necessary inputs. The application statement shows how this is allocated to the participants in the value added process.

The value added by the K+S Group amounted to € 668.0 million and was thus about 3 % higher than in 2002 (€ 647.0 million). Our employees accounted for the largest share, 82% or € 550.3 million, in the form of wages and salaries, social security contributions and pension-related expenses. With the dividend level per share unchanged, our shareholders will receive a total of € 42.5 million; € 1 million more than in the previous year, because the number of shares entitled to a dividend was higher as a result of the smaller number of own shares held by us. The public sector's involvement amounted to € 12.7 million (€ - 0.4 million) and that of lenders to € 3.7 million. The remaining € 58.8 million was retained for the purpose of strengthening the group internally.

Source		2003	2002	%
Revenues	€ million	2,287.8	2,258.5	+ 1.3
Other income	€ million	120.5	125.3	- 3.8
Company output	€ million	2,408.3	2,383.8	+ 1.0
Cost of materials	€ million	1,106.0	1,050.7	+ 5.3
Depreciation	€ million	109.7	109.0	+ 0.6
Other expenses	€ million	524.6	577.1	- 9.1
Total input	€ million	1,740.3	1,736.8	+ 0.2
Added value	€ million	668.0	647.0	+ 3.2

Application		2003	2002	%
Shareholders*	€ million	42.5	41.5	+ 2.4
Employees	€ million	550.3	527.8	+ 4.3
Public sector	€ million	12.7	13.1	- 3.1
Lenders	€ million	3.7	2.3	+ 60.9
Company	€ million	58.8	62.3	- 5.6
Added value	€ million	668.0	647.0	+ 3.2

* the figure for 2003 corresponds to the proposed dividend

Research and Development Report

Apart from the development of new and improved products, the focus of our research and development (R&D) is on the development of modern, sustainable and environmentally friendly production processes. To this end, new processes are being developed and existing processes continuously optimised with the objective of using resources in the form of energy, personnel and materials efficiently. We use patents to protect our knowledge as much as possible. In addition, we engage in research that is directed at specific objectives and based on the latest developments in science and technology. The knowledge thus acquired is systematically recorded within the company and made available to employees through our knowledge management programme.

Research expenditure on previous year's level

Expenditure on R&D activities amounted to € 13.2 million during the year under review. Most of the expenditure, € 3.9 million (30%), was related to new developments and enhancements in the COMPO business segment, followed by € 2.9 million (22%) related to Potash and Magnesium Products. At the end of the year, 50 K+S Group employees were involved full-time in research and development. In addition, employees working in production are involved in decentralized R&D tasks on a project basis.

Our holdings of industrial property rights worldwide comprise 419 patents and are on about the same level as in 2002. Last year we increased our holdings of trademark rights by about 12 %, resulting in 3,204 trademark rights.

K+S Research based on four pillars

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

To ensure the effective transfer of knowledge between these four research pillars and to optimise the leveraging of synergies, all research activities are managed and provided with budgets centrally. With regard to recording and reporting, the principles of modern knowledge management are applied and research findings are made available by means of a central database. To meet the requirements of

ISO 9001:2000 with regard to the development process, a computer-supported project management system is being established to facilitate the efficient management of resources and costs.

Selected research projects during the reporting period

Potash and Magnesium Products

In this business segment, activity was focussed on basic research into the preparation of potash crude salts. The pilot plant for the production of magnesium hydroxide, which possesses good properties as a flame-inhibiting additive to plastics, was further improved. We are confident that with the product quality we have achieved so far, we can, within the foreseeable future, attain a standard of quality that conforms to stringent market requirements.

We have also developed methods of analysis which permit the mineral composition of crude salt to already be examined during underground production by means of spectroscopic and chemometric procedures. In this way, the crude salt supply becomes more balanced. In the Sylvinite project we have developed new methods of already filtering out unwanted additional minerals during pre-processing and bypassing these areas.

Last but not least, a method of granulation, used mainly for plastic substances until now, has been adopted for the production of granulated mineral fertilizers and tested with a number of our raw material mixtures. This process permits us to react even more flexibly to the individual wishes of our customers regarding the properties of our fertilizers.

COMPO

Research activities in the COMPO business segment during 2003 again focussed on the enhancement of successful ENTEC® fertilizers (fertilizers containing nitrification inhibitors that increase nitrogen efficiency) as well as coated fertilizers (BASACOTE®, fertilizers that release nutrients slowly). The principle on which they work was transferred to new applications, such as fertigation (fertilization through irrigation). We are also testing new, ecologically efficient coating materials for the BASACOTE® product line that are fit for service in the tropics in order to capture new overseas markets.

Ecological farming is an important component of research work

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

We are also intensively involved in examining the nutrient situation in ecological farming. The content of the mineral nutrients potash, magnesium and sulphur is limited in many farm lands, with the result that the selective application of potash as a fertilizer becomes necessary. Many of our potash and magnesium products have also been certified for use and have been recommended for ecological farming in Europe.

Worldwide application advice is a key to success

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

During field experiments in Germany, the effect of a balanced potash-magnesium-sulphur care for plants on the consumption of nitrogenous fertilizers was examined. The objective is to boost the efficiency of nitrogen and reduce the possibility of nitrogen being washed out. In Central America, Kieserite experiments on palm trees have yielded a significant improvement in the supply of magnesium to these plants. These results have led to recommendations for increased application of Kieserite fertilizers in palm tree plantations. Tests in China have revealed the need for balanced fertilization with potash and magnesium in order to improve not just the citrus fruit yield, but also its quality (sugar, vitamin C content and acid/sugar ratio). Last but not least, experiments on mangoes and tea in India have shown that the use of potassium sulphate instead of potassium chloride also improves the quality of products.

Transparent communications – comprehensive and up-to-date

Comprehensive communications with our employees and all interested partners outside the company is our guiding principle. Our objective is to report on current developments and events inside the K+S Group in a transparent fashion.

Internal communications with a stronger international element

Of the instruments that we employ for internal communications purposes, the most important is the employee newspaper "K+S information", of which we published five editions in 2003. The 75th anniversary of vocational training at the Werra combined works and the 30th anniversary of operations at the Zielitz potash plant provided an opportunity to publish special editions of our employee newspaper.



For the benefit of the employees in our French companies, we have been offering a newsletter produced in French since 2003. For the new joint venture esco there is also a multilingual newsletter containing up-to-date information on the company's development.

The Intranet is of particular importance in internal communications. Through the constant posting of the latest information about company events, employees are able to obtain up-to-date information quickly and simply. Various functions, such as the search feature for contact partners, guidelines and presentations are integrated by means of the Intranet.

The personnel and social report as well as brochures on further training are also important internal print media. Furthermore, in "K+S aktuell", we provide information that is as timely as possible about the latest matters concerning the company.

Continuous flow of information

Print and TV media are supplied with information on an ongoing basis. Regular contacts are maintained with representatives of the media and questions received from the press are answered by us immediately. By means of various interviews, we could reach very diverse target groups in a wide-ranging way. The regular press and analysts conferences that we staged in March and November were used to brief press representatives and analysts in detail about the course of our business and to answer questions posed by participants.

Meetings with the press held in connection with the completion of projects are actively used by us to provide journalists with information. Our communications instruments include press releases, press information packs and newsletters which we send out by e-mail following on-line registration.

On-line communications expanded

Since the launch of our website in 2001, we have noted a steady increase in the number of visitors. In May 2003, we attained a new record, with over 11,000 visitors. We have added a French and a Spanish version of our site to the existing German and English versions. We are making broader use of audio and video sequences. In this way, apart from a conference call, we also broadcast our analysts conference in November over the Internet. Visitors may also view TV interviews on our website. Our reports and brochures can be ordered over the Internet. These include the annual and quarterly reports, our environmental report, the personnel and social report, and image and product brochures.

New information and visitor centre

In May 2003, we launched the new information and visitor centre at our Merkers Adventure Mine. During the planning phase, we paid particular attention to the development of a modern communications concept. Its purpose is to acquaint visitors, in an educational and entertaining manner, with the many facets of the K+S Group – from modern potash mining via consumer products all the way to environmental protection and services. In 2003 we once again welcomed about 70,000 visitors.

Dialogue is a priority

We maintain close contacts with people living in the vicinity of our sites. For instance, to mark the 30th anniversary of production at the Zielitz potash plant, we organized an open day for the plant and received

numerous visitors. To mark "75 years of training" at the Werra plant, we invited the families of trainees to take a look at what goes on behind the scenes. The Sigmundshall potash plant also opened its doors to the local population.

In 2003, we again held a football championship in Kassel for the employees of companies belonging to the K+S-Group. The 18 participating teams included teams from France and the Netherlands. Apart from matching their skills on the football pitch, our employees had an opportunity to get to know each other.

Cultural and social engagement

We devote particular attention to providing selective support to cultural and sports events staged in those regions where our sites are located. Our sponsorship activities last year included the "German Language Cultural Prize" and the "Kassel Museum Night". As part of our sponsoring of youth sport, in 2003 K+S sponsored a total of 50 sports clubs in local communities close to our sites.

The events with which we aim to present ourselves to the public at large include a series of concerts at the Merkers Adventure Mine as well as our traditional winter lectures, which we started in Kassel more than 50 years ago. In addition, we maintain continuous contacts with holders of public office and politicians not just in those regions where our sites are located but beyond them, too.

We also cultivate a positive image by participating in special exhibition projects. In 2003, we seized such an opportunity by participating in the "Rocks in the River" exhibition in Hanover, where we exhibited the minerals mined by K+S and explained their usefulness to society.

As part of our comprehensive communications activities, we also support the publishers of school textbooks by providing them with illustrations and text, especially on the subject of mining, fertilization and agriculture.

Close contact with customers

Through our fair-related activities, we seek personal contacts with our customers and end-users. These were some of the fairs that we were represented at: Horti-Fair and Landbouwwelddagen in the Netherlands, NewAg and Proma in Spain, MACFRUT in Italy, Les Cultureles in France, AgroShow in Poland and the Garden Festival at Ippenburg Castle, IPM in Essen, transportlogistic in Munich and ENTSORGA in Cologne.

Environmental Protection, Industrial Safety and Quality Management

The lasting protection of our environment remains a key guiding principle underlying our actions. This principle is observed at all our domestic and foreign sites through production and use that are as safe as possible and minimize harm to the environment.

The continued improvement and future integration of management systems in the spheres of industrial safety, health safety and environmental protection as well as quality management is a cornerstone of our activities, whereby quality management is assuming a leading role because of adaptation to the new ISO 9001:2000 norm. To support these processes, we have merged our hitherto separate company guidelines regarding environmental protection, industrial safety and health safety into a single guideline.

To make this new priority clear to the outside world, this year for the first time we will replace our hitherto "Environmental Report" with a new report called "Safety Health Environment", which will also be made available on the Internet.

Bundling environmental protection, industrial safety and quality management

The environmental protection, industrial safety and quality management functional unit supports all K+S Group employees, coordinates cross-business-segment activities, and ensures a continuous exchange of knowledge between specialists. It regularly checks the functioning of management systems and represents

the group's interests before numerous authorities and bodies. A joint committee for industrial safety, health safety and environmental protection is the highest body within the K+S Group operating in this area. The committee comprises senior executives and employee representatives and is headed by the member of the Board of Executive Directors responsible for this particular area. Business segments and sites also possess their own specialists and representatives responsible for industrial safety, environmental protection and quality management.

Expenses relating to environmental protection were slightly higher in 2003 than in 2002, increasing from € 78.2 million to € 81.1 million. At € 11.3 million, 2003 investments in environmental protection were clearly above the previous year's level (€ 6.8 million). Most of these investment sums were spent on the protection of waters. One of our plants in the COMPO business segment was converted from heavy heating oil to environmentally friendlier natural gas. For this purpose, the two boilers in the boiler house, the air heating and the air conditioning in the complex fertilizer facility had to be replaced.

Energy balance and water consumption improve

Our energy consumption levels are mainly determined by plants operating in the Potash and Magnesium Products and Salt business segments. At 6,050 GWh, energy consumption in 2003 was more or less the same as in the previous year, but specific energy consumption for every ton of manufactured product was reduced, and amounted to 464 kWh/ton in the year under review (2002: 474 kWh/ton; 2001: 487 kWh/ton). Our most important source of energy is natural gas, which is used as fuel in all power stations and drying facilities.

Wastewater volume was also reduced year-on-year, from 15.3 m³ million to 14.7 m³ million.

Further details can be obtained from the separate "Safety Health Environment" report.

CO₂ emissions per produced ton reduced

CO₂ emissions of 1.1 million tons were ascertained for 2003, which means that they were somewhat lower than in 2002. However, here too one must present the volume of emissions in relation to manufacturing output: Because output increased and CO₂ emissions fell slightly at the same time, CO₂ emissions per ton of manufactured product sank by 2 % and amounted to 88 kg/ton.

The energy required for the production process – electricity and heat – is almost exclusively produced from natural gas. The efficiency levels of our power stations, on a cogeneration basis, amount to more than 90 % and are at the limit of what is currently technically possible.

Further details can be obtained from the separate "Safety Health Environment" report.

Sylvinite project reduces specific resource consumption

Given the level of efficiency attained by our cogeneration power plants, over 90 %, further improvements in energy efficiency are scarcely possible; therefore absolute water and energy consumption as well as CO₂ emissions will depend on production volume above all. As a result of the use of rich crude salts obtained from the new deposit that is to be developed in the Potash and Magnesium Products business segment ("Sylvinite Project"), we wish to achieve a further reduction in specific resource use. We therefore expect that as of 2005, our energy and water consumption as well as CO₂ emissions will decline further in relation to production.

Industrial safety pays for itself

In 2002 we began to produce a "Personal Protective Equipment Handbook" on the basis of analyses of various hazards. This handbook has now been completed and made available on the K+S Group Intranet, and contains advice on the provision of instructions and a list of protective equipment used by employees. Also, in cooperation with the mining professional association (Bergbau-Berufsgenossenschaft (BBG)), we implemented the "Walk Safely" safety campaign at K+S sites. As a result, the number of so-called "careless accidents" fell by 10 %. The campaign was completed with the award of attractive prizes.

In 2003, a total of 82 notifiable workplace accidents occurred in K+S Group companies. This means that the number of accidents fell by 28. The ratio of "industrial accidents per million working hours" thus fell to 4.8 (2002: 6.6). Most of these accidents occurred at mining facilities, which significantly improved the ratio to 5.1 (2002: 8.4). Unfortunately, we also had a fatal accident in 2003. For reasons not yet known, an employee fell through a backfill rolling-hole and died of his injuries.

A comparison with plants that are insured through the BBG shows that our accident figures are well below the average as computed by BBG (the latest BBG figure published for 2002 was 19.6). This confirms that the measures we implement to prevent accidents are effective.

Quality management further extended

The Board of Executive Directors and the quality management (QM) officer form the "Quality Management Steering Group" decision-making body. Our quality management goals are to further improve the degree of customer satisfaction as well as to optimise our work processes.

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

The changeover to the new ISO 9001:2000 and the related re-certification audits were completed on schedule by the end of 2003. In 2003, new certifications were awarded to K+S Baustoffrecycling GmbH and data process GmbH. Moreover, we started with the so-called combined certifications which certify the same standard as the individual certificates in force until now, but involve less auditing work. A business segment receives a single certificate for all the plants or sites incorporated in it. These certificates also cover the marketing and distribution structures and the business management bodies. This integrated strategy is to be continued and will be extended to consumer protection certificates, as appropriate. Thus, certification was extended to all sites and units in the case of esco. This means that the Salt business segment is the first business segment to be fully certified across Europe. In addition to DIN EN ISO certificate, esco also received additional consumer protection certificates during the year. COMPO extended the scope of application of its combined certificates for its German sites to the Krefeld site.

In 2003, more than 2,800 K+S Group employees were working in certified areas, which corresponds to about 27 % of the total workforce. Over 80 % of all production sites possess, at least in some areas, a QM certificate under DIN ISO 9001:2000.

Procurement

The general task of our procurement units is to ensure the timely provision of the necessary materials and services in the required quantity and quality and on the best possible terms and conditions. To successfully reach these goals, it is not only necessary to identify future needs and their structure early on, close consultations with ordering parties as well as fair cooperation with suppliers are also required.

Procurement – also a question of service quality

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

Competitive procurement prices are no longer enough today. A further reduction in material costs is only possible with new strategies and methods which take the entire procurement process into account systematically. We therefore base our approach on the Total Cost of Ownership. We create the prerequisites for this by means of a material group and process chain management that covers all areas, so that internal and external resources can be adjusted to each other in an optimum way. The priority here is the technical

standardisation of materials and the automation of IT processes. The right combination of procurement skill and technical, logistic and strategic know how, based on reliable relationships between suppliers and consumers, makes a decisive contribution to the long-term sustainability of our competitiveness.

Wide-ranging benchmark study certifies our top performance in procurement

In a benchmarking study covering all industry sectors, the current status and efficiency of the procurement organisations of 350 German large and medium-sized companies were examined. The results, determined by Cell Consulting AG together with the University of St. Gallen, were very pleasing to us. On the basis of clearly formulated procurement objectives and strategies, innovative procurement methods, accurate cost-reduction initiatives, intensive cooperation with key suppliers and the professional application of e-business, we earned second place in the field of procurement among all industry sectors. Among companies with a procurement volume of up to € 1 billion, we earned the status of best-practice procurement organisation.

Social responsibility is practiced and encouraged

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

Risk Management Report

Commercial activity, intended to earn reasonable profits, means not just an awareness of opportunities, but also the taking of risks.

Risk management

Systematic risk management aids the discovery and optimisation of opportunities and risk factors and helps a company's continued existence. The entire risk management system is integrated into the company's organisational structure and the structuring of its processes. The appropriate competencies and areas of responsibility are set forth in the function descriptions. The monitoring system is incorporated in group-wide guidelines, planning and controlling processes, in the agreement of objectives, rolling forecasts and continuous reporting to the Board of Executive Directors. It is documented and reviewed for proper functioning and efficiency at regular intervals by a group-wide task force as well as by the internal audit department and external auditors.

In the discharge of its overall responsibility for risk management, the Board of Executive Directors guides itself by clear principles of risk policy. Direct responsibility for the early identification of risks, control and communication rests with the managements of the business segments or the central function areas and units. Reporting to the Board of Executive Directors on risk-relevant areas of observation is submitted at short, regular intervals and takes into account the size of possible losses and the probability of events occurring.

Also, changes to risk appraisal agreed upon in goal-setting discussions are examined in internal monthly reports. The methods used extend from market and special competition analyses to observing risk indicators in the economic and sociopolitical context. Risk appraisal occurs according to quantitative benchmarking and qualitative criteria. The possible effects for company objectives are processed in preparation for the adoption of decisions. A further building block of risk management is the development of countermeasures in the event that alternative risk scenarios come to pass.

Ad hoc reports, filed when unexpected risks with serious consequences occur, provide the public with comprehensive information on the risk situation inside K+S.

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

Individual risks

General economic risks

Because of their worldwide operations, our business areas are exposed to the risks that stem from general economic development. Particular business risks are fluctuations in exchange rates, aggressive competition, falls in demand as a result of the economic situation, and country risks.

The continuing weakness of the US dollar in relation to the euro is having a direct negative impact on sales denominated in dollars, and is indirectly restricting room for further price increases on the European market. Our measures are set out in "Financing risks". In addition, certain market segments are suffering as a result of the current weak economic situation.

At the national and EU levels, changes in the political, legal and tax environment can have a negative impact on the course of business. Of particular significance here are price changes on energy markets, emission trading and the EU's eastward expansion. Concerning the changes to German tax legislation, we are particularly affected by the so-called minimum taxation because as of 2004, only 60% of losses carried forward can be offset against current profits. The logistics costs of all business segments will increase by some € 8 million in a normal year as a result of the decision to levy tolls on the movement of lorries on German motorways. Concerning overseas business, maritime transport costs have risen as a result of the reduction in available shipping capacity. We expect no significant change to this situation in the near future.

Industry risks

Apart from general economic risks, a company's success is also affected by specific branch risks. Developments in the fertilizer area are positively assessed because we expect to see rising demand for fertilizers worldwide over the next few years. However, demand in Western Europe will tend to be static or will fall slightly.

The Potash and Magnesium Products and fertiva business segments may be lastingly influenced by EU agricultural reforms. Added to this are possible restrictions on compensatory payments, resulting in falling income for farmers; the agricultural policy debates in Germany on the subject of ecological farming; the obligation to declare the presence of additives, the fertilizer ordinance; etc. The controversial reform to European chemicals policy provides additional anxiety.

The current debate at EU level in the sphere of industrial safety and health protection, about a drastic reduction in the permissible levels of nitrogen monoxide (NO), nitrogen dioxide (NO₂) and carbon monoxide (CO) could pose a risk to our mining activities. Such regulations could lead to clear changes in production conditions, causing considerable additional costs, although from a medical angle the professional association sees no need for action. By means of intensive cooperation with the German Government and the relevant companies with their lobbies, we are counteracting possible developments with serious consequences at the EU level.

The eastward expansion of the EU could affect the Potash and Magnesium Products, fertiva and Salt business segments. Possible circumvention of customs regulations, whereby products are stockpiled in the EU candidate member countries and can then be resold duty-free to other EU countries when the candidate members have become full members, may cause short-term damage. It would appear difficult for the EU to implement effective control.

The recognition of Russia as a market economy by the EU results in risks to our future European business. This will make it easier for Russian producers from 2005 to request a simplified review of the anti-dumping regulations that currently apply to nitrogenous and potash fertilizers. Without such anti-dumping protection, the business prospects for the Western European fertilizer industry would considerably worsen because manufacturers based in CIS states would – in spite of their cost structure – then be able to sell their products in the EU at dumping prices without the levying of the punitive tariffs that have been applied hitherto for unfair competition.



In the Potash and Magnesium Products, fertiva, COMPO and Salt (only de-icing salt) business segments, sales are, in part, strongly affected by the weather. This necessitates rapid-response production possibilities that are geared to demand. We can attain these possibilities through flexible work time models and flexible warehousing.

In the Salt business segment, fierce competition and involving price pressure could develop on account of surplus capacities and imports from Eastern Europe and overseas. Strict cost control, quality assurance and customer orientation will help us consolidate our market position. Although far-reaching changes to the structure of competition, stemming from country risks or the disappearance of major customers, cannot be ruled out in any business segment, however, such changes are not expected for the time being.

With the opening up of new markets as well as acquisitions and cooperation arrangements in already existing business segments, we want to expand our market position and our development as a provider of specialities. Synergies with already existing businesses should be utilised in this context. The risk that acquisitions will not fulfil the expectations placed in them is reduced in advance by conducting intensive due diligence examinations and cautious appraisals of companies.

Risks deriving from operational areas of responsibility

Procurement

To control our procurement activities and limit our risks, we use tried-and-tested instruments such as procurement market analyses, the careful selection and appraisal of suppliers, long-term delivery contracts and innovative purchasing methods and instruments.

Delivery sources are diversified in order to assure the timely availability of the required special materials and supplies, special mining equipment as well as logistics services in terms of quantity and quality. This allows price and delivery risks arising from dependency on particular individual suppliers to be reduced accordingly.

Production

Our production facilities possess a relatively high degree of technical complexity and inter-linking. Extensive monitoring, probing and control systems are used to identify possible production and environmental risks early on. Environmental risks in particular are reduced thanks to a number of quality assurance measures and comprehensive environmental management. Added to this is, for example, the certification according to international norms and the constant improvement and further development of our facilities and products.

The disruption of production as a result of an unexpected longer stoppage is counteracted by preventive maintenance and controls of facilities and by stocking of spare parts that are difficult to obtain quickly. We have taken out insurance against possible major damage and the resultant production stoppages.

The extraction and processing of crude salts and the security of warehouses is subject to a significant number of monitoring measures. There are additional intensive controls by the mining supervisory authorities.

Market

Changes in the demand and competition situation can give rise to particular market risks in all business segments. In order to identify risks and opportunities in good time, we conduct regular analyses of customer, product, market and competition data. There is no exclusive and substantial dependency on individual customers and regions. In our business segments, there are no newly-introduced products the success of which clearly falls short of our expectations.

Capital expenditure

In individual cases, the increasing complexity of facilities and production processes involves the risk of higher start-up costs and a strain on results. The problems with launching a new production facility for special fertilizers containing magnesium and sulphur in the Potash and Magnesium Products business segment have been rectified. As part of the operations to enlarge an existing brine deposit, the Salt business segment has technically entered virgin territory by very deep and multiple-refraction drilling into a cavern. After some geological and drilling problems had been solved, we performed the first successful drilling last year. The second drilling operation will start in 2004.

Research and development

We detect technological and product-related developments among competitors at an early stage and respond in a suitable manner. Our own development activities are intensively checked and implemented rapidly if there are prospects of success. In this way, we identify on an ongoing basis the potential and opportunities for reducing costs and improving our results by means of new projects and products.

K+S provides special agricultural application advice that is geared to customer requirements. In addition, quality assurance is a key factor for the attainment of our business success. Moreover, the company suggestions scheme and knowledge management are important for us. Employees are thereby actively engaged in a continuous process of improvement. We did not detect any particular risks in the Research and Development sphere.

Financing risks

The optimising of group financing and limiting financial risks are an important central task. Most of the revenues deriving from our operations arise in the eurozone and thus do not entail any exchange rate risk. Exchange rate fluctuations relating to overseas business in the Potash and Magnesium Products business segment denominated in the British pound and in the US dollar in particular, are, however, of relevance for the K+S Group.

These currency risks are reduced through the use of suitable derivative financial instruments (futures and options), so that the value of inflows that are not covered by foreign currency disbursements is secured. We use such instruments as a hedge against business that has already been concluded or which is most likely to be concluded in the future. As of 2004, US dollar hedging transactions will be based largely on agreed ranges which may not be breached during their terms. Should this occur, the possibility of selling US dollars at an agreed exchange expires; however, ranges can, if required, be modified against payment of a premium.

At present, our hedging transactions are sufficient to last until 2006. Our strategy reduces currency risks, but does not eliminate them entirely. Hedging instruments are regularly restructured if the required hedging seems jeopardised. Detailed instructions on the form of the allowed derivatives, on responsibilities and controls are set forth in a relevant guideline. K+S concludes no financial transactions which, at the moment of their conclusion, represent a risk that cannot be assessed. In the Salt and Waste Management and Recycling business segments, currency exchange rate fluctuations hardly have any effect because business is concluded almost exclusively in euros. In the fertiva and COMPO business segments, exchange rate risks on the marketing side are largely offset by exchange rate opportunities on the procurement side.

Liquidity is monitored and controlled on an ongoing basis, in order to constantly improve earnings from liquid funds. Derivative financial instruments are also used for this purpose. K+S maintains other securities and shares in listed companies in various classes of risk which may not breach the credit standing requirements demanded vis-a-vis issuers.

Receivables are monitored and analysed at all times. Default risks relating to payments are largely covered by flat-rate export guarantees (foreign non-OECD area) or by credit insurance (domestic and foreign OECD area). Unsecured receivables require specific authorisation and a careful examination of long-term customer relationships. The risk of default is taken into account by value adjustments, if necessary. At present, no risk of shortfalls in receivables which could seriously affect the K+S Group's financial situation can be detected.

For financial transactions as a result of acquisitions, we have sufficient credit lines which can be used if need be. There is no dependency on any particular lender. No financing and liquidity shortfalls can be expected.

Legal risks

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



IT risks and other risks

We apply integrated and largely uniform IT infrastructures throughout the group. The modern hardware and software complies with the latest security standards. The security of the IT systems and of stored data is thus guaranteed. The measures applied to minimise risks include ensuring the availability of computer systems and networks, the daily backup of system and application data, and protection from external attacks and attempts to gain access, using the latest security technology, firewall systems and virus scanners. To this extent, we do not foresee any risks arising from the utilised information technology.

Overall risk

To summarise, risks posed by currency exchange rate developments and legal developments at the EU level (especially a revision of the anti-dumping regulations and the limit standards of labour and health protection) are a priority. Production processes and the provision of services pose fewer risks.

An overall assessment of the risk situation inside the K+S Group shows that the risks are manageable and do not jeopardise the company's continued existence. We have not identified any risks which, either individually or in conjunction with other risks, might jeopardise continued existence. Also, from the perspective of today, no risks which might have a significant effect on net assets, the financial position and results of operations can be seen. A good provision with equity and liquidity as well as a sustainable business policy, geared to controlled growth, continue to provide a basis for the K+S Group's safe and successful further development.

Forecast Report**Subsequent events**

No significant changes have occurred in the general economic environment or the sectors in which our industry operates since the close of the financial year save for the introduction of a minimum tax in Germany.

As a result of the introduction of the so-called minimum tax, existing tax loss carry forwards relating to corporation tax and trade tax as of 2004 can only be set off against current profits up to a maximum of 60%. Although the period of time over which existing loss carry forwards can be utilised will therefore be extended, the profits that we generate in Germany will attract income taxes of about 16% in the future despite the existence of loss carry forwards.

On 28 January 2004, Cargill and IMC Global announced that they intend to pool their fertilizer operations in a new company.

On 20 February 2004, the COMPO business segment acquired Humuswerke Gnarrenburg Friedrich Meiners AG. As a result of the acquisition, COMPO has strengthened the supply base for its potting soil business and will further enhance its position as the European market leader in this segment. Meiners AG, which employs about 100 people, posted revenues of just under € 9 million for 2003.

We intend to acquire Solvay's 38% holding in esco and signed a relevant letter of intent with Solvay at the beginning of February. Further negotiations concerning the details of the transfer were started immediately. The goal is to conclude the transaction as soon as possible and to give it economic effect from 1 January 2004. As a result, the K+S Group would then become Western Europe's largest supplier of rock and evaporated salts.

Outlook**Economic development**

In our opinion, the general economic situation in our core market of Europe will again see an improvement over the coming years. Partly as a result of the pressure being exercised by the imminent eastward expansion of the EU, the EU member states have to achieve greater progress in implementing essential reforms, which have been overdue for many years, in their social security systems and public administrative apparatus.

The market forces released by this process will accelerate growth in Europe over the medium term, although a further decline in the value of the US dollar could dampen this positive trend.

The German economy is also expected to grow again in 2004, with the economic research institutes forecasting an increase in German GDP for 2004 of about 1.5 % and of about 1.8 % for 2005.

Development of industry and competition

The situation on the agricultural markets is marked by increasing demand, in qualitative terms too, for foodstuffs to supply a growing number of people. Experts predict that the global population will continue to grow over the next few decades. The limited amount of land available for farming will therefore have to be farmed more efficiently all over the world. Mineral fertilization, which guarantees better plant nutrition and thus a higher yield per hectare of cultivated land, is therefore of central importance.

Global consumption of fertilizers, i.e. the use of nitrogen, phosphate and potash, will increase in the medium term at an annual rate of between 1.5 % and 2 %. On the European market, demand will stagnate over the next few years or weaken slightly while still remaining on a good level.

In terms of regulation, the EU will reform the output-based grants that it has hitherto paid for grain, milk, meat etc. In the future, the grants made available to farmers will be based on the area of land under cultivation irrespective of the crops cultivated and of the income earned. Thus, the goal being pursued will no longer concentrate on promoting the production of certain types of agricultural produce but will focus more on the importance of agriculture in the context of social policy. In the comparative international context, this means that measures distorting competition will be reduced significantly.

Over the next few years, we will face a particular challenge as a result of the eastward expansion of the EU. Poland possesses substantial overcapacity in the nitrogen field in particular. Most producers are still state-owned and highly indebted. However, the privatisations planned will result in considerable restructuring in the countries concerned.

In important overseas markets, especially in Asia and Latin America, we expect consumption to continue growing at a constant pace on account of the greater nourishment requirements of the population, which is increasing particularly quickly there, as well as the growing intensification of farming.

Development of business segments

Potash and Magnesium Products

Our assessment of demand on the global potash market in 2004 is favourable overall. We expect the sector to grow by 2 % per year over the medium term. We anticipate further growth in demand for fertilizers, attributable to, among other things, better grain prices and through this an increase in the cultivation of grain. Demand on the Western European fertilizer market over the coming years will be primarily shaped by changes in European agricultural policy and the eastward expansion of the EU.

The according of free market status to the Russian economy by the EU means that Russian producers could seek a review of the anti-dumping regulation for potassium chloride in force since May 2000. These rules, which will for the time being apply until May 2005, are of great importance for us because they provide protection against possible unfair trading practices on the part of these competitors. We are confident that such rules will essentially continue to apply in the future, too.

From the perspective of the present, we expect the volume of revenues generated by potash and magnesium products to attain its 2003 level once again. Earnings should also almost reach the same level as in 2003 insofar as we can implement appropriate price increase to offset the effects of less favourable hedging arrangements for the US dollar, rising freight and energy costs and, lastly, inputs related to the Sylvinite project. The measures that have been instituted under the cost-cutting programme should also help in this regard.

With respect to 2005, we see potential for improvement in terms of earnings, as the new, rich potash deposit will allow for the extraction of a greater amount of potash for every ton of crude salt mined and the full impact of further cost-cutting measures should also be felt.



COMPO

We expect the position of the industry and the competitive situation to be stable in 2004. In this environment, we want to and can grow faster than the market. The consistent expansion of marketing and sales activities as well as of the pesticide business, the ongoing transfer of product innovation from the professional to the hobby area along with a range of services tailored to regional needs constitute the cornerstone of sustained, future growth for the COMPO business segment. In addition to internal growth, on which our medium-term planning is based, external opportunities offered by acquisitions and cooperation are reviewed on an on-going basis.

We plan to see an increase in revenues for 2004 of up to 5% in relation to 2003. Both the hobby and professional areas should contribute to revenue growth. In the professional area, the stabilized ENTEC® fertilizer product group merits particular mention and, given their innovative character, should contribute to further growth. With regard to the hobby business, we expect growth to receive a boost from Southern European markets. Assuming that the price of ammonia will normalise, EBIT should increase in relation to 2003. However, the current trend in the price of ammonia still does not display the significant downward trend that we expect.

In the case of 2005, we expect COMPO to achieve further growth in both the hobby and professional areas. We envisage a further, above-average increase in revenues that should also impact positively on EBIT.

fertiva

In the case of 2004 too, the trend in gas and ammonia prices in the United States for the nitrogenous fertilizer business will have a decisive impact on our markets. If energy prices remain high, demand for ammonia and nitrogenous fertilizers in the United States will continue to be strong. With regard to Europe, the eastward expansion of the EU can be expected to result in an intensification of competition. In the case of our overseas markets, significant increases in freight costs combined with the weak dollar have reduced our margins; there is a danger that the situation will continue throughout 2004.

In 2004, we expect revenues to decline as a result of volume and price factors. On the basis of current cost estimates, however, we expect EBIT to reach approximately the same level as the year before.

In the case of 2005, we currently do not envisage any significant changes to our assessment.

Salt (62% esco)

We expect no change in the market situation for the salt business over 2003. The level of competition will remain the same and imports from Eastern Europe and from overseas will increasingly penetrate individual product areas on Western European markets.

Our planning for 2004 envisages slightly lower revenues than in 2003 for esco and assumes that de-icing salt volume, which is dependent on weather conditions, will be in line with the average level for a number of years. Thus, the projected figure might not be attained or might be exceeded depending on weather conditions. Given this cautious assumption and despite further successes relating to synergies, earnings are expected to fall short of the very good level for 2003.

We expect both revenues and earnings in 2005 to be higher year-on-year. Further process optimisation connected with the joint venture will make a contribution in this regard. These forecasts for 2004 and 2005 are based on the 62% proportionate inclusion of esco.

Waste Management and Recycling

The competitive situation in the waste disposal business will not see any fundamental change in 2004, too. As a result of existing overcapacity, market prices will remain under pressure until 2005.

For 2004, we expect revenues to increase slightly as a result of a major project in the area of underground waste disposal. In the case of EBIT, we also expect to see an increase year-on-year. This assessment is based both on the aforementioned increase in revenues as well as an anticipated reduction in costs at our waste disposal and recycling sites.

As of 2005, more waste will be available for underground re-utilisation as a result of change in the regulatory framework in Germany. In the field of flue gas cleaning residues in particular, we expect a positive impact on our waste disposal business. We therefore expect the waste disposal and recycling business to pick up in 2005. Earnings should be able to grow again as a result of corresponding revenue growth and a further reduction in specific costs.

Services and Trading

We expect the course of business in the Services and Trading business segment to remain stable. Both revenues and earnings for 2004 and 2005 should be able to attain the good levels of the previous years.

Overall Outlook for the K+S Group

We expect the business operations of the K+S Group to develop positively during the current year. However, as a result of the less favourable terms on which the US dollar exchange rates have been hedged, we anticipate revenues that could be slightly down on 2003. EBIT should attain the same level despite energy prices remaining high, costs being incurred in connection with Sylvinite project inputs for the last time this year as well as the less attractive hedging arrangement already referred to.

From 2005 onwards, revenues and EBIT should increase tangibly, with our cost-cutting programme and the Sylvinite project effecting a lasting improvement in the earnings capacity of the K+S Group. The extent to which the changeover to International Financial Reporting Standards (IFRSs) in 2005 will result in earnings being presented differently cannot be predicted reliably at present.

Kassel, 25 February 2004

K+S Aktiengesellschaft
The Board of Executive Directors



Forward-looking statements

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



+ Growth
bears FRUIT.



We are laying the foundations by means of a management approach that is **sustainable** and oriented towards the future. We are consolidating our leading market position through the technical and economic integration of all our business sectors. Our **earnings capacity** and **sound financial structure** enable us to attain our growth objectives during less favourable times, too – that is how we create the basis of **strength** and **growth**.



Auditors' Report

We have audited the annual financial statements, including the accounting records, of K+S Aktiengesellschaft, Kassel, and the consolidated financial statements prepared by it as well as management's analysis of the company and the group for the financial year from 1 January to 31 December 2003. 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, based on our audit, 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.

We conducted our audit of the annual financial statements and the consolidated financial statements in accordance with Section 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 in such manner 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 group as well as 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, 26 February 2004

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Künnemann
Auditor

Scharpenberg
Auditor

Profit and loss account

T€	Notes	2003	2002
Revenues	(1)	2,287,791	2,258,516
Cost of sales		1,539,649	1,512,721
Gross profit		748,142	745,795
Selling expenses		554,926	546,498
General and administrative expenses		56,463	53,289
Research costs		13,164	13,225
Other operating income	(2)	102,303	105,684
Other operating expenses	(3)	110,211	105,695
Earnings before interest and taxes (EBIT)		115,681	132,772
Result from investment, net	(4)	906	1,162
Write-downs on financial assets and short-term securities	(5)	1,111	17,700
Interest income, net	(6)	- 3,845	- 2,357
Result from ordinary operations / earnings before income taxes		111,631	113,877
Taxes on income	(7)	10,334	10,074
Net income		101,297	103,803

Statement of changes in equity

T€	Subscribed capital	Additional paid-in capital	Reserve for own shares	Profit retained/ other revenue reserves	Equity
Balance as of 1 January 2003	115,200	-	60,434	337,741	513,375
Dividend for previous year	-	-	-	- 41,470	- 41,470
Net income	-	-	-	101,297	101,297
Repurchase / disposal of own shares	-	-	- 17,045	17,045	-
Cancellation of own shares	- 6,400	6,400	- 43,375	-	- 43,375
Consolidation effects*	-	- 1,774	-	27,350	25,576
Balance as of 31 December 2003	108,800	4,626	14	441,963	555,403

* incl. currency-related effects on capital consolidation

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

* incl. currency-related effects on capital consolidation

Balance sheet

T€	Notes	2003	2002
Intangible assets		33,887	33,500
Tangible fixed assets	(11)	625,906	565,141
Financial assets	(12)	75,957	85,956
Fixed assets	(10)	735,750	684,597
Inventories	(13)	237,321	238,647
Receivables and other current assets	(14)	543,384	524,505
Own shares	(15)	14	60,434
Other securities	(16)	104,299	102,629
Cash in hand, bank balances, cheques		130,530	52,615
Current assets		1,015,548	978,830
Deferred taxes		-	243
Prepaid expenses		3,153	3,035
ASSETS		1,754,451	1,666,705

T€	Notes	2003	2002
Subscribed capital	(18)	108,800	115,200
Additional paid-in capital	(19)	4,626	-
Reserve for own shares	(20)	14	60,434
Other revenue reserves and profit retained	(21)	441,963	337,741
Equity	(17)	555,403	513,375
Special reserves	(22)	-	328
Balance on capital consolidation	(23)	29,472	45,270
Provisions for pensions and similar obligations		172,879	175,277
Provisions for taxes		21,103	4,621
Other provisions		559,221	526,136
Provisions	(24)	753,203	706,034
Liabilities	(25)	416,015	400,912
Deferred income		358	786
EQUITY AND LIABILITIES		1,754,451	1,666,705

Cash flow statement

T€	2003	2002
Net income	101,297	103,803
Depreciation (+)/write-ups (-) on fixed assets	108,786	107,947
Increase (+)/decrease (-) in long-term provisions	18,830	4,780
Increase (+)/decrease (-) in special reserves	-	- 1,279
Release of liabilities-side consolidation difference	- 15,040	- 15,470
Write-downs (+)/write-ups (-) on short-term securities	- 4,770	17,070
Gross cash flow	209,103	216,851
Gains (-)/loss (+) on disposal of fixed assets	1,699	- 3,669
Increase (-)/decrease (+) in inventories	1,326	4,174
Increase (-)/decrease (+) in receivables from operating activities	- 18,754	- 46,665
Increase (+)/decrease (-) in short-term provisions	7,876	- 6,119
Increase (+)/decrease (-) in liabilities from operating activities	50,449	17,873
Cash flow provided by operating activities	251,699	182,445
Proceeds from disposals of fixed assets	40,120	33,163
Disbursements for intangible assets	- 6,985	- 4,411
Disbursements for tangible fixed assets	- 127,084	- 131,809
Disbursements for financial assets	- 28,531	- 32,123
Disbursements for acquisition of consolidated companies	- 1,774	- 774
Cash flow used in investing activities	- 124,254	- 135,954
Free cash flow	127,445	46,491
Cancellation of own shares	- 43,375	-
Payment of dividends	- 41,470	- 43,398
Repayment of borrowings	-	- 8,200
Cash flow used in financing activities	- 84,845	- 51,598
Change in cash and cash equivalents affecting cash flow	42,600	- 5,107
Change in value of cash and cash equivalents	4,770	- 17,070
Changes from consolidation	123	- 4,452
Change in cash and cash equivalents	47,493	- 26,629

Development of fixed assets

T€	Gross book values				Balance as of 31.12.03
	Balance as of 01.01.03	Additions	Disposals	Reclassification	
Concessions, industrial property rights and similar rights and assets as well as licenses for such rights and assets	48,691	6,343	2,022	288	53,300
Goodwill *)	5,168	359	327	–	5,200
Payments on account	281	283	68	71	567
Intangible assets	54,140	6,985	2,417	359	59,067
Land, rights similar to land and buildings, including buildings on third-party land	331,068	11,695	2,035	3,916	344,644
Technical equipment and machinery	1,162,526	73,543	2,974	15,866	1,248,961
Other equipment, fixtures and fittings	166,740	13,694	2,021	- 494	177,919
Payments on account and construction in progress	19,739	20,716	731	-19,647	20,077
Tangible fixed assets	1,680,073	119,648	7,761	- 359	1,791,601
Investments in affiliated companies	5,665	944	95	–	6,514
Loans to affiliated companies	170	–	66	–	104
Participating interests	11,307	3,330	7,251	–	7,386
Loans to companies in which participating interests are held	638	–	242	–	396
Long-term securities	48,530	23,586	27,475	–	44,641
Sundry loans and other financial assets	20,806	671	2,617	–	18,860
Financial assets	87,116	28,531	37,746	–	77,901
Fixed assets	1,821,329	155,164	47,924	–	1,928,569

*) consists of trademark rights and customer lists

Segment reporting

T€	Total revenues		of which with third parties	
	2003	2002	2003	2002
Potash and Magnesium Products	1,058,926	1,043,291	1,004,678	992,322
COMPO	496,609	490,094	490,446	481,008
fertiva	475,762	472,703	474,146	469,513
Salt (62% esco)	207,617	204,563	206,177	203,351
Waste Management and Recycling	54,866	58,643	54,584	58,641
Services and Trading	115,081	94,297	56,359	51,775
Reconciliation ¹⁾	- 121,070	- 105,075	1,401	1,906
K+S Group	2,287,791	2,258,516	2,287,791	2,258,516

T€	Assets		Liabilities	
	2003	2002	2003	2002
Potash and Magnesium Products	833,133	828,181	488,329	359,722
COMPO	398,810	355,247	253,286	203,899
fertiva	194,235	162,453	186,851	154,365
Salt (62% esco)	171,571	162,013	67,181	63,598
Waste Management and Recycling	28,500	30,719	4,948	2,906
Services and Trading	53,878	48,336	23,954	23,112
Reconciliation ¹⁾	74,324	79,756	174,499	345,728
K+S Group	1,754,451	1,666,705	1,199,048	1,153,330

¹⁾ Figures for business segments are shown before consolidation. Expenses and income as well as items disclosed on the balance sheet that cannot be allocated to business segments are recorded separately. Both effects are shown under "Reconciliation" and result in the group figures.

²⁾ Assets less financial investments and funds, less short-term debt (provisions and liabilities).

³⁾ Relates to tangible fixed and intangible assets.

Depreciation, amortisation and write-downs					Net book values		
Balance as of 01.01.03	Additions	Disposals	Reclassification	Write-ups	Balance as of 31.12.03	Balance as of 31.12.03	Balance as of 31.12.02
18,102	5,537	1,484	6	-	22,161	31,139	30,589
2,538	494	13	-	-	3,019	2,181	2,630
-	-	-	-	-	-	567	281
20,640	6,031	1,497	6	-	25,180	33,887	33,500
183,186	12,620	1,191	53	46,377	148,291	196,353	147,882
806,642	72,992	1,956	231	502	877,407	371,554	355,884
125,104	16,637	1,454	- 290	-	139,997	37,922	41,636
-	-	-	-	-	-	20,077	19,739
1,114,932	102,249	4,601	- 6	46,879	1,165,695	625,906	565,141
332	370	-	-	-	702	5,812	5,333
-	-	-	-	-	-	104	170
614	400	-	-	-	1,014	6,372	10,693
-	-	-	-	-	-	396	638
17	21	-	-	-	38	44,603	48,513
197	-	7	-	-	190	18,670	20,609
1,160	791	7	-	-	1,944	75,957	85,956
1,136,732	109,071	6,105	-	46,879	1,192,819	735,750	684,597

EBITDA		EBIT		Gross Cash Flow	
2003	2002	2003	2002	2003	2002
104,133	126,897	31,581	55,623	125,755	130,304
35,897	40,675	25,416	30,769	36,097	40,735
6,947	6,709	6,567	6,328	10,227	7,784
38,513	36,879	27,168	25,983	40,602	38,529
8,359	12,525	4,237	8,247	8,387	12,533
23,938	21,945	17,017	15,433	25,305	21,443
5,889	- 5,541	3,695	- 9,611	- 37,270	- 34,477
223,676	240,089	115,681	132,772	209,103	216,851

Capital Employed ²⁾		Capital Expenditure ³⁾		Employees as of 31.12./number	
2003	2002	2003	2002	2003	2002
608,895	619,293	81,629	89,061	7,575	7,612
247,737	227,712	16,847	20,135	1,199	1,152
- 101,969	- 77,097	15	491	56	55
95,931	92,569	18,672	7,938	846	840
23,660	26,444	1,486	1,633	236	238
16,256	17,106	7,156	7,419	393	401
20,162	- 5,603	828	2,361	322	312
910,672	900,424	126,633	129,038	10,627	10,610

Notes

General principles

These consolidated financial statements of the K+S Group have been prepared in accordance with the regulations contained in the German Commercial Code (HGB) and the Stock Corporation Act (AktG). In the interests of clear presentation, the individual items in the annual financial statements are presented in € thousands (T€).

Scope of consolidation

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

The scope of consolidation changed as follows in 2003: Laboratoire Algochimie S.A., which was merged by absorption into Algoflash S.A., has been removed from it. Following the merger, Algoflash S.A. was renamed COMPO France S.A.S. These internal group restructuring measures had no impact on the consolidated financial statements.

The following 18 (2002: 18) domestic and 16 (2002: 17) foreign companies have been fully consolidated in the consolidated financial statements. The K+S Group holds the entire capital of all the companies listed below in economic terms.

Germany

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

Outside Germany

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

By way of proportionate consolidation, three (2002: three) German and six (2002: six) foreign companies have been included on the basis of the esco consolidated financial statements. The following companies were included in proportion to the equity interest of 62 % held by the K+S Group.

Germany

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

Outside Germany

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

The following items resulted from proportionate inclusion of the esco Group (figures before consolidation):

	T€
Fixed assets	87,476
Inventories	16,233
Receivables and other current assets	68,323
Cash equivalents	5,781
Balance from capital consolidation	1,581
Long-term provisions	24,317
Short-term provisions	7,637
Liabilities	59,251
Revenues	207,618
Other income	3,300
Expenses	185,215
Earnings after taxes	20,117

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), and amounts that are purely taxation-related, the annual financial statements of K+S Aktiengesellschaft have been incorporated into the consolidated financial statements without amendment. The straight-line method of depreciation is used in the significant fully consolidated companies.

Where the accounting and valuation methods applied in the annual financial statements of the consolidated companies deviate from uniform group policies, appropriate adjustments have been made to the items 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 inter-company profits resulting from deliveries and services between consolidated companies are eliminated, unless they are immaterial. The corresponding items for consolidated joint ventures are eliminated on a proportionate basis. In addition, third party debtor relationships are consolidated where material.

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

The liabilities-side balance arising from capital consolidation resulted from offsetting the carrying amount of the investment in former Kali und Salz GmbH reported by K+S Aktiengesellschaft against the corresponding proportionate share of the equity of Kali und Salz GmbH as of 1 January 1997. (Kali und Salz GmbH was merged by absorption with K+S Aktiengesellschaft in 2001, see Note (23)). The balance is released to income in the amount of the scheduled depreciation on selected capital expenditures between 1993 and 1997 at plants in the new German states.

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

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

Accounting and valuation principles

Intangible assets

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

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

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

Tangible fixed assets

Tangible fixed assets are valued at acquisition or production cost less depreciation. The costs of self-constructed assets include, in addition to the direct costs, a share of the overheads, including depreciation. Investment grants and premiums received are deducted from the tangible fixed assets.

Depreciable 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. They are as follows:

	Years
Buildings	10 to 33
Technical equipment and machinery	3 to 15
Other equipment, fixtures and fittings	3 to 10

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. Following the deletion of the provisions contained in Section 308 Paragraph 3 HGB, no depreciation charges permitted for tax purposes were recognised during the year under review.

Gallery and excavation work is not capitalised.

Financial assets

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

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

Inventories

Inventories are stated at acquisition or production costs, taking into account the principle of the lower of cost or market. The production costs include, in addition to the direct costs, a proportional share of the production overheads at normal capacity. 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 current 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.

Provisions for pensions and similar obligations

Pension provisions for employees in Germany are computed in accordance with actuarial principles applying the present value method and at an interest rate of 6%. Pension obligations for foreign companies are computed applying similar principles and with due consideration given to country specific features.

Other provisions

Provisions for taxes and other provisions are recorded at the amounts expected to be required on a full cost basis. Thereby, amounts based on experience in similar circumstances are applied. Price increases that have arisen by the balance sheet date are taken into account applying specific indices for the costs affected.

Provisions for mining obligations for the backfilling of mines and shafts are accumulated in instalments in accordance with the extraction period, and allocated in full when 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.

Foreign currencies

Translation of foreign currency amounts

The acquisition costs of assets purchased in foreign currencies and revenues from sales in foreign currencies are recorded at the exchange rates prevailing as of the transaction date. Since 1 July 2002, the valuation of revenues has been based on any hedging measures taken in the same currency and for the same period of time.

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

Translation of financial statements in foreign currency

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

- all asset items, prepaid expenses and deferred income, liabilities and provisions at the closing rates,
- equity at the rate prevailing as of the time of initial consolidation,
- all expenses and income, 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.

As of 31 December 2003, foreign currency translation resulted in expenses of T € 13 (2002: income of T € 262).

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

Exchange rates in relation to € 1	2003		2002	
	Closing rate	Average rate for the year	Closing rate	Average rate for the year
US dollars (USD)	1.263	1.131	1.042	0.945
Swiss francs (CHF)	1.558	1.521	1.455	1.467
Brazilian reals (BRL)	3.666	3.474	3.699	2.783
Chilean pesos (CLP)	748.717	779.720	749.357	652.009

Notes to the profit and loss account

The profit and loss account is presented on page 79.

(1) Revenues

The revenues of the K+S Group amounted to € 2,288 million (2002: € 2,259 million). The breakdown of the revenues by business segment as well as intersegment revenues are presented in the segment information on page 82/83. The regional 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 with an individual value in excess of T € 1,000:

T€	2003	2002
Release of provisions	31,428	21,760
Release of balance arising from capital consolidation	15,040	15,470
Foreign exchange gains	9,666	27,248
Appreciation in the value of short-term securities	5,090	–
Profits on disposals of tangible fixed assets	5,060	2,653
Profits on disposals of short-term securities	4,357	1,116
Release of specific write-downs on receivables	3,655	8,547
Rentals and leasing	3,254	3,471
Profits on disposals of financial assets	1,223	2,099
Release of special reserves	–	1,654
Sundry income	23,530	21,666
Other operating income	102,303	105,684

Income of T € 52,243 (2002: T € 45,655) is attributable to other financial years and results primarily from the release of provisions and specific write-downs on receivables as well as profits on disposals of fixed assets.

(3) Other operating expenses

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

T€	2003	2002
Foreign exchange losses	10,173	29,378
Expenses for closed plants	9,905	9,491
Losses on disposals of fixed assets	7,982	1,083
Pension expenses	1,958	1,216
Property management expenses	3,520	3,024
Ancillary capital expenditure costs	3,288	4,738
Other taxes	2,443	1,680
Additional write-downs in accordance with Section 6b German Income Tax Act	–	2,188
Additional write-downs in accordance with R 35 Income Tax Guideline	–	1,610
Sundry expenses	70,942	51,287
Other operating expenses	110,211	105,695

The losses arising from exchange rate differences in the amount of T € 10,173 are compared against foreign exchange gains of T € 9,666, which are disclosed under other operating income. This yields a foreign currency result of T € -507 (2002: T € -2,130). The significant decline in gains and losses on exchange rate differences stems from the change in valuation instituted on 1 July 2002 and as of which date, the valuation of revenues has been based on any hedging measures taken in the same currency and for the same period of time.

Expenses of T € 8,817 (2002: T € 1,956) are attributable to other financial years and relate primarily to losses on disposals of fixed assets, taxes for prior years and allocations to the flat-rate adjustments on receivables.

(4) Result from investments, net

T€	2003	2002
Income from investments	918	986
- of which from affiliated companies	(746)	(276)
Income from profit transfer agreements	26	186
- of which from affiliated companies	(0)	(67)
Expenses for absorption of losses	- 38	- 10
Result from investments, net	906	1,162

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

As a result of lower exchange or market prices as of the balance sheet date, write-downs on short-term securities amounted to T € 320 (2002: T € 17,070). The write-downs on financial assets amounted to T € 791 (2002: T € 630).

Appreciation in the value of short-term securities resulting from reversals of impairments in the amount of T € 5,090 is included under other operating income.

(6) Interest income, net

T€	2003	2002
Income from other securities, lending and other financial assets	4,925	3,934
Other interest and similar income	6,500	8,020
- of which from affiliated companies	(95)	(157)
Interest expenses in allocations to provisions for pensions	- 9,699	- 10,073
Sundry interest and similar expenses	- 5,571	- 4,238
- of which to affiliated companies	(- 162)	(- 7)
Interest income, net	- 3,845	- 2,357

(7) Taxes

T€	2003	2002
Corporation tax	3	25
Trade tax on income	3,852	3,484
Foreign income taxes	7,401	5,919
Deferred taxes (Sections 274, 306 HGB)	- 922	646
Taxes on income	10,334	10,074
Other taxes	2,402	3,031
Taxes	12,736	13,105

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

(8) Cost of materials

T€	2003	2002
Raw materials, supplies and purchased merchandise	849,538	835,836
Purchased services	256,426	214,857
Cost of materials	1,105,964	1,050,693

(9) Personnel expenses / number of employees

T€	2003	2002
Wages and salaries	422,792	408,895
Social security	118,185	113,217
Pension expenses	8,306	4,664
Support	989	1,047
Personnel expenses	550,272	527,823

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

Employees, including those with temporary contracts (average number)	2003	2002
Germany	9,770	9,722
Abroad	840	789
Total	10,610	10,511
- of which trainees	478	476

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

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

Employees, including those with temporary contracts (average number)	2003	2002
Germany	985	980
Abroad	381	368
Total	1,366	1,348
- of which trainees	43	44

Notes to the balance sheet

The balance sheet is presented on page 80.

(10) Fixed assets

The development of the gross book values and depreciation on the individual fixed assets items is shown separately on pages 82/83.

(11) Tangible fixed assets

As of 2003, values that are purely taxation-related may no longer be included in the consolidated financial statements. This has resulted in the carrying amounts for tangible fixed assets as of 1 January 2003 being increased by T€ 46,594. The resulting write-up did not affect earnings.

In 2002, special write-downs for tax purposes amounted to T€ 3,798.

(12) Financial assets

Special write-downs of T€ 791 (2002: € 630) were recorded in accordance with Section 253 Paragraph 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 Section 313 Paragraph 2 and Section 285 No. 11 HGB, including the information in accordance with Section 285 No. 11a HGB on companies whose unlimited liability partners are companies in the K+S Group, has been filed with the Commercial Register in Kassel under No. HRB 2669. Shareholders may obtain a copy of this list directly from K+S Aktiengesellschaft if required.

The main investments are:

Name and registered office	Holding in capital (in %)	Equity (T€)	Earnings for the year (T€)
COMPO GmbH & Co. KG, Münster	100	65,360	2,102
COMPO Agricoltura S.p.a, Cesano Maderno, Italy	100	12,787	- 720
COMPO Agricoltura S.L., Barcelona, Spain	100	11,118	2,871
COMPO France S.A.S., Roche-lez-Beaupré, France	100	35,733	5,349
data process GmbH, Kassel ¹⁾	100	5,050	62
esco benelux n.v., Brussels, Belgium	62	6,648	450
esco – european salt company GmbH & Co. KG, Hanover	62	116,115	27,274
esco france S.A., Paris, France	62	5,235	880
fertiva GmbH, Mannheim ¹⁾	100	1,500	5,241
Frisia Zout B.V., Harlingen, the Netherlands	62	9,862	1,832
K+S Entsorgung GmbH, Kassel ¹⁾	100	7,506	- 3,524
K+S KALI GmbH, Kassel ¹⁾	100	430,562	35,683
Kali-Transport Gesellschaft mbH, Hamburg ¹⁾	100	7,158	11,846
Salines Cérébos et de Bayonne S.A., Paris, France	62	4,039	279

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

(13) Inventories

T€	2003	2002
Raw materials and supplies	97,125	96,062
Work in progress	6,594	4,962
Finished products and merchandise	129,243	133,238
Payments on account	4,359	4,385
Inventories	237,321	238,647

(14) Receivables and other current assets

T€	2003	of which residual term > 1 year	2002	of which residual term > 1 year
Accounts receivable - trade	453,861	–	437,195	–
Receivables from affiliated companies	4,225	–	4,163	–
Receivables from companies in which participating interests are held	1,894	–	1,599	–
Other current assets	83,404	6,578	81,548	1,034
Receivables and other current assets	543,384	6,578	524,505	1,034

Specific adjustments of T€ 11,016 (2002: T€ 10,210) and flat-rate adjustments of T€ 3,663 (2002: T€ 2,807) were made to receivables as of 31 December 2003.

The foreign currency receivables included hidden reserves of T€ 26 (2002: T€ 55) as a result of a higher closing rate as of 31 December 2003.

(15) Own shares

The balance on 1 January 2003 of own shares held by K+S Aktiengesellschaft amounted to 3,483,227 shares (= 7.74 % of the share capital before the capital decrease or T€ 8,917).

It included 3,422,285 own shares (= 7.61 % of the share capital before the capital decrease) acquired pursuant to the authorisation granted by the Annual General Meeting on 8 May 2002. Of these shares, 2,500,000 (= 5.56 % of the share capital before the capital decrease) were cancelled at the end of March 2003 and the share capital reduced accordingly. The remaining 922,285 shares (= 2.17 % of the share capital after the capital decrease) were sold to an investor at a price of € 18.60 per share in September 2003.

Thus, as of 31 December 2003 K+S Aktiengesellschaft held no own shares deriving from the repurchases made pursuant to authorisation granted by the Annual General Meeting.

The own shares held on 1 January 2003 also included 60,942 own shares that were acquired for transferring to K+S Group employees. During financial year 2003, a further 153,699 own shares (= 0.36 % of the share capital after the capital decrease) were bought at an average price of € 18.00 per share. Of these shares, 19,638 (= 0.05 % of the share capital) were issued to K+S Group employees as bonus shares without any separate consideration being payable and 194,243 shares (= 0.46 % of the share capital) were sold at an average price of € 10.44.

As of 31 December 2003, K+S Aktiengesellschaft held 760 own shares for transferring to employees. They were valued at acquisition cost.

(16) Other securities

T€	2003	2002
Fixed-interest securities	–	5,228
Fund units	37,058	33,963
Shares	23,916	29,938
Sundry securities	43,325	33,500
Other securities	104,299	102,629

The market or stock exchange values of the other securities amounted to T€ 115,103 (2002: T€ 104,825).

(17) Equity

The development of individual equity items is shown separately on page 79.

Pursuant to a resolution of the Annual General Meeting dated 8 May 2002, the Board of Executive Directors was authorised, with the approval of the Supervisory Board, to increase the share capital of K+S Aktiengesellschaft on one or more occasions until 1 May 2007 against cash or in-kind contributions and by up to no more than € 57.6 million in the aggregate through the issuance of no more than 22.5 million new no-par value bearer shares (authorised capital).

Existing shareholders essentially hold subscription rights in respect of such increases. The Board of Executive Directors may, with the approval of the Supervisory Board, exclude the statutory subscription rights of shareholders in the following cases and in respect of an amount corresponding to € 28.8 million of the share capital (the equivalent of 11.25 million no-par value shares):

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

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

(18) Subscribed capital

At the beginning of financial year 2003, the subscribed capital of K+S Aktiengesellschaft amounted to € 115.2 million and was divided into 45 million no-par value bearer shares. With the cancellation of 2.5 million shares in March 2003, the subscribed capital was reduced to € 108.8 million and has since then been divided into 42.5 million no-par value bearer shares.

(19) Additional paid-in capital

Additional paid-in capital developed as follows:

T€	2003	2002
Balance as of 1 January	–	–
Addition from cancellation of own shares	6,400	–
Adjustment due to consolidation measures	- 1,774	–
Balance as of 31 December	4,626	–

During the year under review, asset-side balances from capital consolidation totalling T€ 1,774 were deducted from additional paid-in capital. Such balances for previous years totalled T€ 190,824.

(20) Reserve for own shares

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

T€	2003	2002
Balance as of 1 January	60,434	31,633
Withdrawal for capital decrease deriving from cancellation of shares	- 43,375	-
Release for sale of own shares	- 17,045	-
Appropriation from profit retained and other revenue reserves	-	28,801
Balance as of 31 December	14	60,434

(21) Other revenue reserves and profit retained

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

T€	2003	2002
Balance as of 1 January	337,741	310,756
Consolidation effects	27,350	- 4,620
Dividend payment for previous year	- 41,470	- 43,397
Change in reserve for own shares	17,045	- 28,801
Net income of K+S Group	101,297	103,803
Balance as of 31 December	441,963	337,741

The consolidation effects include changes that are not recognised in income, essentially the additions referred to in Note (11) (after taking account of deferred taxes, also see Note (24)) in an amount of T€ 28,435.

In previous years, asset-side balances totalling T€ 3,370 were set off against revenue reserves.

Other revenue reserves of K+S Aktiengesellschaft

Other revenue reserves of K+S Aktiengesellschaft developed as follows over financial year 2003:

T€	2003	2002
Balance as of 1 January	6,000	7,000
Withdrawal for allocation to reserve for own shares	-	- 1,000
Allocation from net income	34,500	-
Balance as of 31 December	40,500	6,000

Profit retained of K+S Aktiengesellschaft

The dividend distribution is based on the annual financial statements of K+S Aktiengesellschaft. The intention is to propose to the Annual General Meeting that a dividend of € 1.00 per share be distributed to the shareholders and the sum of T€ 12,500 be allocated to revenue reserves with the remainder carried forward. On the basis of this assumption, the profit retained of K+S Aktiengesellschaft as of the balance sheet date is made up as follows:

T€	2003	2002
Balance as of 1 January	45,548	45,698
Dividend payment for previous year	- 41,470	- 43,397
Change in reserve for own shares	17,045	- 27,801
Net income of K+S Aktiengesellschaft	69,303	71,048
Allocations to other revenue reserves	- 34,500	-
Balance as of 31 December	55,926	45,548

(22) Special reserves

T€	2003	2002
Reserve per Section 6b Income Tax Act	–	1
Reserve per French tax law	–	327
Special reserves	–	328

Last year's value related to reserves under tax regulations. As values that are purely taxation-related are no longer allowed in the consolidated financial statements as of 2003, all special reserves as of 1 January 2003 were released without earnings being affected.

(23) Balance on capital consolidation

A liabilities-side balance of T€ 27,891 (2002: T€ 42,930) on capital consolidation relates to the former Kali und Salz GmbH and results from the initial consolidation of the 51% interest as of 1 January 1997. The merger of Kali und Salz GmbH into K+S Aktiengesellschaft with economic effect as of 1 October 2001 has no influence on the presentation and treatment of the credit balance arising from capital consolidation. In addition, a credit balance of T€ 1,581 (2002: T€ 2,340) stems from the first-time consolidation of the esco Group. The deletion of the provisions contained in Section 308 Paragraph 3 HGB (also see Note (11)) resulted in the release of a balance arising from consolidation in the amount of T€ 758 without recognition in profit.

T€	2003	2002
Balance as of 1 January	45,270	58,400
Release	15,798	15,470
Allocation from first-time consolidation	–	2,340
Balance as of 31 December	29,472	45,270

For the purposes of the consolidated financial statements of the K+S Group, the special loss accounts in accordance with Section 17 Paragraph 4 of the D-Mark Balance Sheet Act reported on the assets side of the balance sheets of K+S KALI GmbH and esco – european salt company GmbH & Co. KG and amounting to T€ 47,791 (2002: T€ 47,858) were netted against the equity of the respective subsidiary.

(24) Provisions**Provisions for pensions and similar obligations**

The provisions for pensions and similar obligations are mainly for employees in Germany. When setting up the provisions for these employees, the development of 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; future changes in value are not taken into account. The provisions are calculated applying the 1998 Heubeck mortality tables and an interest rate of 6%. There are no shortfalls.

As of 31 December 2003, T€ 3,376 was allocated to pension provisions (2002: T€ 1,658).

Provisions for taxes

Provisions for taxes included deferred tax liabilities amounting to T€ 18,670 determined in accordance with Section 274 HGB in conjunction with Section 298 Paragraph 1 as well as Section 306 HGB. The deferred tax liabilities are attributable to write-ups on tangible fixed assets that are not recognised in income and were required as a result of the deletion of the provisions contained in Section 308 Paragraph 3 HGB (also see Note (11)). In addition, deferred tax liabilities are attributable to the adjustment of depreciation to the straight-line depreciation method. While deferred tax liabilities totalled T€ 22,505 (2002: T€ 2,563), deferred tax assets, arising from the elimination of inter-company profits, totalled T€ 3,835 (2002: T€ 2.806). Last year, this yielded a positive balance of T€ 243, which was disclosed on the balance sheet as a separate item.

Other provisions

The other provisions take adequate account of all foreseeable risks.

T€	2003	of which short-term	2002	of which short-term
Mining obligations	311,579	6,525	303,905	6,095
Obligations to employees	109,791	39,222	89,173	26,432
Obligations under sales transactions and purchase contracts	52,918	52,918	53,370	53,370
Maintenance and repairs	13,708	1,814	18,315	2,877
Miscellaneous	71,225	14,453	61,373	17,309
Other provisions	559,221	114,932	526,136	106,083

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

The item "miscellaneous" relates to numerous provisions that cannot be included under the items shown above.

(25) Liabilities

T€	2003 total	Residual term < 1 year	Residual term > 1 year a. < 5 years	Residual term > 5 years
Bank loans and overdrafts	19,427	19,427	–	–
Prepayments received	990	990	–	–
Accounts payable - trade	306,606	306,393	197	16
Liabilities to affiliated companies	4,503	4,503	–	–
Other liabilities	84,489	84,259	230	–
Liabilities	416,015	415,572	427	16

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

The other liabilities include:

T€	2003	2002
Taxes	10,075	11,453
Social security liabilities	18,776	16,109

(26) Contingent liabilities

T€	2003	2002
Warranty agreements	767	767
Discounted notes	–	1,008

(27) Other financial commitments

T€	2003	2002
Commitments under uncompleted capital expenditure projects	33,572	14,778
Commitments under long-term rental and leasing contracts		
- due in following year	5,859	3,021
- due in 2 to 5 years	8,599	4,050
- due after 5 years	2,741	2,674
Other financial commitments	50,771	24,523

The other financial commitments are carried at nominal value.

(28) Derivative financial instruments

Derivative financial instruments are used to hedge currency risks resulting from business operations. Exchange rate risks primarily exist in the case of payments in US dollars and British pounds. Both forward exchange transactions and foreign exchange option transactions are used for hedging purposes. The option transactions generally only apply within certain barriers. The use of derivative financial instruments is regulated by an internal guideline. A strict segregation of functions is ensured between trading, settlement and control. Transactions are only concluded with banks that have a first-class credit standing.

The following positions were open as of 31 December 2003:

T€	Notional amounts	Market value
Forward exchange transactions in US dollars	41,875	11,454
Foreign exchange option transactions in US dollars	836,074	24,132
Foreign exchange transactions in US dollars	877,949	35,586

The notional amounts do not reflect the possible risk from the use of the derivatives. Such risks can arise if the spot rate underlying the derivatives falls below the agreed hedging rate and no corresponding off-setting transaction has been entered into. In such case, a provision has to be recognised for impending losses from pending transactions. This was not necessary on the balance sheet date.

The market values correspond to the redemption value on premature hypothetical termination of all financial derivatives concluded for hedging purposes on the balance sheet date. The terms of the derivatives employed vary and extend until December 2006.

Where foreign exchange transactions are covered by open receivables or cash from sales already made, valuation units were generally formed together with hedging transactions. The positive effect of these hedging transactions is therefore already reflected in the result for the year.

Notes to the segment reporting

We have prepared the segment reporting mainly in accordance with German Accounting Standard No. 3 (DRS 3) of the German Accounting Standards Committee. It is presented on pages 82/83.

(29) Definition of segments

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

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

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

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

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

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

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

(30) Principles of allocation of assets and liabilities

Assets, deferred items, provisions and liabilities are allocated to the segments in accordance with their utilisation or origin. If they are utilised or originate 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.

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

(32) Reconciliation

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

The main items are:

T€	2003	2002
Segment results		
- Proceeds from release of liabilities-side balance from capital consolidation	15,040	15,470
- Other consolidation effects	- 6,981	- 417
- Result for centralised functions	- 4,364	- 24,664
	3,695	- 9,611
Segment assets		
- Tangible fixed and intangible assets	59,751	23,784
- Financial assets	75,957	85,956
- Receivables/prepaid expenses	21,325	20,058
- Cash and cash equivalents	175,252	187,746
- Consolidation effects	- 257,961	- 237,788
	74,324	79,756
Segment liabilities		
- Balance from capital consolidation	29,472	45,270
- Special reserves	-	328
- Provisions for pensions and similar obligations	144,783	149,080
- Other provisions	71,163	157,065
- Liabilities/deferred items	24,063	54,422
- Consolidation effects	- 94,982	- 60,437
	174,499	345,728

(33) Geographical breakdown of revenues

The breakdown of revenues by geographical region is as follows:

T€	2003	2002
Germany	557,640	556,688
Rest of Europe	1,222,293	1,179,400
Overseas	507,858	522,428
Total revenues	2,287,791	2,258,516

(34) Geographical breakdown of assets

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

T€	2003	2002
Germany	1,393,615	1,539,055
Rest of Europe	330,535	98,637
Overseas	30,301	29,013
Total assets	1,754,451	1,666,705

(35) Geographical breakdown of capital expenditure

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

T€	2003	2002
Germany	106,751	121,446
Rest of Europe	19,512	7,574
Overseas	370	18
Total capital expenditure	126,633	129,038

Notes to the cash flow statement

We have prepared the cash flow statement mainly in accordance with German Accounting Standard No. 2 (DRS 2) of the German Accounting Standards Committee (DRSC). It is presented on page 81.

Cash and cash equivalents

T€	2003	2002
Own shares	14	60,434
Other short-term securities	104,299	102,629
Cash in hand, bank balances and cheques	130,530	52,615
Short-term financial liabilities	- 19,427	- 47,755
Cash and cash equivalents	215,416	167,923

Other information

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

T€	2003	2002
Total remuneration of the Supervisory Board	545	456
- of which fixed	223	190
- of which performance-related	322	266
Total remuneration of the Board of Executive Directors	2,812	2,174
- of which fixed	1,102	912
- of which performance-related	838	801
- of which from exercise of stock option programme	872	461
Total remuneration of former members of the Board of Executive Directors and their surviving dependents	1,048	1,195
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	8,109	6,845

Board of Executive Directors

The total remuneration of the Board of Executive Directors in 2003 was for five board members in 2003 (in some cases pro rata) and for four board members in the previous year. The performance-related remuneration of the Board of Executive Directors includes an expense of T€ 38 (2002: T€ 0) that is unrelated to the period under review.

The remuneration system for the Board of Executive Directors consists of the following elements:

- regular monthly payments (fixed salary) to which in-kind benefits are added;
- performance-related, non-recurrent remuneration, with bonuses based on ratios derived from net income for each year and paid in the following financial year each time;
- non-recurrent remuneration deriving from the exercise of stock options.

Under the stock option programme, the Board of Executive Directors and key executives can use part of their performance-related remuneration for a basic investment in K+S shares. By acquiring and holding such basic shares, the participants receive virtual stock options that trigger a cash payment when exercised. The amount of the cash payment depends on the extent to which the K+S share outperforms the MDAX as the benchmark index and is capped at 25 % of excess performance. A lock-up period of two years applies to the exercise of the options and the options expire after a period of five years. The value of the stock options (hypothetical exercise on the balance sheet date) for the Board of Executive Directors under the 2002 stock option programme amounted to T€ 157 on the balance sheet date, and the value under the 2003 stock programme amounted to T€ 0.

Supervisory Board

The members of the Supervisory Board received no remuneration or other benefits from the company for the services rendered by them personally.

The remuneration received by members of the Supervisory Board is governed by the provisions of the Articles of Association of K+S Aktiengesellschaft. It consists of a fixed component and a variable one that

is linked to the level of the dividend payment. The Supervisory Board has 16 members since 7 May 2003 (previously: 12 members).

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

Total K+S shares held by all the members of the Board of Executive Directors and the Supervisory Board as of 31 December 2003 amounted to less than 1% of the outstanding shares of the company. In accordance with Section 15a of the Securities Trading Act (WpHG), members of the Board of Executive Directors and the Supervisory Board as well as their spouses and relatives in the first degree must report purchases or disposals of shares to K+S Aktiengesellschaft without delay. No disclosure pursuant to Section 15a WpHG was required in financial year 2003.

Conformity declaration concerning the German Corporate Governance Code

The declaration on conformity pursuant to Section 161 of the Stock Corporation Act concerning the recommendations made by the "Government Commission on the German Corporate Governance Code" has been made by the Board of Executive Directors and the Supervisory Board for financial year 2003 and is available to shareholders in the 2002 annual report and can also be accessed on the K+S Group Internet homepage (www.k-plus-s.com). The conformity declaration in respect of 2004 will also be published on the K+S Internet homepage and on page 41 of this annual report.

Members of the Supervisory Board and the Board of Executive Directors

Supervisory Board (on 31 December 2003)

Gerhard R. Wolf, Worms

chairman

former member of the Board of Executive Directors of BASF AG

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

Hornbach Holding AG (chairman)

Hornbach Baumarkt AG (chairman)

STINNES AG

Michael Vassiliadis, Hemmingen, from 7 May 2003

vice chairman

union secretary, Mining, Chemicals and Energy Trade Union

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

Henkel KGaA

mg technologies ag

Manfred Kopke, Neukirchen-Vluyn, until 7 May 2003

vice chairman

Jella S. Benner-Heinacher, Meerbusch, from 7 May 2003

federal manager of the Deutsche Schutzvereinigung für Wertpapierbesitz e.V.

further Supervisory Board appointments: A.S. Création AG

TUI AG

Leonhard H. Fischer, Winterthur, Switzerland, until 7 May 2003

Karl-Heinz Georgi, Haltern

principal of the Haltern am See Education Centre of the Mining, Chemicals and Energy Trade Union

Rainer Grohe, Otterstadt

executive director of Galileo

further Supervisory Board appointments: Atlas Copco Holding GmbH

Ball Packaging Europe GmbH

Frankfurter Versicherungs AG

Hydro Aluminium Deutschland GmbH

LOGIKA AG

Norddeutsche Affinerie AG

Axel Hartmann, Neuhof, until 7 May 2003

Dr. Karl Heidenreich, Mannheim, from 7 May 2003

member of the Board of Executive Directors of Landesbank Baden-Württemberg

further Supervisory Board appointments: Deka Immobilien Investment GmbH

Internationales Bankhaus Bodensee AG

LEG Landesentwicklungsgesellschaft Baden-Württemberg mbH

other appointments to corporate bodies: Bürgschaftsbank Baden-Württemberg GmbH (chairman)

Landesbank Rheinland-Pfalz

MKB Mittelrheinische Bank GmbH (chairman)

MMV Leasing GmbH

Rüdiger Kienitz, Geisa

member of the Works Council of the Werra potash plant of K+S KALI GmbH

Klaus Krüger, Wolmirstedt

chairman of the Group Works Council of the K+S Group

Dieter Kuhn, Bernburg, from 7 May 2003

chairman of the Works Council of the Bernburg plant of esco - european salt company GmbH & Co. KG

Heinz-Gerd Kunaschewski, Philippsthal, from 7 May 2003

vice chairman of the Group Works Council of the K+S Group

Dr. Bernd Malmström, Berlin, from 7 May 2003

chairman of the Board of Executive Directors of Stinnes AG and member of the Board of Executive

Directors of Deutsche Bahn AG

further Supervisory Board appointments: Brenntag AG (chairman)

Railion Deutschland AG

Schenker AG (chairman)

Stinnes Interfer AG (chairman)

ThyssenKrupp Serv AG

other appointments to corporate bodies: Hansa Rail GmbH

Polzug GmbH

Helmut Mamsch, London, Great Britain

former member of the Board of Executive Directors of VEBA AG

further Supervisory Board appointments: Readymix AG

other appointments to corporate bodies: GKN plc., Great Britain

Logica plc., Great Britain (deputy chairman)

RMC Group plc., Great Britain

Dr. Rudolf Müller, Ochsenfurt, from 7 May 2003

member of the Board of Executive Directors of Südzucker AG

other appointments to corporate bodies: AGRANA Beteiligungs-AG, Austria (vice chairman)

BGD Bodengesundheitsdienst GmbH (chairman)

Raffinerie Tirlemontoise S.A., Belgium

REKO Erdenvertrieb GmbH (chairman)

Saint Louis Sucre S. A., France

Slaka Spolka Cukrowa S.A., Poland (chairman)

Südzucker International GmbH (chairman)

Zuckerfabrik Ropczyce S.A., Poland (chairman)

Renato De Salvo, Auhagen, from 7 May 2003

vice chairman of the Works Council of the Sigmundshall potash plant of K+S KALI GmbH

Hans Peter Schreib, Düsseldorf, until 7 May 2003

Dr. Eckart Süner, Neustadt a. d. W.
 head of the Central Legal Affairs, Tax and Insurance Department of BASF AG
 further Supervisory Board appointments: BASF Schwarzheide GmbH
 other appointments to corporate bodies: BASF Corporation, USA

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

Board of Executive Directors

Dr. Ralf Bethke, Kassel, Chairman
 ORGANISATIONAL DIVISION 1
 Potash and Magnesium Products Business Segment
 fertiva Business Segment
 Investor Relations
 Communications
 Controlling and Capital Expenditure
 further Supervisory Board appointments: VINCI Deutschland GmbH (until 31 July 2003)

Norbert Steiner, Baunatal
 ORGANISATIONAL DIVISION 2
 Salt Business Segment
 Services and Trading Business Segment
 Finance
 Purchasing and Logistics
 Legal Affairs, Taxes and Insurance
 Internal Audit

Gerd Grimmig, Söhrewald
 ORGANISATIONAL DIVISION 3
 Waste Management and Recycling Business Segment
 Mining and Geology
 Research and Development
 Environmental Protection and Industrial Safety, Quality Management
 Engineering and Energy Management
 further Supervisory Board appointments: Thyssen Schachtbau GmbH

Peter Backhaus, Essen, until 31 July 2003

Dr. Thomas Nöcker, Kassel, Personnel Director, from 1 August 2003
 ORGANISATIONAL DIVISION 4
 Personnel
 Properties
 Knowledge Management

Joachim Vogt, Kassel, from 1 January 2003
 ORGANISATIONAL DIVISION 5
 COMPO Business Segment
 Corporate Development
 Consumer Goods Coordination

Kassel, 25 February 2004

K+S Aktiengesellschaft
The Board of Executive Directors

Definitions of key figures

Book value per share	=	$\frac{\text{Equity} + 50\% \text{ of special reserve} + \text{liabilities-side balance arising from capital consolidation}}{\text{Total number of shares as of 31 Dec.}}$
Dividend yield	=	$\frac{(\text{Proposed}) \text{ dividend per share}}{\text{Exchange price (XETRA) as of 31 Dec.}}$
Return on equity	=	$\frac{\text{Net income}}{\text{Equity} + 50\% \text{ of special reserve} + \text{liabilities-side balance arising from capital consolidation}}$
Enterprise value	=	$\text{Market capitalisation} + \text{pension provisions} - \text{net cash and cash equivalents}$
Return on total investment	=	$\frac{\text{Earnings before taxes} + \text{interest expenses}}{\text{Balance sheet total}}$
Market capitalisation	=	$\text{Total number of shares as of 31 Dec.} \times \text{exchange price (XETRA) as of 31 Dec.}$
Return on Capital Employed (ROCE)	=	$\frac{\text{Earnings before interest and taxes (EBIT)}}{\text{Intangible assets} + \text{tangible fixed assets} + \text{inventories} + \text{receivables} / \text{prepaid expenses} - \text{short-term provisions} - \text{operating liabilities}}$
Working capital	=	$\text{Inventories} + \text{receivables and other current assets} - \text{short-term provisions} - \text{operating liabilities}$

Business terms

ENTEC®	The brand name of a fertilizer that is exclusively marketed by COMPO. What makes ENTEC® fertilizers special is their higher degree of nitrogen efficiency, which is achieved through the ammonia stabilizer (nitrification inhibitor) ENTEC®. ENTEC® delays the transformation of ammoniacal nitrogen into nitric-nitrogen, which can be easily washed away. The likelihood of this happening is reduced, making more of the nitrogen fertilizer available to plants.
ESTA®	A process developed and patented by K+S that separates potash crude salts by means of an electric tension field in an environmentally friendly way that uses less energy and no water.
Fertigation	A hybrid word formed from “fertilize” and “irrigate”. Fertilizers are applied during irrigation.
Joint venture	Agreement between various partners or companies to operate a business enterprise jointly.
Nitrification inhibitors	(> ENTEC®)
OECD	Organisation for Economic Cooperation and Development in Europe
Sustainable development	A term used to denote sustainable management of resources in a way that takes account of economic, ecological and ethical aspects.
Knowledge management	The structured development, group-wide dissemination and coordination of knowledge to avoid duplication of effort among other things.

Financial and economic terms

Cash flow	Net balance of incoming and outgoing payments during a reporting period.
Credit insurance	A guarantee in common use in the export business with which the payment for the exported goods is secured for the exporter.
Deferred taxes	Arise as a result of temporary differences in the accounting policies applied in the statutory financial statements and the tax balance sheet. They can arise in two forms, firstly as a tax claim by the company (deferred tax assets) and secondly as a tax obligation (deferred tax liabilities).
Dividend	Part of retained profit distributed to shareholders.
DVFA	short for: "German Association for Financial Analysis and Investment Consultancy". The DVFA earnings developed by this association are intended to represent as objective as possible a comparison yardstick for evaluating the earnings strength of business enterprises.
EBIT	Earnings before interest and taxes.
Enterprise value	Is an indicator frequently used by financial analysts to determine the value of a company (> Definitions of key figures). Enterprise value is frequently compared with other figures (EBIT, EBITDA, revenues), which produces what are known as Enterprise value multiples.
Free float	The number of shares not held by investors owning more than 5% of the shares of a company (with the exception of shares held by asset managers and investment companies).
Gross domestic product	Value of the economic performance that comprises all the goods and services produced in a country within a reporting period.
Investor Relations	Corporate communications addressed to financial analysts, investment advisers and both private and institutional investors.

Information order form

Here you have an opportunity to obtain further information and place yourself on our mailing list. In this way, you can be certain not to miss any important events in the future.

Name _____

Street, P. O. Box _____

Postcode, Town _____

Country _____

E-mail _____

Please send me the latest:

- Annual Report
- Interim Report
- "Safety, Health, Environment" Report
- Personnel and Social Report

Please include me in your mailing list for the regular delivery of:

- Annual Reports
- Interim Reports
- Information by e-mail (incl. annual and interim reports)

- Please delete me from your mailing list.

Please fax the completed order form

to +49 (0) 561/9 301-16 66

or mail it to: K+S Aktiengesellschaft, Communications, P.O. Box 10 20 29, 34111 Kassel, Germany.

Thank you very much.
The Investor Relations Team

K+S Aktiengesellschaft
Communications
P.O. Box 10 20 29
34111 Kassel
Germany

If you would prefer to send it by post, we have indicated fold lines for a window envelope.

Contact

K+S Aktiengesellschaft
Bertha-von-Suttner-Str. 7
34131 Kassel (Germany)
phone: +49 (0) 5 61/9 301-0
fax: +49 (0) 5 61/9 301-17 53
Internet: www.k-plus-s.com

Investor Relations

phone: +49 (0) 5 61/9 301-16 87
fax: +49 (0) 5 61/9 301-24 25
e-mail: investor-relations@k-plus-s.com

Communications

phone: +49 (0) 5 61/9 301-17 22
fax: +49 (0) 5 61/9 301-16 66
e-mail: pr@k-plus-s.com

Imprint

Art direction:

Red Cell Advertising Agency
Düsseldorf

Typography/DTP:

BIT BY BIT Digitales Atelier
Düsseldorf

Lithography:

Laser-Litho 4 Digitale Medien
Düsseldorf

Printing:

Druckerei Heining & Müller
Mülheim an der Ruhr

A	Ammonia	48, 54, 74	M	Management's Analysis	46
	Ammonium sulphate	24, 52		Market capitalisation	36, 40
	Annual financial statements of K+S AG	59		Markets	46
	Annual General Meeting	42		MDAX	36
	Anti-dumping	69, 72, 74	N	Net income	2, 55, 79
	Assets	56, 80		Notes	84
	Auditors' report	78	O	Other operating expenses	79, 89
B	Balance sheet	56, 80, 91		Other operating income	79, 88
	Board of Executive Directors	4, 42, 100, 103		Outlook	72, 75
C	Cancellation of shares	36, 38, 92		Own shares	38, 92
	Capital expenditure	56, 66, 83, 99	P	Partial retirement	61
	Cash and cash equivalents	58, 100		Personnel expenses	59, 90
	Cash flow	58, 81, 100		Potash and Magnesium Products	19, 47, 50, 53, 57, 63, 73
	CATSAN®	18, 27, 53		Potassium chloride	20, 50
	Communications	64		Preface	2
	Competition	46		Prime Standard	39
	Complex fertilizers	23, 51		Procurement	67
	COMPO	18, 21, 47, 51, 54, 57, 63, 74		Profit and loss account	79, 88
	COMPO hobby segment	22, 51		Provisions	56, 80, 95
	COMPO professional segment	22, 51		Provisions for mining obligations	87
	Consumer products	24, 52		Provisions for pensions and similar obligations	87, 95
	Contact	40	Q	Quality management	65, 67
	Corporate Governance	41, 101	R	Reconciliation	54
D	data process	19, 27, 53, 58, 67		Recycling	26, 52
	Declaration on conformity	41, 101		Research and development	62
	De-icing salt	25, 31, 52		Research reports	39
	Derivative financial instruments	71, 97		Return on Capital Employed (ROCE)	36, 58, 104
	Dividend	36, 39, 58		Revenues	2, 49, 75, 79, 88, 99
	DVFA earnings	55		Risk management	68
E	Earnings before interest and taxes (EBIT)	2, 53, 75, 79, 83, 106	S	Salt	24, 30, 48, 52, 54, 57, 74
	Earnings per share	36, 55		Salt for chemical transformation	25, 31, 52
	EBITDA	55		Scope of consolidation	84
	Employees	59, 83		Sector situation	46
	ENTEC®	22, 51, 63, 105		Segment reporting	82, 98
	Environmental protection	65		Services and Trading	19, 27, 53, 54, 58, 75
	Equity and liabilities	56, 80		Share repurchase	38, 92
	Equity statement	79		Share performance	36, 37
	esco	24, 32, 48, 52, 54, 57, 59, 67, 72, 74		Shareholder structure	38
F	Fertilizer specialities	20, 50		Social engagement	65
	fertiva	18, 23, 48, 51, 54, 57, 74		Stock option programme	42, 60, 100
	Financial result	2, 55		Straight nitrogen fertilizers	23, 51
	Fixed assets	56, 80, 82		Supervisory Board	7, 42, 100, 101
	Free float	36, 38, 106		Sylvinite project	21, 57, 66, 75
I	Industrial products	20, 50		Synergies	18
	Industrial safety	65, 66	T	Table salt	24, 31
	Industrial salts	25, 31, 52		Taxes	55, 79, 90, 95
	Information technology (IT)	19, 53		Training	60
	Investor Relations	40	U	Underground re-utilisation	18, 26, 52
J	Joint venture	24, 32, 48, 52, 54, 57, 72, 74		Underground waste disposal	18, 26, 52
K	K+S share	36		US dollar	46, 50, 53, 71, 88, 97
L	Liquidity	56, 58, 71, 100	W	Waste Management and Recycling	18, 25, 49, 52, 54, 58, 75
	Logistics	19, 27, 53	Y	Yields	58

Dates

	2004/2005
Annual General Meeting, Kassel	5 May 2004
Interim report 31 March 2004	5 May 2004
Dividend payment	6 May 2004
Interim report 30 June 2004	12 August 2004
Interim report 30 September 2004	15 November 2004
Analyst conference, Frankfurt	15 November 2004
Report on business in 2004	March 2005
Press and analyst conference, Frankfurt	March 2005
Annual General Meeting, Kassel	11 May 2005
Interim report 31 March 2005	11 May 2005
Dividend payment	12 May 2005



K+S Aktiengesellschaft · P.O. Box 10 20 29 · 34111 Kassel · Germany · www.k-plus-s.com

Experience growth.