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Financial Report 2007

K+S
Experience growth.

TEN-YEAR SUMMARY K+S GROUP

Revenues, earnings, cash flow		2007 IFRSs	2006 IFRSs	2005 IFRSs	2004 IFRSs	2003 HGB	2002 HGB	2001 HGB	2000 HGB	1999 HGB	1998 HGB
Revenues	€ million	3,344.1	2,957.7	2,815.7	2,538.6	2,287.8	2,258.5	2,179.4	2,087.9	1,191.9	1,139.3
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	€ million	413.9	401.1	383.1	289.5	223.7	240.1	248.4	252.2	206.2	190.3
Operating earnings (EBIT I/EBIT)	€ million	285.7	278.0	250.9	162.9	115.7	132.8	120.6	126.8	88.5	72.3
Earnings after market value changes (EBIT II)	€ million	(106.9)	361.6	271.7	136.5	–	–	–	–	–	–
Earnings before taxes	€ million	(142.6)	341.5	259.6	123.4	111.6	113.9	121.1	130.4	95.9	81.8
Earnings before taxes, adjusted [1]	€ million	250.0	257.9	238.8	149.9	–	–	–	–	–	–
Group earnings [2]	€ million	(93.3)	228.9	174.4	86.8	101.3	103.8	118.3	119.8	98.5	83.7
Group earnings, adjusted [1, 2]	€ million	175.3	176.2	161.3	103.5	–	–	–	–	–	–
Gross cash flow	€ million	372.1	342.7	341.5	274.1	209.1	216.9	224.6	241.4	228.3	206.6
Capital expenditure [3]	€ million	171.6	130.5	107.1	131.9	126.6	129.0	157.9	141.7	106.1	84.1
Depreciation [3]	€ million	128.2	123.1	132.2	126.6	108.0	107.3	127.8	125.4	120.4	118.0
Working capital	€ million	566.9	600.2	453.0	333.1	250.9	300.5	262.1	257.6	218.5	231.1
Balance sheet											
Equity [1, 4]	€ million	1,123.6	1,060.5	931.5	882.2	584.9	558.8	516.8	530.9	536.1	561.7
Property, plant and equipment and intangible assets	€ million	1,297.3	1,271.6	874.1	883.3	659.8	598.6	592.4	557.6	509.0	502.5
Net indebtedness	€ million	1,086.5	718.2	324.0	333.0	220.5	262.7	180.7	115.0	223.0	178.6
Balance sheet total	€ million	2,964.8	2,830.9	2,259.1	2,147.7	1,754.5	1,666.7	1,601.0	1,580.1	1,337.5	1,249.5
Employees											
Employees as of 31 Dec. [5]	number of	12,033	11,873	11,012	10,988	10,554	10,536	10,178	9,645	9,586	8,683
- of which trainees	number of	614	620	591	591	550	542	533	479	473	434
Average number of employees [5]	number of	11,959	11,392	11,017	11,068	10,541	10,439	10,278	9,925	8,710	8,592
Personnel expenses [6]	€ million	687.3	663.5	671.1	613.3	562.7	531.2	522.6	488.1	410.4	405.1
Ratios											
Earnings per share, adjusted [1, 2]	€	4.25	4.27	3.81	2.43	2.42	2.43	2.73	2.72	2.04	1.67
DVFA earnings per share	€	–	–	–	–	1.53	1.62	1.62	1.98	1.68	1.63
Dividend per share [7]	€	2.00	2.00	1.80	1.30	1.00	1.00	1.00	0.85	0.57	0.36
Dividend yield [7]	%	1.2	2.4	3.5	3.3	4.6	5.8	4.6	4.8	4.1	3.1
EBITDA margin	%	12.4	13.6	13.6	11.4	9.8	10.6	11.4	12.1	17.3	16.7
EBIT margin	%	8.5	9.4	8.9	6.4	5.1	5.9	5.5	6.1	7.4	6.3
Return on revenues [2]	%	5.2	6.0	5.7	4.1	2.8	4.6	5.4	5.7	8.3	7.3
Return on capital employed (ROCE)	%	15.5	17.4	19.5	14.2	12.8	14.7	14.1	15.7	12.7	9.9
Return on total investment	%	11.0	12.3	12.7	9.1	7.4	7.7	8.5	9.0	8.0	7.3
Return on equity after taxes [2]	%	16.1	17.7	17.8	12.1	17.7	18.6	22.9	22.6	18.4	14.9
Book value per share	€	27.24	25.71	22.58	20.76	13.76	12.42	11.48	11.80	10.72	11.23
Gross cash flow per share	€	9.02	8.31	8.07	6.45	5.00	5.07	5.18	5.47	4.74	4.13
The Share											
Closing price as of 31 Dec.	XETRA. €	162.75	82.20	51.05	39.10	21.76	17.35	21.90	18.00	14.05	11.81
Market capitalisation	€ million	6,713.4	3,390.8	2,105.8	1,661.8	924.8	780.8	985.5	810.0	702.5	590.5
Enterprise value as of 31 Dec.	€ million	7,799.9	4,109.0	2,429.8	1,994.9	884.9	788.1	970.4	732.9	925.5	769.1
Total number of shares as of 31 Dec.	million	41.25	41.25	42.50	42.50	42.50	45.00	45.00	45.00	50.00	50.00
Outstanding shares as of 31 Dec. [8]	million	41.25	41.25	41.25	42.50	42.50	41.52	43.30	42.80	45.30	50.00
Average number of shares [9]	million	41.24	41.24	42.31	42.50	41.77	42.82	43.40	44.10	48.20	50.00

[1] From 2004 onwards, adjusted for the effect of market value changes for exchange rate hedging transactions; in the case of adjusted group earnings and adjusted earnings per share, the resulting tax effects were also eliminated
[2] 2006: excluding non-recurrent deferred tax income of € 41.9 million or € 1.02 per share
[3] For or in connection with property, plant and equipment and intangible assets
[4] Up to the end of 2003 incl. 50% special reserves and balance from capital consolidation
[5] Workforce including temporary employees (without students and interns) measured on full-time equivalent basis
[6] Personnel expenses also include expenditures connected with partial retirement and early retirement
[7] The figure for 2007 corresponds to the proposed dividend; the dividend yield is based on the year-end closing price
[8] Total number of shares less own shares held by K+S on the reporting date
[9] Total number of shares less the average number of own shares held by K+S

BUSINESS SEGMENTS AT A GLANCE

Potash and Magnesium Products		2007	2006	%
Revenues	€ milion	1,408.0	1,238.9	+ 13.6
EBIT I	€ milion	177.9	158.6	+ 12.2
Capital expenditure	€ milion	79.7	83.8	(4.9)
Employees	number	7,626	7,550	+ 1.0

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

COMPO		2007	2006	%
Revenues	€ million	617.4	552.4	+ 11.8
EBIT I	€ million	32.0	29.2	+ 9.6
Capital expenditure	€ million	12.6	11.4	+ 10.5
Employees	number	1,252	1,260	(0.6)

In the consumer area, COMPO carries a premium assortment of potting soils, plant care products, garden fertilizers and plant protection products. In the professional area, we offer complex fertilizers for special crops, horticulture, sports fields and public green areas.

fertiva		2007	2006	%
Revenues	€ million	648.1	556.2	+ 16.5
EBIT I	€ million	25.3	16.7	+ 51.5
Capital expenditure	€ million	4.2	0.7	> 100.0
Employees	number	59	61	(3.3)

fertiva distributes the K+S Group's nitrogenous agricultural fertilizers. We market agricultural fertilizers that are produced exclusively for us by BASF and also trade in goods purchased from other leading European manufacturers.

Salt		2007	2006	%
Revenues	€ million	545.1	485.8	+ 12.2
EBIT I	€ million	47.8	67.6	(29.3)
Capital expenditure	€ million	47.9	21.2	> 100.0
Employees	number	2,294	2,194	+ 4.6

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

Waste Management and Recycling		2007	2006	%
Revenues	€ million	70.5	69.4	+ 1.6
EBIT I	€ million	11.5	13.8	(16.7)
Capital expenditure	€ million	6.9	4.3	+ 60.5
Employees	number	34	34	–

The business segment uses caverns and infrastructure of active mines. K+S is Europe's leading provider of underground waste management ensuring safe disposal over longer periods of time. In addition, we offer special solutions that accommodate the recycling wishes of our customers.

Services and Trading		2007	2006	%
Revenues	€ million	55.0	55.0	–
EBIT I	€ million	27.7	25.4	+ 9.1
Capital expenditure	€ million	15.0	8.2	+ 82.9
Employees	number	387	407	(4.9)

Service activities are pooled in this business segment: logistics connected with product handling and the chartering of cargo ships; CATSAN® granulation as well as our IT, consulting and trading services. These services, which are important for the K+S Group, are made available in a very efficient manner and at a price that is more attractive compared with the market.

K+S is one of the world's leading suppliers of speciality and standard fertilizers, plant care as well as salt products.

With our products and brands, we offer our customers a range of needs-based goods and services which provides growth opportunities in virtually every sphere of daily life.

In doing so, we assume active responsibility for the sustained growth of our world. Our 12,000 employees display their commitment towards this goal day in day out by applying their knowledge and experience.

K+S
Experience growth.

Letter to our Shareholders

Norbert Steiner
Chairman of the Board of Executive Directors

Dear Shareholders,

To come to the point first: 2007 was a very successful year for your K+S Group operationally once again – even though the clear and volatile depreciation of the US dollar led to unadjusted negative group earnings. In particular, we faced four big challenges:

- The enormous demand on the part of our customers for potash fertilizers but also nitrogen fertilizers could only be satisfied with the greatest of efforts,
- the warmest winter since weather records began, however, led to a sharp fall in the de-icing salt business in Europe last year and corresponding adjustments to our production,
- the clear weakening of the US dollar in relation to the euro forced us to lower the earnings forecast three times within the space of a few months. Currency developments also caused substantial losses in the market value of our US dollar options, which led to a loss in unadjusted earnings after taxes, and
- keeping strictly to the conditions imposed by public authorities, disposal of saline tailings pile and production water into nearby rivers, and the injection of such water into subterranean rock strata, were criticised by some sections of the public at the regional level. Instead of longer-term regulatory approvals, even temporary solutions were necessary at one site in order to maintain production there.

Ladies and gentlemen, last year, we indeed achieved operating earnings of € 286 million with revenues of € 3.3 billion – which means that revenues are clearly above the record highs of 2006, and operating earnings slightly. If one takes into account that our European salt earnings fell back by just under 75 % because of the mild winter, and that our US dollar hedging rate was just 20 % down compared with the previous year, I can say that I am really happy with that result.

The key factor in this success was, above all, the strong demand for potash fertilizers, which could only be made available with a great deal of effort on the part of potash producers – given a globally fully utilised capacity. But the nitrogen fertilizer markets also developed to a marvellous degree, after our home market Europe again started talking about the how "agriculture is worth it again". The meagre demand supply ratio for fertilizers, but also the globally observed sharp increase in agricultural prices, have enabled us and our competitors to manifestly raise fertilizer prices – and this trend is continuing. The positive development of operations was, however, also lifted by the gratifying earnings contribution achieved by the Chilean salt producer SPL, acquired in the summer of 2006 and successfully integrated in the meantime. Our strategy of regional diversification is therefore bearing fruit for the first time! We have been taking action on the subject of the US dollar too: At the turn of the year, we replaced the hedging system which had been a success in the past five years with a purely risk-limiting system that offers a more balanced relationship between opportunity and risk, given the strong US dollar fluctuations experienced recently. Finally, we are working with the highest environmental standards in potash production worldwide, and in future too we will not cease to keep the inevitable impact on human and natural life due to potash production to an absolute minimum.

How has our share price reacted to all this? At the end of the year, it closed on its all-time high of € 162.75, i. e. with a plus of 98 % within a single year.

We would like to let you, our shareholders, participate in the positive course of operations in accordance with our long-term dividend policy. Despite the negative unadjusted group earnings after taxes, the Board of Executive Directors and the Supervisory Board will therefore propose to the Annual General Meeting a dividend of € 2.00 per share for the past financial year.

What will we be focusing on in the coming years? We want to consolidate and expand our leading market positions in our established business sectors. In particular, the expansion of our potash capacity is right at the top of our list of priorities. I hope we will be able to fill you in on this more in the near future. However, the successes of the past years cannot tempt us to become self-satisfied. Also in the future, we concentrate on our permanent objective of continuing to enhance the international competitiveness of the K+S Group in a sustained manner by constant cost management and optimising structures and processes. For example, this year too we used attractively priced container shipments and long-term overseas cargo ship contracts to a high degree and were able to keep our energy bill at approximately the previous year's level through the use of derivatives. In the COMPO consumer sector, we will bring new and innovative plant protection agents onto the market through our cooperation with Syngenta.

The challenges for the future remain demanding, even though the signs are extremely favourable for the K+S Group's ability to achieve healthy growth marked by high earnings: Global population growth, higher meat consumption, and a related increase in the demand for feed as well as the marked rise in the importance of renewable raw materials will cause demand for large sections of our product range to continue to increase. In the salt business, the development of the global population and its changing living habits should make an equally positive impact; and the fact that we shall be needing de-icing salt for safety on roads and paths in future has again proved to be well founded in many regions on both sides of the Atlantic. Therefore, we are very confident concerning the course of business in 2008 – from today's perspective, at least a doubling of operating earnings should be possible.

On behalf of my colleagues on the Board, I would like to convey my sincere thanks to all employees of the K+S Group for their high commitment, great flexibility and the will to achieve success. My sincere thanks also go to Dr. Ralf Bethke, who retired on 30 June 2007 after 16 years of successfully acting as chairman of the Board of Executive Directors for the K+S Group. We are pleased to hear that he will continue to be associated with the Company as a member of the Supervisory Board.

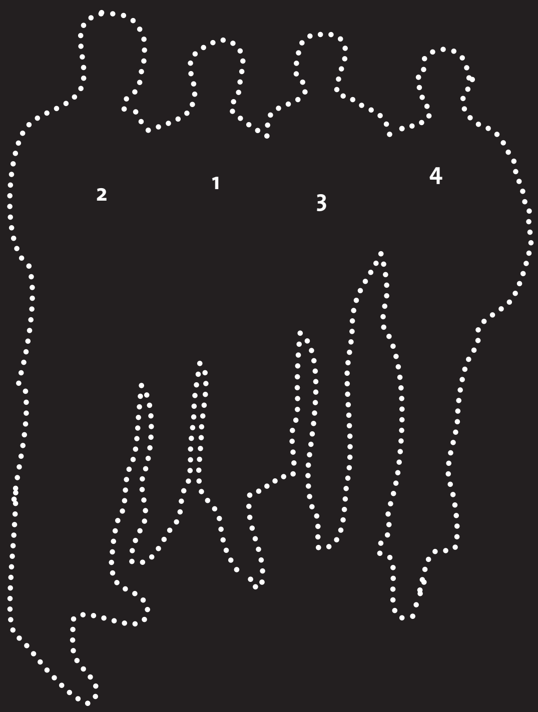
And I thank you – the shareholders, customers and partners of the K+S Group – for your trust, support and open dialogue in the past financial year. We want to actively shape what lies before us and impress you with our performance in the future too.

Yours sincerely

Norbert Steiner
Chairman of the Board of Executive Directors


Words mean deeds.

Board of Executive Directors of K+S Aktiengesellschaft



1 Norbert Steiner (53)
Chairman of the Board of Executive Directors
Lawyer

- Salt business segment
- Finance
- Corporate Development and Controlling
- Legal affairs, Insurance and Compliance
- Taxes, Audit
- Investor Relations
- Communications

2 Joachim Felker (55)
Industrial Business Manager

- Potash and Magnesium Products business segment
- COMPO business segment
- fertiva business segment

3 Gerd Grimmig (54)
Engineering Graduate

- Waste Management and Recycling
- Animal Hygiene Products
- Consulting
- Mining and Geology
- Research and Development
- Environmental Protection, Occupational Safety, Quality Management
- Engineering, Technology, Energy

4 Dr. Thomas Nöcker (49)
Personnel Director
Lawyer

- Logistics (KTG)
- Trading business (CFK)
- Personnel
- IT-Services
- Purchasing
- Property Management
- Knowledge Management

Dr. Ralf Bethke (65)
Business Administrative Graduate

- Chairman of the Board of Executive Directors until 30 June 2007 (without picture)

Supervisory Board Report

Gerhard R. Wolf
Chairman of the Supervisory Board

Dear Shareholders,

In 2007, the K+S Group again proved its power for growth and operating earnings. The present wider and more developed structure of the business sectors is leading to a noticeable stabilization of fluctuations in individual activities and regions. However, negative changes in the market value of and losses from currency option transactions led to negative group earnings. The outlook for 2008 and 2009 is promising, though.

It is pleasing to see that the capital market considers K+S AG to be an attractive investment. You, the shareholders, can be pleased that the price of your K+S share almost doubled in the past year despite considerable turbulence on the capital market. At the end of the business year, the market value of the Company was € 6.7 billion. In the meantime, K+S has become a heavyweight on the MDAX.

Supervisory Board work

The Supervisory Board diligently performed the duties imposed on it by law and by the Articles of Association, and dealt extensively with the economic and financial development of the Company, as well as with its strategic direction. It advised the Board of Executive Directors on the management of the Company and monitored the latter's executive management. We were involved in all decisions of fundamental importance. The Board of Executive Directors informed us at regular intervals in a timely and comprehensive manner about the course of business, the earnings and financial position, and the planning and further development of the Company, including the search for external possibilities of growth. Briefings were also provided about risk/opportunity management and about the measures taken by the Board of Executive Directors. We looked in depth at the measures taken by the Board of Executive Directors to hedge the US dollar. Deviations arising in the course of business of the K+S Group or the individual business segments were explained in detail by the Board of Executive Directors and discussed by the Supervisory Board. The Supervisory Board regularly received written reports from the Board of Executive Directors for the preparation of meetings. Resolutions were also occasionally adopted in written form after extensive consultation in prior meetings. Between meetings, the Chairman of the Supervisory Board also maintained close contact with the Board of Executive Directors and discussed important events and upcoming decisions with it.

Supervisory Board meetings

The Supervisory Board met five times in the financial year 2007; in 2008 it has so far met twice.

In the first meeting of the reporting year, held on 14 March 2007, we approved the annual financial statements for 2006 on the recommendation of the audit committee and after our own audit, as well as resolutions proposed for the agenda of the Annual General Meeting of 2007, and we discussed the business situation and outlook for the current year. Moreover, the Supervisory Board agreed to the sale of biodata ANALYTIK GmbH, which did not belong to the core business.

On 9 May 2007, we acquainted ourselves with business developments in the first quarter; the sharp decline of the de-icing salt business in Europe due to weather conditions was of particular concern. We also dealt in depth with the planned saltwater pipeline from the Neuhof location on the Werra, which is being publicly discussed in these regions in particular. A further topic at that meeting was the fuel-driven thermal power station at the Wintershall location and the investment share apportioned to K+S; the aim of the project is to achieve a favourable contribution to the energy costs.

At the third meeting, held on 22 August 2007, we looked at the course of business in the first half of the year and held an intensive discussion on the outlook for the year as a whole. The US dollar hedging measures taken also came up, as did the task of reducing the costs in the salt business segment in view of the weak de-icing salt business.

In the extraordinary meeting held on 24 September 2007, the purchase of approximately 7 % of K+S AG's shares by the investment company Linea executed on 10 September 2007 was discussed. The Board of Executive Directors was requested to hold talks with Linea about their possible intentions and to develop K+S's own position. In addition, the Board of Executive Directors reported on the progress of the talks and the problems regarding the applied approval for injecting saline waste water at the Unterbreizbach site into the Gerstunger trough. Finally, we were informed in detail by the Board of Executive Directors at that meeting about the adjustments to the currency rate hedging system, which had become necessary as a result of the dramatic decline of the US dollar.

At the last meeting of the year, held on 21 November 2007, the agenda included not only the current business situation but also the budget for 2008 and the medium-term outlook together with the capital expenditure framework for the following years. The plans were also particularly reviewed from the angle of conformity with strategic goals. Moreover, the Supervisory Board was informed by the Board of Executive Directors about the status of current projects which in future could probably extend the raw materials base of the Potash and Magnesium Products business segment. And, after the US dollar had suffered a further decline in value in the meantime and significant follow-up hedging had again become necessary, we supported the intention of the Board of Executive Directors to examine in a timely manner whether the currency hedging system which had been successful so far, or a different system, should be applied, considering future opportunity and risk aspects. As the Supervisory Board was well acquainted with the subject, it was, after receiving detailed written information, able to agree to the new hedging system proposed by the Board of Executive Directors, by means of the circulation procedure.

At an extraordinary meeting held on 12 February 2008, the Board of Executive Directors informed the Supervisory Board about the outcome of the talks held with Linea. We also discussed the impact of the intended currency hedging for 2009 and 2010.

In 2007, the Supervisory Board members took part in all meetings of the Supervisory Board with only a few exceptions.

Committee meetings

You can find an overview of our committees and their composition on the website of K+S Aktiengesellschaft under “Corporate Governance”. We formed three committees: the audit committee, the personnel committee and the mediation committee. In accordance with a new recommendation of the German Corporate Governance Code, the representatives of the shareholders additionally formed a nomination committee at the meeting held on 21 November 2007. The following were elected as its members: Ms. Benner-Heinacher, Dr. Bethke, Dr. Malmström and Mr. Wolf (committee chairman). The committee has since concerned itself with the election of candidates of the shareholders’ representatives for the Supervisory Board and prepared appropriate resolutions of the Supervisory Board.

The audit committee met four times during the reporting period. On 2 March 2007, the committee examined the annual financial statements of K+S AG, the consolidated financial statements for 2006 and the respective management reports; special attention was devoted to the initial consolidation of the SPL Group. The committee also dealt with the proposal regarding the appointment of the auditors for the financial year 2007, examined the determination of the key audit issues, discussed the auditors’ fees, and monitored the auditors’ independence in accordance with the German Corporate Governance Code. The audit committee is convinced that there are no conflicts of interest concerning the auditors. The audit committee also looked in depth at the internal control and risk management system and was informed in detail by the Board of Executive Directors about the methods for determining risk probabilities. At the meeting of 29 February 2008 and in the presence of the auditors, the committee examined the annual financial statements for 2007, the consolidated financial statements for 2007, the respective management reports and the proposal of the Board of Executive Directors for the appropriation of profits. The audit reports and important issues regarding accounting policies were discussed with the auditors. The committee, after thoroughly examining and discussing the documents, recommended that the Supervisory Board should approve the prepared financial statements and agree with the proposal of the Board of Executive Directors concerning the appropriation of the net profit. Complaints regarding accounting, internal control relating to the accounting system and matters concerning the audit of the financial statements were not reported to the audit committee.

The personnel committee met four times since 1 January 2007. At its meetings, it dealt with issues concerning the Board of Executive Directors and with the remuneration for the members of the Board of Executive Directors.

For the mediation committee, formed in accordance with the German Co-Determination Act, there was no need to meet in the past financial year.

The chairmen of the committees regularly reported to the Supervisory Board on their work.

Corporate Governance

At regular intervals, the Supervisory Board considers the application and further development of the provisions contained in the German Corporate Governance Code within the Company. Detailed information concerning the Supervisory Board can be found in the Corporate Governance section of this financial report. During the past year, the Supervisory Board, together with the Board of Executive Directors, analysed the German Corporate Governance Code in the version of 14 June 2007 and at its meeting held on 21 November 2007, approved the joint declaration on conformity 2007/2008, which can be found on the website of K+S Aktiengesellschaft under "Corporate Governance" and on page 28 of the financial report. At that meeting, the chairman of the Supervisory Board also reported on the outcome of examining the efficiency of the Supervisory Board's work in accordance with Section 1 of its by-laws. The whole body stressed the extensiveness of the information provided by the Board of Executive Directors, as well as the Supervisory Board's open and intensive discussion and pertinent decision making, so that there is currently no need to consider measures designed to improve efficiency. In accordance with the latest amendment of the German Corporate Governance Code, the audit committee will in future also be dealing with the subject of compliance. The Board of Executive Directors was therefore requested to provide an overview of the status of current compliance management in the forthcoming August 2008 meeting.

Conflicts of interest within the meaning of Section 17 of the by-laws of the Supervisory Board and Item 5.5.2 of the German Corporate Governance Code did not arise.

Annual and consolidated financial statements

Deloitte & Touche GmbH, Hanover, audited the annual financial statements and the Management Report of K+S Aktiengesellschaft as well as the consolidated financial statements and the Group Management Report for 2007 and issued unqualified audit opinions. The consolidated annual financial statements for 2007 have been prepared in accordance with internationally recognized accounting principles (IFRSs). The Supervisory Board received the aforementioned documents and the Board of Executive Directors' recommendation concerning the appropriation of the retained profit on time. The audit reports prepared by Deloitte & Touche GmbH were also made available to all the members of the Supervisory Board and were considered in depth at the Supervisory Board meeting held on 12 March 2008 to which the auditors Deloitte & Touche GmbH were invited. All questions asked at the meeting were answered exhaustively by the Board of Executive Directors and the auditors. In addition to the unqualified audit opinion, Deloitte & Touche also confirmed that the risk early detection system corresponds to the legal requirements and is suitable for the specific requirements of the K+S Group. The Supervisory Board subjected the annual financial statements, the consolidated financial statements, the Management Report and the Group Management Report to an independent review, and the findings of its inspection provided no basis for raising any objections. In its assessment of the business situation of K+S Aktiengesellschaft and the Group, the Supervisory Board is in agreement with the Board of Executive Directors. The Supervisory Board therefore follows the recommendation of the audit committee and approves the financial statements and management reports for financial year 2007. The annual financial statements of K+S Aktiengesellschaft were thus ratified. The proposed resolution on the appropriation of profits was also examined with regard to the present and future expected financial situation of the K+S Group and found to be balanced. The Supervisory Board therefore endorses the proposal of the Board of Executive Directors in recommending an unchanged dividend of € 2.00 per share for the financial year 2007 at the Annual General Meeting to be held on 14 May 2008.

Composition of the Supervisory Board and the Board of Executive Directors

In the Supervisory Board meeting of 14 March 2007, Mr. Steiner was appointed successor to Dr. Bethke as chairman of the Board of Executive Directors, with effect from 1 July 2007. Dr. Bethke, who left the Board of Executive Directors on 30 June 2007, merits special thanks and high recognition for his long-standing and very successful work for the Company. On 9 May 2007, the Annual General Meeting appointed him to the Supervisory Board with effect from 1 July 2007. Mr. Helmut Mamsch tendered his resignation from the Supervisory Board with effect from 30 June 2007 after a period of cooperation lasting almost ten years. Also him is sincerely thanked for his commitment. The Supervisory Board expresses its thanks to the Board of Executive Directors, the executive managements of the associated companies, all employees and employee representatives for their good work in the past year.

Kassel, 12 March 2008
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 SE

Michael Vassiliadis
Vice Chairman
Member of the Managing Board of the Mining, Chemicals and Energy Trade Union

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

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
Former executive director of the Galileo Joint Undertaking

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

Rüdiger Kienitz
Member of the Works Council of the Werra Plant of K+S KALI GmbH

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

Dieter Kuhn
Vice Chairman of the Group Works Council of the K+S Group

Heinz-Gerd Kunaschewski
Vice Chairman of the Collective Works Council of Kali und Salz

Dr. Bernd Malmström
Lawyer, advisor to the Board of Executive Directors of Deutsche Bahn AG

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

Renato De Salvo
Vice Chairman of the Works Council of the Sigmundshall Plant of K+S KALI GmbH

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

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

As of 31 December 2007

The impressive long-term performance of our share confirms the success of our forward-looking corporate policy. Success that our shareholders profit from especially, but which we benefit from too.

Growth means dividends.

Our shareholders have been putting their trust in us for many years. And for years, our stock has continuously outperformed the MDAX and the DAX, being able to improve its performance by more than 800% over the past five years alone. We have also increased our dividend substantially during this period. A trend that impressively confirms our corporate policy of long-term and responsible thinking and management. With this strategy, which we continue to pursue systematically, we will also create a solid basis for our corporate success in the future.

THE K+S SHARE

- Price of K+S share almost doubles in 2007 (+98%)
- The K+S share is thus a DAX and MDAX top performer
- € 5,000 invested in K+S shares worth € 55,422 in five years; +61.8%
- At just under 83%, the K+S share free float remains broad
- Analyst coverage increases further
- At € 2.00, proposed dividend on previous year's level

ISIN: DE0007162000
WKN: 716200
Bloomberg: SDF
Reuters: SDFG

K+S Share Key Indicators

		2007 IFRSs	2006 IFRSs	2005 IFRSs	2004 IFRSs	2003 HGB
Earnings per share, adjusted [1), 5)]	€/share	4.25	4.27	3.81	2.43	2.42
DVFA earnings per share	€/share	–	–	–	–	1.53
Dividend per share [2)]	€/share	2.00	2.00	1.80	1.30	1.00
Gross cash flow per share	€/share	9.02	8.31	8.07	6.45	5.00
Book value per share	€/share	27.24	25.71	22.58	20.76	13.76
Year-end closing price (XETRA)	€	162.75	82.20	51.05	39.10	21.76
Highest price (XETRA)	€	162.75	82.20	59.10	39.43	21.76
Lowest price (XETRA)	€	73.98	52.20	36.20	21.19	15.81
Year-end market capitalisation	€ million	6,713.4	3,390.8	2,105.8	1,661.8	924.8
Total stock exchange turnover	€ million	10,222.8	4,322.1	1,899.2	998.0	416.3
Average daily turnover	€ million	40.6	16.9	7.4	3.9	1.6
MDAX weighting	%	5.9	3.2	2.6	2.7	1.9
Total number of shares as of 31 Dec.	million	41.25	41.25	42.50	42.50	42.50
Outstanding shares as of 31 Dec.[3)]	million	41.25	41.25	41.25	42.50	42.50
Average number of shares [4)]	million	41.24	41.24	42.31	42.50	41.77
Total dividend payment [2)]	€ million	82.5	82.5	74.3	55.3	42.5
Dividend yield (closing price) [2)]	%	1.2	2.4	3.5	3.3	4.6
Return on equity after taxes [1), 5)]	%	16.1	17.7	17.8	12.1	17.7
Return on capital employed (ROCE)	%	15.5	17.4	19.5	14.2	12.8
Enterprise value (EV) as of 31 Dec.	€ million	7,799.9	4,109.0	2,429.8	1,994.9	884.9
Enterprise value to revenues (EV/revenues)	x	2.3	1.4	0.9	0.8	0.4
Enterprise value to EBITDA (EV/EBITDA)	x	18.8	10.2	6.3	6.9	4.0
Enterprise value to EBIT (EV/EBIT)	x	27.3	14.8	9.7	12.2	7.6

1) From 2004 onwards, adjusted for the effect of market value changes and the resulting tax effects
2) The figure for 2007 corresponds to the dividend proposal
3) Total number of shares less the own shares held by K+S on the reporting date
4) Total number of shares less the average number of own shares held by K+S
5) In 2006: excluding non-recurrent deferred tax income of € 41.9 million or € 1.02 per share

2007 – A turbulent year for the stock exchange

Following four excellent years for the stock exchanges in Europe and in the United States, the highs on the European and American equity markets continued during the first half of 2007. Essentially, there were three factors that proved decisive: (1) a relatively high level of liquidity, (2) very brisk M&A activity and (3) solid corporate earnings. From the summer onwards, however, uncertainties arising from the US subprime mortgage crisis resulted in considerable consolidation on the equity markets. After a marked recovery during the third quarter, with further write-downs running into billions, the subprime mortgage crisis led to another slide in prices in November.

The share price performance in the emerging markets of South America and tiger economies of Asia told quite a different story. The stock exchanges in those regions again performed very well, reflecting their strong economies. The prices for numerous commodities rose sharply, relatively unaffected by the market turmoil mentioned above. Along with gold and oil, primarily agricultural raw materials should be mentioned here. On the technology share markets, solar energy stocks showed significant gains above all.

DAX beats second-line stocks

The German DAX stock index closed at 8,067 points on 28 December 2007. Whilst the above-mentioned crisis also affected the 30 biggest German stocks on the index, year on year, however, the index performed very successfully, gaining 22.0 %.

The MDAX, the index for the 50 largest stocks after the DAX stocks from the more classic sectors and a more important benchmark for K+S, was affected more seriously by the market turmoil, due to a higher average pricing. For the first time in six years, it thus fell in comparison to the performance of the DAX and closed the year at 9,864 points, a gain of 4.9 %.

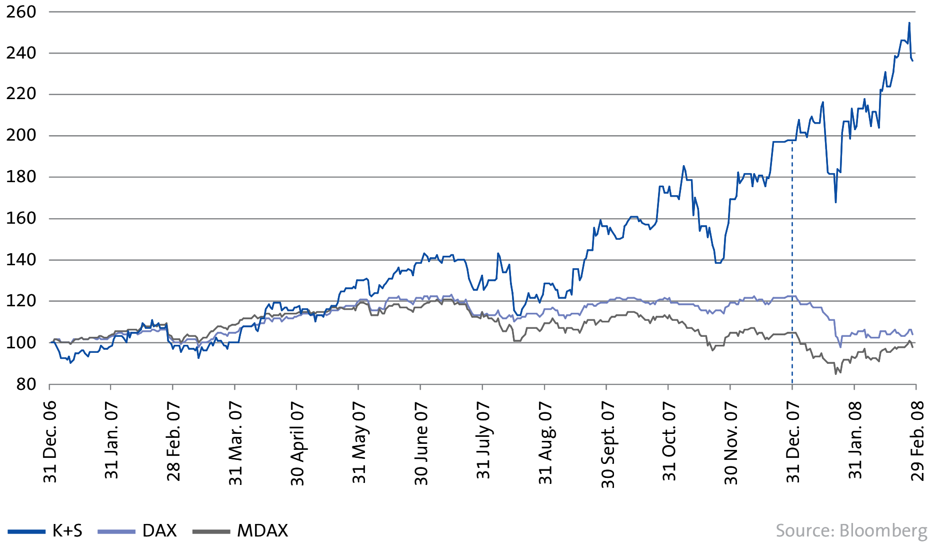
If we consider the performances of the DAX and the MDAX during the last five years (see table below), the MDAX was, however, able to defend its lead over the DAX. While the DAX rose by almost 179 %, the MDAX proved able to gain by about 226 % over the same period.

Performance

Performance in %	1 year 2007	5 years 2003-2007	10 years 1998-2007
K+S share (excluding dividends)	+ 98.0	+ 838.0	+ 2,078.7
K+S share (including dividends)	+ 100.4	+ 879.0	+ 2,211.0
DAX (performance index)	+ 22.3	+ 178.9	+ 89.8
MDAX (performance index)	+ 4.9	+ 226.1	+ 168.4

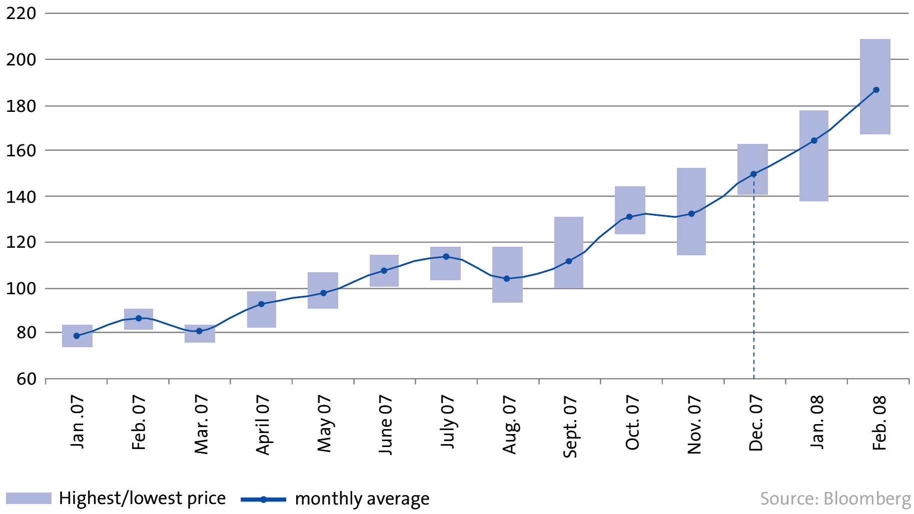
Source: Bloomberg

Performance of the K+S share in relation to the DAX and MDAX in 2007 (index: 31 December 2006; in %)



Source: Bloomberg

Monthly highest, lowest and average price of K+S share since 1 January 2007 (in €)



Source: Bloomberg

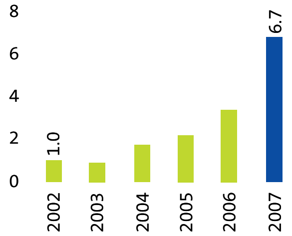
Price of K+S share almost doubles during year under review (+ 98 %)

As stated in the ten-year overview in the cover of this financial report, the K+S share cost less than € 12 at the end of 1998. Since then, the price of the share has increased by a multiple of almost 14. In 2007 alone, it almost doubled in value and thus, from an annual perspective, achieved the highest growth in the history of K+S. The path to the high for the year of the K+S share price on 28 December 2007 was, however, by no means a straight one.

The following important events impacted the trend in the price in 2007:

- Following an initial further gain in the K+S share price at the start of the year, it fell somewhat from mid-February until the 14 March because of the mild winter and the

MARKET CAPITALISATION OF K+S AKTIENGESELLSCHAFT AS OF 31 DECEMBER (BASIS: XETRA, IN € BILLION)



hesitant reaction of the capital market until the publication of the figures for 2006. However, the publication of the Annual Report 2006 and the positive outlook that emerged from this report then gave a further boost to the K+S share in mid-March.

- At the start of August 2007, speculation about possible transport problems for the Russian potash producer Silvinit resulted in a substantial increase in the share price to almost € 120.
- The next phase saw turbulent price performance, and not only of our share. On the one hand, the K+S share price suffered as a result of the subprime mortgage crisis in the United States, but on the other hand, it was also impacted by the fact that, at € 120, the existing price targets of the analysts had more or less been achieved at that point in time. After the publication of the figures for the second quarter, the share thus fell significantly in value and was again priced at around € 90.
- On 13 September, Linea Ltd. announced that it had acquired 6.75 % of our shares. Speculation surrounding the intentions of this new shareholder gave the share a powerful boost.
- On 1 October, in an ad hoc notification, we announced a negative effect on earnings resulting from the adjustment of our US dollar hedging in the light of a further weakening of the US dollar. However, this only resulted in a slight fall in the share price, as further substantial price rises for potash were announced.
- At the start of November, it became known that K+S will probably be included in the very important MSCI standard index, which is used as a benchmark by investors around the world. This triggered strategic advanced buying on the part of investors, which had a positive effect on the development of the share price.
- Following the strong share price performance of international potash producers, November saw profit taking. In spite of the fact that the figures for the third quarter were better than expected, continued uncertainty on the capital market resulting from the subprime mortgage crisis and the further negative impact on K+S's earnings due to the accelerated depreciation of the US dollar led to a price drop of up to 25 % to € 113.97.
- Once this relatively low level had been reached, investors apparently took the opportunity to buy the share at a bargain price. In addition to this, announcements of further substantial increases in the potash price had a very positive effect on the performance of the share during the last few weeks of the year.

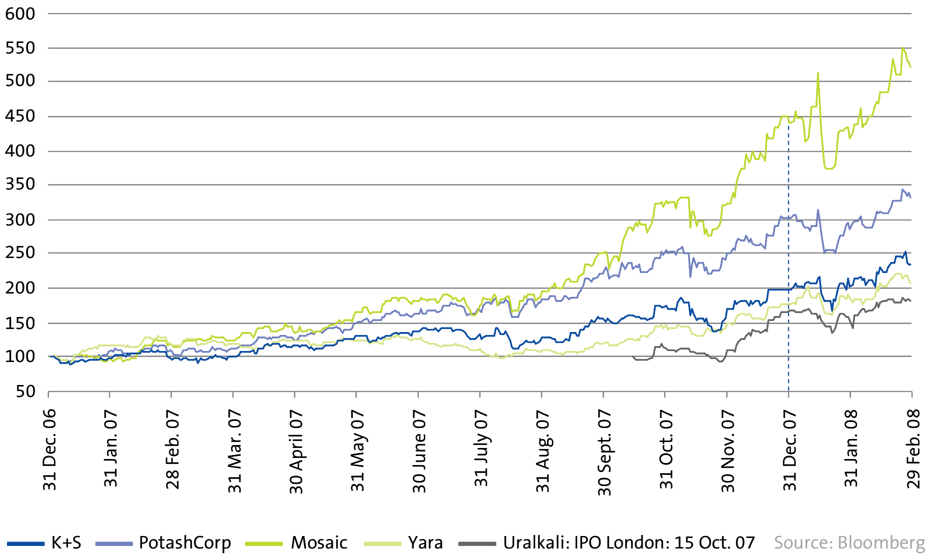
On 28 December 2007, our share was priced at € 162.75, the highest price so far in its history. This represents an increase of 98.0 % in terms of performance over the course of the year. If the dividend that was paid in May 2007 is also taken into account, the gain even amounted to 100.4 %. The performance of the K+S share over the course of the year was almost 93 percentage points better than that of the MDAX and 76 percentage points better than that of the DAX. It thus proved to be one of the top performers of 2007 among the stocks listed on the DAX and the MDAX.

At the beginning of 2008, the K+S share was able to maintain its position very well in spite of the in part dramatic price slides on the international stock exchanges. On 29 February 2008, the K+S share was quoted at € 192.76. This means that the price of our share was up by a further 18.4 % on the end of 2007.

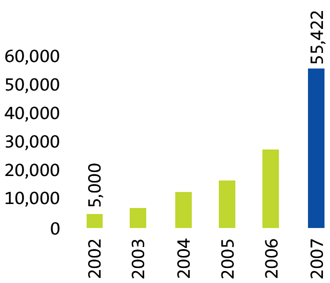
Performance of the K+S share in relation to competitors in 2007

We consistently follow the relative performance of our share compared to our competitors, i.e. our peer group. It includes among others North American fertilizer producers PotashCorp and Mosaic, the Russian potash producer Uralkali as well as Norwegian fertilizer supplier Yara.

Performance of the K+S share in relation to competitors in 2007 (index: 31 December 2006; in %)



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

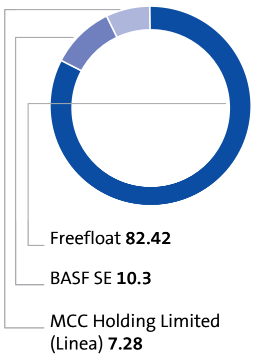


* including reinvestment of dividends on the day after the Annual General Meeting and cash remaining

The diagram above shows that the positive conditions for the international fertilizer industry have led to significant rises in the share price for all suppliers listed on the stock exchange. The share price performance of Mosaic and PotashCorp also benefited from additional effects: On the one hand, these were still catch-up effects from 2006, during which year the share price trend of these producers had been depressed due to potash production cutbacks as a result of the protracted negotiations with China. On the other hand, in particular Mosaic performed extremely well during the fourth quarter, above all due to greater activity on the market for phosphates.

In comparison with its competitors, the K+S Group was only impacted to a limited extent by the market trend for nitrogen and phosphate fertilizers, and additionally it focuses more on speciality fertilizers, while last but not least operating with its salt business in a market that is subject to quite different factors than the global market for fertilizers.

Shareholder structure as of 29 Feb. 2008 (in %)



A financial investment in K+S shares has grown 61.8 % p.a. over the past five years

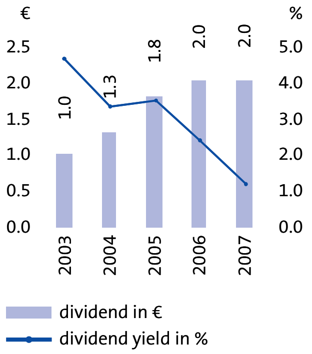
An investment in K+S shares has paid off extraordinarily well during the last five years. A K+S shareholder who acquired K+S shares for € 5,000 on 31 December 2002 and re-invested dividend payments made over the following five years in K+S shares found his portfolio worth about € 55,422 on 31 December 2007. Thus, the value of the portfolio rose by an average 61.8% over the five years. By comparison: Over the same period, the DAX and the MDAX saw an annual yield of + 22.8% and + 26.7% respectively per year.

Shareholder structure characterised by high free float

BASF SE holds about 10% of our shares. Moveover, 7.28% of our shares are held by MCC Holding Ltd. (Linea Ltd.) This is a corporate entity which manages the industrial holdings of Andrey Melnichenko and has a stake, for example, in the Russian agrochemicals company EuroChem. Furthermore, the following investment companies informed us that as at 22 February 2008, they have exceeded the reportable thresholds:

- Capital Group with its subsidiary Capital Research & Management: 5.20%
- Janus Capital Group: 5.18%
- Fidelity International with FMR LLC.: 4.97%
- The Bank of New York Mellon Corporation with its subsidiary Newton Management Ltd.: 3.08%

Dividend per K+S share and dividend yield*



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

Under the free float definition applied by Deutsche Börse AG, the free float amounts to a good 82%. A shareholder identification process carried out in advance of the 2007 Annual General Meeting came to the following results: 21% of the shares outstanding were held by domestic institutional investors, and 39% by foreign ones. We further assume that just under 30% are held by private investors.

In terms of geographical distribution, just under two thirds of our shares are held in Germany if it is assumed that the private shareholders are exclusively German residents. 18% of the K+S shareholders are based in the US and Canada, a further 14% in Great Britain and Ireland, 4% in France and about 2% in Switzerland.

Dividend proposed again at € 2.00

We pursue an earnings-based dividend policy and normally strive for a dividend payout rate of 40% to 50% of the adjusted group earnings after taxes. The Board of Executive Directors and the Supervisory Board will thus propose to the Annual General Meeting that the dividend should remain unchanged and € 2.00 be paid for the past financial year in accordance with earnings. This corresponds to a dividend payout rate of about 47%. With 41.25 million shares outstanding, this results in a total dividend payment of € 82.5 million. Due to the strong price development, on the basis of the share price of € 162.75 at the end of the year, our dividend proposal will lead to dividend yield of 1.2%.

Listing in stock market indices

According to the stock exchange ranking of February 2008, we are currently in 1st place on the MDAX in terms of market capitalisation (previous year: 11th) and, in terms of trading volume, placed 2nd (previous year: 10th). We have thus improved on our position with regard to both criteria and in the meantime have become one of the largest companies quoted on the MDAX. Alongside high market capitalisation, the level of trading volume is almost of equal importance for us because higher trading volume and greater liquidity makes the share more attractive for major institutional investors and less susceptible to fluctuations. The K+S share is currently quoted in the following stock market indices:

- MDAX
- DJ STOXX 600
- STOXX Total Market Index
- MSCI World Standard
- MSCI Europe Standard
- MSCI Germany Standard
- HDAX
- CDAX Overall Index
- Prime Allshare Index
- Classic Allshare Index
- Mid Cap Market Index
- Prime Sector Chemicals
- Industry Group Chemicals/Commodity

Regular research coverage of K+S:

- B. Metzler seel. Sohn & Co.
- Bankhaus Lampe
- Berenberg Bank
- BHF-Bank (new)
- CA Cheuvreux
- Commerzbank Securities
- Credit Suisse (new)
- Deutsche Bank
- Dresdner Kleinwort
- DZ Bank
- HSBC Trinkaus & Burkhardt
- Independent Research (new)
- Landesbank Baden-Württemberg
- Landsbanki | Kepler
- Main First Bank
- M. M. Warburg & Co.
- Merck Finck & Co.
- Sal. Oppenheim Research
- Silvia Quandt Research (new)
- UniCredit (HVB) Equity Research
- Viscardi Securities
- WestLB
- WGZ-Bank

You can find further information on our homepage at www.k-plus-s.com

In the last of the surveys that we carry out regularly, 14 banks gave us a "buy/accumulate" recommendation, two a "hold/neutral" recommendation and two a "reduce/sell" recommendation. Those analysts who follow us envisage an average target price for our share of just under € 210. The “Investors Relations” section of our homepage carries a constantly updated overview of current research recommendations as well as consensus forecasts for revenues and earnings.

Investor Relations is there for you!

For us, investor relations means transparent financial communications, i.e. to provide information that is comprehensive, timely and as objective as possible concerning our strategy and all events connected with the K+S Group of relevance to the capital market. The aim is to foster confidence in the quality and professionalism of our management. This is accomplished through our annual analyst conference held in Frankfurt am Main in spring as well as the 32 roadshows and conferences that were held last year alone in Germany, Great Britain, Ireland, Italy, North America, the Benelux states, Switzerland, Austria, France and Scandinavia. Furthermore, we conducted numerous one-to-one meetings and telephone conferences with investors. Additionally, we intensified contact with private shareholders through participation in stock exchange days and share forums.

Last year too, our efforts were recognised by third parties: The K+S 2006 annual report came third among 50 stocks quoted on the MDAX in the highly regarded competition held by the German 'manager magazine' (previous year: 4th place) and were ranked second (last year: 1st place) in the "Contents" section. "Capital" magazine, together with the DVFA and on the basis of comprehensive evaluations by banks and fund management companies from all over Europe, awarded us 3rd place in the MDAX (previous year: 5th place) for our IR work; in the case of the renowned "Thomson Extel Survey Beste IR Deutschland 2007", we ranked 1st place in the MDAX (previous year: 7th place). Last not but not least, anonymous polls of our shareholders and analysts revealed a very high degree of satisfaction with our IR work. That there is keen interest in K+S is also evident from the fact that in 2007 a total of 206,795 annual and quarter-ly reports, of which 70,181 in English, were downloaded from our homepage.

You can find further information on our homepage at www.k-plus-s.com

We publish all our annual and interim reports simultaneously on the Internet at www.k-plus-s.com. Anyone who wishes to find out more about us will among other things find on our investor relations page answers to frequently asked questions as well as the latest Company presentations, recordings of conference calls and video webcasts. It is also possible to subscribe to podcasts. It pays to visit our homepage! A special newsletter also ensures the automatic supply of current press releases and news concerning the Company by e-mail. Just give it a try!

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Responsible management at K+S is based not only on compliance with legal regulations but also on ethical and moral principles. These are becoming ever more important for companies that operate internationally and create confidence among shareholders, customers, partners and employees.

Transparency means security.

Transparency is more than just lip service for K+S – it is an obligation. We set ourselves the goal of reporting objectively and comprehensively about our management and operations. This renders the opportunities and risks of our company visible for everyone. Moreover, we are convinced that responsible management, clear structures and reliable forecasts pay off in the long term. We have therefore imposed our own code of conduct on ourselves, which goes beyond the relevant legal regulations and the German Corporate Governance Code and which can be found on our home page. Today and in the future, we are thus providing our shareholders, customers, partners and our employees with a high level of security.

CORPORATE GOVERNANCE

- Only one deviation from the Code recommendations in 2007 and 2008
- Extensive compliance with Code suggestions
- Proactive and transparent communication is practiced at K+S

Corporate Governance Report

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 all our decision making and control processes for a long time. For K+S, the relevant legal provisions, especially the legislation that governs stock corporations, co-determination and the capital markets, our Articles of Association, the bylaws of the Supervisory Board and of the Board of Executive Directors as well as the German Corporate Governance Code, have formed the basis on which management and control within the Company has been shaped.

This and all earlier declarations on conformity are carried on the Internet at www.k-plus-s.com.

Declaration on conformity 2007/2008

The Board of Executive Directors and the Supervisory Board issued the following joint declaration on conformity:

"We declare that the recommendations which were made by the Government Commission on the German Corporate Governance Code and published by the Federal Minister of Justice in the official section of the electronic Federal Gazette (Bundesanzeiger) were complied with in 2007 and will be complied with in 2008:

2007

The recommendations contained in the German Corporate Governance Code in the version of 12 June 2006 will be complied in 2007 except that chairmanship and membership of Supervisory Board committees will only be taken into account in remuneration in the case of the audit committee (Code item 5.4.7); no remuneration in addition to the separate attendance allowance is envisaged for the remaining committees."

2008

The recommendations contained in the German Corporate Governance Code in the version of 14 June 2007 will be complied in 2008 except that chairmanship and membership of Supervisory Board committees will only be taken into account in remuneration in the case of the audit committee (Code item 5.4.7); no remuneration in addition to the separate attendance allowance is envisaged for the remaining committees."

With regard to the numerous non-obligatory suggestions contained in the Code, the following are the only ones not to have been implemented by K+S:

- The Annual General Meeting will not be carried on the Internet for the time being (Code item 2.3.4). We have not established the existence of such interest so far, but will review this decision at regular intervals.
- A decision will be made on the adoption of the suggestion to agree on maximum amounts for compensation payments when concluding Board of Executive Directors' contracts (Code item 4.2.3) as soon as a Board of Executive Directors' contract is due to be newly concluded.
- There are no committees other than the mediation, personnel, audit and nomination committees (Code item 5.3.4, sentence 1). We have not formed any other committees as it has hitherto been possible to deal with all issues at plenary sessions without any loss of quality.
- The remuneration received by the Supervisory Board does not include any components that are based on the long-term success of the Company (Code item 5.4.7, Paragraph 2, sentence 2). Pursuant to a resolution of the 2001 Annual General Meeting, the variable component of Supervisory Board remuneration is linked to the level of the dividend as is also the practice among a large number of listed companies. We will weigh up the advantages and disadvantages, inherent to every system, and submit a recommendation to the Annual General Meeting if necessary.

www.k-plus-s.com/en/ir/hauptversammlung

Shareholders and the Annual General Meeting

The shareholders decide about fundamental matters affecting the 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 also available to the shareholders on our website in good time. Shareholders have the possibility of having their voting rights exercised by an authorized representative of their choice or by a proxy made available by the Company and to whom instructions can be issued. Shortly after the end of the Annual General Meeting, we publish details of attendance and the results of the voting on the Internet too.

The Board of Executive Directors

The bylaws govern cooperation among board members and the distribution of business responsibilities. The Board of Executive Directors as a whole is particularly responsible for the strategic direction of the Company as well as for the internal control and risk management system of the K+S Group. The system is being continually developed and adjusted to take account of changed conditions. Details can be found in the Risk Report on pages 97 et seqq.

The Supervisory Board

The Supervisory Board has sixteen members and, as required by the German Co-Determination Act (Mitbestimmungsgesetz), its members include an equal number of representatives of the shareholders and of the employees. The Supervisory Board oversees and advises the Board of Executive Directors in connection with the carrying on of business. Details of the activities of the Supervisory Board can be found in the Report of the Supervisory Board on pages VI et seqq.

Further information about the composition of the committees of the Supervisory Board can be found on our website in the Corporate Governance section.

The Supervisory Board has imposed bylaws on itself and formed four committees from among its members:

- The personnel committee is responsible for making preparations connected with the appointment and removal of members of the Board of Executive Directors as well as the determination of the terms and conditions of their contracts of employment. The chairman of the Supervisory Board is simultaneously the chairman of these committees.
- The mediation committee performs the tasks set forth in Article 31 (3) sentence 1 of the Co-Determination Act. The chairman of the Supervisory Board is simultaneously the chairman of this committee.
- The audit committee deals in particular with issues relating to accounting policies and risk management as well as with such consultations as need to be held with the auditors. On the basis of his professional experience as head of the Central Legal Affairs, Tax and Insurance Department and, in future, as Chief Compliance Officer of BASF SE, Dr. Sünner, chairman of the audit committee, possesses comprehensive knowledge and experience with respect to the application of accounting principles and internal control procedures.
- Finally, the Supervisory Board established a nomination committee last year, which, in accordance with the German Corporate Governance Code, consists exclusively of representatives of shareholders and recommends to the Supervisory Board suitable candidates for the Supervisory Board for its nominations to the Annual General Meeting. The chairman of the Supervisory Board is simultaneously the chairman of this committee.

With the exception of the term of office of Dr. Bethke, who has been elected until the close of the Annual General Meeting in 2012, the term of office of the shareholders' and employees' representatives in the Supervisory Board is resolved with the close of the Annual General Meeting at which the discharging of the Supervisory Board for the financial year 2007 is resolved.

Board of Executive Directors and Supervisory Board cooperation

The Supervisory Board is kept informed by the Board of Executive Directors at regular intervals in a timely and comprehensive manner about all issues that are of relevance to the Company as a whole and concern corporate strategy, planning, business development and the financial and earnings position as well as about any particular business risks and opportunities.

Important decisions require the consent of the Supervisory Board. More information about this can be found in the Report of the Supervisory Board on pages VI et seqq.

D&O insurance exists for members of the Board of Executive Directors and of the Supervisory Board, with a deductible amounting to € 10,000 for each insured damaging event.

No consultancy or other service and specific task agreements between members of the Supervisory Board and the Company were in force during the past reporting year. During the year under review, there were no conflicts of interest involving members of the Board of Executive Directors and the Supervisory Board that required immediate disclosure to the Supervisory Board.

Accounting and audit policies

International Financial Reporting Standards (IFRSs) have been applied since the beginning of 2005 in preparing the consolidated financial statements of K+S Aktiengesellschaft. Audits have been conducted by Deloitte & Touche GmbH, Hannover, and it has issued a declaration of independence pursuant to Item 7.2.1 of the German Corporate Governance Code. The auditors are appointed by the Supervisory Board, acting on a recommendation submitted by the audit committee, after the main topics to be covered by the audit and the fees have been agreed with the auditors. The chairman of the Supervisory Board and the chairman of the audit committee are to be immediately advised by the auditors of any grounds giving rise to exclusions or objections that may arise during the audit if they cannot be eliminated immediately. 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 any facts suggesting any incompatibility with the declaration on conformity issued by the Board of Executive Directors and Supervisory Board in accordance with Section 161 of the German Stock Corporation Act.

Transparency

It is our goal to provide information about the position of the Company and about all significant changes in business to shareholders, shareholder associations, financial analysts, the media and the interested general public by means of regular, open and current communications simultaneously and in an equal manner. We publish all important information such as press releases and ad hoc disclosures, quarterly and financial reports, but also analysts' and consensus forecasts as well as company presentations from roadshows and investors' conferences on our website. Furthermore, you will also find the financial calendar both in the annual report and quarterly reports as well as on our website. The Company's Articles of Association as well as the bylaws of the Board of Executive Directors and the Supervisory Board can also be viewed on our website along with detailed information on the implementation of the recommendations and suggestions contained in the German Corporate Governance Code. An e-mail newsletter keeps you constantly informed about new developments in the Group.

In accordance with Section 15a of the German Securities Trading Act (WpHG), members of the Board of Executive Directors and the Supervisory Board must disclose purchases or disposals of shares to K+S Aktiengesellschaft.

In 2007, the following directors' dealings were notified to K+S Aktiengesellschaft *:

Members of the Board of Executive Directors

in €	Date	Transaction	Number	Price	Volume
Dr. Ralf Bethke	18.05.2007	Sold	3,818	94.00	358,892.00
	11.05.2007	Bought	1,574	88.72	139,642.89
	10.05.2007	Bought	1,552	91.84	142,535.68
Norbert Steiner	18.05.2007	Sold	1,650	94.00	155,100.00
	11.05.2007	Bought	796	88.72	70,619.91
	10.05.2007	Bought	786	91.84	72,186.24
Joachim Felker	11.05.2007	Sold	2,061	91.78	189,149.40
	11.05.2007	Bought	730	88.72	64,764.49
	10.05.2007	Bought	720	91.84	66,124.80
Gerd Grimmig	11.05.2007	Sold	1,765	91.55	161,583.12
	11.05.2007	Bought	732	88.72	64,941.93
	10.05.2007	Bought	722	91.84	66,308.48
Dr. Thomas Nöcker	26.11.2007	Bought	50	115.10	5,755.00
	21.11.2007	Bought	50	120.01	6,000.50
	15.11.2007	Bought	50	125.01	6,250.50
	17.08.2007	Bought	200	93.50	18,700.00
	11.05.2007	Bought	730	89	64,764.49
	10.05.2007	Bought	720	91.84	66,124.80
	15.03.2007	Bought	200	78.60	15,720.00
	11.01.2007	Bought	100	74.50	7,450.00

Members of the Supervisory Board

in €	Date	Transaction	Number	Price	Volume
Renato De Salvo	28.12.2007	Sold	53	161.00	8,533.00
Klaus Krüger	01.06.2007	Sold	100	107.00	10,700.00
Dr. Helmut Zentgraf	24.05.2007	Bought	435	101.25	44,043.75
	22.05.2007	Sold	555	98.00	54,390.00

* Same-day reports of the same transaction type are combined; you will find a continuously updated table on our homepage at http://www.k-plus-s.com/en/ir/kodex/dealings.html

As of 31 December 2007, the members of the Board of Executive Directors and the Supervisory Board held fewer than 1 % of the total number of K+S Aktiengesellschaft shares outstanding.

Remuneration Report

Remuneration of the Board of Executive Directors

Remuneration structure

The structure of the remuneration system for the Board of Executive Directors is established by the Supervisory Board. The personnel committee discusses and reviews this on a regular basis. The personnel committee is responsible for the determination of the individual remuneration of the Board of Executive Directors. The criteria for the appropriateness of the remuneration include especially the responsibilities of each member of the Board of Executive Directors, his individual performance, the performance of the Board of Executive Directors as a whole and the economic position as well as the success and future prospects of the Company taking into consideration its comparative environment.

The remuneration for the members of the Board of Executive Directors consists of short-term elements and elements with a long-term incentive character. The short-term remuneration elements include both components not related to performance and performance-related components. The components not related to performance consist of the fixed remuneration as well as in-kind and other benefits; the bonus is the performance-related part. A virtual stock option model is the component with the long-term incentive effect.

Furthermore, the members of the Board of Executive Directors benefit from directors' pension commitments.

The fixed remuneration as remuneration not related to performance is paid monthly as a salary and reviewed on an annual basis. In addition to this, the members of the Board of Executive Directors receive other benefits, in particular contributions to pension, health and long-term care insurance as well as in-kind benefits, which consist mainly of the use of company cars.

The bonus is based on the Group's return on total investment and on individual performance and is paid in the following financial year.

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. As part of a virtual stock option programme, whose structure is identical to that for the remaining stock option programme participants, members of the Board of Executive Directors can use 30% of their performance-related remuneration for own investments in K+S shares.

By acquiring such basic shares, the participants receive virtual options that trigger a cash payment when exercised. The amount of the cash payment depends on the performance of the K+S share in relation to the MDAX as the benchmark index and is capped at 25% of excess performance. The basic price of the K+S share decisive for the calculation of performance corresponds to the average share price during the

100 trading days until the respective base reference date (the third from last Friday before the Annual General Meeting). A subsequent change of the success targets or comparison parameters is impossible.

A lock-up period of two years applies to the exercise of the options and the options expire after a total period of five years, after which the unexercised options expire without compensation. In order to be able to exercise the options, the basic shares must be held in succession until the day the option is exercised.

In the event of withdrawal or resignation, those virtual options that have not yet been exercised by that time expire without compensation.

Amount of remuneration

Details of the remuneration of the Board of Executive Directors for the financial year 2007 are provided in individualised form in the table below. The respective figures for the previous year are stated in italics:

Remuneration of the Board of Executive Directors

	Annual income			Options granted		
in T€	Fixed remu-neration	Benefits	Bonus	Number	Value *	Total
Dr. Ralf Bethke	215.0	12.2	392.4	62,520	1,036.0	1,655.6
	420.0	*22.3*	*856.6*	*70,820*	*825.1*	*2,124.0*
Norbert Steiner	350.0	22.0	499.1	31,640	524.3	1,395.4
	325.0	21.5	433.5	32,560	379.3	1,159.3
Joachim Felker	300.0	19.7	365.0	29,000	480.5	1,165.2
	295.0	*18.2*	*397.5*	*31,420*	*366.0*	*1,076.7*
Gerd Grimmig	300.0	25.6	366.0	29,080	481.9	1,173.5
	295.0	25.0	398.5	32,560	379.3	1,097.8
Dr. Thomas Nöcker	300.0	21.4	365.0	29,000	480.5	1,166.9
	295.0	*20.1*	*397.5*	*31,400*	*365.8*	*1,078.4*
Total	**1,465.0**	**100.9**	**1,987.5**	**181,240**	**3,003.2**	**6,556.6**
	1,630.0	***107.1***	***2,483.6***	***198,760***	***2,315.5***	***6,536.2***

* At the date of grant

The total remuneration of the Board of Executive Directors refers to five board members in the year under review. Dr. Bethke was chairman of the Board of Executive Directors until 30 June 2007; after his departure from the Board of Executive Directors, Mr Steiner took over his position on 1 July 2007, so that the number of members has since been reduced to four. In the previous year, all five members held office for twelve months. The decline in bonuses against the previous period is partly the result of the lower total return on capital in 2007.

For each member of the Board of Executive Directors, the total expenditure resulting from share-based remuneration in 2007, which relates both to the virtual option programme granted in 2007 and to the programmes that still existed from previous years, was (figures for the previous year in brackets): Mr Steiner T€ 539.5 (T€ 371.8), Mr Felker T€ 528.4 (T€ 401.1), Mr Grimmig T€ 523.7 (T€ 378.1) and Dr. Nöcker T€ 510.1 (T€ 338.7).

The total remuneration of the previous members of the Board of Executive Directors and their surviving dependents came to T€ 989 (previous year: T€ 893) during the year under review.

The payments for the virtual stock options of the option programme 2005 that were fully exercised by members of the Board of Executive Directors in 2007 were, for the individual board members (figures for the previous year in brackets): Dr. Bethke T€ 775.8 (T€ 504.2), Mr Steiner T€ 358.6 (T€ 199.3), Mr Felker T€ 418.8 (T€ 194.3), Mr Grimmig T€ 358.6 (T€ 237.1) and Dr. Nöcker T€ 342.2 (T€ 85.6).

The values of the virtual stock options acquired but not yet exercised in the framework of the options programmes 2006 and 2007 are shown in the following table (value had they been exercised on 31 December 2007). The figures for the previous year are stated in italics:

Share-based remuneration with long-term incentive character

	Option programme 2006		Option programme 2007	
in T€	Number of options	Value on 31.12.	Number of options	Value on 31.12.
Norbert Steiner	32,560	469.5	31,640	585.3
	32,560	*395.0*	–	–
Joachim Felker *	31,420	453.1	29,000	536.5
	31,420	*381.1*	–	–
Gerd Grimmig	32,560	469.5	29,080	538.0
	32,560	***395.0***	**–**	**–**
Dr. Thomas Nöcker	31,400	452.8	29,000	536.5
	31,400	*380.9*	–	–
Total	**127,940**	**1,844.9**	**118,720**	**2,196.3**
	127,940	***1,552.0***	**–**	**–**

* The programme for 2006 in part contains options from acting as general manager of K+S KALI GmbH.

Pension commitments

The pensions of the active members of the Board of Executive Directors are based on a modular system, i.e. for each year of service in such capacity, a pension module is created. The basis for determining the pension entitlement (pension module) for the respective finanical year is 15% of the "pensionable income", which consists of the short-term remuneration, i.e. the fixed remuneration and the bonus for the respective financial year. The resulting amount is computed in accordance with actuarial principles and put aside for retirement; the factors for the creation of the modules for 2007 for the board members are between 11.5 and 14.0%, depending on their age; these factors decrease with increasing age. The individual pension modules earned during the financial years are totalled and, when the insured event occurs, the respective member of the Board of Executive Directors or, if applicable, his survivors, receives the benefit he is entitled to. The current pension benefits are adjusted in line with changes in the "consumer price index for Germany". Claims on the modules acquired are vested.

If a Board of Executive Directors mandate ends, the retirement pension starts on completion of the 65th year of life, unless it is to be paid on the basis of an occupational or a general disability or as a survivor's pension in the case of death. In the case of occupational or general disability of a member of the Board of Executive Directors before pensionable age has been reached, that member receives an disability pension in the amount of the pension modules created by the time that such disability occurs. If the disability occurs before the 55th year of life has been reached, modules are fictitiously created on the basis of a minimum value for the years that are missing before the 55th year of life. In the event of death of an active or a former member of the Board of Executive Directors, the surviving spouse receives 60%, each half-orphan 15% and each orphan 30% of the benefit. The maximum amount for the benefit for surviving dependents must not exceed 100% of the benefit. If this amount is reached, the benefit is reduced proportionately. If a member of the Board of Executive Directors departs before completing his 60th year of life, this is regarded as insured event within the meaning of the benefit commitment.

For members of the Board of Executive Directors, the following amounts (T€) were allocated to the pension provisions in 2007; the respective figures for the previous year are stated in italics:

Pensions

in T€	Age	Allocations
Norbert Steiner	53	139.0 *81.1*
Joachim Felker	55	69.1 *72.3*
Gerd Grimmig	54	153.1 *113.7*
Dr. Thomas Nöcker	49	85.3 *61.2*
Total		**446.5** ***328.3***

The increase in allocations to the pension provisions is primarily attributable to the increase in pensionable income of the previous year.

Early termination of Board of Executive Directors' contracts

Compensation agreements only exist for cases when a Board of Executive Directors' contract is terminated early due to a takeover ('change of control'). If no such grounds exist as would justify the termination without notice of the contract of the member concerned, the payment made comprises the basic remuneration and bonuses still due until the end of the original term of appointment. The bonus is calculated in accordance with the average of the preceding two years, plus a compensatory payment. The compensatory payment is 150% of the fixed remuneration.

In the case of a change of control, each member of the Board of Executive Directors enjoys an extraordinary right of termination; the exercise of this right does not entail any claim to compensatory payment. In this case, there is only a claim to the payment of the basic remuneration and bonuses still due.

If the non-forfeiture of the pension claim has yet to be attained, the non-forfeiture is in principle declared on the occurrence of the change of control case.

Miscellaneous

In the year under review, with regard to their activity as members of the Board of Executive Directors, the members were not promised or granted benefits by third parties.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is regulated in Article 12 of the Articles of Association. Accordingly, the members of the Supervisory Board are, in addition to the reimbursement of expenses and an attendance allowance of € 200 each, which is also paid for attendance at committee meetings, paid fixed remuneration of € 10,000 per year together with variable remuneration, which is based on the level of the dividend payment. A member of the Supervisory Board receives € 250 for each cent by which the dividend exceeds the amount of € 0.20. The chairman of the Supervisory Board receives twice this amount and the vice chairman receives one and a half times the amount of such remuneration. The five members of the audit committee each receive additional annual remuneration of € 5,000 with the committee chairman again receiving twice that amount.

Details of the remuneration of the Supervisory Board for the financial year 2007 are provided in individualised form in the table below. The variable remuneration is subject to the reservation that the Annual General Meeting on 14 May 2008 resolves the dividend of € 2.00 per share proposed by the Board of Executive Directors and the Supervisory Board. The respective figures for the previous year are stated in italics:

Remuneration of the Supervisory Board

in €	Fixed remuneration	Variable remuneration	Audit committee	Attendance allowances	Total
Gerhard R. Wolf	20,000	90,000	5,000	2,000	117,000
	20,000	*90,000*	*5,000*	*1,800*	*116,800*
Michael Vassiliadis	15,000	67,500	5,000	2,000	89,500
	15,000	*67,500*	*5,000*	*1,800*	*89,300*
Jella S. Benner-Heinacher	10,000	45,000		1,000	56,000
	10,000	*45,000*		*800*	*55,800*
Dr. Ralf Bethke *	5,000	22,500		600	28,100
	–	–		–	–
Karl-Heinz Georgi	10,000	45,000		1,400	56,400
	10,000	*45,000*		*1,200*	*56,200*
Rainer Grohe	10,000	45,000		1,400	56,400
	10,000	*45,000*		*1,200*	*56,200*
Dr. Karl Heidenreich	10,000	45,000	5,000	1,600	61,600
	10,000	*45,000*	*5,000*	*1,600*	*61,600*
Rüdiger Kienitz	10,000	45,000		1,000	56,000
	10,000	*45,000*		*800*	*55,800*
Klaus Krüger	10,000	45,000	5,000	1,400	61,400
	10,000	*45,000*	*5,000*	*1,600*	*61,600*
Dieter Kuhn	10,000	45,000		1,000	56,000
	10,000	*45,000*		*1,000*	*56,000*
Heinz-Gerd Kunaschewski	10,000	45,000		1,000	56,000
	10,000	*45,000*		*1,000*	*56,000*
Dr. Bernd Malmström	10,000	45,000		800	55,800
	10,000	*45,000*		*800*	*55,800*
Helmut Mamsch *	5,000	22,500		400	27,900
	10,000	*45,000*		*800*	*55,800*
Dr. Rudolf Müller	10,000	45,000		800	55,800
	10,000	*45,000*		*1,000*	*56,000*
Renato De Salvo	10,000	45,000		1,000	56,000
	10,000	*45,000*		*1,000*	*56,000*
Dr. Eckart Sünner	10,000	45,000	10,000	1,600	66,600
	10,000	*45,000*	*10,000*	*1,400*	*66,400*
Dr. Helmut Zentgraf	10,000	45,000		1,000	56,000
	10,000	*45,000*		*1,000*	*56,000*
Total	**175,000**	**787,500**	**30,000**	**20,000**	**1,012,500**
	175,000	***787,500***	***30,000***	***18,800***	***1,011,300***

* Mr Mamsch stepped down from the Supervisory Board with effect from 30 June 2007; Dr. Bethke was elected to the Supervisory Board by the Annual General Meeting with effect from 1 July 2007.

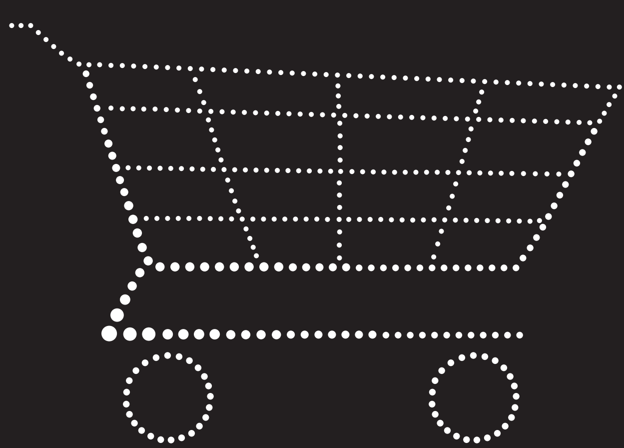
In addition to this, members of the Supervisory Board were reimbursed expenses totalling € 17,047 in 2007 (previous year: € 58.111).

For their activity on the Supervisory Board of the subsidiary K+S KALI GmbH, Messrs. Wolf and Vassiliadis receive for the financial year 2007, as in the preceding year, remuneration to the aggregate amount of EUR 54,100 (including attendance allowances).

No benefits for personally performed services, in particular consultancy or brokerage services, were granted to the members of the Supervisory Board.

Global demand for fertilizers is constantly increasing. Thanks to our balanced portfolio of products, we ensure that we meet the nutrient needs of each of our customers and participate in the dynamic growth of the global market. Furthermore, particularly in emerging countries we have tapped into new, profitable markets by means of innovative supply chain models.

Opportunities mean profit.



Rising incomes in Asia and Latin America are resulting in higher expectations of food quality as well as in a change of eating habits. In particular, it is the constantly rising consumption of meat that is bringing with it a disproportionately large rise in demand for plants for fodder. With our broad-based portfolio of innovative fertilizers based on the nutrients potassium, magnesium, sulphur and nitrogen, we can make a decisive contribution to the efficient production of feed both in the industrial and the emerging countries. An opportunity that we are taking. Because the orientation toward all these different sales markets creates the precondition for healthy growth, secures our future in the long term and also increases our income.

K+S GROUP MANAGEMENT REPORT

- **High demand facilitates strong price increases for fertilizers**
- **Revenues reach € 3.34 billion – an increase of about 13 %**
- **Operating earnings rise by 3 % despite a mild winter and weak US dollar**
- **Outlook for 2008 and 2009 very positive**

Business sectors and organisational structure

Group structure and business operations

Group legal structure

K+S AG acts as the holding company for the K+S Group. The economic development of the K+S Group is influenced to a substantial degree by direct and indirect subsidiaries located in Germany and abroad. In addition to the parent company, K+S AG, all significant affiliated companies in which K+S AG holds, directly or indirectly, the majority of the voting rights, have been consolidated. Subsidiaries of minor importance are not consolidated.

K+S KALI GmbH, K+S Salz GmbH and fertiva GmbH are significant direct subsidiaries. K+S Salz GmbH groups together esco – european salt company GmbH & Co. KG as well as the companies associated with the business activities of Sociedad Punta de Lobos S.A. (SPL), Chile. COMPO GmbH & Co. KG is held through an interim holding company. While the business segments' foreign subsidiaries are grouped together in own subsidiaries in the case of K+S KALI GmbH and K+S Salz GmbH, the foreign companies of the COMPO and fertiva business segments are managed through direct subsidiaries of K+S Aktiengesellschaft. The Waste Management and Recycling as well as Services and Trading business segments (grouped together under "Complementary Business Segments" since 1 January 2008) are also related to the K+S AG through subsidiaries.

The number of consolidated companies has not changed compared with last year; two companies have been removed from the consolidation group and two newly added: A structural optimisation according to company law carried out subsequent to the acquisition of SPL resulted in two companies being included in the scope of consolidation and one company being dissolved. After we sold biodata ANALYTIK GmbH in September 2007, this company is no longer a consolidated part of the K+S Group.

Business segments and organisational structure

The K+S Group comprises six business segments that are closely interlinked in terms of strategic, technical and economic aspects. They have the backing of the service units and support functions provided by the holding company K+S AG:

K+S Group

Fertilizers and plant care	Potash and Magnesium Products
	COMPO
	fertiva
Salt	Salt
Complementary business segments	Waste Management and Recycling
	Services and Trading

Business Segments of the K+S Group

Potash and Magnesium Products

The Potash and Magnesium Products business segment is almost completely reflected in K+S KALI GmbH and its subsidiaries. In addition to its head office in Kassel as well as 11 production sites in Germany and France, K+S KALI GmbH operates numerous distribution sites in Europe and overseas.

COMPO

The COMPO business segment is represented by COMPO GmbH & Co. KG and its domestic subsidiaries as well as through K+S Beteiligungs GmbH with its numerous foreign companies. In addition to the head office of the COMPO management in Münster, in Germany, the business segment among other things also has a production location in Krefeld.

fertiva

The fertiva business segment comprises fertiva GmbH in Mannheim as well as two distribution companies in France and in Argentina. In addition, fertiva shares overseas sales distribution platforms with the Potash and Magnesium Products as well as COMPO business segments.

Salt

The Salt business segment comprises esco GmbH & Co. KG, Hanover, and SPL S.A., Santiago de Chile, as well as further subsidiaries in Germany and abroad. esco operates three rock salt mines in Germany, three brine plants and seven plants processing evaporated salt in Germany, France, the Netherlands, Portugal and Spain, a sea salt compounding plant in Portugal as well as numerous distribution sites in Europe. SPL extracts rock salt by means of open-cast mining at Salar Grande in the Atacama desert in Chile and operates a sea salt facility in north-eastern Brazil through the company Salina Diamante Branco. In the United States, SPL distributes salt products through International Salt Company (ISCO).

Waste Management and Recycling

The Waste Management and Recycling business segment of the K+S Group largely uses the active production sites at the potash and rock salt mines. While the marketing of waste disposal and recycling services in Germany is pooled in K+S Entsorgung GmbH, based in Kassel, they are mainly marketed elsewhere in Europe through the local K+S Group companies and in close coordination with K+S Entsorgung GmbH.

Services and Trading

In addition to CATSAN® granulation, further service activities of importance for the K+S Group are bundled in the Services and Trading business segment. With Kali-Transport Gesellschaft mbH (KTG) in Hamburg and data process GmbH (dp) in Kassel, the K+S Group has its own logistics and IT services providers. Chemische Fabrik Kalk GmbH (CFK) trades in different basic chemicals and K+S Consulting GmbH offers specialised project consulting.

Minor changes to the organisational structure described came into effect on 1 January 2008: The Waste Management and Recycling business segment was grouped together with the service activities bundled in the Services and Trading business segment and the new entity was given the name “Complementary Business Segments”. In future, reporting will thus be subdivided into five segments:

- Potash and Magnesium Products Business Segment
- COMPO Business Segment
- fertiva Business Segment
- Salt Business Segment
- Complementary Business Segments

Management and control

The business segments and holding units of the K+S Group work together in a matrix organisation; the interests of the Group are always at the forefront. The matrix organisation supports the following goals:

- Clear and unambiguous allocation of tasks and powers,
- best possible exploitation of opportunities along with limitation of risks in the best way possible,
- optimal use of know-how available across the group (“knowledge management”).

The Board of Executive Directors takes responsibility for the overall performance of the K+S Group und leads the heads of the business segments as well as the holding units both in a professional and disciplinary way. The business allocation plan defines the divisional responsibilities of the members of the Board of Executive Directors. The responsible members of the Board of Executive Directors lay down the respective area and scope of responsibility for the heads of the business segments and holding functions in function descriptions. The heads of the business segments and holding units, for their part, are responsible for their results and costs and manage their subunits in a professional and disciplinary manner.

Basic features of the remuneration system

The information to be disclosed in accordance with Section 315 Para. 2 No. 4 of the German Commercial Code (HGB) is contained in the Remuneration Report included in the Corporate Governance Report on pages 33 et seqq; the Remuneration Report also constitutes an integral part of the Management Report.

Participants in and terms of programmes with a long-term incentive character

Since 1999, K+S has enabled the Board of Executive Directors and senior management to participate in a virtual stock option programme. In 2007, a total of 274 people working for K+S were eligible to participate in it (previous year: 239 persons). You can find a more detailed description of the programme, which is identical for the Board of Executive and for the remaining participants in the option programme, in the Remuneration Report on pages 33 et seqq.

Key Sites

At the end of 2007, the K+S Group employed a total of about 12,000 people in Germany and abroad. The following table provides an overview of the most important K+S Group sites and the number of staff employed by them at the end of 2007:

Important K+S Group Sites

in Full Time Equivalents (FTE)*	Business Segments	Employees
K+S sites in Kassel, Hesse (K+S AG/K+S KALI/K+S Entsorgung/data process/UBT)		550
Kaliverbundwerk Werra, Hesse and Thuringia (Heringen/Merkers/Philippsthal/Unterbreizbach)	Potash and Magnesium Products	4,117
Zielitz Potash Plant, Saxony-Anhalt	Potash and Magnesium Products	1,630
Sigmundshall Potash Plant, Lower Saxony	Potash and Magnesium Products	764
Neuhof-Ellers Potash Plant, Hesse	Potash and Magnesium Products	708
Bergmannssegen-Hugo Potash Plant, Lower Saxony	Potash and Magnesium Products	144
Bernburg Salt Plant, Saxony-Anhalt	Salt	460
Borth Salt Plant, North Rhine-Westphalia	Salt	296
Empremar shipping company, Santiago de Chile, Chile	Salt	190
Salina Diamante Branco sea salt facility, Brazil	Salt	188
Braunschweig-Lüneburg Salt Plant, Lower Saxony	Salt	185
SPL open-cast mining operations, Atacama-Desert/Patillos, Chile	Salt	170
SPL headquarters, Santiago de Chile, Chile	Salt	128
esco headquarters, Hanover, Lower Saxony	Salt	81
ISCO, distribution company, Clarks Summit, U.S.A.	Salt	76
Frisia Zout B.V., Harlingen, Netherlands	Salt	75
COMPO headquarters, Münster, North Rhine-Westphalia	COMPO	333
COMPO Plant, Krefeld, North Rhine-Westphalia	COMPO	172
COMPO France S.A.S, Roche-Lez-Beaupré, France	COMPO	152
Peat and humus Plant, Gnarrenburg, Lower Saxony	COMPO	90
fertiva headquarters, Mannheim, Baden-Württemberg	fertiva	59
KTG, Hamburg	Services and Trading	117
Granulation of animal hygiene products, Bad Salzdetfurth, Lower Saxony	Services and Trading	105

* FTE: Full-time equivalent; part-time positions are weighted in accordance with their respective share of working hours; includes trainees.

Further information can be found in the Corporate Report and on our website.

Important products and services

Potash and Magnesium Products Business Segment
The Potash and Magnesium Products business segment is one of the world's most important providers of potash and magnesium products and the largest such provider in Europe. In addition to multiple-application speciality and standard fertilizers for agricultural needs, it offers a specific product range for industrial, technical and pharmaceutical applications.
COMPO Business Segment
The COMPO business segment is the leading European provider of premium products in the field of potting soils, speciality fertilizers and plant care products. In addition to engaging in production at its own sites, COMPO has some of its products produced by our partner BASF. COMPO, together with fertiva, makes use of the capacity for innovation of BASF through research and development agreements. Moreover, COMPO collaborates with the Swiss agricultural business company Syngenta in the area of plant protection agents and pesticides for private users.
fertiva Business Segment
fertiva markets nitrogenous fertilizers that are produced exclusively for it by BASF under a long-term trading arrangement and also distributes goods purchased from other well-known European manufacturers.
Salt Business Segment
The product range of the Salt business segment covers food-grade salts for private households and the food industry as well as industrial salts for use in many areas of industry (from dyeing works through the production of foodstuffs for animals to use in the exploration of oil and natural gas) as well as in the pharmaceutical industry. While salt for chemical use is one of the most important raw materials in the chemical industry, for road safety, de-icing salt is an indispensable product for winter road clearance services.
Waste Management and Recycling Business Segment
The range of services offered by the Waste Management and Recycling business segment extends from the underground reutilisation and disposal of waste to the distribution of smelting salts to companies in the secondary aluminium industry, including the collection and processing of aluminium salt slag.
Services and Trading Business Segment
The Services and Trading business segment's range extends from the granulation of CATSAN® cat litter, through own logistics and IT service providers, trading activities involving basic chemicals such as calcium chloride for prewetted de-icing agents used by winter road clearance services to services in the field of professional project consulting for geological studies.

Important markets and competitive positions

The K+S Group has become even more international with the acquisition of Chilean salt producer SPL in 2006. However, we continue to generate just under 70 % and thus the bulk of our revenues in Europe. We benefit from the fact that our production sites are very attractively positioned in relation to our European customers in terms of freight costs. Through the acquisition of SPL, we have now also gained important markets on which to sell our salt products in the United States and in South America.

Beyond Europe, our largest market, we also have significant market positions in the southern hemisphere. We thus ship a significant part of our fertilizers to Latin America, and in large part to Brazil. We are also making increased use of the supply of attractively priced container shipments to successfully expand our market positions in Asia.

With the Potash and Magnesium and the COMPO business segments, we are the leading producers of fertilizers and plant care products in Europe. In the case of nitrogenous fertilizers, fertiva is an important supplier in Europe and its position is particularly strong in the area of nitrogen fertilizers containing sulphur. In the Salt business area, esco makes us the No. 1 in Europe, and, with the acquisition of SPL, we are among the largest suppliers worldwide. The Waste Management and Recycling business segment is the most important provider of underground waste disposal in Germany and beyond.

Legal and economic influencing factors

The K+S Group must observe numerous laws and legal directives: Alongside labour, corporate, tax and collective wage agreement law, mining and environmental law (e.g. water law, emissions law, pollution law, soil protection law etc.) as well as work and health safety law are of particular relevance to us. The securing of existing mining rights and also the acquisition of new mining rights are of fundamental importance for the K+S Group.

In the case of economic influencing factors relevant to the K+S Group, German collective wage bargaining agreements are particularly important, as about 84% of our workforce works in Germany and personnel expenses constitute an main cost item for the K+S Group. Over the past few years, we have been able to further enhance our capacity to react to earnings developments both by means of flexible working hours models and variable salary components. The latter are e.g. linked to business segment and company success. Transport, energy and raw material costs as well as the trends in the US dollar exchange rate also have a great impact on the success of the K+S Group.

Takeover-law information under Section 315 (4) HGB

Item 1: Composition of subscribed capital

The share capital amounts to € 108.8 million and is divided into 41,250,000 shares. The shares of the Company are no-par value bearer shares. No other class of shares exists.

Item 2: Restrictions on voting rights or on the transfer of shares

Each share carries one vote; no restrictions apply to voting rights or to the transfer of shares.

Item 3: Direct or indirect shareholdings exceeding 10% of the capital

With a holding of 10.3%, BASF SE is the only shareholder of K+S AG to exceed the 10% threshold.

Item 4: Holders of shares with special rights conferring control powers

There are no special rights conferring control powers.

Item 5: Voting right control in the event of employee ownership of capital

No voting right controls apply.

Item 6: Statutory regulations and provisions of the Articles of Association concerning the appointment and withdrawal of members of the Board of Executive Directors and amendments to the Articles of Association

The appointment and removal of the Board of Executive Directors are governed by Section 84 AktG. Accordingly, the members of the Board of Executive Directors are appointed by the Supervisory Board for a maximum term of five years.

In accordance with Article 5 of the Articles of Association, the Board of Executive Directors of K+S Aktiengesellschaft comprises at least two members. The number of members is determined by the Supervisory Board. The Supervisory Board can appoint a member of the Board of Executive Directors chairman of the Board of Executive Directors. The Supervisory Board can rescind the appointment of a member of the Board of Executive Directors or the appointment as chairman of the Board of Executive Directors for good cause.

Amendments to the Articles of Association can be resolved by the Annual General Meeting in accordance with Section 179 Para. 2 AktG with a three-quarters majority of the capital represented.

Item 7: Board of Executive Directors' authorisations concerning the possibility of issuing or buying back shares

The Board of Executive Directors is authorised, with the approval of the Supervisory Board, to increase the share capital of K+S Aktiengesellschaft until 9 May 2011 against cash or in-kind contributions by up to no more than € 54.4 million through the issuance of no more than 20,625,000 million new no-par value bearer shares (authorised capital). Existing shareholders essentially hold subscription rights in respect of such increases. Under certain conditions, the Board of Executive Directors may, with the approval of the Supervisory Board, exclude statutory subscription rights in respect of an amount corresponding to up to € 27.2 million (the equivalent of 10,312,500 no-par value shares).

The Board of Executive Directors is authorised to acquire own shares representing no more than ten percent of the total number of no-par value shares comprising the share capital of K+S Aktiengesellschaft until 31 October 2008. At no time may the Company hold more than ten percent of the total number of no-par value shares comprising its share capital. Purchases may be made on a stock exchange or by means of a public purchase offer addressed to all shareholders. In the event of a purchase effected on a stock exchange, the purchase price per share may not exceed or undercut the relevant exchange price by more than five percent, being the weighted average exchange price of the K+S share in the XETRA computerized trading system on the last ten trading days preceding the purchase of the shares. In the event of a purchase effected by means of a public purchase offer directed to all the shareholders, the offer price per share may not exceed or undercut the relevant exchange price by more than ten percent.

Until 8 May 2012, the Board of Executive Directors is furthermore authorised, subject to the approval of the Supervisory Board, to dispose of shares in the Company, which were acquired on the basis of an authorisation under Section 71 Para. 1 No. 8 AktG, on a stock exchange or by means of a public offer addressed to all shareholders. In both the following cases, the shares may be disposed of by other means and thus with the subscription rights of the shareholders excluded:

- Disposal against consideration comprising payment of a cash sum that does not significantly undercut the relevant exchange price;
- Issuance of shares as consideration for the purpose of acquiring companies, parts of companies or interests in companies.

Finally, until 8 May 2012, the Board of Executive Directors is authorised, subject to the approval of the Supervisory Board, to cancel shares of the Company, which were acquired on the basis of an authorisation under Section 71 Para. 1 No. 8 AktG and with no additional resolution of the Annual General Meeting being required to effect such cancellation. The shares have to be cancelled in accordance with Section 237 Para. 3 No. 3 AktG without any capital decrease in such a way that as a result of the cancellation the proportion of the remaining no-par value shares in the share capital is increased pursuant to Section 8 Para. 3 AktG. The authorisations to purchase own shares as well as to dispose of and cancel them may be exercised in whole or in part each time and several times in the latter case.

Item 8: Significant agreement that apply in the event of a change of control resulting from a takeover bid

In 2006, K+S concluded a loan agreement with a consortium of banks to fund the acquisition of the SPL Group. The terms of the loan agreement provide that if one or more persons, whether acting alone or in concert, acquire control over K+S Aktiengesellschaft, all bank advances will become due and payable with immediate effect and that all other obligations will cease to apply.

Item 9: Agreements concluded with the members of the Board of Executive Directors or employees concerning compensation in the event of a takeover bid

Agreements of this type exist both with the members of the Board of Executive Directors and the senior management of K+S Aktiengesellschaft; the exact form, which is identical for the Board of Executive Directors and for the other participants in the option programme, is explained in the Remuneration Report (see pages 33 et seqq).

Explanatory Report of the Board of Executive Directors in accordance with Section 175(2), Sentence 1, of the German Joint Stock Corporation Act, cf. Section 315(4) of the German Commercial Code

As the information to be disclosed in respect of Items 1 to 6 of Section 315(4) of the German Commercial Code (HGB) speaks for itself, we limit ourselves to providing the following explanations in accordance with Section 175(2), Sentence 1, of the German Stock Corporation Act:

- The Annual General Meeting has granted the Board of Executive Directors the possibility, subject to the approval of the Supervisory Board, of implementing a capital increase with the limited exclusion of subscription rights (authorised capital). This provides the Company with a widely used instrument with the aid of which it can act rapidly and flexibly when opportunities arise for the effecting of acquisitions. The Board of Executive Directors will only make use of this possibility if the value of the new shares is proportionate to the value of the corresponding consideration.
- The other authorisation granted by the Annual General Meeting to the Board of Executive Directors to purchase shares of the Company to a limited extent, is also a common instrument available in many companies. By being able to resell own shares, the Company is in a position to, for example, gain long-term investors in Germany and abroad or to finance acquisitions flexibly. The other possibility of cancelling own shares is also a common alternative course of action that lies in the interest of the Company and its shareholders.
- A loan agreement was concluded with a syndicate of banks to finance the acquisition of the SPL Group. The provisions that the agreement contains for the event of a change of control are customary for comparable transactions and reasonable from the perspective of protecting the legitimate interests of the creditors.
- The existing arrangements with the members of the Board of Executive Directors that would apply in the event of a takeover bid take appropriate consideration of both the legitimate interests of those concerned as well as of the Company and its shareholders.

Internal enterprise management, goals and strategy

Internal corporate management system

The K+S Group's internal corporate management system mainly comprises the following components:

- regular meetings of the Board of Executive Directors held at two-week intervals,
- management information reporting entailing a meeting once a quarter,
- rolling monthly budgets / liquidity development,
- monthly reports of the business segments,
- commissions for capital expenditure, acquisitions and personnel as well as group-wide committees for safety, health and environmental protection,
- risk and opportunity management,
- regular reporting to the Supervisory Board.

The K+S Group is managed by means of regular strategic consultations held at the Board of Executive Directors and head of business segments levels in order to then implement the relevant results in a systematic and timely fashion in the form of annual and medium-term plans as well as agreed targets. The Board of Executive Directors and the business segment heads are briefed monthly on the trends in key indicators for the group and their business segments – commentary on trends and variances from targets with respect to production, sales, revenues, costs, earnings, personnel, capital expenditure as well as other financial indicators are the focus of these briefings. At joint meetings attended by the Board of Executive Directors and the business segment heads, trends with respect to sales and procurement markets, upcoming capital expenditure and acquisition projects as well as all significant entrepreneurial measures are also discussed. Additionally, there are monthly rolling forecasts on the projected earnings of the current year. The goal is to analyse changes in the most important revenue and cost elements of the income statement compared with both the estimate made in the preceding month and with the plan. The development of liquidity at the end of the year is also shown by means of a monthly projected cash flow statement. And finally, special bodies are established for the auditing, assessment and approval of capital expenditure and acquisitions; the main criterion used in assessing projects is the discounted cash flow method.

The permanent integration of all corporate sectors into the risk management and the internal corporate management system ensures short response times to changes in all areas and at all decision-making levels within the K+S Group. If necessary, changes of relevance to earnings occurring within an area of observation are also communicated directly between the Board of Executive Directors and business segment heads in the form of an immediate report.

Targets

Financial targets

The focus of financial targets is on achieving a sustainable increase in the enterprise value of the K+S Group. The aim is to create value added, i.e. we want to earn a premium on our cost of capital on a lasting basis. We use ratios such as return on capital employed (ROCE), value added and return on investment (ROI) to review these targets.

It is our goal that the ROCE of the K+S Group should reach a value of at least 12 % to 15 %, assuming average cost of capital before taxes of 11 %. In the year under review, a ROCE of 15.5 % was achieved; while this return is somewhat lower than the figure for the previous year, it is nonetheless far above the target value. During the financial year 2007, the K+S Group generated value added of € 88.3 million; this corresponds to a premium on our cost of capital before taxes of 4.5 % in relation to the average amount of capital employed. Acquisitions should achieve a ROI of at least 10 % before taxes in the third year after acquisition. In considering financial ratios, we also attach importance to a high return on equity and total capital.

in %	2007 IFRSs	2006 IFRSs	2005 IFRSs	2004 IFRSs	2003 HGB
ROCE	15.5	17.4	19.5	14.2	12.8
Value Added in € million [1]	88.3	125.5	123.8	54.4	30.3
Return on equity [2, 3]	16.1	17.7	17.8	12.1	17.7
Return on total investment	11.0	12.3	12.7	9.1	7.4

[1] Value added = (ROCE – average cost of capital rate before taxes) x (annual average of the operating assets + working capital); assumption: average cost of capital rate before taxes = 11 %.
[2] Up to and including 2003, the calculations were based on DVFA earnings for the purpose of comparability.
[3] The return on equity given for 2006 refers to the adjusted group earnings without non-recurrent deferred tax income of € 41.9 million.

A comprehensive presentation of our non-financial key indicators can be found in our Corporate Report.

Non-financial targets and sustainable performance indicators

There are four main non-financial targets that are important for the success of any company and thus for that of the K+S Group too:

- Fairness in relation to our customers –> customer satisfaction
- Fairness in relation to our suppliers –> quality
- Fairness in relation to our employees –> motivated employees
- Fairness in relation to our social environment –> trust

To this end, the K+S Group laid down a written code of conduct in 2006 already that clearly defines, among other things, basic principles governing dealings with customers, suppliers and employees. Further information about our supplier and customer relations can be found in our Corporate Report.

The so-called "mine effect" is one of the customary key performance indicators or KPIs used by K+S for effective and efficient management of underground production in the European mines of the Potash and Magnesium Products as well as Salt business segments. This key indicator specifies the volume in tonnes of crude salt mined, which can be attributed to one employee per shift involved in the crude salt mining process.

In the Potash and Magnesium Products business segment, the mine effect remained constant in comparison with the previous year. However, it thus remains below the level of the preceding years. This is linked to more difficult mining conditions in our potash deposits. The distances between mining locations and shafts naturally increase and thus also the time required for underground transport. In order to maintain the volume of crude salts mined, last year, we have taken on more employees to work underground. However, the resulting additional expense will totally pay off in view of the earnings potential.

In the Salt business segment, the mine effect fell considerably in comparison with the previous year; the main reason for this were the poor sales of de-icing salt on the European market, as a result of the exceptionally mild winter, leading to a lower utilization of capacity. The annual working time accounts agreed for the German locations were only partly able to compensate for this strong weather-related fluctuation.

Strategy

The following are the cornerstones of the strategy that we have formulated for the K+S Group:

- Consolidation and selective expansion of our leading market positions: We want to enhance our market position in our established business sectors especially by intensifying the marketing of speciality products. This specialisation strategy gives us the opportunity to achieve greater value added.
- Enhancing efficiency and exploiting synergies: To ensure our lasting presence on world markets, we will continue to work consistently on further enhancing efficiency by exploiting our potential for synergies in production, in distribution as well as in logistics.
- Acquisitions and cooperation agreements: We also want to grow externally in our established business sectors. However, in doing so, we will not jeopardise the strong financial base of the K+S Group and will continue to proceed prudently.

Employees

Employees by business segment

in Full Time Equivalents (FTE) *	2007	2006	%
Potash and Magnesium Products	7,626	7,550	+ 1.0
COMPO	1,252	1,260	(0.6)
fertiva	59	61	(3.3)
Salt	2,294	2,194	+ 4.6
Waste Management and Recycling	34	34	–
Services and Trading	387	407	(4.9)
Central functions	381	367	+ 3.8
K+S Group	**12,033**	**11,873**	**+ 1.3**

* FTE: Full-time equivalent; part-time positions are weighted in accordance with their respective share of working hours; as at 31.12.

Further information about our employees can be found in the Corporate Report.

The number of K+S Group employees includes the core workforce, trainees and temporary employees (without students and interns). The number of employees is computed on a full-time-equivalent (FTE) basis, i.e. part-time positions are weighted in accordance with their respective share of working hours.

As of 31 December 2007, the K+S Group employed a total of 12,033 people. Compared with 31 December 2006 (11,873 employees), the number increased by 160 employees, that is by 1.3%. This already announced rise in the number of employees is mainly attributable to two factors: (1) In the Potash and Magnesium Products business segment, new personnel was taken on in order to maintain the volume of crude salt mined; (2) At SPL, former contractors were taken on by the company for economic and legal reasons.

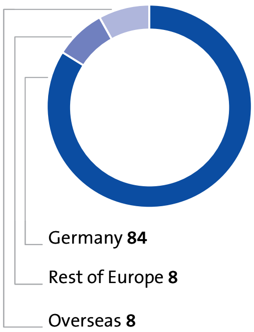
In terms of averages, the consolidation effect in connection with the SPL acquisition can be seen: In the year under review, an average of 11,959 people was employed by K+S – 567 employees or 4.9% more than in 2006. In addition to the reasons mentioned above, this is primarily due to the first-time consolidation of SPL for a whole year.

A comprehensive value added statement can be found in our Corporate Report.

Moderate rise in personnel expenses

In 2007, the personnel expenses of the K+S Group were € 687.3 million and thus moderately higher than in the previous year (2006: € 663.5 million). This increase is attributable to the first-time consolidation of SPL for a whole year as well as to collective agreement pay rises. Without the provision effects, pure personnel costs rose by 3% compared with the previous year; the increase is attributable to pay settlements under collective bargaining agreements and consolidation effects. Of personnel expenses, variable remuneration accounted for € 64.5 million or just under 11% last year (2006: € 58.2 million or 9%).

Employees by region (in %)



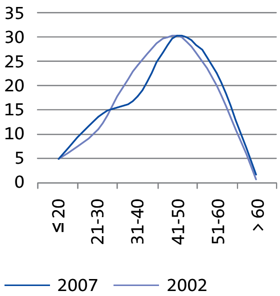
In 2007, we paid a total of € 540.7 millon in wages and salaries (+ 4%) and € 137.2 million in social security contributions (+ 2%). In the year under review, expenditure on company pensions and support was € 9.4 million and was thus 47% higher primarily as a result of increased allocations to the provisions related to early retirement arrangements. The expenditure on company pensions and support also includes employer contributions to the K+S Vorsorge Plus e.V. provident fund, the employer supplement amounting to 13% of converted employee remuneration subject to social security and paid to the Chemical Industry Pension Fund, the Salary Conversion Direct Insurance (Gehaltsumwandlungsdirektversicherung – GUD), and the employer contributions to the BASF pension fund.

During the year under review, personnel expenses per employee amounted to € 57,474 (previous year: € 58,246) and have fallen by 1.3% mainly for structural reasons.

Regional distribution, age structure and employee turnover

At 84%, the overwhelming majority of our employees is employed in Germany. This is primarily linked to the geographical location of the crude salt deposits of the Potash and Magnesium Products and Salt business segments. Moreover, 8% of our personnel worked elsewhere in Europe and a further 8% overseas; the regional distribution has thus remained virtually constant compared with the end of 2006.

Age structure (in %)



A comparatively long employee length of service and a low turnover indicate that K+S is an attractive employer. At 4%, the turnover rate was at a constantly low level. In relation to the total personnel, the turnover based on employees resigning even amounted to only 1%. As is the case with many other German industrial companies, our age structure is becoming concentrated in the 41 to 50 age group; the average age of a K+S employee remained unchanged at about 42.

Training

Length of service extending over many years and the related wealth of experience are important cornerstones of a sustainably successful personnel policy. However, this also involves the transfer of knowledge to younger employees and thus the methodical provision of training to the next generation. This is an area in which we are already systematically laying the groundwork for tomorrow's growth. In 2007, 174 young people began vocational training with us, in 19 professions at 17 K+S Group sites. As at 31 December 2007, we employed a total of 614 trainees (previous year: 620 trainees), of which 607 were located at German sites. The slight drop in the number of trainees can be attributed to the sale of biodata ANALYTIK GmbH. At 6.1%, the proportion of trainees at the domestic companies was at the high level of the previous year. The training that we provide, which is planned in the long term and geared towards quality, ensures that in the future, we will have the necessary availability of employees who will work in industrial, mining, commercial, chemical and IT occupations.

On such training, we spent about € 8.7 million in personnel expenses as well as € 2.9 million in materials costs (2006: personnel costs: € 8.5 million; materials costs: € 2.5 million). We are pleased that in the previous year we were able to hire about 90% of the successfully qualified trainees.

The provision of further training to our employees is becoming increasingly important because of rising and increasingly international requirements as well as technical innovations. 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, almost 4,652 employees participated in further training (+ 24 %), in which we invested about € 4.4 million (previous year: € 4.0 million) or € 940 per participant ((11) %). This increase was particularly attributable to increased requirements stemming from new technologies as well as the safeguarding of know-how in preparation for age-related employee turnover. In order to meet the challenges of increasing globalisation, a further important focus was on foreign languages.

Research and development

Direction of R&D activity

Goals and main focuses of our R&D activity

A key focus of our activities is research into and the development of new and improved products. Providing nutrition to plants that meets needs over the entire vegetation cycle is a priority. Of no less importance is the constant reviewing of our production processes with respect to the sustainable use of the resources available to us as well as the reviewing of the deployment of capital, energy and personnel in terms of efficiency. This also includes the further minimization of solid and liquid product residues in potash production. We continually develop our processes and constantly review new technologies and materials for their potential to bring about improvements in the processes used within our group. We operate a research institute of our own focussing on treatment, process technology and analytics. Finally, our agricultural advisory service provides worldwide support to customers on using our products and thus promotes sales of our fertilizers by means of specific application recommendations.

To ensure the effective transfer of knowledge gained from research within the K+S Group and to optimise the leveraging of potentials for synergy, all research activities are controlled centrally and the results of research are made available across the group by means of a central database.

Use of external R&D know-how

In addition to our own research activities, the cooperation with external research institutes is an important part of our research strategy:

- Plant cultivation tests being conducted worldwide in the field of potash and magnesium fertilizers are coordinated and controlled centrally by our department for agricultural application consulting. All field tests are assigned to specialized and experienced agricultural farms and are either looked after directly by our employees or monitored on a scientific basis by local agricultural institutes all over the world. This enables us to obtain findings relating for a very diverse range of crops growing in local soil conditions in various climatic zones.
- Research and development connected with nitrogenous fertilizers is conducted on our instructions by BASF at its research institutes, where decades of competence and expertise in this area is pooled. The work is performed exclusively for COMPO and fertiva. The international field testing for nitrogenous fertilizers is also managed centrally by COMPO and fertiva.
- In economic, scientific as well as technical areas, we work together with colleges, most of which are in Germany. Over the past year, for example, we have cooperated with the universities of Giessen, Halle and Kiel in order to investigate the effect of our products on the water efficiency of plants. Moreover, across the country we provide financial support to young scholars at the undergraduate, diploma and doctoral levels in those areas that are the focus of our R&D activities. This allows us to identify talent early on and to recruit qualified new generation employees for our Company.

In 2007, a total of € 5.8 million was spent on external research services, compared with € 5.2 million in the preceding year.

Research costs, development-related capital expenditure and number of employees

In the period under review, research costs came to a € 15.5 million in total and were thus above the level of the previous year (2006: € 13.8 million). This increase can be attributed to higher research expenditure on mining, the expansion of university projects and intensified research activities in the COMPO and fertiva business segments. Additionally, we continued working on minimising solid and liquid product residues in potash production.

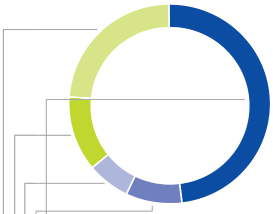
Research costs

in € million	2007	2006
Potash and Magnesium Products	5.1	5.1
COMPO	3.3	3.1
fertiva	2.2	1.9
Salt	1.3	0.9
Other research costs	3.6	2.8
Total	**15.5**	**13.8**

At € 2.7 million, the development-related capital investment was about € 0.7 million more than in the previous year and was mainly made in the COMPO and Potash and Magnesium Products business segments.

As it has become necessary to capitalise certain development costs as a result of the changeover to IFRSs, we will report depreciation charges for development-related capital expenditure over the coming years, but they will still remain on a relatively low level.

Research and development qualification structure (in %)



As expected, due to the intensified research activities described above, at the end of the year 58 employees worked across the group in research for the K+S Group (previous year: 51 employees).

in € million	2007 IFRSs	2006 IFRSs	2005 IFRSs	2004 IFRSs	2003 HGB
Research costs	15.5	13.8	13.0	12.1	
Capital expenditure in development *	2.7	2.0	1.9	1.2	13.3
Employees (number)	58	51	50	49	45

* Research and development expenditure was not reported separately before the changeover to IFRSs resulted in the need to capitalise certain development costs.

R&D results

Potash and Magnesium Products Business Segment:

- During the past year, we have introduced our first virtual drilling jumbo control panel, in order to guarantee the long-term high quality of this important activity in underground mining. By means of a virtual 3D training environment, it is possible to train the spatial imagination, machine operation and operational sequences during the drilling process and to better estimate interreactions with the surrounding rock. The first employees trained in this way are already being employed successfully in production. Thanks to this positive experience, we are planning to expand this training to further potash and salt locations of the K+S Group.
- In combined research with the universities of Giessen, Halle and Kiel, we investigated the influence of optimal fertilization with the nutrients potash, magnesium, sulphur and sodium on the efficiency of the use of water of the ground/plant system. Initial findings confirm that the water as a resource can be better exploited by supplying the soil evenly with potash. This is of immense importance against the backdrop of global climate changes.
- In our research institute, we developed improved production processes during the year under review. These processes will increase the yield of valuable substances, while at the same time contributing to a reduction in the saline load in waste water. We have already tried out one of these processes under realistic operating conditions in a test installation.
- Moreover, we have examined different variants in order to modify the system of ditches surrounding the tailings in Philippsthal (Werra). It is now possible for a considerable part of the surface water to be drained off, so that it does not come into contact with the body of the tailings. This uncontaminated water can trickle into nearby woods and contributes to the creation of new groundwater there.

Nitrification inhibitor = ammonium stabiliser, which delays the transformation of ammonium nitrogen into nitrate nitrogen at risk of being washed out

COMPO Business Segment:

- The product generation of a nitrification inhibitor following ENTEC® is in the pilot production phase as well as undergoing initial laboratory testing and examinations of its effects. Promising findings are making us confident that we will be able to transfer the concept of stabilisation to further nitrogenous fertilizers and improve their ecological and economic efficiency.
- During the past year, we optimised the formulas for the materials used to coat slow-release fertilizers. We were thus able to further enhance both the product quality and the use of the coating plant that was put into operation at the Krefeld location in 2006.
- In Brazil, we have developed innovative liquid fertilizers on the basis of metal oxides and hydroxides, and are currently having them produced exclusively for us. They contain active substances in a finely distributed, solid form and are thus characterised by a high level of nutrient density. In turn, this opens up new possible applications, such as spreading by plane. Moreover, these new liquid fertilizers are more protective of materials for the machines used during spreading.
- During the year under review, the plant protection range was increased by four new products in cooperation with Syngenta. AXORIS® Zierpflanzen-Spray [ornamental plant spray], AXORIS® Insekten-frei AF [insect-free AF] and AXORIS® Insekten-frei Spritz- und Gießmittel [insect-free sprinkle and pouring agent] round off the existing AXORIS® programme. To these can be added the FAZILO® plant spray, which is based on natural active substances and, like the AXORIS® range, can be used successfully against the worst enemies of ornamental plants.

fertiva Business Segment:

- As the market for coarse-grained ammonium sulphate has grown strongly during recent years, fertiva expanded its product portfolio in 2007 and invested approx. € 4 million in its Lanxess location in Antwerp. In future, fertiva can now offer its customers two different qualities of the ammonium sulphate fertilizer: in addition to fine-crystalline ammonium sulphate, the coarse-crystalline part has been separated off since the end of August 2007 and marketed under the brand name Granammon®. This new product primarily serves the interests of operators of bulk blenders overseas, especially in Latin America, since the coarse quality can be mixed very well with potash or phosphate components. However, in Europe Granammon® is more spread directly using fertilizer sprinkler systems. Customer feedback is so positive that, right from the start, the capacity of the new plant has been utilised to a high extent.

Salt Business Segment:

- With Balancesalz®, esco has developed a low-sodium product, which is addressed to consumers, who want less salt, but not less flavour. In order to obtain a balanced supply of nutrients that is rich in minerals, the sodium chloride content has been lowered by 50% and replaced by the valuable minerals potassium and magnesium from K+S mines. The product is available both as a consumer packet in a 300 g shaker can and for the food industry in a 25 kg sack.

Brand portfolio and patents

With 154 new additions, it was possible to expand the brand portfolio in 2007 too. As we seek to keep our portfolio up to date at all times, 101 brand rights that are no longer used were cancelled. On the reporting date, the Group thus held 4,210 (2006: 4,157) national proprietary protection rights for trademarks deriving from 792 basic trademarks. No licence fees were generated. Our global patent portfolio currently numbers 72 patent families, which are represented by 318 (2006: 389) national rights.

Overview of course of business

Macroeconomic environment

Percentage change in Gross Domestic Product (real in %)

Year	Germany	EU-25/ EU-27	World
2007	**+ 2.5**	**+ 3.1**	**+ 5.1**
2006	+ 2.9	+ 3.3	+ 5.3
2005	+ 0.9	+ 1.7	+ 4.8
2004	+ 1.6	+ 2.5	+ 5.0
2003	(0.1)	+ 1.1	+ 3.6

Source: Deka Bank

The global economy continued to grow tangibly in 2007, at a rate of 5.1%. Once again, it was primarily the rapid economic upturn in the developing countries and emerging markets that contributed to this. In China, for example, growth increased by 11.4%. In the industrial countries, however, the economic climate was gloomy at the end of the year, above all because of the real estate crisis in the United States. Although, over the course of the year, the US economy experienced the largest expansion since four years, this was primarily driven, however, by a substantial increase in exports and by government and corporate investments during the summer months. The Federal Reserve Bank (Fed) has so far reacted to the crisis on the real estate market and financial markets by injecting liquidity into the banking sector and by sharply cutting the refinancing rate by 225 basis points to 3.0% at the present time.

The upturn in the European Union continued during the course of 2007 at a somewhat slower pace; the economic performance of the 27 EU member states improved by 3.1%, according to provisional estimates. Following two interest rate hikes of 0.25% each in March and June to 4.0%, in September, the European Central Bank (ECB) chose not to implement a further anticipated increase in the interest rate in view of uncertainties about the effects of the turbulence on the international financial markets. At 2.1%, the average annual inflation rate for 2007 was just below that of the previous year.

In 2007, German GDP grew by 2.5 % in real terms. The German economy has thus proven to be robust: The pace of growth has scarcely slowed, in spite of a restrictive financial policy, rising crude oil prices and the marked appreciation of the euro. This, in turn, had a positive impact on employment figures and domestic demand. At 2.3 %, the German inflation rate in 2007 was higher than that for the previous year (2006: 1.8 %).

A clear upward trend could be seen on the commodities markets in 2007. After the oil price had eased considerably at the end of 2006 and stood at about USD 60 per barrel, it increased sharply again in the course of 2007, closing near to its historic high of over USD 90 per barrel at the end of the year. In 2007, the average price for a barrel of oil was with just under USD 73 about USD 7 or 10 % higher than in 2006.

Developments on the international foreign exchange markets were influenced by the tangible depreciation of the US dollar. Over the course of 2007, the US dollar lost about 10 % in relation to the euro. In terms of the annual average too, the US dollar lost almost 10 % in value (2007: 1.37 USD/EUR; 2006: 1.26 USD/EUR).

Impact on K+S

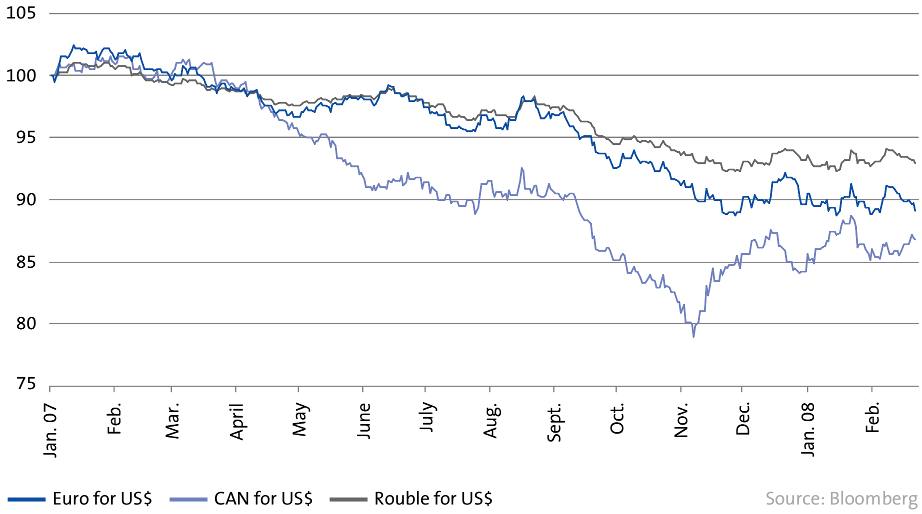
The changes in the macroeconomic environment also impacted on the course of business for K+S.

- Our production costs are affected to a not inconsiderable extent by energy costs, in particular for gas. Rising crude oil prices normally result in gas becoming more expensive. However, as a result of our hedging transactions implemented during the first half of the year and the time formulas in the delivery agreements that were concluded, the further increase in the oil price has not yet had any tangible impact on our energy costs.
- In terms of the average for the year, global market prices for ammonia, an important raw material for the COMPO and fertiva business segments, were also higher than a year ago. However, on the purchasing side we profited from a weak US dollar, which caused ammonia costs, converted into euros, to remain unchanged in comparison to the previous year.
- The weaker US dollar made it necessary to adjust the options that we use to hedge currencies. This resulted in a deterioration of the average hedging rate including premium payments from 1.09 USD/EUR in 2006 to 1.33 USD/EUR in 2007.

Further information about the US dollar can be found under “Key events affecting the course of business“ on page 66.

- In addition to the absolute relationship between the exchange rates, also a relative comparison of the euro and the currencies of our competitors each in relation to the US dollar is of particular importance for us. A weak US dollar has a negative impact on the revenues of most of the world's potash producers in their respective currency; this is due to the fact that the bulk of worldwide potash output lies outside the US dollar zone while all sales, with the exception of the European market, are invoiced in US dollars. The following diagram shows that in 2007 our competitors were also confronted with a weakening US dollar. Canadian, Russian and European potash producers therefore had the same motivation to compensate for weaker exchange rates through higher prices in the US dollar.

Development of EUR/USD vs. CAN/USD and RUB/USD (Index: beginning of the year 2007; in %)



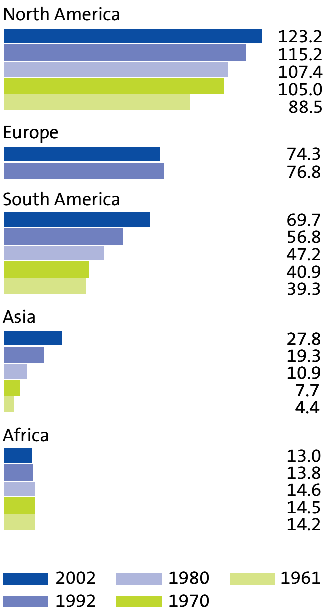
Industry environment

The industry environment of the individual business segments can be found in the Business Segment Development section on pages 86 et seqq.

Fertilizer and plant care sector

The strong growth of the global economy, which was once again mainly the result of the upswing in the Asian emerging markets, also indirectly affected the success of the K+S Group. Increasing prosperity in these regions resulted in their populations having greater expectations of their diet and led to changes in traditional eating habits. This was particularly reflected in the increasing consumption of meat. The production of a kilogramme of meat requires several times that amount of feed, e.g. corn and soybeans. The demand for agricultural products and thus also feed is therefore growing disproportionately in these regions of the world. In addition, economic success in these countries is boosting urbanisation, which tends to decrease the amount of land available for agriculture.

MEAT CONSUMPTION PER YEAR (IN KG PER CAPITA)



Source: FAO

Accordingly, population growth in emerging countries is creating greater demand for food in both quantitative and qualitative terms while the land available for cultivation per head is declining at the same time. This challenge can only be met by more intensive as well as professional agriculture that includes the efficient use of fertilizers.

In recent years, it has only been possible to service the constantly increasing global demand for agricultural raw materials needed to feed people and animals by utilising stocks. For the majority of agricultural products, however, owing to the described developments in 2007, these have again diminished considerably. The resulting shortfall was additionally exacerbated by the increasing importance of renewable raw materials for the generation of bioenergy. All in all, in 2007, this once again resulted in marked rises in the prices of agricultural products: Prices for wheat, corn, soybeans and palm oil have risen by up to 160 % on international commodity exchanges during the past three years. An overview of the price trends of important agricultural products can be found on page 115.

Rising prices in turn encouraged farmers worldwide both to make greater use of the arable land still available to them and also to raise the intensity of cultivation; both these developments required a greater use of fertilizers and resulted in the global demand for fertilizers increasing significantly last year, while production capacity remained largely constant. In consequence, fertilizer prices rose sharply for the three main nutrients: nitrogen, potash and phosphate.

Salt business segment

With its Salt business segment, K+S is the world's second largest producer of salt. esco – european salt company, with a production capacity of about 9.5 million tonnes, is Europe's largest supplier of salt. Through SPL, K+S is the largest salt producer in South America and through the North American distribution company ISCO, it occupies a strong market position in the north-eastern states of the United States. At SPL, annual production capacity was about 6.5 million tonnes in 2007; this will increase following the expansion of the port in connection with SPL open-cast mining operations in Chile.

Fluctuations in consumption on the Western European salt market were relatively modest, with the exception of an unusual weak de-icing business in the individual segments. During the reporting year, due to an extremely warm winter at the start and end of 2007, sales of de-icing salt in Europe were considerably weaker than in the previous year, whose first quarter had been characterised by an especially severe winter. In the food grade salt and industrial salt segments, business in Europe was stable, while the demand for salts for chemical use rose markedly because of economic factors.

The North American de-icing salt market was also negatively impacted by mild weather conditions at the start of the year. However, the late start of the winter in March had a positive effect here. In the tenders for de-icing salt for the winter season 2007/2008 in the United States, there were no significant shifts in market share. The South and Central American market for industrial salt and salt for chemical use grew in line with local population development and received additional support from the strong economic upturn.

Key events affecting the course of business

- On 22 April 2006, K+S signed the agreement to purchase the Chilean salt producer SPL. The takeover of SPL was completed on 29 June 2006; the SPL Group was fully consolidated for the first time as of 30 June 2006. In 2007, this therefore resulted in a consolidation effect of € 126.9 million of revenues and € 23.5 million of earnings due to the first-time inclusion for the entire year.
- For some time now, the international market for potash fertilizers is characterised by both robust demand and scarce supply. Consequently, in the last year alone prices for potassium chloride have almost doubled worldwide.
- In 2007, the Western European de-icing salt market was marked by the warmest winter in the history of weather records, which is in stark contrast to the same quarter in 2006, when winter conditions lasted into April. The unusually weak de-icing salt business in Europe was therefore decisive for the substantial decline in earnings of our European salt business during the year under review.
- The weaker US dollar made it necessary for us to adjust the options that we use to hedge currencies several times. This resulted in a deterioration in the average hedging rate incl. premium payments for the Potash and Magnesium Products business segment, from 1.09 USD/EUR in 2006 to 1.33 USD/EUR in 2007. The hedging success thus amounted to € 9.5 million (2006: € 65.3 million). Furthermore, last year we devoted € 359.1 million to concluding new hedging transactions for the years 2008 to 2010 and to adjusting the options acquired for that time to the weaker US dollar rate. This had a significant impact on our cash flow in 2007.

Trend in share price

Further information about the future prospects of K+S can be found in our forecast report on pages 108 et seqq.

The promising future prospects for our company are reflected in the valuation of the K+S share. Over the course of the year, the share price rose by 98% to close the year at € 162.75. You can find a detailed description of the K+S share price, price trends, ratios and further important information about the K+S share in the section “The K+S Share” on pages 16 et seqq.

General statements on the course of business in 2007

The financial year 2007 was another operationally successful one for the K+S Group. Following the record figures of the previous year, we have achieved markedly higher revenues as well as moderately higher operating earnings. When considering this development, it is necessary to take account of the fact that our European salt earnings declined by just under 75%, owing to the exceptionally mild winter, and that our US dollar hedging rate fell by almost 20% in comparison to the previous year. Our good operating earnings are primarily attributable to strong demand and low supply for fertilizers, the resultant sharply increased fertilizer prices and the welcome contribution to earnings of the Chilean salt producer SPL, for the first time for a whole year.

Comparison of actual and projected course of business

Revenue forecast

The revenue forecast prepared on 23 February 2007 by the Board of Executive Directors in connection with the 2006 Annual Report assumed that it would be possible to moderately surpass the level of a year ago (€ 2.96 billion) with an expected US dollar exchange rate of 1.30 USD/EUR. On 14 August 2007, we published a concrete estimate of anticipated revenues of about € 3.1 billion to € 3.3 billion for all of 2007 in connection with interim reporting. This increase in revenues expectations was primarily based on a higher international potash price level. As a result of currency-related losses, in November we limited the range for the revenues estimate to from € 3.1 billion to € 3.2 billion in the forecast of the quarterly report Q3/2007. In spite of the drop in value of the US dollar that actually occurred, further significant increases in the potash price finally resulted in revenues of € 3.3 billion, which was slightly above our forecast.

Expenses forecast

In the company presentations on the occasion of the publication of the quarterly results in August and November, in each case we forecast energy costs of about € 215 million and personnel expenses of € 685 million to € 690 million. Ultimately, energy costs were € 216.2 million and personnel expenses were € 687.3 million, which was almost exactly in line with our expectations.

Earnings forecast

The earnings forecast prepared by the Board of Executive Directors on 23 February 2007 in connection with the 2006 Annual Report assumed that the operating earnings would improve similarly to the trend in revenues in comparison to the previous year, provided no significant follow-up hedging became necessary for the derivatives used to hedge the US dollar exchange rate. In the outlook of 7 August 2007, a range of € 310 million to € 325 million was indicated for anticipated operating earnings EBIT I. The accelerated decline in the value of the US dollar in the course of the second half of 2007, however, altogether compelled us to reduce expected earnings three times in the framework of ad hoc notifications and quarterly reporting.

The earnings forecast for 2007 published on 23 November then was in the range of € 275 million to € 285 million. At € 285.7 million, operating earnings ultimately lay at the top end of this range.

For the adjusted group earnings and the earnings per share, we forecast a range of € 185 million to € 195 million and € 4.50 to € 4.75 in the outlook of 7 August 2007, and had to reduce this as we did for the forecasts of operating earnings. The adjusted group earnings after taxes finally totalled € 175.3 million, the adjusted earnings per share € 4.25. Both were thus within the ranges of values forecast on 23 November 2007 in an ad hoc notification.

Actual vs. forecast comparison

		Forecast 07.08.2007 *	Forecast 09.11.2007 **	Actual 31.12.2007
Revenues	€ billion	3.1 to 3.3	3.1 to 3.2	3.34
Operating earnings (EBIT I)	€ million	310 to 325	300 to 310	285.7
Group earnings, adjusted	€ million	185 to 195	175 to 185	175.3
Earnings per share, adjusted	€	4.50 to 4.75	4.30 to 4.45	4.25
Capital expenditure	€ million	185	180	171.6
Depreciation and amortisation	€ million	130	130	128.2
Energy costs	€ million	215	215	216.2
Personnel expenses	€ million	690	685	687.3

* Ad hoc notification on 1 October 2007: The US dollar hedging was adjusted as a result of the accelerated fall in value of the US dollar in September. A value was therefore forecast for the EBIT I of the K+S Group for 2007, which was at the lower end of the range announced on 7 August.

** Ad hoc notification on 23 November 2007: The continued decline in the USD/EUR exchange rate to just under 1.50 USD/EUR has made it necessary to implement a further adjustment in the hedging of the US dollar. Assuming that the USD/EUR exchange rate was at the level of that time at the end of the year, a higher depreciation of outstanding US dollar receivables was additionally assumed. We expect these two effects to reduce operating earnings by € 25 million in total. There will therefore be a corresponding decrease in the earnings forecast for 2007 announced on 9 November.

Earnings position

At € 3.34 billion, revenues rise 13 % year on year

A detailed explanation of the revenues of the individual business segments can be found on pages 86 et seqq.

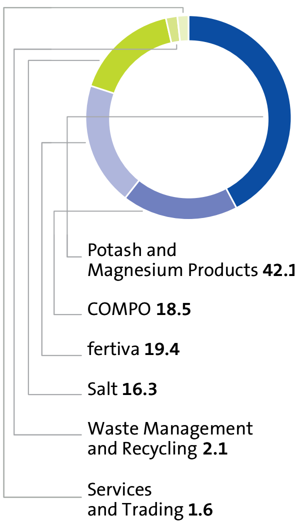
For financial year 2007, we posted revenues of € 3,344.1 million, up 13.1 % year on year. A slight seasonality is again evident from the quarterly revenues figures posted during the course of the year: The first quarter tends to be the strongest and third quarter the weakest. This is connected with the fact that in the first quarter, fertilizers and plant care profit from the start of the spring fertilizing season in Europe; although the autumn fertilizing season occurs in the third quarter, it is less important than the spring fertilizing season in terms of sales. Moreover, the de-icing salt business is focused on the first and fourth quarters of a year, while during the second and third quarters, customers stock up at prices that usually are more favourable.

Variance analysis in %	2007
Change in revenues	**+ 13.1**
- volume/structural factors	+ 2.3
- prices	+ 9.1
- exchange rates	(2.6)
- consolidation	+ 4.3

Revenues by business segment

in € million	Q1/07	Q2/07	Q3/07	Q4/07	2007	2006	%
Potash and Magnesium Products	368.5	339.7	313.5	386.3	1,408.0	1,238.9	+ 13.6
COMPO	217.1	156.9	115.9	127.5	617.4	552.4	+ 11.8
fertiva	150.5	154.0	164.0	179.6	648.1	556.2	+ 16.5
Salt	176.6	98.6	101.0	168.9	545.1	485.8	+ 12.2
Waste Management and Recycling	17.6	17.5	17.8	17.6	70.5	69.4	+ 1.6
Services and Trading	14.4	11.9	14.9	13.8	55.0	55.0	–
K+S Group	**944.7**	**778.6**	**727.1**	**893.7**	**3,344.1**	**2,957.7**	**+ 13.1**
Share of total revenues in %	28.2	23.3	21.7	26.7	100.0	–	–

Revenues by segment (in %)



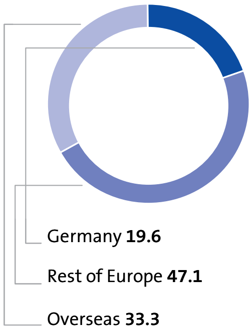
The increase in revenues resulted primarily from price and volume effects. Additionally, the first-time inclusion of the SPL Group for the whole year resulted in a consolidation-related increase in revenues of € 126.9 million or 4 %. Thus, currency-related effects could be more than made up for.

While the Potash and Magnesium Products and fertiva business segments increased their revenues mainly thanks to significantly higher fertilizer prices, revenues of COMPO rose primarily as a result of higher sales. Despite the weak de-icing salt business in Europe, revenues of the Salt business segment rose due to the first-time all-year inclusion of the Chilean salt producer SPL, acquired in June 2006.

The Potash and Magnesium Products business segment posted the highest revenues of all the K+S Group's business segments, accounting for 42 % of the total, and was followed by fertiva, COMPO and Salt (see adjacent diagram). In Europe, we achieved revenues of € 2,229.8 million. The region thus accounted for two thirds of total revenues. The European market is very important for us because we can leverage shipment costs advantages. Revenues generated on overseas markets rose by 33 % to a total of € 1,114.3 million, which means that the share of revenues accounted for by them rose by five percentage points year on year.

Trend in orders

Revenues by region (in %)



Most of the business of the K+S Group is not covered by long-term agreements concerning fixed volumes and prices. The small percentage of orders in relation to revenues – for example, less than 10% at the end of the year in the Potash and Magnesium Products business segment – is customary in the industry and characterized by long-term customer relationships as well as revolving framework agreements with non-binding volume and price indications.

Thus, the disclosure of the Group's and its business segments' backlog of orders is of no relevance for assessments of short- and medium-term earnings capacity.

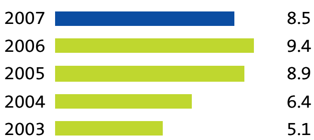
At € 285.7 million, operating earnings EBIT I slightly higher than record figure of last year

A detailed explanation of the earnings of the individual business segments can be found on pages 86 et seqq.

The operating earnings EBIT I exclude the non-cash changes in the market value of the currency options that we use to hedge the US dollar and only include the hedging gains actually achieved as a result of exchange rate hedging in the period under review.

At € 285.7 million, operating earnings EBIT I were up € 7.7 million or 3% on last year's figure (2006: € 278.0 million). Except for the Salt and the Waste Management and Recycling business segments, all business segments were able to improve on the previous year tangibly to materially. Higher prices for standard and speciality fertilizers as well as the first-time inclusion of the SPL Group for the whole year enabled us to slightly more than make up for countervailing cost developments and for currency effects.

EBIT Margin (in %)



The most important cost types in detail: At € 687.3 million, the personnel expenses of the K+S Group increased by € 23.8 million or 4% in comparison with the previous year. Without provision effects, personnel costs rose by 3% compared with the previous year; the increase is attributable to higher pay settlements under collective bargaining agreements as well as the first-time all-year inclusion of SPL. In 2007, energy costs rose by 4% to about € 216.2 million and freight costs increased by just under 17% to € 504.0 million during the period under review largely due to consolidation effects. The sourcing of raw materials, e.g. phosphate, also resulted in further partially tangible increases in costs.

The EBIT margin for 2007 reached 8.5%, representing a drop of 0.9 percentage points on the previous year.

EBIT I BY BUSINESS SEGMENT

in € million	Q1/07	Q2/07	Q3/07	Q4/07	2007	2006	%
Potash and Magnesium Products	52.8	55.9	65.0	4.2	177.9	158.6	+ 12.2
COMPO	19.2	9.0	0.0	3.8	32.0	29.2	+ 9.6
fertiva	4.4	5.5	5.2	10.2	25.3	16.7	+ 51.5
Salt	25.0	1.7	3.2	17.9	47.8	67.6	(29.3)
Waste Management and Recycling	3.2	3.1	2.4	2.8	11.5	13.8	(16.7)
Services and Trading	7.1	5.7	10.0	4.9	27.7	25.4	+ 9.1
Reconciliation *	(8.4)	(11.5)	(6.4)	(10.2)	(36.5)	(33.3)	+ 9.6
K+S Group	**103.3**	**69.4**	**79.4**	**33.6**	**285.7**	**278.0**	**+ 2.8**
Share of total revenues in %	36.2	24.3	27.8	11.8	100.0	–	–

* 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.

The seasonality already referred to in the context of revenues was also reflected in operating earnings. The spring season for fertilizers and plant care products as well as the de-icing salt business at the beginning of the year resulted in over 60 % of the total earnings being generated in the first half of the year. Last year, this effect was boosted by the fact that the operating earnings of the Potash and Magnesium Products business segment were impacted by a € 60.9 million weaker foreign currency result; € 56.2 million of this alone occurred in the fourth quarter.

The reconciliation for the reporting year amounted to € (36.5) million, which represents an increase of € 3.2 million. The increase mainly resulted from higher provisions for the possible exercise of stock options from the virtual stock option program of the Board of Executive Directors and executive management, after the performance of the K+S share significantly exceeded that of the MDAX in recent years.

Trend in other key items of the income statement

At just under 34 %, gross margin remains on approximately the same level as a year ago

While revenues increased by 13.1 % year on year, cost of sales rose by 14.7 %. The gross margin was thus 33.9 % after it had been 34.8 % in the previous year. Thus, the cost increases for personnel and energy referred to in the preceding section could be largely passed on in prices. This is mainly attributable to the lower worldwide supply of potash fertilizers in relation to demand. This enabled us – with very high capacity utilisation viewed in terms of the industry as a whole – to keep profitability at the same level despite cost increases.

Selling expenses mainly influenced by freight costs

The selling expenses of the K+S Group, of which more than half are due to freight costs, rose during the year under review by € 38.0 million or 5% to € 752.3 million. This increase is mainly attributable to the first-time all-year inclusion of freight costs and other selling expenses of the SPL Group.

Moreover, the selling expenses also include a low double-digit million euro amount for advertising in the form of press advertisements, brochures, TV and radio commercials, trade fairs, product launches etc. The majority of these costs are incurrent in the COMPO, Potash and Magnesium Products and Salt business segments.

General and administrative expenses higher

In 2007, general and administrative expenses increased by € 7.6 million or 9% to € 89.4 million. The increase is mainly attributable to the first-time inclusion of SPL for the entire year. In proportion to revenues, general and administrative expenses amounted to 2.7% (previous year: 2,8%).

Other operating income and expenses

In 2007, the positive balance of other operating income and expenses came to € 6.2 million, representing a reduction of € 50.2 million compared with the previous year, and was primarily attributable to a lower foreign currency result. While in 2006, we were able to achieve a foreign currency result of € 47.9 million, last year, a foreign currency loss of € 9.5 million was incurred; a lower evaluation of foreign currency receivables and payment inflows as of the reporting date could not be completely compensated for by the positive hedging result achieved.

Income from investments, net

At € 4.6 million (2006: € 1.8 million), income from investments increased significantly in 2007. The increase can be attributed to special income from the sale of biodata ANALYTIK GmbH, which was not part o the core business of the K+S Group, in September 2007.

Earnings after market value changes EBIT II

Under IFRSs, changes in the market value of our double-barrier options used to hedge the US dollar exchange rate have to be reported in the income statement. While the cash-relevant hedging result from options already exercised, as well as losses from expired options, which would have been exercisable in the period under review, are included in operating earnings EBIT I, we do not disclose the non-cash changes in the market value of options still outstanding as well as losses from expired options with a due date in future periods as a reconciliation to EBIT II.

During the year under review, earnings after market value changes EBIT II fell by € 468.5 million to € (106.9) million; the improvement in EBIT I was significantly impacted by the negative trend in the market values of our double-barrier options in EBIT II, including realised losses. The market values on the reporting date depend on such factors as the USD/EUR spot rate, the agreed barriers, exchange rate volatility and the terms of options still outstanding. In particular, the closeness of the US dollar rate to the agreed upper barriers on the balance sheet data resulted in a strong reduction in market value, after we had been able to report increasing market values in the two previous years.

Financial result down on previous year

The financial result consists of net interest income and other financial result. In 2007, at € (35.6) million, net interest income was tangibly lower (previous year: € (27.5) million). This is mainly attributable to higher interest expenses for the syndicated loan taken out in connection with the acquisition of the SPL Group in Chile in mid-2006 and the first-time inclusion of that loan for the entire year in 2007. Additionally, we have made use of existing credit lines for follow-up hedging for the US dollar hedging system. However, non-cash interest expenses relating to pension provisions of € 4.0 million (2006: € 7.4 million) and for mining obligations of € 13.9 million (2006: € 13.6 million) also had an impact. Other financial result totalled € (0.1) million in the year under review after € 7.4 million the previous year; 2006 benefited from being a year of special income from the sale of securities and financial investments. Overall, the financial result deteriorated by € 15.6 million to € (35.7) million.

Adjusted earnings before taxes fell by 3 %

Earnings before taxes, which include the market value changes at the reporting date of our currency options used to hedge exchange rates and losses from expired options with a due date in future periods, amounted to € (142.6) million during the year under review. If these earnings are adjusted for the non-cash effects of € 392.6 million arising outside the period, adjusted earnings before taxes amount to € 250.0 million. Thus, this more appropriate financial indicator for assessing economic success decreased by € 7.9 million or 3 % year on year. The weaker financial result was not fully compensated for by the increase in operating earnings.

Adjusted group earnings after taxes almost unchanged

Unadjusted group earnings after taxes and minority interests for the year under review fell by € 364.1 million to € (93.3) million. The significant negative changes in market value and losses of derivatives already described also had an impact in this regard. Moreover, the previous year had benefited from non-recurrent deferred tax income as a result of the reorganisation of the company structure of the SPL Group.

Last year, the corporate tax reform passed by the German Bundestag last summer and valid from 1 January 2008 already resulted in changes to the reporting of deferred, non-cash taxes. The new tax rates for corporate income tax and trade tax already had to be applied for the assessment of deferred taxes starting from the point in time at which the change in tax law was passed by the German Bundesrat (6 July 2007).

In view of the significantly negative market performance of our double-barrier options, tax income totalling € 49,5 million was incurred in 2007; € 68.9 million of this was deferred, i.e. non-cash. In 2006, we had tax expenses of € 70.3 million, including € 20.4 million deferred taxes. The cash part of the tax expenses has thus fallen by € 30.5 million in comparison with the previous year.

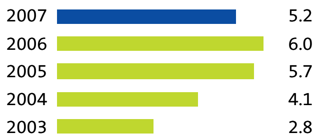
Given the limited economic meaningfulness of as well as the significant range of fluctuation in the market values of our currency option transactions, we also report earnings after taxes adjusted for this effect. This also eliminates the impact of market value changes on deferred taxes. We compute adjusted group earnings as follows:

Computation of the adjusted group earnings

in € million	2007	2006
Group earnings after taxes and minority interests	(93.3)	228.9
Elimination of market value changes from hedging transactions	392.6	(83.6)
Elimination of resulting deferred taxes at flat rate	(124.0)	30.9
Adjusted Group earnings after taxes and minority interests	**175.3**	**176.2**

* 2006: excluding non-recurrent deferred tax income of € 41.9 million or € 1.02 per share.

Return on revenues (in %)



At € 175.3 million, adjusted group earnings almost reached the figure for the previous year adjusted for non-recurrent deferred tax income. Slightly higher operating earnings as well as the lower tax expense resulting from the decreased adjusted corporate tax rate (29.9 % after 31.7 %) were thus able to almost completely make up for the weaker financial result.

Adjusted group earnings after taxes

in € million	Q1/07	Q2/07	Q3/07	Q4/07	2007	2006	%
Group earnings	64.5	47.9	(108.4)	(97.3)	(93.3)	228.9	–
Earnings per share (€)	1.57	1.16	(2.63)	(2.36)	(2.26)	5.55	–
Average number of shares	41.21	41.23	41.25	41.25	41.24	41.24	–
Group earnings, adjusted *	**62.6**	**42.2**	**47.6**	**22.9**	**175.3**	**176.2**	**(0.5)**
Earnings per share. adjusted *	**1.52**	**1.02**	**1.15**	**0.56**	**4.25**	**4.27**	**(0.5)**

* 2006: without non-recurrent deferred tax income of € 41.9 million or € 1.02 per share.

Adjusted earnings per share almost at the level of the previous year

Undiluted, adjusted earnings per share are computed by dividing adjusted Group earnings after taxes and minority interests by the weighted average number of shares outstanding. As none of the conditions resulting in the dilution of earnings per share exist in the case of K+S at the present time, undiluted earnings per share correspond to diluted earnings per share. Neither abandoned business segments nor changes in accounting treatment had to be taken account of separately in the earnings per share.

Adjusted earnings per share were € 4.25 in the year under review and thus at almost the level of the previous year's figure of € 4.27 (without the non-recurrent deferred tax income of the previous year of € 1.02 per share). For the current calculation, they were computed on the basis of 41.24 million no-par values shares, being the unchanged average number of shares outstanding during the reporting period. As of 31 December 2007, we held no shares of our own; the total number of K+S Group shares outstanding at the end of December thus amounted to 41.25 million no-par value shares.

Key figures on earings position

Multi-period overview of margin and yield key figures

Figures * in € million	2007	2006	2005	2004	2003
EBIT-Margin	8.5	9.4	8.9	6.4	5.1
EBITDA-Margin	12.4	13.6	13.6	11.4	9.8
Return on revenues **	5.2	6.0	5.7	4.1	2.8
Return on equity after taxes **	16.1	17.7	17.8	12.1	17.7
Return on total investment	11.0	12.3	12.7	9.1	7.4
Return on Capital Employed (ROCE)	15.5	17.4	19.5	14.2	12.8

* 2003: HGB: starting from 2004: IFRS: a derivation of the key figures used can be found in the glossary.
** 2006: without non-recurrent deferred tax income of € 41.9 million or € 1.02 per share.

The margin key figures have fallen moderately compared with those of the same period of the previous year; they remain, however, at an attractive level. Earnings before depreciation and amortisation, interest and taxes of € 413.9 million resulted in an EBITDA margin of 12.4 % (2006: 13.6 %) and the EBIT margin reached 8.5% after 9.4% in 2006. At 5.2 %, the return on revenues is also slightly less than the figure for the previous year of 6.0 %, adjusted for non-recurrent tax effects. The reasons for this are: While revenues rose substantially mainly due to price and consolidation factors, operating earnings increased only moderately as a result of the weak de-icing salt business and the tangible weakening of the US dollar exchange rate.

The higher amount of tied-up capital, which was mainly consolidation-related, together with essentially unchanged earnings contributions resulted in slightly lower yield figures: In the reporting year, our return on equity after taxes amounted to 16.1% (2006: 17.7%) and the return on total investment to 11.0% (2006: 12,3%). The return on capital employed (ROCE), which we pay particular attention to, was 15.5% for the year under review compared with 17.4% in the same period last year. It thus remains far above our cost of capital of about 11% before taxes, i.e. the K+S Group has again created substantial added value during the past financial year.

Financial position

Principles and goals of financial management

Financial management of the K+S Group is controlled centrally

The overriding goals of financial management of the K+S Group include:

- increasing the financial strength of the group,
- securing liquidity and controlling it efficiently across the group and
- reducing financial risks including by means of financial instruments.

In cash management, we focus on the long-term management of our liquidity as well as the optimisation of payment streams within the Group. Group currency and interest rate management is performed centrally for all Group companies. Derivative financial instruments are used, but such transactions are only entered into with top-rated banks and are spread across several banks so as to reduce the risk of default.

With regard to foreign currency hedging, the focus is on the net US dollar receipts of the Potash and Magnesium Products business segment in terms of volume. Hedging transactions are concluded for terms of up to three years in advance in keeping with the medium-term planning horizon. The hedging volume is determined on the basis of revenue and cost planning using safety margins and updated on an ongoing basis in order to avoid excess hedging or hedging shortfalls.

New foreign currency hedging system

Until the end of last year, the derivatives used were options, which were provided with a lower and an upper barrier (double-barrier options). Using these options enabled us to obtain a very attractive US dollar hedging rate in comparison to the respective current US dollar spot rate. However, this only takes effect provided the US dollar spot rate does not reach one of the previously defined barriers during the whole term of the option. It was possible to shift these barriers, however, but only by accepting additional, relatively high premium payments.

Last year, we were able to hedge US$ 475 million in US dollar (2006: US$ 500 million) receipts for the Potash and Magnesium Products business segment at an average rate of 1.33 USD/EUR, including the necessary premium payments. This rate was again more favourable than the average US dollar spot rate of 2007 of 1.37 USD/EUR; however, it was significantly worse than the hedging rate of the year before (2006: 1.09 USD/EUR). The reason for this were follow-up hedging payments that had become necessary in many cases in order to adjust the defined barriers to the weaker US dollar.

In view of the swift and clear depreciation of the US dollar, the previous system, which had proven very successful in recent years, reached its limits. Therefore, in December 2007, the Board of Executive Directors decided to implement a new hedging system. The double-barrier options bought and still valid for the financial years 2008 to 2010 will, however, initially be retained, since they may result in special income and payment streams in the future.

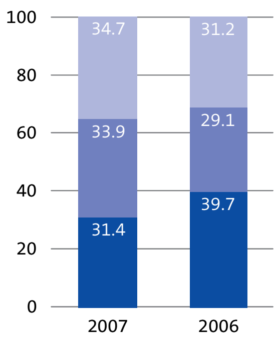
We have hedged the expected US dollar receipts of 2008 from the point of view of risk limitation. Options are used for this, which prescribe a worst-case scenario of about 1.50 USD/EUR incl. costs, but give us the opportunity to participate in a US dollar that may again become stronger. For 2009 and 2010, we will in future proceed in accordance with the same system.

Financing analysis

The K+S Group has a strong financial basis as well as a high potential for operating earnings. Both these factors mean that we are able to respond flexibly to investment and acquisition opportunities if they make sense strategically and satisfy our profitability criteria.

The financing structure of the K+S Group has changed compared with last year. Equity decreased due to the unadjusted losses and the equity ratio consequently fell from 39.7 to 31.4 % of the balance sheet total. At 33.9 %, however, the proportion of non-current debt including non-current provisions rose moderately (2006: 29.0% of the balance sheet total). Current debt too increased from 31.2 to 34.7 %.

Equity and Liabilities (in %)



Almost 40% of the K+S Group's debt consists of provisions, 34% of financial liabilities and approximately 22% of accounts payable trade. The main provisions of the K+S Group are provisions for mining obligations (2007: € 357.6 million) as well as for pensions and similar obligations (2007: € 125.8 million). As of 31 December 2007, bank loans and overdrafts amounted to € 688.3 million, of which € 328.1 million can be classified as current.

Multi-period overview of financial position

Figures * in € million	2007	2006	2005	2004	2003
Equity ratio in % **	31.4	39.7	41.7	41.0	33.3
Non-current provisions as share of balance sheet	20.5	20.9	28.1	30.4	35.2
Liabilities due to banks	688.3	370.7	29.5	57.8	19.4
Net indebtedness	1,086.5	718.2	324.0	333.0	220.5
Level of indebtedness I in %	61.3	35.0	3.2	6.5	3.3
Level of indebtedness II in %	96.7	67.7	34.8	37.7	37.7
Working Capital	566.9	600.2	453.0	333.1	250.9
Cash flow from operating activities **	258.7	227.6	274.5	224.3	258.4
Free cash flow before acquisitions/divestments	115.4	155.6	180.2	92.7	135.9
Cash flow for financing activities	81.7	170.9	(113.3)	(39.7)	(84.8)

* Until 2003: HGB; starting from 2004: IFRS; a derivation of the key figures used can be found in the glossary.
** Adjusted for the tying up of funds for premium payments for hedging transactions.

The actuarial measurement of pension provisions is performed applying the projected unit credit method in accordance with IAS 19. The following parameters have been applied in computing provisions for pensions:

- Trend in salary increases: 1.8%
- Trend in pension increases: 1.8%
- Discount factor: 4.6%

The following parameters have been taken into account in computing most of the provisions for mining obligations:

- Trend in price increases: 1.5%
- Discount factor: 5.0%

A change in the level of market interest rates would impact on the measurement of provisions for pensions as well as mining obligations first of all. Thus, an increase in the discount factor of one percentage point would reduce the carrying amount by about € 15 million in the case of pension provisions and by about € 54 million in the case of provisions for mining obligations in 2008. Conversely, a reduction in the discount factor of one percentage point would cause pension provisions to rise by about € 18 million and mining provisions to rise by about € 85 million in 2008. It is important to note in this regard that the aforementioned changes in provisions resulting from a change in the discount factor should be not be treated as having a corresponding impact on earnings. Because of the correlation between interest rate levels and the inflation rate, an increase or reduction in the inflation rate is generally linked to a rise or cut in interest rates. In contrast to viewing a change in interest rates in isolation, this has a much lesser impact on earnings.

The average cost of debt, including provisions, for the K+S Group is 4.3 % before taxes and thus slightly lower than a year ago (4.7 %). The decrease is mainly attributable to the higher proportion of current financial liabilities denominated in euros. We do not expect any significant change in the cost of debt in 2008.

Almost two thirds of the financing of the K+S Group result from equity and non-current debt, which itself consists almost entirely of non-current provisions. Furthermore, there are sufficient financing possibilities available at banks, which, if need be, offer us additional financing at attractive rates.

Financial liabilities in foreign currencies exist in US dollars, Brazilian reals and Chileans pesos. As at 31 December 2007, they totalled € 115 million.

Significance of off-balance sheet financing instruments for the financial and asset position

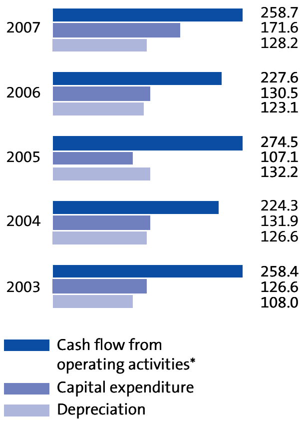
Off-balance sheet financing instruments in the sense of the sale of receivables, asset-backed securities, sale and lease back transactions or contingent liabilities in relation to special purpose entities not consolidated only exist to a negligible extent. We only have operating leases in respect of, for example, IT equipment and company vehicles and the extent of them has no bearing on the economic position of the Group.

Capital expenditure analysis

CAPITAL EXPENDITURE BY BUSINESS SEGMENT

in € million	Q1/07	Q2/07	Q3/07	Q4/07	2007	2006	%
Potash and Magnesium Products	11.1	13.9	23.9	30.8	79.7	83.8	(4.9)
COMPO	2.5	1.3	4.3	4.5	12.6	11.4	+ 10.5
fertiva	1.0	1.4	1.4	0.4	4.2	0.7	> 100.0
Salt	5.5	4.9	9.6	27.9	47.9	21.2	> 100.0
Waste Management and Recycling	0.7	0.4	2.9	2.9	6.9	4.3	+ 60.5
Services and Trading	4.2	3.3	3.2	4.3	15.0	8.2	+ 82.9
Reconciliation*	0.2	0.4	0.1	4.6	5.3	0.9	> 100.0
K+S Group	25.2	25.6	45.4	75.4	171.6	130.5	+ 31.5
Share of total revenues in %	14.7	14.9	26.5	43.9	100.0	–	–

CAPITAL EXPENDITURE COMPARED WITH DEPRECIATION AND CASH FLOW FROM OPERATING ACTIVITIES (IN € MILLION)



* Adjusted by tied-up funds for premium payments for hedging transactions.

In 2007, we invested a total of € 171.6 million in property, plant and equipment and intangible assets, about 32% more than in the previous year. Additionally, at the end of the year and in contrast to our original expectations, there were capital expenditure overhangs of about € 10 million; they were primarily attributable to the limited availability of resources from suppliers as well as the resultant extended delivery times. During the course of the year, a certain degree of seasonality is evident for capital expenditure; particularly in the third and fourth quarters, the main focus is on the implementation of investment undertakings, since we are using the pauses in production then to implement large-scale investment undertakings. At the end of the year, there were capital expenditure obligations totalling € 66.5 million. On the one hand, this is attributable to investment undertakings from 2007 still being implemented and, on the other hand, to early orders for investment projects of 2008. As a result of the above-mentioned limited resources from suppliers and consequent extended delivery times, some orders for materials for the planned production pauses in 2008 were already made during the year under review.

Measures relating to replacing and ensuring production account for just under 60% of the capital expenditure. The depreciations totalling € 128.2 million were able to fund these measures completely and, furthermore, cover part of the investments in expansion and rationalisation projects.

Potash and Magnesium Products Business Segment

At € 79.7 million, capital expenditure in the Potash and Magnesium Products business segment was down € 4.1 million on the previous year. Measures relating to replacing and ensuring production account for about three quarters of the capital expenditure. The focus in the past year was again on various measures to improve exploitation. Moreover, in the year under review we started to change over the energy supply at our Wintershall site. In addition to this, we undertook a modernisation measure for increasing capacity in the area of fertilizer specialities.

COMPO Business Segment

In the year under review, we invested € 12.6 million in the COMPO business segment, which is almost 11 % more than in 2006. About 60 % of this applied to investments in expansion projects. The largest projects were the enhancement of the performance of the filling facilities at the Krefeld site, begun in 2006, and the optimisation of the peat and humus plant Gnarrenburg. A further part of the capital expenditure concerned projects in the area of consumer plant protection, which we carried out in collaboration with Syngenta.

fertiva Business Segment

In our fertiva business segment, at € 4.2 million, the volume of capital expenditure was significantly higher than the level of previous years (2006: € 0.7 million). This increase is attributable to the construction of the new filter plant for large-grain ammonium sulphate at the Lanxess plant in Antwerp; almost exclusively capital expenditure relating to expansion was involved in this.

Salt Business Segment

At € 47.9 million, capital expenditure in the salt business in 2007 more than doubled year on year. About two thirds of this volume took the form of capital expenditure relating to expansion. The increase is attributable to the expansion and extension of the useful life of our ships as well as to measures for doubling the loading capacity of the port at the open-cast mining operations of SPL in Chile. To this can be added the replacement of the mill at the Borth site and the modernisation of an installation for de-storage at the Bernburg site.

Waste Management and Recycling Business Segment

Capital expenditure in the Waste Management and Recycling business segment during 2007 totalled € 6.9 million and was thus € 2.6 million more than in the previous year. In addition to investments relating to maintenance in the REKAL plant for the recycling of salt slag, the focus was on projects for enhancing the re-utilisation capacity for the receipt of waste in dust form at the Zielitz and Unterbreizbach sites. Just under 70 % of the total volume applied to investments relating to expansion.

Services and Trading Business Segment

At € 15.0 million, the capital expenditure in the Services and Trading business segment almost doubled in 2007 compared with the previous year; capital expenditure relating to replacement and modernisation were weighted approximately equally. At KTG in Hamburg, the replacement of a bulk loader was begun, the warehouse storage capacity was increased and, at the Werra site, the construction of a container terminal for combined traffic (rail/trucks) was begun. Moreover, there were modernisation measures in the computer centre of our IT subsidiary data process GmbH.

Liquidity analysis

Cash flow review

in € million	Q1/07	Q2/07	Q3/07	Q4/07	2007	2006	%
Gross cash flow	104.1	67.1	116.5	84.4	372.1	342.7	+ 8.6
Cash flow from operating activities	38.4	155.8	85.3	(20.8)	258.7	227.6	+ 13.7
Cash flow from investing activities	(24.2)	(25.0)	(42.4)	(49.1)	(140.7)	(429.8)	(67.3)
- of which acquisitions/divestments	(0.5)	–	3.6	(0.5)	2.6	(357.7)	–
Free cash flow	15.0	49.5	(79.4)	(234.1)	(249.0)	(227.4)	(9.5)
Free cash flow before acquisitions/divestments	**14.6**	**130.8**	**39.4**	**(69.4)**	**115.4**	**155.6**	**(25.8)**
Share of total free cash flow in %	12.7	113.3	34.1	(60.1)	100.0	–	–
Cash flow from financing activities	1.7	(114.9)	36.7	158.2	81.7	170.9	(52.2)
Change in cash and cash equivalents	16.7	(65.7)	(43.6)	(75.2)	(167.8)	(53.4)	> (100.0)

* Adjusted for the tie-up of funds for premium payments for hedging transactions.

Attaining € 372.1 million in the year under review, gross cash flow was tangibly above the high level of a year ago. In spite of high interest rates, the higher operating earnings and lower income tax payments had an impact. Cash flow from operating activities for 2007 was influenced exceptionally strongly by premium payments of € 367.0 million, for the previous and in the meantime transformed US dollar hedging for payment receipts in the years 2007 to 2010 (previous year: € 25.3 million). After the changeover to a new system, such a high level of tied-up funds is not to be expected anymore in the coming years, so that a look at the figures adjusted for these tied-up funds shows: The cash flow from current business operations adjusted for these premium volumes rose by € 31.1 million or 14 % in comparison with last year and thus mirrored the trend of gross cash flow.

Expenditure related to investing activities, which in the previous year included comparatively high payments for acquisitions, fell considerably by a total of € 289.1 million to € 140.7 million in the reporting year. Adjusted for acquisitions, it increased, however, by € 71.2 million and thus almost doubled; but here it must be taken into consideration that the previous year benefited from proceeds from the sale of securities to the value of € 45.0 million within the framework of the funding of SPL.

In 2007, we posted negative free cash flow of € 249.0 million, down € 21.6 million on the corresponding figure for last year. Adjusted for acquisitions/divestitures and the tie-up of funds caused by premium payments, it fell by € 40.2 million or 26 % to € 115.4 million; this is chiefly attributable to the proceeds from the sale of securities obtained in the previous year. Free cash flow before acquisitions/divestitures is subject to significant seasonality during the course of the year. In general, both the first and last quarters are influenced by an increase in receivables, while high cash receipts are usually recorded in the second and third quarters. These factors result in cash generally reaching its highest point for the year at the end of the third quarter.

Cash flow from financing activities for the year under review essentially covered the dividend payment of € 82.5 million for 2006 as well as the loan of € 166.3 million taken out in connection with the premium payments for US dollar hedging. Overall, the cash flow from financing activities fell by € 89.2 million or 52 %. Thus, cash and cash equivalents amounted to € (151.4) million at the end of the year compared with € 16.4 million for the previous year.

Cost of capital

The weighted average cost of capital for the K+S Group comprises the aggregate of the interest to which a contributor of equity would be entitled in respect of his equity share as well as the interest on debt in respect of the interest-bearing debt component of total capital. As this is considered from an after-tax perspective, the average interest on debt is reduced by the expected corporate income tax rate.

The interest to which a contributor of equity would be entitled is based on the risk-free interest rate plus a risk premium. The average of the Euro-Composite Index, AAA rating, with a maturity of 1 year to 30 years is applied as the risk-free interest rate, giving a figure of about 4.8 %. The risk premium has been computed using the empirical mean for the market risk premium of 4.5 % and the longer-term adjusted beta factor of 0.82 applicable to K+S in relation to the MSCI Europe benchmark. This means that a contributor of equity would be entitled to interest of 8.5 %. The market value of equity amounted to about € 4.7 billion as at the end of November 2007 and is a figure derived from the price for the K+S share on that reporting date multiplied by the number of shares issued (41.25 million units).

The average interest on debt before taxes amounts to 5.0 % and is derived from the weighted average for the risk-free interest rate plus the individual credit risk supplement for K+S assuming an A rating for debt as well as the interest on pension and mining provisions. After taking into account the future expected Group tax rate of 28%, this yields an average cost of debt after taxes of about 3.6 %.

At the end of November 2007, the time for the impairment test, interest-bearing debt amounted to € 1.1 billion, being the aggregate of the market value of the financial liabilities, the pension provisions and the mining provisions. Total capital is accordingly about € 5.8 billion, of which about 81 % is attributable to equity valuated at market prices.

In total, this results in a weighted average cost of capital rate for the K+S Group of about 7.5 % after taxes.

Asset position

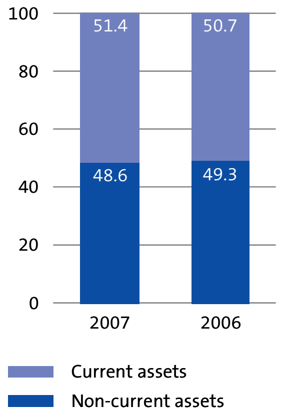
Analysis of asset structure

MULTI-PERIOD OVERVIEW OF NET ASSET POSITION

Figures* in € million	2007	2006	2005	2004	2003
Property, plant and equipment, intangible assets	1,297.3	1,271.7	874.1	883.3	659.8
Financial assets and non-current securities	54.9	61.5	75.3	75.8	76.0
Cash and cash equivalents and current securities	53.1	79.6	150.0	206.0	234.8
Net indebtedness	1,086.5	718.2	324.0	333.0	220.5
Equity/fixed assets ratio I in %	85.6	82.4	104.8	97.7	87.0
Equity/fixed assets ratio II in %	162.1	146.2	179.7	173.9	178.9
Liquidity ratio I in %	4.8	9.0	23.0	35.6	56.5
Liquidity ratio II in %	108.8	119.1	146.4	142.6	185.7
Liquidity ratio III in %	148.2	162.2	190.0	186.1	244.4

* 2003: HGB; starting from 2004: IFRS; a derivation of the key figures used can be found in the glossary.

ASSETS (IN %)



K+S Group balance sheet total rose by 4.7 % to € 2,964.8 million as of 31 December 2007. The increase was mainly attributable to higher receivables and property, plant and equipment. For this reason too, the structure of assets shifted somewhat in favour of current assets in the past year. At 49:51, the ratio of non-current assets to current assets can, however, still be regarded as very balanced. At the end of 2007, liquid funds and short-term securities totalled € 53.1 million (prevous year: € 79.6 million); the decline observed in recent years is attributable to the use of existing liquidity for share buybacks, the acquisition of the SPL Group and the off-balance sheet financing of pension obligations. After the inclusion of liquid funds (€ 49.4 million), securities (€ 40.8 million), the provisions for pension and mining obligations (€ 125.8 million and € 357.6 million respectively), financial liabilities (€ 688.3 million), as well as the net cash and cash equivalent positions of non-consolidated associates (€ 5.1 million), K+S' net indebtedness at the end of the year amounted to € 1,086.5 million (previous year: € 718.2 million). The increase is mainly attributable to higher premium payments for US dollar hedging.

Off-balance sheet assets

In 2005, we started on the out-financing of provisions for pensions and semi-retirement arrangements through a Contractual Trust Arrangement (CTA) model. By making allocations to the CTA model, the corresponding financial resources are earmarked for the purpose of settling pension obligations and early retirement arrangements and are thus disclosed as off-balance sheet items for the K+S Group. After a further allocation of € 9.5 million in the year under review, as at 31 December 2007, a total of € 99.8 million was tied up for this end as an off-balance sheet item.

As at 31 December 2007, other financial obligations totalled about € 116 million and concern both obligations arising from as yet uncompleted capital expenditure projects as well as from operating leases for items of factory and office equipment (e.g. printers, photocopiers and IT peripherals). In addition, cars are also leased. Given relevant contractual arrangements, these items are not carried under fixed assets on the balance sheet.

Discussion of purchases and sales of companies

As a result of the SPL acquisition, the scope of consolidation as of 30 June 2006 was extended to include 19 companies in the balance sheet for the first time; inclusion in the consolidated income statement took place as of 1 July 2006. biodata ANALYTIK GmbH, Linden, is no longer included in the scope of consolidation due to its disposal on 20 September 2007.

General statement on the current economic situation *

The K+S Group is well positioned to further increase enterprise value for fertilizers and plant care as well as salt on growing markets. The fertilizer prices that can be attained on global markets in the meantime should significantly overcompensate for the higher costs of energy, personnel, freight and raw materials. In addition, with our new hedging system for 2008, we have implemented measures to avert the negative effects of a weaker US dollar exchange rate in excess of the 1.50 USD/EUR mark. The renewed absence of winter weather conditions with the resulting effects for our de-icing salt earnings should, in view of the anticipated pace of growth in the fertilizer area, only have a disproportionately low impact on total group earnings. Thus, our overall assessment of the economic situation remains very positive.

* As of 22 February 2008

Business segment development

Potash and Magnesium Products Business Segment

Variance analysis in %	2007
Change in revenues	+ 13.6
- volume/structural factors	+ 3.4
- prices	+ 13.8
- exchange rates	(3.6)
- consolidation	–

in € million	Q1/07	Q2/07	Q3/07	Q4/07	2007	2006	%
Revenues	368.5	339.7	313.5	386.3	1,408.0	1,238.9	+ 13.6
Operating earnings (EBIT I)	52.8	55.9	65.0	4.2	177.9	158.6	+ 12.2
Capital expenditure	11.1	13.9	23.9	30.8	79.7	83.8	(4.9)
Employees (31 Dec.; number)	7,545	7,509	7,629	–	7,626	7,550	+ 1.0
Share of total EBIT I in %	29.7	31.4	36.5	2.4	100.0	–	–

Potassium chloride	+ 12.8
Fertilizer specialities	+ 18.9
Industrial products	+ 3.6

Market environment

With a share of just under 12 %, the Potash and Magnesium Products business segment is the fourth-largest producer in the world and the leading provider in Europe. Our specialities clearly distinguish us from the competition and in terms of magnesium sulphate and potassium sulphate fertilizers, we occupy the leading position in the world. With our product range for industrial, technical and pharmaceutical applications, we are also the strongest provider worldwide and in Europe number 1 by far.

A description of the drivers behind global fertilizer demands can be found on pages. 64 et seq.

At 59 million tonnes of goods, global demand for potash fertilizers increased by approximately 16 % in the year under review, compared with the previous year. However, in looking at the previous year, it must be taken into account that the demand for potash fertilizers was temporarily depressed due to tactical purchasing behaviour, particularly on the part of major state-trading countries such as China and India. Over the past five years, the demand for potash fertilizers increased by just under 5 % per annum; the average growth rate in terms of structure has therefore risen.

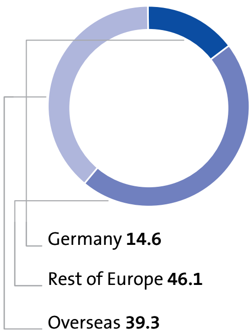
MOP Prices (in US$/t)

Region	end of 2007	end of 2006	%
Western Europe granular (€/t)	290	165	+ 75,8
Brazil granular	350	180	+ 94,4
South-East Asia standard	425	225	+ 88,9

Source: FMB

With international potash fertilizer manufacturers producing 58 million tonnes of goods in 2007 (close to the theoretical capacity of good 62 million tonnes of goods), the excess demand (59 million tonnes of goods) in relation to output led to supply bottlenecks. At the beginning of the year, this was further aggravated by logistical problems due to rail strikes and a cold spell suffered by North American suppliers. For Russian producers, transport problems could only be averted with a great deal of effort: As a result of the soil subsidence caused by the leach inflow at the Uralkali mine Berezniki I, which was abandoned in October 2006, both the original railway line used by Silvinit to transport most of its goods, and the temporary alternative route, were at risk. The latter could be used until the end of the year and then superseded by a new detour at the turn of the year; however, in view of the already very scarce supply, this situation led to further price increases for potash fertilizers. As can be seen from the accompanying table, the prices for potassium chloride (MOP), against the backdrop of the aforementioned strong demand and scarce supply situation, globally increased freight costs and the weakness of the US dollar (a disadvantage for all potash producers), practically doubled in 2007.

Revenues by region (in %)



Revenues

The Potash and Magnesium Products business segment posted revenues of € 1,408.0 million for financial year 2007, which represents an increase of just under 14 % on the previous year: Higher prices of potash and magnesium products, an improved sales structure and a higher volume outflow of fertilizer specialities more than compensated for the negative effects of the weak US dollar. Above all, we increased our sales in our core market of Europe, with the result that total sales in 2007 amounted to 8.22 million tonnes and were up just under 3 % on the previous year (2006: 7.99 million tonnes).

About 60 % of revenues were generated in Europe last year and are therefore largely free of any direct foreign exchange risk. However, the weakening of the average US dollar rate to 1.37 USD/EUR had a negative effect on the revenues achieved overseas (2006: Ø 1.26 USD/EUR); with unchanged exchange rates, we would have achieved revenues higher by just under € 45 million.

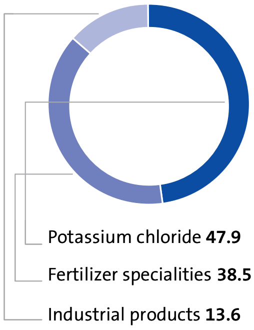
Development of revenues, volumes and average prices by region

Region	Unit	Q1/07	Q2/07	Q3/07	Q4/07	2007	2006	%
Revenues*	**€ million**	**368.5**	**339.7**	**313.5**	**386.3**	**1,408.0**	**1,238.9**	**+ 13.6**
- Europe	€ million	231.6	194.7	191.0	237.2	854.5	741.9	+ 15.2
- Overseas	US$ million	179.4	195.4	169.1	215.1	759.0	625.3	+ 21.4
Volumes	**t eff. million**	**2.30**	**2.08**	**1.78**	**2.06**	**8.22**	**7.99**	**+ 2.8**
- Europe	t eff. million	1.41	1.21	1.11	1.30	5.03	4.83	+ 4.1
- Overseas	t eff. million	0.89	0.88	0.67	0.76	3.19	3.16	+ 0.9
Average Price	**€/t eff.**	**160.6**	**163.1**	**175.9**	**187.7**	**171.3**	**155.0**	**+ 10.5**
- Europe	€/t eff.	164.4	161.6	171.8	182.1	170.0	153.6	+ 10.7
- Overseas	US$/t eff.	202.5	222.7	252.0	284.6	237.9	197.9	+ 20.2

* Revenues include prices both inclusive and exclusive of freight and are based on the respective USD/EUR exchange rate in the case of overseas revenues. Hedging transactions have been concluded for most of these revenues, enabling us to achieve more attractive EUR revenues than indicated here. These effects are included in other operating income. The information on prices is to be understood solely as providing a rough indication.

During the year under review, revenues for potassium chloride – our biggest product in terms of volume – rose by € 76.3 million or just under 13 % to reach € 674.3 million. Higher prices more than compensated for intended volume decreases, conditioned by structural factors, and a weaker US dollar. The biggest increase in revenues was achieved in Europe with just under 16 %, but overseas revenues were also up, by just under 9 %. In Europe, sales amounted to 1.84 million tonnes and therefore rose by just under 5 %. Overseas sales amounted to 1.91 million tonnes, just under 7 % down on the previous year.

Revenues by product group (in %)



With fertilizer specialities, we achieved revenues that were up by approximately 19% for the financial year that has just ended, in comparison with the previous year (2007: € 542.0 million). Positive sales structure effects, volume growth and higher prices contributed to this strong increase. In Europe, revenues increased by just under 22%; overseas revenues were also up, by approximately 14%. While European sales grew by 13% to 2.36 million tonnes, overseas sales rose by 16% to 1.06 million tonnes.

Revenues for industrial products were up just under 4% year on year and totalled € 191.7 million. The increase is primarily due to price rises. These were more than able to make up for a weaker industrial potash business in Europe, partially because of the marked decline in use by winter road clearance services. Revenues rose by just under 16% overseas and attained the previous year's level in Europe. Sales amounted to 0.83 million tonnes ((16) %) in Europe and to 0.21 million tonnes (+ 14%) overseas.

Development of earnings

Operating earnings (EBIT I) for the Potash and Magnesium Products business segment rose by € 19.3 million or 12% to a new record level of € 177.9 million. Higher average prices of potash and magnesium products could more than make up for higher costs, especially in the case of materials, as well as a currency result weaker by € 60.9 million. The operating earnings of the Potash and Magnesium Products business segment display a degree of intra-year seasonality that favours the first half of the year and is mainly connected with the European spring fertilizing season. In addition to this, the fourth quarter was exceptionally depressed by the weaker foreign currency result (€ (56.2) million).

COMPO Business Segment

Variance analysis in %	2007
Change in revenues	**+ 11.8**
- volume/structural factors	+ 10.5
- prices	+ 1.8
- exchange rates	(0.5)
- consolidation	–

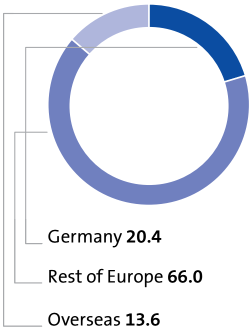
Consumer business	+ 5.5
Professional/industrial business	+ 15.2

in € million	Q1/07	Q2/07	Q3/07	Q4/07	2007	2006	%
Revenues	217.1	156.9	115.9	127.5	617.4	552.4	+ 11.8
Operating earnings (EBIT I)	19.2	9.0	0.0	3.8	32.0	29.2	+ 9.6
Capital expenditure	2.5	1.3	4.3	4.5	12.6	11.4	+ 10.5
Employees (31 Dec.; number)	1,279	1,260	1,234	–	1,252	1,260	(0.6)
Share of total EBIT I in %	60.0	28.1	0.0	11.9	100.0	–	–

Market environment

COMPO is one of Europe's leading providers of premium products in the field of potting soils, speciality fertilizers, plant care products and plant protection for the home and garden. In the case of speciality fertilizers for professional horticultural and agricultural application areas, COMPO also occupies an important position in Europe.

Revenues by region (in %)



While the consumer business was favoured by an early start to the season in the first quarter on account of the weather, and also in April, weather conditions were excellent, the bad spell of weather in May and June had the effect of subduing demand. The sole exception: The pesticides market profited from weather favourable to pests. In the important French market, aggressive behaviour by competitors and further concentration in the trade sector centering on a few suppliers caused margins to come under pressure.

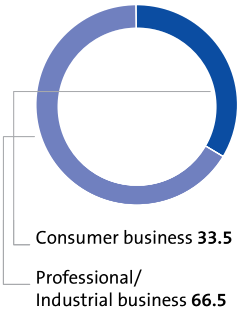
The professional business sector was also favoured by the early seasonal start. In the second quarter, the demand in central Europe was reduced by unfavourable weather conditions, but in southern Europe and overseas it was pleasingly high throughout the year.

In the year under review, the purchasing costs of the phosphate and potash raw materials employed in fertilizer production markedly increased.

Revenues

The financial year 2007 saw revenues rise by € 65.0 million or 12 % to € 617.4 million, primarily as a result of volume factors, but also price factors. It was possible to achieve volume increases above all with professional products in southern Europe and overseas. COMPO generates about 86 % of its revenues in Europe and is thus only affected by currency fluctuations to a limited extent.

Revenues by segment (in %)



In the consumer sector, revenues in the year under review rose by just under 6 % to € 206.6 million as a result of volume factors. In Germany and France, the positive volume effect was mainly achieved by listing expansions. The newly introduced plant protection products with Syngenta substances and higher sales in southern Europe also contributed to the rise in revenues.

Professional business revenues stood at € 410.8 million and could therefore be increased by 15 %. This rise in revenues is primarily due to higher sales of stabilised ENTEC® fertilizers in southern Europe and overseas, as well as to price increases.

Development of earnings

At € 32.0 million, operating earnings for the COMPO business segment were about 10 % up year on year. Higher revenues could more than make up for increased costs, primarily as a result of higher procurement prices for phosphate and potash. The operating earnings of the COMPO business segment are mainly influenced by seasonal factors with the major contributions to earnings generally being generated in the first half of the year. The third and fourth quarters are characterized by comparatively lower revenues as well as high outlays for the coming spring season

fertiva Business Segment

Variance analysis in %	2007
Change in revenues	+ 16.5
- volume/structural factors	+ 5.3
- prices	+ 14.2
- exchange rates	(3.0)
- consolidation	–

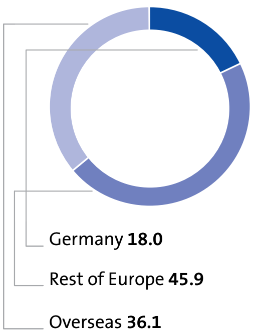
in € million	Q1/07	Q2/07	Q3/07	Q4/07	2007	2006	%
Revenues	150.5	154.0	164.0	179.6	648.1	556.2	+ 16.5
Operating earnings (EBIT I)	4.4	5.5	5.2	10.2	25.3	16.7	+ 51.5
Capital expenditure	1.0	1.4	1.4	0.4	4.2	0.7	> 100.0
Employees (31 Dec.; number)	61	58	59	–	59	61	(3.3)
Share of total EBIT I in %	17.4	21.7	20.6	40.3	100.0	–	–

Complex fertilizers	+ 13.4
Straight nitrogen fertilizers	+ 12.4
Ammonium sulphate	+ 30.6

Market environment

With its fertiva business segment, K+S is placed among Europe's leading suppliers of nitrogen fertilizers. fertiva's positions are strongest in Germany, the Benelux states and France. With the speciality fertilizer ammonium sulphate, fertiva is one of the leading suppliers worldwide.

Revenues by region (in %)



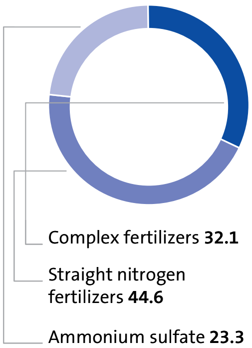
Even though, demand for nitrogenous fertilizers in Western Europe had initially been on a modest scale at the start of the year, markets were marked by high demand for nitrogen fertilizers both in Europe and overseas in the following months. Against the backdrop of availability bottlenecks as well as rising potash and phosphate prices, significant price increases for complex fertilizers could be implemented in Western Europe. Prices of ammonium sulphate and straight nitrogen fertilizers have also increased as a result of demand factors. Nitrogen fertilizer imports, particularly imports of straight nitrogen fertilizers, from Russia, the Middle East and other countries with lower gas prices, further increased.

Revenues

The revenues of the fertiva business segment in the year under review amounted to € 648.1 million and were therefore up by just under 17 % against the previous year. This revenue increase was primarily conditioned by positive price but also volume effects, which could more than make up for slightly negative exchange rate effects. It was possible to increase the prices for nitrogen fertilizers in all regions, and sales could be increased above all elsewhere in Europe. Overseas, we achieved an increase in revenues of 21 %, and revenues on the European market rose by 14%. Sales reached 4.22 million tonnes and were therefore just under 4% up on the figure for the previous year.

Complex fertilizer revenues of € 208.1 million stood at approximately 13 % over the previous year's level as a result of price and volume factors. In Europe, improved revenues were able to more than offset a slightly negative volume effect. Overseas, however, higher sales more than levelled out negative exchange rate effects. Total sales of complex fertilizers amounted to 1.03 million tonnes compared with 0.97 million tonnes in the year before.

REVENUES BY PRODUCT GROUP (IN %)



In the case of straight nitrogen fertilizers, price and sales increases in the year under review led to a 12% rise in revenues to € 289.1 million. Revenues in Germany fell as a result of volume factors. Elsewhere in Europe and overseas though it was possible to achieve significant price- and volume-related revenue increases. Sales of straight nitrogen fertilizers as a whole amounted to 1.76 million tonnes against 1.62 million tonnes in the previous year.

In 2007, ammonium sulphate revenues rose by just under 31% to € 150.9 million. This considerable increase in all regions was due to significantly higher average prices. Sales of ammonium sulphate totalled 1.43 million tonnes and were down 3% on previous year's level.

Development of earnings

With its trading business, the fertiva business segment posted operating earnings of € 25.3 million, representing a significant increase of just under 52%. Higher raw material acquisition costs could be clearly more than offset by higher prices. In effect, earnings are divided equally between BASF and K+S within a corridor of plus/minus € 10.0 million. In addition, we receive a share of at least 25% of fertiva profits in excess of € 10.0 million.

Salt Business Segment

SPL was included with effect of 1 July 2006 and for this reason the previous year's figures are not comparable.

Variance analysis in %	2007
Change in revenues	**+ 12.2**
- volume/structural factors	(13.0)
- prices	+ 1.5
- exchange rates	(2.4)
- consolidation	+ 26.1

in € million	Q1/07	Q2/07	Q3/07	Q4/07	**2007**	2006	%
Revenues	176.6	98.6	101.0	168.9	545.1	485.8	+ 12.2
Operating earnings (EBIT I)	25.0	1.7	3.2	17.9	47.8	67.6	(29.3)
Capital expenditure	5.5	4.9	9.6	27.9	47.9	21.2	> 100.0
Employees (31 Dec.; number)	2,268	2,282	2,274	–	2,294	2,194	+ 4.6
Share of total EBIT I in %	52.3	3.6	6.7	37.4	100.0	–	–

Food grade salt	+ 10.8
Industrial salt	+ 10.7
Salt for chemical use	+ 37.0
De-icing salt	(1.2)
Other	+ 63.5

Market environment

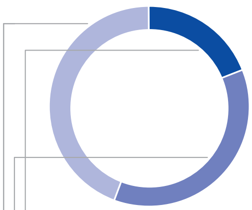
Our subsidiary esco – european salt company is the biggest supplier of salt in Europe. esco's regional focus is on Germany, the Benelux countries, France, the Czech Republic, Scandinavia, Spain, and Portugal. The market share advantage enjoyed by esco could be successfully defended compared with the previous year.

Sociedad Punta de Lobos (SPL) is South America's largest salt producer and together with International Salt Company ISCO, it occupies a strong market position in the north eastern states of the United States.

Fluctuations in consumption on the Western European salt market were relatively slight, with the exception of an unusual weak de-icing winter road clearance business in the individual segments. During the year under review, sales of de-icing salt in Europe were weaker than in the previous year, whose first quarter had, in addition, been characterised by an especially severe winter. This was due to an extremely warm winter at the start and end of 2007. In the food grade salt and industrial salt segments, business in Europe was stable, while the demand for industrial salts rose markedly because of economic factors.

The North American de-icing salt market was also negatively impacted by mild weather conditions at the start of the year. However, the late start of the winter in March had a positive effect here. In the tenders for de-icing salt for winter season 2007/2008 in the United States, there were no significant shifts in the market share of ISCO.

Revenues by region (in %)



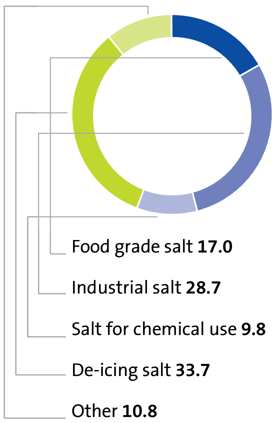
The South and Central American market for industrial salt and salt for chemical use grew in line with local population development and received additional support from the strong economic upturn. In Brazil, SPL was able to conclude a long-term agreement with a Brazilian chemical company for the delivery of salt for chemical use during the year under review; it was thus possible to increase the market share in Brazil and, at the same time, the share of product portfolio segments that are independent of the weather.

Revenues

The revenues generated by the Salt business segment amounted to € 545.1 million and were therefore up € 59.3 million or 12 % on the previous year's level. The revenue increase was due to the first-time inclusion of the SPL Group for the entire year, which produced a consolidation-related revenue increase of € 126.9 million. Without this consolidation effect, revenues would have declined by just under 14 % because of the poor European winter road clearance business. Sales of crystallised salt during the year under review amounted to 8.77 million tonnes and were therefore up 9 % on the previous year's level as a result of consolidation factors.

At € 92.6 million, food grade salt revenues were up 11 % for the year under review (2006: € 83.6 million). After adjustment for the effect of consolidation, revenues would have risen by 1 %. In the European business, mainly volume increases for the foodstuff industry had a positive impact. Sales amounted to 0.86 million tonnes and were up about 16 % year on year.

REVENUES BY PRODUCT GROUP (IN %)



Revenues for industrial salts, e.g. fishery, feed and high purity pharmaceutical salts, amounted to € 156.2 million for the past financial year and thus increased by 11%. Without the consolidation effect, revenues would have stayed on the previous year's level. In Europe, a slight decline in sales due to the limited use of industrial salt for de-icing purposes as a result of weather factors was offset by higher average prices. In the case of SPL too, positive price effects made up for decreases in sales. Sales amounted to 1.91 million tonnes and were up 13% on the previous year's level on 1.69 million tonnes.

In the salt for chemical uses business, we achieved revenues of € 53.6 million, a total increase of 37% on the previous year's figure. Without the consolidation effect, the increase would have still amounted to 19%, attributable to increases in sales and prices in Europe. Sales amounted to 1.96 million tonnes and were up 37% on the previous year's level.

In the year under review, an extremely warm winter in Europe at the beginning and at the end of the year resulted in an exceptionally weak de-icing salt business; mild weather conditions at the beginning of the year also weighed on the North American de-icing salt business. We achieved revenues of € 183.7 million for the year under review and failed to match the outstanding result for the previous year by 1%. Without the consolidation effect (€ 76.0 million), de-icing salt revenues would have been down 42%. Sales amounted to 4.04 million tonnes and were therefore down 3% year on year.

In addition to the business with other de-icing agents, such as magnesium chloride solution, the "Other" segment also includes, for the first time following the takeover of the SPL Group, the latter's third party logistics business conducted through its own shipping company, Empremar. The strong rise in revenues from € 22.9 million to € 59.0 million is in good part due to consolidation factors. Part of the revenue increase was also attributable to higher freight rates in the Empremar logistics business.

Development of earnings

At € 47.8 million, the operating earnings of the Salt business segment were down € 19.8 million or about 29% on the preceding year. Without the SPL consolidation effect, operating earnings would have fallen by 64%. Strong revenue declines in Europe as a result of the weak de-icing salt business, could be partially offset by savings on costs.

Waste Management and Recycling Business Segment

Variance analysis in %	2007
Change in revenues	+ 1.6
- volume/structural factors	+ 0.1
- prices	+ 1.5
- exchange rates	–
- consolidation	–

in € million	Q1/07	Q2/07	Q3/07	Q4/07	2007	2006	%
Revenues	17.6	17.5	17.8	17.6	70.5	69.4	+ 1.6
Operating earnings (EBIT I)	3.2	3.1	2.4	2.8	11.5	13.8	(16.7)
Capital expenditure	0.7	0.4	2.9	2.9	6.9	4.3	+ 60.5
Employees (31 Dec.; number)	34	34	34	–	34	34	–
Share of total EBIT I in %	27.8	27.0	20.9	24.3	100.0	–	–

Disposal	(5.9)
Reutilisation	+ 10.6
Recycling	(5.5)

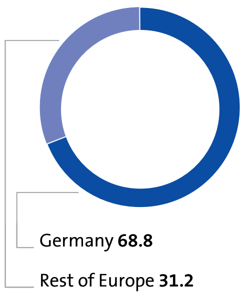
Market environment

In the case of underground waste disposal, strong competition intensified further after a fourth underground waste disposal site went into operation in Germany in 2006. The trend towards lower volume for disposal is attributable to the increased effectiveness of closed-loop recycled materials management. We mainly see opportunities for new business elsewhere in Europe, e.g. as a result of indications that the chemical facilities will be scaled back. However, the cross-border disposal of waste could be impeded by the EU Waste Shipment Regulation, which came into force on 12 July 2007. The Waste Management and Recycling business segment is Europe's leader in underground disposal.

The new provisions of the German Waste Disposal Directive (Abfallablagerungsverordnung) have a positive impact on underground waste reutilisation. They require that as of 1 July 2005, municipal waste – e.g. domestic waste, bulk waste or industrial waste – can no longer be stored above ground without being treated. Most municipal waste is now treated thermally at incineration plants. The resulting full utilisation of incineration plant capacity is producing an increase in the volume of flue gas cleaning residues. They are mainly processed underground. Furthermore, there are plans for a series of projects involving the construction of new waste incineration plants and substitute fuel power plants, so that we expect a significant volume increase until 2010 in the flue gas cleaning residues that will inevitably result from this. As the leading provider of underground disposal in Germany and Europe, we are participating in this development through the capacity expansion measures launched in 2005.

Sales of aluminium granulate, which is obtained from aluminium slag in a recycling process, is benefiting both from good recycling capacity utilisation of all our competitors in Europe as well as the relatively high global market price for aluminium. Our plant utilisation in the construction materials recycling sector was also good.

REVENUES BY REGION
(IN %)



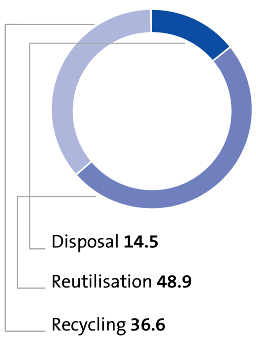
Revenues

Revenues for the Waste Management and Recycling business segment rose by just under 2% year on year to total € 70.5 million. This was mainly due to a slight rise in waste volume and higher average prices for underground reutilisation. Total volume amounted to 1.32 million tonnes and was thus down 12% in the case of normalised construction material recycling volume.

In the underground disposal sector, we posted revenues of € 10.2 million for financial year 2007, a decrease of € 0.7 million or 6% on the preceding year. A volume decline for storage could not be completely offset by the increase in the removal from storage of reusable material waste. At about 56,000 tonnes, disposal volume declined by about 7% in the past year.

At € 34.5 million, underground reutilisation revenues for financial year 2007 were up just under 11% on the top result for the previous year. In the wake of the amending of the Waste Disposal Directive described above, the resulting full utilisation of domestic waste incineration plants produced additional volume of flue gas cleaning residues; K+S is participating in this to a considerable extent. The volume of waste assumed to be received by the sector was increased by 5% to about 499,000 tonnes in 2007. With capacity utilisation generally good, this has also caused price levels, which have been low for some years, to recover.

REVENUES BY SEGMENT
(IN %)



In the case of recycling, revenues for financial year 2007 amounted to € 25.8 million and were thus down just under 6% on the previous year's level. A decline in global market prices for aluminium, which were on a record level in the previous year, resulted in lower revenues for recovered aluminium granulate. This effect as well as negative volume effects in smelting salt and construction material recycling sectors were partially offset by higher revenues for construction material recycling as well as increased sales of aluminium granulate. Compared with the previous year, which benefited from a special project, recycling volume in the year under review declined by 20% to 766,000 tonnes.

Development of earnings

The Waste Management and Recycling business segment generated operating earnings of € 11.5 million in 2007 and was thus down just under 17% on the figure for the preceding year (2006: € 13.8 million). Lower revenues for aluminium granulate as well as higher freight costs in the reutilisation and recycling sectors were key factors in this regard. The distribution of business segment earnings across the year is to a large degree independent of seasonal factors: Acquisitions and the expiry of special projects are more likely to produce strong fluctuations in earnings.

Services and Trading Business Segment

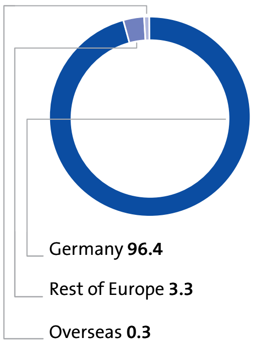
Variance analysis in %	2007
Change in revenues	**+ 0.0**
- volume/structural factors	+ 2.9
- prices	(2.0)
- exchange rates	–
- consolidation	(0.9)
Logistics	(1.1)
Granulation	+ 4.7
Trading	(5.7)
IT, analytical services	(19.4)

in € million	Q1/07	Q2/07	Q3/07	Q4/07	2007	2006	%
Revenues	14.4	11.9	14.9	13.8	55.0	55.0	+ 0.0
Operating earnings (EBIT I)	7.1	5.7	10.0	4.9	27.7	25.4	+ 9.1
Capital expenditure	4.2	3.3	3.2	4.3	15.0	8.2	+ 82.9
Employees (31 Dec.; number)	392	396	375	–	387	407	(4.9)
Share of total EBIT I in %	25.6	20.6	36.1	17.7	100.0	–	–

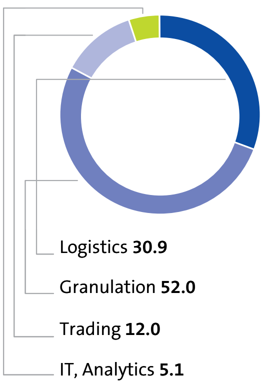
Market environment

Given the high proportion of intra-group services as well as the diverse character of the individual sectors within this business segment, it has been decided not to present the business segment in a combined fashion. You will find an overview of the individual areas of activity on pages 45 et seq.

Revenues by region (in %)



Revenues by segment (in %)



Revenues

The Services and Trading business segment posted revenues of € 55.0 million for the year under review and was thus up slightly on the previous year's level. The revenues reported only reflect services rendered to third parties while revenues deriving from services provided to K+S Group companies are to be consolidated.

In 2007, consolidated revenues for logistics services amounted to € 17.0 million and were on approximately the same level as a year ago.

In 2007, revenues from the granulation of the animal hygiene product CATSAN® amounted to € 28.6 million and were thus up just under 5 % on the previous year (2006: € 27.3 million). This was attributable to higher volume requirements on the part of our partner Mars which were partially diluted by negative price effects.

At € 6.6 million, CFK trading revenues in 2007 were down just under 6 % on the figure for the preceding year. This was due to the decline in sales of calcium chloride solution for the application of prewetted de-icing agents by winter road clearance services as a result of the mild winter.

At € 2.8 million, total IT and analytical service revenues were down about € 0.7 million on the previous year. This was due to the expiry of one-off analytical contracts from 2006 as well as to the divestment of biodata ANALYTIK GmbH in the third quarter.

Development of earnings

Operating earnings of the Services and Trading business segment for 2007 rose € 2.3 million or 9 % on the previous year to total € 27.7 million. This increase is primarily attributable to the contribution to earnings made by the sale of biodata ANALYTIK GmbH in the third quarter.

Risk Report

Risk policy

The business policy of the K+S Group is geared towards generating reasonable returns that are as sustainable as possible and towards continually increasing enterprise value. As entrepreneurial action is inseparable from the assumption of reasonable risks, the focus of risk management is on a responsible approach to these risks. We define risks as possible negative deviations from a planned result. Systematic risk management aimed at identifying and controlling risks early on is an ongoing task for the Board of Executive Directors and the management of each field of responsibility.

The organisation of the K+S Group guarantees clear and unambiguous decision-making structures. It is laid down in the organisational principles of the K+S Group, which regulate in particular the interaction between holding units and the business segments within a matrix organisational structure and form the basis for respective responsibilities within the monitoring system. In addition, we have established a compliance system with a preventative character within the K+S Group.

Opportunity management

Risk and opportunity management are closely interlinked within the K+S Group. Chances are possible positive deviations from a planned result. We essentially derive our opportunity management from the goals and strategies of our business segments and ensure an appropriate relationship between opportunity and risk. Direct responsibility for the early and regular identification, analysis and management of opportunities rests with the operational management of the business segments and/or the central holding units, forming an integral part of the group-wide planning and management systems. We occupy ourselves intensively with detailed analyses of the market and the competition, market scenarios, relevant cost drivers and critical success factors, including those in the political environment in which it operates. This serves as the basis for identifying concrete potential opportunities that are specific to business segments and which are then discussed and agreed on within the framework of the goal-setting talks held between the Board of Executive Directors and the managers responsible for the business segments. Selected potential opportunities for the K+S Group are discussed in the forecast report.

Risk Management

Our business segments have different opportunity and risk profiles and to identify them in good time as well as to assess and limit them, we use uniform planning, management and control systems. The methods used extend from analyses of markets and competition, through close contacts with customers, suppliers and institutions, and to observing risk indicators in an economic and socio-political context. Risks are assessed on the basis of a potential likelihood of materialisation and on loss levels. The possible non-recurring or recurring impact on company objectives is processed in preparation for the adoption of decisions. A further building block of risk management is the development of countermeasures for alternative risk scenarios. We are thus able to counteract risks in a systematic and methodical manner and to exploit opportunities consistently.

Given its overall responsibility for the K+S Group, the Board of Executive Directors has established a systematic and efficient risk management system by means of group-wide guidelines. Direct responsibility for early detection, analysis, control and communication rests with the operating management of the business segments and the central holding company units respectively. By means of goal-setting talks between the Board of Executive Directors and the managers responsible for the business segments as well as through regular reporting, the business segments provide information about changes in their individual risk situation. Only those risks are taken into consideration, whose potential likelihood of materialisation is 5 % or more and which, at the same time, exceed differentiated business segment-related potential losses. The risk profiles relate both to the current year and to medium-term planning for a total period of three years. Expected risks with a likelihood of materialisation of 50 % and more are taken account of in planning and projections in the form of a deduction from earnings. Risks at the group level are consolidated on a quarterly basis. These instruments enable the Board of Executive Directors to review, on a regular and timely basis, whether estimates and framework conditions have changed and which measures may have to be implemented under certain circumstances. Risks that arise in the short term are, if urgent, communicated directly to the Board of Executive Directors outside normal reporting channels. The Supervisory Board is also briefed on a timely basis and at regular intervals by the Board of Executive Directors. In accordance with a group-wide rule, transactions and measures of particular importance and scope require the approval of the Board of Executive Directors and, in special cases, of the Supervisory Board too.

In addition, a cross-segment task force and the internal audit department regularly inspect the functionality of the risk management system. Their findings are used to further improve risk early detection and control. The functionality and efficiency of our risk management system is regularly reviewed by the auditors. The existing system has proven its reliability and is suitable for the early detection of such developments that could jeopardise the continued existence of the company.

The following sections contain estimates of the materialisation and possible effect of risks following counter-measures under the current framework conditions; they are implemented from a Group perspective and relate to the medium term. The assessment levels for the materialisation of a risk are based on the qualitative criteria "unlikely, possible, likely", and the assessment levels for the possible effect are based on the qualitative criteria "moderate, significant, threatening to the continued existence of the company". A change in the framework conditions may result in a reassessment of our estimates in the course of time.

Derivative financial instruments

The K+S Group uses derivative financial instruments to counter risks resulting from foreign currency transactions in particular. An internal guideline approved by the Board of Executive Directions on the use of derivative financial instruments regulates the type of derivatives to be used, hedging strategies, responsibilities, processes and control mechanisms. Transactions with derivative financial instruments are, with individual exceptions, are concluded centrally. This ensures that the Board of Executive Directors is always comprehensively informed about all significant risks and the existing hedging transactions. Financial transactions are only concluded with banks that have a high credit rating.

Business environment and industry risk

Since the development of the K+S Group is subject to the effects of economic and legal factors, the following business environment and industry risks exist in addition to the performance of the US dollar (see discussion of "Foreign Currency risks"):

Negative supply and demand trend

The entry of new competitors or the creation of additional capacity by competitors in our business sectors could result in temporary overcapacity, which could influence volume and price trends accordingly. We would address such risks with an active volume and pricing policy. Strict cost control, quality assurance and customer orientation are helping us to strengthen our market position.

We continue to take a positive view of the general environment for fertilizers and plant care products, because we expect worldwide demand to keep rising over the next few years as well. In particular in the potash industry, additional production capacities should just be sufficient to cover anticipated increases in demand in the future. Negative factors would have a moderate effect in the context of the current environment; however, at present we consider them unlikely.

These types of adverse effects are, however, possible in the other business areas, but should be moderate under the current market conditions.

Impact of country risks

Far-reaching changes in the political, social and economic environment can never be ruled out in producing and buying countries. Such developments can result in the loss of major customers, transfer difficulties with capital services and the expropriation of business assets (country risks). Such negative factors would have a considerable impact on the net assets, financial position and results of operations. They are unlikely at the present time.

Higher energy costs

Our production costs are affected to a not inconsiderable extent by the energy price, in particular for gas. Rising crude oil prices normally result in gas becoming more expensive. Cooperation with energy companies should, in future, reduce the energy risk since we will obtain steam from substitute fuel heating plants at our sites; moreover, hedging transactions are used to the extent that they can be expected to achieve substantial hedging success. Moreover, a weakening US dollar exchange rate against the euro has the effect of slowing down the rise in energy costs. We consider corresponding adverse effects to be possible, but we assess the effect in relation to the expected results as moderate.

Corporate strategy risk

We strive to achieve profitable and sustainable growth. Decisions on investment and interests were and are judged in accordance with this criterion. Corporate strategy risks may arise from the fact that expectations placed in internal projects (such as investments, for example) as well as in acquisitions and strategic cooperations are not met. The integration of companies that have been or are to be acquired may, for example, can give rise to difficult tax law and other legal questions as well placing strains on relationships with customers and employees. Furthermore, logistics processes have to be standardised in the course of the integration of the acquired company. Through the early analysis of opportunities and risks by experienced specialist departments, with the support of external advisors where necessary, we can limit the risks in this regard.

By means of entry into new markets as well as acquisitions and cooperation in existing business segments, we want to implement our strategy, which involves expanding our market positions as a provider of specialities. Synergies with existing businesses should be used to the maximum possible extent in this regard. The implementation of efficient quality assurance systems and certifications contribute to creating a positive impression through customer-orientated quality and to consolidate our position on the markets. If necessary, business processes are also examined and enhanced with the assistance of external advisors. We continue to respond to changes in framework conditions with numerous technical, organisational as well as personnel and collective bargaining measures in order to cut costs further and create flexibility.

Thus, our remuneration system contains a relatively high element comprising variable remuneration components. However, this element has the potential to be increased. The variable component rises with managerial responsibility. We are in the process of also introducing this approach within the international companies of the K+S Group to a greater extent.

Economic performance risk – Procurement

Procurement risk due to loss of suppliers and supply bottlenecks

The loss of suppliers and supply bottlenecks affecting special materials and supplies, commodities and technical equipment specific to mining may give rise to potential cost and supply risks. This also applies to the procurement of logistics services. We minimize such procurement risks with market analyses, the careful selection and appraisal of suppliers, long-term delivery agreements, clearly defined quality standards as well as modern purchasing methods. This ensures that goods and transport are available in the required volume and quality in a timely fashion. We consider the possible remaining procurement risk for us to be moderate overall.

Rising freight costs

In the case of the overseas business, the reduced availability of freight capacity (high global cargo volume) has resulted in higher costs for transportation by large vessels. By means of the long-term securing of freight capacity with a high fixed-price component as well as switching over to the use of containers, we were able to largely absorb the effects of this development. In the near future, we expect no significant deterioration in this situation. We consider appropriate adverse effects to be possible, but we regard the effect in relation to the expected results as moderate.

Price increases for ammonia and phosphate

The costs of fertilizers containing nitrogen and phosphate bought from BASF are based on the global market prices for ammonia and phosphate. Ammonia prices have increased substantially over the past few years, but it has hitherto largely been possible to pass on these price increases via prices. If the competitive environment becomes more difficult, fertiva might not always be able to do so. However, because of the contractual arrangements with BASF, the resulting risk is classified as moderate for K+S. Market conditions on the raw material markets also lead to a tightening supply of and price increases for phosphate. The situation could arise that in this market environment no sufficient phosphate is available at times for the production of NPK fertilizers. We consider corresponding restrictions in the COMPO and fertiva business segments possible but moderate in relation to expected earnings.

Economic performance risk – Sale and distribution

Reduction in anti-dumping protection

Following the passing of new regulations on anti-dumping protection against unfair competition with potash fertilizers from Russia and Belarus for the European market in 2006, increasing competition was discernible in the EU. As the result of the high demand for potash on the global market and the substantial price increases that have occurred recently, the effects are currently still limited. In the event of a change in the market situation, another increase in competitive pressure cannot be ruled out in Europe. This could result in us having to market a greater proportion of our products overseas. The loss potential arising from the weakened anti-dumping measures depends on the growth in sales overseas and the respective cost and price situation and can, against the backdrop of the price levels prevailing on overseas markets at the present time, be classified as moderate. The occurrence of a possible loss is therefore currently be classified as unlikely.

Impact of weather conditions

General weather conditions represent a notable sales risk for the Potash and Magnesium products, fertiva, COMPO and Salt business segments. Prolonged cold and wet weather during the spring season, particularly important for Europe, can result in sales shifts and possible lower sales of fertilizers and plant care products. Mild winters in the main sales regions for de-icing salt can result in lost revenues and earnings. We are responding to this risk in the form of needs-based production management and flexibility on working hours. We have not used special derivatives to hedge this risk thus far because of what we consider to be unattractive market terms. We consider corresponding adverse effects to be possible, but we assess the effect in relation to the expected results as moderate.

Economic performance risk – Production and the environment

Production technology risks

K+S Group production plants are characterised by very high performance potential. By employing wide-ranging monitoring, probing and control systems, we can identify possible production risks early on and respond accordingly. Risks are reduced thanks to a number of quality assurance measures, preventative maintenance and constant facility inspections. This is also assisted by certification under international norms and the constant further development of our facilities and products. We have taken out insurance against fire damage and the resultant production stoppages. Given our preventative measures, we consider the remaining possible production and environmental risks to be moderate.

More stringent environmental law

Public and political debate about future, higher requirements of environmental friendliness – irrespective of recognised environmental friendliness audits – may impact on the issuing and retaining of operating licences and planning decisions approving public works as well as water permits. In the Potash and Magnesium Products business segment, restrictions on the disposal of saline tailings and production water may give rise to production risks. Currently, this water is channelled into surface water or subterranean rock layers on the basis of approvals under water law. In view of our ecological and economic responsibility, the further minimisation of solid and liquid production residues from potash production is among the focal points of our research and development. In future, all conceivable alternative means of disposal are checked with the participation of independent assessors. It is possible that concepts resulting from this, which are intended to ensure sustainably safe disposal at the same time as maximally protecting the environment, may also lead to considerable additional costs beyond the period under examination.

Carbon dioxide pockets in deposits

Carbon dioxide pockets in certain deposits constitute a latent potential danger. To keep any impact on people, machinery and deposits as low as possible, extraction operations underground are always conducted in compliance with the special safety guidelines applicable to CO_2 leaks. We regard the possible loss potential as moderate.

Workplace limits

The EU initiative on setting indicative workplace limits for nitrogen monoxide (NO), nitrogen dioxide (NO_2) and carbon monoxide (CO) could pose risks to our mining activities, which we consider to be exaggerated. It should be possible to achieve realistic limits meaningful over the long term through intensive cooperation between the EU Commission and national governments as well as the companies concerned and their pressure groups. Concrete statements about the measures necessary to reduce the concentration of NO in the underground workplace and the resulting additional costs depend on the final limits. In the medium term, adverse effects are possible, but we currently consider them to be moderate.

Economic performance risk – Research and development

We do not see any serious risks in the research and development field as the relevant markets for K+S are only subject to limited technological change. We have intensified our own development activities through research cooperation with industrial partners as well as colleges. Thus, technical opportunities for cutting costs are reviewed on an ongoing basis.

The risk of developing products that are not accepted by our clients can be deemed to be slight because of our good customer contacts. In addition, we provide our agricultural customers with intensive application advice, which enables us to identify future needs early on.

Furthermore, our internal quality management is a key factor for avoiding inefficiency and thus achieving our business success. The K+S Group attaches great importance to knowledge management. Employees are thereby actively engaged in a structured, continuous process of improvement.

Personnel risks

The competence and commitment of employees are key factors for the successful development of the K+S Group and the successful management of opportunities and risk. Our vocational training as an important investment for the future, in the context of demographic change too, contributes to securing and strengthening these factors. By means of practice-based support for future generations of employees, targeted further training measures and encouragement for those who display potential, the K+S Group has demonstrated that it is an attractive employer able to retain managerial personnel in particular over the long term. With this strategy and our increased involvement in cooperation with selected colleges, we offer qualified employees very promising career prospects. We are thus well prepared for the increased competition on the labour market for specialist and managerial personnel. Key positions are regularly analysed with respect to forward-looking succession planning, and suitable candidates are prepared for such tasks. Further elements are assistance and advice geared towards target groups as well as attractive incentive systems. We thus consider adverse effects, which we only estimate as moderate, to be unlikely.

IT risks

Data security

The increasing networking of IT systems and the necessity of their permanent availability impose high demands on the information technology used. We respond to possible risks by using modern hardware and software that meet current security standards. Our IT systems are constantly reviewed and modified to ensure the secure execution of business processes. We apply a largely uniform IT infrastructure throughout the group. The compatibility and security of the IT systems and of stored data is guaranteed along with the requisite efficiency. We consider serious dangers in connection with information security or risks from the information technology used to be unlikely.

Failure of computer centre

The computer centre is operated as a 2-location computer centre. This protects the main areas through redundancy. The power supply, data cables and monitoring systems are duplicated. All systems are permanently monitored and faults corrected automatically or manually. Adverse effects in the event of a short-term failure would have a moderate impact, but are unlikely.

Financial risks

Group financing and the limiting of financial risks are managed centrally.

Liquidity risks

Liquidity is monitored on an ongoing basis and managed optimally by means of central cash pooling. The aim of investment is to optimise the income earned from liquid funds at low risk. In the case of all forms of investments, there are certain set creditworthiness requirements in relation to issuers that have to be met. Delivering solid financial figures strengthens the financial position of the K+S Group. A syndicated loan was taken out on attractive terms for the acquisition of Chilean SPL concluded in 2006. There are sufficient additional financing possibilities for further financing undertakings such as acquisitions. There is no particular dependency on any individual lenders. At the present time, we consider any liquidity or financing risk for the K+S Group to be unlikely.

Company rating

Currently, there is no rating issued by an external rating agency. The solid structure of our balance sheet and the potential credit available to us has not prompted us thus far to undergo a cost-intensive rating process at a rating agency. The information available to us from various well-known credit institutions shows that we are assessed with a favourable creditworthiness classification.

Foreign currency risks

The K+S Group faces particular challenges in the field of foreign currency management because of the international orientation of its business operations. Transactions denominated in foreign currencies account for just under one third of group revenues. Exchange rate fluctuations, especially in relation to the US dollar, can play an important role for the Potash and Magnesium Products business segment and the North American business of the Salt business segment.

We use derivative financial instruments to counter these exchange rate risks. In the aforementioned business segments, net positions, i.e. the payments resulting from revenues generated in foreign currencies less the costs (essentially freight costs) to be paid in foreign currencies, are hedged against exchange rate fluctuations, with the help of derivatives, normally options. Not only anticipated foreign currency payments based on revenues generated are hedged but also anticipated payments based on projected revenues. Hedge transactions currently extend until the end of 2008 and have a volume of about USD 840 million and, in a worst-case scenario, fixed USD hedging rates of about 1.50 USD/EUR. In relation to the current results and hedging strategy, we consider the possible risk arising from currency exchange rate fluctuations to be moderate.

Currency exchange rate fluctuations have hardly any effect on the European business of the Salt and Waste Management and Recycling business segments, because revenues are generated almost exclusively in euros. In the fertiva and COMPO business segments, exchange rate risks on the sales side are offset by exchange rate opportunities on the raw material procurement side. Here, we also conclude forward exchange transactions at the time a receivable arises.

As a result of the hedging strategy pursued until the end of 2007, double-barrier options for 2008 to 2010 still exists, whose market value was about € 174 million on the balance sheet date. These are no longer intended for the hedging of operating receipts. The aim is to dispose of double-barrier options successively at current market prices or, if necessary, to retain them until they become due. The volatility of the US dollar exchange rate gives rise to a risk that the agreed barriers will be reached and the options will therefore expire. Premium expenses for the prevention of a possible expiration of the options are no longer provided for.

Increase in general interest rate level

Increasing interest rates would weigh on the financial result. As at 31 December 2007, about 10% of the financial liabilities of the K+S Group are hedged against an rise in interest rates by means of fixed-rate financing or by interest rate hedges (interest caps). The majority of financial liabilities have a short-term interest rate lock-down period and are, to that extent, subject to the risk of a change in interest rates. Interest rates are analysed regularly to manage this risk. *Ceteris paribus*, an increase in the relevant reference interest rates by one percentage point in 2008 would influence the group earnings before taxes by not more than 1%. In our opinion, the effects of any possible fluctuations in the interest rate would be moderate.

Default of payment

Default risks relating to payments are largely covered by flat-rate export guarantees (foreign non-OECD area) or by Euler-Hermes credit insurance (domestic and foreign OECD area). The waiving of security for receivables is only possible after specific authorisation has been obtained and the long-term customer relationship has been reviewed critically. Negative effects of a default risk relating to payments, which could result in a moderate adverse effect on the financial position of the K+S Group, are thus unlikely.

Other risks

Legal and tax law risks

In June 2007, the EU commission granted its approval with reference to the legal provisions relating to government aid for the continuation of tax shelter for especially energy-intensive companies until the end of 2009. This concerns the limitation of the net burden from ecology tax in the context of what it termed “tax capping”. Under this approval, tax capping can be continued until the end of 2012 under the prerequisite that the German economy achieves the goals it committed itself to in the climate agreement. If the approval is not granted beyond 2009, there is the danger of an additional energy tax burden from then on, which could have an adverse effect on the international competitiveness of our production, which is linked to particular sites. We estimate the resulting burden to be moderate. There are no other significant legal or tax law risks that could have a significant influence on the company’s net assets, financial position and results of operations.

Organisational risks

We do not foresee any risks arising from management and control systems as well as organisational and leadership-related risks.

Risk transfer

Risks are in part transferred to insurers through the conclusion of group insurance policies. The aim is to ensure insurance cover that is adequate in terms of risk and premiums along with suitable deductibles. Furthermore, loss prevention measures are regularly reviewed in cooperation with insurers to prevent losses as much as possible and to reduce the costs that will arise if a loss occurs.

Assessment of overall risk situation

Overall risk is assessed on the basis of the risk management system in conjunction with the planning, management and control systems used. The main potential risks to the future development of the K+S Group are posed in particular by sales and foreign currency risks, including risks arising from more stringent environmental law. On the basis of the findings of our medium-term planning, no such serious risks to future development are identifiable at the present time as could, whether individually or in conjunction with other risks, have a lasting and material adverse influence on the net assets, financial position and results of operations of the K+S Group. Future potential opportunities have not been considered in assessing the overall risk. In terms of organisation, we have fulfilled all the conditions for being informed about possible opportunities and risk situations in good time.

Subsequent events

No significant changes have occurred in the economic environment or in the position of our industry since the close of the financial year. No other events of material importance for the K+S Group requiring disclosure have occurred.

Forecast Report

Future group directions

Planned changes in business policy

We do not intend to introduce any fundamental change in our business policy over the coming years. We wish to expand our market positions in our business segments, especially by increasing sales of speciality products, enhancing our efficiency through the exploitation of any further synergies that are identified as well as grow organically and externally in our core business sectors.

Future markets

The K+S Group generates the bulk of its revenues in Europe. As the largest European producer of potash and magnesium products as well as Europe's largest salt producer, this will also remain so for the coming years. For COMPO and fertiva too, Europe remains the main sales region, in spite of increasing overseas business. In 2008, we therefore again expect a Europe/overseas revenue split of 70/30.

The Western European fertilizer market exhibited slightly falling growth rates over a relatively long period of time after the European Commission oriented its system of subsidies for European agriculture more strongly toward market-economy structures (decoupling direct payments from agricultural production). Together with the sharp increase that can be observed in the prices of agricultural products, this fact should result in the Western European fertilizer market showing positive growth rates again in the coming years. The growth rates of the overseas markets Latin America and South East Asia should, however, gain further momentum. There, we will also in future sell about one third of our fertilizer products deploying logistics with optimal freight costs.

The European salt market is a mature market with constantly high salt consumption, except for fluctuations in the use of de-icing salt due to weather conditions. In comparison to more rapidly growing overseas markets, it displays a low level of susceptibility to fluctuations thanks to developed structures and demand that is very differentiated. In connection with the acquisition of the Chilean salt producer SPL in 2006, we are, however, now also exploiting the potential found on overseas markets that are more dynamic as a result of a growing and increasingly more prosperous population. The resulting change in the habits of South Americans is leading to marked increases in demand for table salt, industrial salt and salt for chemical use.

Future use of new processes

We are constantly working on process improvements to increase productivity; raw material exploitation and energy efficiency are the focus here. In the potash field in particular, very promising processes enhancing economic efficiency and raw material exploitation are being developed for both underground and above ground applications. For example, in 2007 our research institute developed improved production processes, which intensify the exploitation of valuable substances, while at the same time contributing to a reduction in saline residues in waste water.

Future research and development

In the future too, we want to consistently pursue research and development goals defined in close consultation with marketing and production. We therefore expect both research expenditure and the number of employees involved in research to remain at a similarly level in the years 2008 and 2009.

In 2008 and 2009, the research projects carried out will include the following:

- Research into the impact of potash products on water efficiency in soils;
- The development of plant care products in collaboration with Syngenta;
- Cooperation in the Dutch research project "Wetsus" investigating the use of renewable energies;
- The development of new and optimisation of existing production process in order to minimise solid and liquid production residues during potash production.

Future products and services

- Under the exclusive partnership agreed between COMPO and Syngenta in 2005, we are developing and distributing a range of plant protection products and pesticides for home and garden use by private consumers in Europe. A precondition for this is the procurement of appropriate permits, the approval of which can take up to four years. By 2010, we thus expect a steadily increasing contribution to revenues of up to € 10 million to € 15 million, which should result in attractive earnings potential for COMPO.
- As the market for coarse-grained ammonium sulphate has grown strongly during recent years, fertiva expanded its product portfolio in 2007 and has moreover invested about € 4 million in its Lanxess location in Antwerp. In future, fertiva can now offer its customers two different qualities of the fertilizer ammonium sulphate: in addition to fine-crystalline ammonium sulphate, the coarse-crystalline part has been separated off since the end of August 2007 and marketed under the brand name Granammon®. This new product primarily serves the interests of operators of bulk blenders overseas, especially in Latin America, since the coarse quality can be mixed very well with potash or phosphate components. However, in Europe Granammon® tends to be spread directly using fertilizer sprinkling systems.

Moreover, we assume no significant changes in our range of products and services.

Expected professional development

In future too, we will face intense competition for good employees. We will continue to bring young people into the company in order to respond to the demographic change in a timely and successful manner. However, we also want to obtain older and more experienced employees for our company. Training will continue to be given special emphasis. Also in the years to come, we want to recruit many of our future specialist and managerial personnel from our own ranks. Furthermore, we will in future strive to achieve a further flexibility on personnel expenses, so that those expenses will be more closely linked to the respective development of the results of operations.

For the coming year we anticipate only a slight increase in the number of employees, by about 150 to almost 12,200 employees; regarding our domestic companies, we are continuing to strive for a training rate of over 6 %. As a result of the latest collective agreement pay increases, personnel expenses should also rise by about € 40 million and thus be in the mid-single-digit percentage range. For 2009, we are expecting an unchanged number of employees and a slight increase in personnel expenses.

Future macroeconomic situation

Percentage change in Gross Domestic Product (real in %)

Year	Germany	EU-25/ EU-27	World
2009e	**+ 1.8**	**+ 2.4**	**+ 4.5**
2008e	**+ 1.5**	**+ 2.1**	**+ 4.5**
2007	+ 2.5	+ 3.1	+ 5.1
2006	+ 2.9	+ 3.3	+ 5.3
2005	+ 0.9	+ 1.7	+ 4.8

Source: Deka Bank

The global economy could noticeably lose momentum in 2008. The crisis on the financial markets has not yet been overcome and it is to be expected that it will have a negative impact on economic development, above all in the industrial countries. In the emerging markets too, the pace is slowing, but in historical terms, growth should remain at a high level. Overall, it is anticipated that global economic growth will be at least 4 % p.a. during the years 2008 and 2009.

Above all, the decisive factor for the further economic course of the United States, the world’s largest economy, will be how great the impact of the property crisis (subprime crisis) is on private consumption. Declining investment in the construction of housing and only weak growth in private consumer expenditure may be expected to result in a considerable cooling-off of the US economy by mid-2008. However, an expansive monetary policy as well as the comprehensive economic programme could set a positive trend during the second half of the year. Additionally, export prospects favoured by the weak US dollar should prevent a larger setback of corporate investments. The gradual recovery of the US economy associated with these effects during the second half of 2008 should also continue in 2009. As long-term expectations of inflation largely correspond to the goal of price stability, the Federal Reserve Bank (Fed) could exploit additional scope to support the economy by means of further interest rate cuts.

In China, considerable attention is being paid to keeping inflation down. A more restrictive monetary policy and dampening effects on demand from abroad will probably result in a slight slowdown in the economy in 2008 and 2009. In the remaining emerging markets as well, the upturn should continue at a high level, however, at a somewhat slower pace.

The economic prospects for the Eurozone have also became gloomier in recent months. The significant appreciation of the euro has contributed to this too. At the same time, the prospects for the economy abroad have declined, so that we anticipate a tangible reduction in the growth of exports. Private consumption should, however, only lose a little momentum in the light of increasing real disposable income. Corporate investments too should continue to increase, partly against the backdrop of the high utilisation of capacity. The effects of the property crisis on the international financial markets could also result in more restrictive lending in Europe, though. Assuming constant exchange rates, the economy should gain momentum somewhat toward the end of 2008. Nevertheless, expansion will probably be moderate in 2009 too. As a result, we anticipate that the real gross domestic product will increase by a good 2 % both in 2008 and 2009. The European Central Bank (ECB) will therefore not be able to escape international interest rate trends in the long term and will probably cut interest rates moderately against the backdrop of a further slowdown in the economy. In the course of 2008, the inflation rate should fall markedly, but the average annual rate will likely be above the official target level of 2 % and also only fall slightly in 2009.

In 2008, the German economy should, like the European economy, face obstacles due to the deterioration in the global economic environment and the tension on the financial markets as well as the higher oil price. Additionally, the appreciation of the euro has led to a deterioration in the price competitiveness of German companies; this will probably have a further dampening effect on exports in 2008. However, during the second half of the year, it is to be anticipated that the dampening effects will have diminished to a large extent, so that the economy will again be able to gather momentum somewhat.

Impact on K+S:

- A cooling-off of the US economy should not have an material effect on our course of business, since we for the most part sell de-icing salt in the United States and this tends to be influenced by weather conditions rather than by economic factors. In Europe too, with fertilizers we are present in a sector that has a low level of dependency on the economy. An economic slowdown in the United States and Europe could thus at most have an impact on the sale of salt for chemical use and industrial salt as well as on industrial potash products. In addition to this, a limited purchasing power of private households in Europe could influence the demand for COMPO consumer products. In this case too, however, it is weather conditions rather than economic trends that are decisive.
- The increase in global growth, buoyed in particular by the emerging-market countries, should improve the standard of living for the populations of those countries. This will increase per capita consumption of food, including meat, as well as the pressure on existing agricultural systems to meet this challenge. The South American market for industrial salt and salt for chemical use, which is important to our Chilean subsidiary SPL, should continue to grow in line with the population trend there and supported by that regions dynamic economic upturn.

- Following the sharp rise in energy prices last year and its impact on our costs with a delay of approximately half a year, our energy costs in 2008 will increase substantially compared with the same period last year. Moreover, the higher energy prices in Western Europe and, above all, in North America could lead to a reduction in ammonia production there; we would then anticipate a far higher ammonia price level and thus rising acquisition costs for the business segments COMPO and fertiva.
- At the end of 2007, we made changes to our US dollar hedging system. We will now hedge the expected US dollar inflows in coming years purely from the point of view of risk limitation. Options are used for this, which prescribe a worst-case scenario for 2008 of about 1.50 USD/EUR incl. costs, but give the K+S Group the opportunity to participate in a US dollar that may eventually again become stronger. The double-barrier options purchased for the financial years 2008 to 2010 will initially be retained, as they may in future result in exceptional income and exceptional payment flows.

Future industry situation

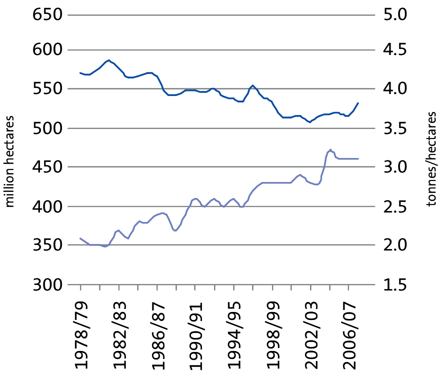
The situation on the agricultural markets is marked by increasing demand for foodstuffs, in both quantitative and qualitative terms. As the amount of land available for farming is limited and tends to be declining, it will therefore have to be farmed more efficiently all over the world in order for sufficient food to be produced for a growing global population. The balanced use of mineral fertilizers, which guarantee better plant nutrition and thus a higher yield per hectare of cultivated land, is therefore of central importance.

In our important overseas markets, particularly in Asia and Latin America, we expect a substantial increase in the use of fertilizers in order to meet a higher and changed demand for food among the strongly growing population of those regions. Especially the switch from starchy to high-protein food requires a multiple quantity of feed and thus of fertilizers. About one third of the world's population currently live in China and India. Both of these states will in future be increasingly dependent on food imports and the global demand for agricultural products will therefore see further growth.

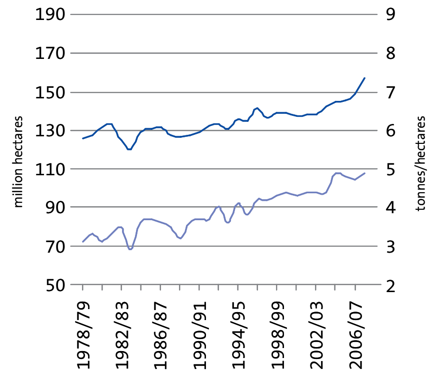
The trend towards renewable raw materials used to produced ethanol, biodiesel, biogas etc, will have a positive impact on demand for fertilizers, especially for potash too. Ambitious state admixture quotas in many countries the world over have a single goal: that of reducing the dependence on crude oil and promoting the use of renewable raw materials. In view of the limited amounts of arable land around the world, this inevitably results in "feedback effects" also on agricultural commodities that are not directly affected by bioenergy. We must therefore expect further price increases for cereals and oilseed in the coming years.

The following diagrams show that, despite the strong increase in the amount of arable land in 2007, global arable land for the cultivation of corn has only increased by 0.7 % during the past 30 years and that for the cultivation of cereals even decreased by 0.2 % in total. That output has nevertheless could be increased significantly over this period of time is due to the use of mineral fertilizers among other factors. Balanced, sustainable fertilizer use will remain a key factor also in the future for countering the decline in the land available for cultivation, prompted by urbanisation, erosion and flooding, by means of intensifying farming on the land that remains.

Land under cultivation and yields per hectare for cereals



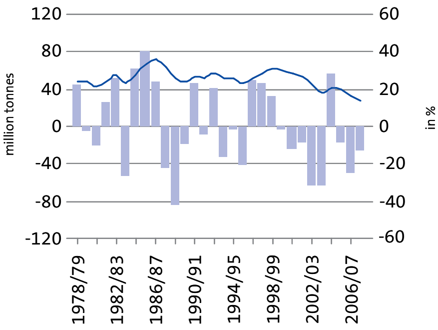
Land under cultivation and yields per hectare for corn



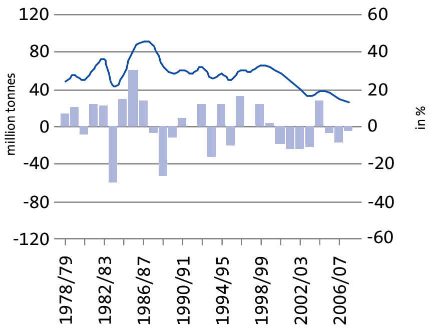
land under cultivation — yield

Source: United States Department of Agriculture (USDA)

Production/consumtion surplus or deficit, stocks to use ratios of cereals



Production/consumtion surplus or deficit, stocks to use ratios of corn

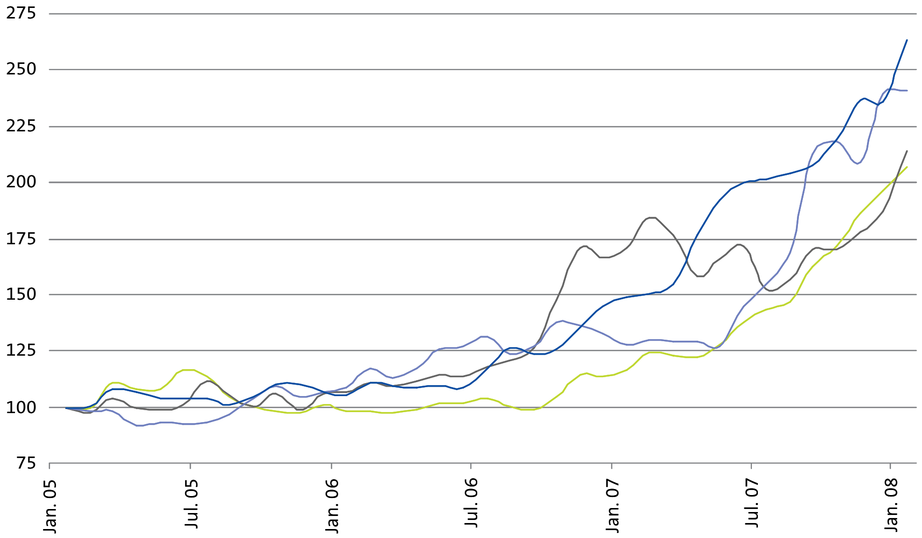


Production/consumption surplus or deficit — Stocks to use

Source: USDA

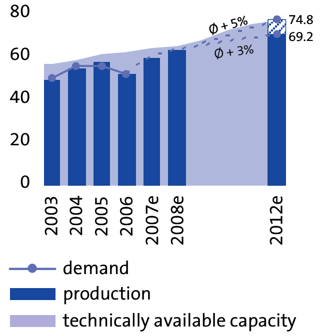
Despite the great efforts made on the production side over the past few decades, more cereals and corn have tended to be consumed than produced, with the result that the stocks-to-use ratios for both cereals and corn have reached the lowest level for 30 years in the meantime. The rise in prices for the most important agricultural goods last year thus came about more or less inevitably and will further favour the use of fertilizers. Against this backdrop, we foresee historic lows for stocks of almost all varieties of cereals and, in the medium term, no reversal of the price trends.

Development of prices for agricultural products (Index: beginning of 2005, in %)



Source: Weltbank

World potash capacity, production and demand (in million tonnes)



Source: IFA, K+S

Potash and Magnesium Products Business Segment

It is to be expected that the global demand for potash will further increase tangibly in 2008, rising by at least 4 %. Our forecast does not differ from those of our competitors and of international fertilizers associations. In 2007, suppliers found it impossible to completely service all delivery obligations that had been entered into, so that, at the start of the year, there were still remaining orders to work through. The prices for agricultural products meanwhile rose considerably; this development is also being supported by the increasing importance of bioenergy generation. In future, a situation may arise where the production of food and the production of bioenergy are in competition with each other. In the medium term, we are forecasting average rates of increase of between 3 and 5 % p.a. for global potash consumption. The most important growth regions remain Asia and Latin America.

International potash fertilizer manufacturers are currently all producing up to their available technical capacities; this also holds true for our Potash and Magnesium Products business segment, which has a global market share of just under 12%. In 2008, only relatively small additional capacities can be expected to be added globally; in the context of the expected growth in demand and the, in historical terms, very low stocks held by the producers, it should only be possible to satisfy demand completely under optimal technical conditions. As the growth in capacity over the next five years is predictable, we are convinced that potash will remain in short supply at least in the medium term.

It must therefore be expected that potash prices will continue to rise as a result of the market situation described above; for the first half of 2008, strong price hikes have already been implemented or announced. Significantly higher prices are also to be expected for the upcoming agreements with Chinese and Indian customers.

COMPO Business Segment

We predict that the sector situation in the consumer segment of COMPO for 2008 will be one of very intense competition. The continuing concentration on the trading level is leading to cut-throat competition by means of prices. Against the backdrop of sharply rising raw material and energy costs, the market will find it difficult to entirely pass these costs on to customers. COMPO's innovative assortment tailored to regional market conditions, in both the consumer and professional areas, opens up attractive market potential. The cooperation with the Swiss plant protection product manufacturer Syngenta in Europeas well as the continued strong demand for ENTEC®- fertilizers are key factors in this regard. Moreover, the favourable conditions on fertilizer markets described above should have a positive impact on the professional area. Moreover, it is to be anticipated that it will be possible to pass on the increase in production costs due to higher acquisition prices for phosphate, potash and ammonia.

fertiva Business Segment

In view of the positive conditions on fertilizer markets described above, the global consumption and price level of nitrogen fertilizers should also increase tangibly. Although imports of nitrogen fertilizers from Russia, the Middle East and other countries, whose production is based on low gas prices, will increase and, as a result of this, the intense competition in Europe could be further exacerbated, we are starting 2008 full of optimism. The shortage of the raw materials ammonia, potash and phosphate will have an overall impact on the production of fertilizers; producers of complex nutrients worldwide will therefore have to make every effort to achieve the planned production volumes at all.

Salt Business Segment

Over the coming years too, the industry and competitive situation will be mainly shaped by the continuation of the consolidation process in the European salt industry. The intense competition characterising the market situation for European producers will be further exacerbated by rising imports from non-EU countries. In addition, there is a need to pass on rising costs – especially in the case of energy – to customers. As Europe's largest salt producer, we are well equipped to meet these challenges.

With the acquisition of the Chilean salt producer SPL, the largest salt producer in South America, we have an excellent starting point for participating in the dynamic growth of the South and Central American markets. Particularly in large markets such as Brazil, where the chemical industry as an important customer for salt for chemical use is growing strongly, we want to further enhance what is already a good market position in South America today over the medium term by means of advantages in quality and cost structure. In the North American de-icing salt business, SPL will, despite increased freight rates, be the market leader in the future too by optimising logistics.

A detailed overview of the fields of activity of the complementary business segments can be found in our Corporate Report.

Complementary Business Segments

Given the diverse character of the individual sectors within this business segment, it has been decided not to present the business segment in a combined fashion.

Expected development of revenues and earnings

The forecasts relate exclusively to the expected organic growth of revenues and earnings; increases resulting from possible acquisitions and cooperation are not taken into consideration.

K+S Group

In the financial year 2008, revenues of the K+S Group should increase significantly in comparison to the previous year. This projection is based primarily on higher than previously expected revenues in the Potash and Magnesium Products business segment as a consequence of substantial price rises on the global potash markets. This should more than offset negative currency effects: The revenue forecast assumes an average US dollar exchange rate for 2008 of 1.44 USD/EUR (2007: 1.37 USD/EUR).

The development of total costs, however, is expected to be moderate this year. Energy costs will rise sharply though in comparison to the previous year. Other important cost types, such as material, personnel and freight costs as well as depreciation, should each increase by a rate in the mid single-digit percentage range.

For the financial year 2008, we are therefore forecasting significantly higher operating earnings EBIT I in comparison to last year. This is primarily due to the already described sharply increasing average prices in the Potash and Magnesium Products business segment, which should be far exceeding the rise in costs. Even an appreciably worse US dollar exchange rate in comparison to the previous year does not lead us to change this forecast: Following our fundamental revision of the US dollar hedging system last December, no significant expenditure on follow-up hedging is to be expected for the double-barrier options used previously for US dollar exchange rate hedging. The new hedging system guarantees a hedging rate of at least 1.50 USD/EUR for 2008.

The adjusted group earnings after taxes should increase significantly during this year in line with the development of operating earnings. Our forecast is based on the following circumstances that are to be expected at the current point in time:

- A largely unchanged financial result compared with the previous year.
- In the framework of the reform of German corporate taxation, the level of corporate income tax was cut from 25% to 15%, starting from 2008. The relief provided by the reform will, however, in part be diluted by the implemented financing countermeasures. As we earn about three quarters of our income in our domestic companies, starting from 2008, there will nevertheless be a marked decrease in our netted income taxes. The domestic group rate of income tax to be applied in accordance with IFRS is thus reduced from 37.2 to 27.8%. This year, the corporate tax rate, without effects from the valuation of hedging transactions, should be reduced to approximately 27 to 29% (2007: 29.9%) as a result of the reform of corporate taxation in Germany.

Revenues should continue to slightly increase in 2009, with this estimate being based, above all, on higher revenues in the Potash and Magnesium Products, COMPO and fertiva business segments. With regard to operating earnings too, we foresee realistic opportunities of a further tangible increase, which should also positively impact the adjusted group earnings after taxes.

Potash and Magnesium Products Business Segment

For 2008, we expect the Potash and Magnesium Products business segment to achieve considerably higher revenues compared with the preceding year despite a probable weakening of the US dollar exchange rate. On the basis of a stable sales outlook of just under 8 million tonnes of goods (2007: 8.2 million tonnes), our forecast is based on sharp price increases. Owing to higher average prices, operating earnings should far more than compensate for both the weaker currency relationship and increasing operating costs, above all energy costs, but also personnel, freight and materials costs.

From the perspective of today, we assume that the revenue and earnings outlook for 2009 will be slightly better.

COMPO Business Segment

In the financial year 2008, revenues should increase tangibly; while the consumer segment, especially in Germany, will considerably expand its listings, the professional segment will continue to profit from the high demand for speciality mineral fertilizers and stabilised fertilizers in Latin America and Southern Europe. As a consequence of the exceptionally higher commodity prices for phosphate, ammonia and potash, operating earnings will, however, probably not be able to fully reflect the positive trend in revenues; here we only expect a slight increase in earnings compared with the previous year.

Revenues should rise moderately in 2009. Under the premise that increases in global commodity prices will not continue on the same scale, we are anticipating tangibly higher operating earnings.

fertiva Business Segment

In 2008, we expect a significant increase in revenues, which is primarily attributable to higher average prices for nitrogenous fertilizers. Following the excellent result of the previous year, we expect, despite an anticipated steep rise in raw material costs as well as a probable increase in import pressure from countries with cheap supplies of gas, operating earnings that should also rise in comparison with last year.

With regard to 2009, we assume, from the perspective of today, that revenues and earnings will continue to increase.

Salt Business Segment

Despite the moderate start of the de-icing business both in Europe and North America due to weather conditions, we are expecting a moderate increase in revenues for the Salt business segment in 2008. We expect moderate volume and price increases in the remaining sectors. Costs will be impacted this year by higher expenditure on energy and freight, and also by a lower currency result in overseas business. Operating earnings will thus probably be at around the same level as last year.

Assuming average sales of de-icing salt, revenues may increase slightly in 2009. Operating earnings should increase disproportionately due to an anticipated decrease in freight costs.

Complementary Business Segments

The “Complementary business segments” segment which groups the Waste Management and Recycling as well as the Services and Trading business segments, which were reported separately in 2007, should achieve a similar or slightly higher revenue level in comparison to the adjusted value for the previous year. This will especially be due to the fact that the expansion of capacity of our underground reutilisation facilities should enable us to be able to reutilise larger quantities of flue gas cleaning residues. By and large, the remaining segments, primarily logistics and the granulation of CAT-SAN®, should be somewhat above the current level. With regard to operating earnings, we anticipate a moderate decline compared with the previous year, which benefited from the proceeds accruing from the sale of biodata ANALYTIK GmbH in the amount of a good € 3 million.

For 2009, we expect a stable course of business; revenues and earnings should again be able to achieve the figures of 2008.

Anticipated financial position

Expected financing structure

With net indebtedness (including long-term provisions) of € 1,086.5 million, the K+S Group has a strong financial base as a result of normally high operating and free cash flows. Both these factors mean that we are able to respond flexibly to investment and acquisition opportunities. In view of the expected significant increase in earnings and without taking into account possible acquisitions, share repurchase transactions or CTA allocations, the level of our financial debts should fall substantially compared with the previous year; subject to these conditions, we will, in all likelihood, also display an equity ratio of 35% to 40% over 2008 and 2009, and the level of indebtedness should again fall below 100%.

Expected development of liquidity

For the current and coming year, we are anticipating a positive development of liquidity over the coming two years; the projected increases in earnings should also have an impact on the cash flow provided by operating activities. The latter should significantly exceed outlays connected with capital expenditure, so that we can expect to generate substantial free cash flow in the years 2008 and 2009.

Planned capital expenditure

K+S Group

For the next few years, we are assuming that capital expenditure related to maintenance and ensuring production will remain at about the level of our depreciation. Furthermore, the anticipated increases in earnings should result in a cash flow provided by operating activities, which leaves sufficient scope for profitable investments in expansion and rationalisation projects.

For 2008 overall, we expect a volume of capital expenditure of about € 240 million. Just under 60% of this will be spent on maintenance and ensuring production; this should, as usual, remain at the level of the expected depreciation and thus be in the amount of € 140 million.

Following the acquisition of up to two ships for SPL in 2008, we are anticipating a significant decline in the volume of capital expenditure to just under € 200 million for 2009. About two thirds of this will probably be spent on maintenance and ensuring production.

Potash and Magnesium Products Business Segment

As already announced in the 2006 Annual Report, at about € 130 million, the investment level in 2008 should significantly exceed that of 2007. The planned construction of the salt water pipe from the Neuhof site to the Werra plant as well as measures for expanding the capacity for industrial products at the Zielitz site are the reasons for this increase. Moreover, 2008 will be characterised by projects intended to increase the exploitation of raw material, optimise processes and minimise solid and liquid production residues. Additionally, the measures for changing over the energy supply at the Wintershall site will be completed. Overall, three quarters of the volume of capital expenditure will be spent on investments related to maintenance and ensuring production.

In 2009, the level of capital expenditure should again return to a level of about € 100 million. Replacement and ensuring production capacity will again account for just under three quarters of the volume of capital expenditure.

COMPO Business Segment

In 2008 and 2009, the levels of capital expenditure should total € 13 million and € 14 million respectively and thus be slightly higher than the level of the previous year. The proportion of capital expenditure in relation to expansion will again be below that of capital expenditure in relation to replacement, following the completion of the project for enhancing the performance of the Krefeld filling facilities.

fertiva Business Segment

As fertiva does not operate own production facilities, the volume of capital expenditure will return to the customary low level of about € 1 million in 2008 and 2009, following the successful completion of the facilities for producing coarse-grained ammonium sulphate. Measures for expanding capacity carried out in collaboration with BASF are the focus here.

Salt Business Segment

In the Salt business segment, at about € 80 million, the volume of capital expenditure should increase substantially in comparison with the previous year. Investments in relation to replacement and ensuring production will account for about two thirds of this. The increase is mainly attributable to the purchasing of up to two ships for the shipping company Empremar at SPL. The remainder is being used for the replacement of sieving facilities in Chile, for a new high-quality bagging facility for pharmaceutical salts in Dombasle, France, and for the replacement of the power supply both on the surface and underground in Borth.

Following the acquisition of the ships for SPL, a marked decline in the level of capital expenditure is expected for 2009.

Complementary Business Segments

The volume of capital expenditure for this year will amount to about € 15 million. In 2007, about € 5 million of this will be dedicated to the Waste Management and Recycling business segment, which had been reported separately in 2007; about € 10 million will be invested in the former Services and Trading business segment. In the Waste Management sector, the project for enhancing the re-utilisation capacity for the receipt of waste in dust form at the Zielitz site will be completed. The replacement of the bulk loader at KTG, which has already started, and the construction of a container terminal for combined traffic at the Werra site are among the most significant projects in the Logistics sector.

The investment budget is expected to fall further in 2009.

Expected development of dividends

Dividend payment for financial year 2007

On 10 May 2007, the dividend for 2006 was paid from the balance sheet profit of € 82.6 million available at the end of 2006 and was the same amount as the balance sheet profit. In the financial year 2007, the K+S AG achieved net income of € 82.5 million (2006: € 136.0 million); the full amount of this was disclosed as balance sheet profit.

Development of dividends (in €)

Year	Dividend per share
2007	**2.00**
2006	2.00
2005	1.80
2004	1.30
2003	1.00

As a result of the largely unchanged adjusted earnings of the K+S Group (previous year's figure is adjusted for the non-recurrent deferred tax income) and in line with our long-term policy on dividends, the Board of Executive Directors and the Supervisory Board once again recommend to the Annual General Meeting the payment of a dividend of € 2.00 per share. Assuming that on the day of the Annual General Meeting we hold no own shares, this will result in a dividend payment of € 82.5 million; with a distribution level of 47 %, this is in the distribution corridor of 40 % to 50 % of the adjusted group earnings of the K+S Group that we are seeking to sustainably achieve.

Future dividend policy

We pursue an earnings-based dividend policy. The K+S share should remain an investment offering high growth and high yields in the future too. A distribution level of between 40 and 50 %, taking into account the customarily high free cash flow, forms the basis for future dividend recommendations to be determined jointly with the Supervisory Board. The significant increase in adjusted group earnings after taxes expected for 2008 should also have a positive effect on the future dividend payment.

Opportunities

Opportunities from the development of framework conditions

The historically very low ratio of stocks of important agricultural products to annual consumption already described under the heading "Future industry situation" on pages 113 et seqq. should result in further price increases for agricultural products. Rising prices will in turn encourage farmers worldwide to both utilise any additionally available land and increase the intensity of cultivation. Both these elements require greater use of fertilizers and could result in global demand for fertilizers rising in the medium term at a faster pace than the 2 % to 3 % per year hitherto forecast.

Corporate strategy opportunities

In the light of the meanwhile high level of utilisation of technically available capacities in Germany, for some time now we have been working in the Potash and Magnesium Products business segment to expand our potash and magnesium capacities and are examining projects within and outside Europe. The construction of a new potash mine requires a mining licence and normally involves long lead times for exploration, the sinking of shafts and the erection of an above-ground infrastructure. Nevertheless, we are confident that, at least in the medium term, we will be able to further strengthen the earnings capacity of the business segment, not only as the result of prices, but also because of a higher volume of sales.

The further expansion of the Chilean salt producer SPL is, moreover, providing the opportunity to increase the enterprise value of the K+S Group. Our in global terms very attractive cost structures and regional possibilities for expansion into existing markets and those not yet serviced offer us a large number of new opportunities.

Economic performance opportunities

If energy costs stabilise or even decline, this would have a favourable impact on the cost structure and thus the business success of the energy-sensitive Potash and Magnesium Products and Salt business segments. A decrease in K+S energy costs of 10 % from their current level means that costs will fall by about € 20 million. In addition, energy and ammonia costs have tended to move in tandem historically: accordingly, it is very likely that a decrease in energy costs would also result in lower ammonia costs and thus in lower procurement costs for the COMPO and fertiva business segments.

Other opportunities

In the autumn of 2004, rising fuel and electricity prices prompted us to revise our energy concept for the Group's Werra potash compound site. In conjunction with the E.ON subsidiary BKB, a technical concept was developed for the construction of an alternative fuel power plant for the existing facilities. The plant is expected to become operational in 2009 with the result that the dependence of the Wintershall potash plant on expensive natural gas will be greatly reduced; this produces potential savings in the middle of the single-digit millions range.

General statement on the expected development of the K+S Group

Overview in table form of revenue and earnings trends described*

in € million	Potash and Magnesium Products	COMPO	fertiva	Salt	Waste Management and Recycling	Services and Trading	K+S
Revenue 2007	1,408.0	617.4	648.1	545.1	70.5	55.0	3,344.1
Revenue 2008	++	+	++	+	+	+	++
Revenue 2009	+	+	+	+	o	o	+
EBIT I 2007	177.9	32.0	25.3	47.8	11.5	27.7	285.7
EBIT I 2008	++	o	+	o	o	–	++
EBIT I 2009	+	+	+	++	o	o	+

* Trend compared with previous year
** In the future, Waste Management and Recycling as well as Services and Trading will be grouped together under Complementary Business Areas

We assume that the business of the K+S Group will continue to develop positively during this year and the next. The development in the Potash and Magnesium Products business segment is to a large degree decisive for the extent to which the revenues and earnings of the K+S Group will grow: both in terms of revenues and earnings, we expect a substantial increase in 2008 and a further moderate increase in 2009. Our outlook is based on the following premises in particular:

- Continued rising demand for potash fertilizers worldwide,
- a US dollar exchange rate that will not deviate significantly from the current exchange rate of 1.44 USD/EUR ,
- oil and gas prices that will remain at their current levels as well as
- an average level of de-icing salt business in the fourth quarter of 2008 and normalised sales of de-icing salt in 2009 in Europe and North America.

Moreover, further growth in our core business sectors remains the focal point of our strategy and encompasses both acquisitions and cooperation arrangements.

Assurance from the legal representatives of K+S Aktiengesellschaft

To the best of our knowledge, and in accordance with the applicable principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Kassel, 22 February 2008

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 events may deviate from those expected at the present time.

The excellent market environment, in particular for fertilizers, has allowed us to enjoy another good financial year. In 2007 too, we were able to achieve high operating earnings and created a good basis for growth. Moreover, our continued efforts to optimise our processes are producing good prospects for the future of our Company.

Variety means success.

Good results, focused and complementary business sectors as well as forward-looking investments contributed to our good financial year in 2007. We are well-equipped to face the future and want to further expand our market position as one of the world's leading suppliers of fertilizers, plant care products and salt. Our strategy is designed to enable us to more easily compensate for weaker individual regional trends.

Just one example of this: The acquisition of the Chilean SPL has not only given us a strong presence on the American continent, but has also improved the balance in our salt portfolio by anchoring us on both sides of the Atlantic.

Consolidated Financial Statements of the K+S Group

Income Statement

in T€	Notes	2007	2006
Revenues	[1]	**3,344,066**	**2,957,687**
Cost of sales		2,211,947	1,928,022
Gross profit		**1,132,119**	**1,029,665**
Selling expenses		752,341	714,270
General and administrative expenses		89,375	81,736
Research and development costs		15,523	13,804
Other operating income	[2]	138,195	119,944
Other operating expenses	[3]	131,957	63,530
Income from investments, net	[4]	4,584	1,769
Operating earnings (EBIT I)		**285,702**	**278,038**
Market value changes from hedging transactions	[5]	(392,620)	83,561
Earnings after market value changes (EBIT II)		**(106,918)**	**361,599**
Interest income, net	[6]	(35,572)	(27,521)
Other financial result	[7]	(93)	7,377
Financial result		**(35,665)**	**(20,144)**
Earnings before income taxes		**(142,583)**	**341,455**
Taxes on income	[8]	(49,474)	70,295
- of which deferred taxes		(68,902)	20,392
Net income/net loss for the year		**(93,109)**	**271,160**
Minority interests in earnings		228	366
Group earnings after taxes and minority interests		**(93,337)**	**270,794**
Earnings per share in € (undiluted ≙ diluted)	[11]	(2.26)	6.57
Earnings before taxes, adjusted *		**250,037**	**257,894**
Group earnings, adjusted *	[11]	**175,333**	**218,151**
Earnings per share in €, adjusted *	**[11]**	**4.25**	**5.29**
Average number of shares in million		41.24	41.24

* Adjusted for the effect of market value changes for hedging transactions; a tax rate of 31.6% (2006: 37.0%) is assumed for adjusted group earnings and for adjusted earnings per share.

Statement of Changes in Equity

in T€	Subscribed capital [21]	Additional paid-in capital	Profit retained/ other revenue reserves [22]	Differences from foreign currency translation	Revaluation reserve	Minority interests	Equity
Balance as of 1 January 2007	108,800	7,909	997,492	(15,734)	25,257	619	1,124,343
Market value of securities	–	–	–	–	(5,227)	–	(5,227)
Consolidation effects	–	(92)	(173)	–	–	–	(265)
Other neutral changes	–	–	8,273	(19,649)	110	–	(11,266)
Total	–	(92)	8,100	(19,649)	(5,117)	–	(16,758)
Net income	–	–	(93,337)	–	–	228	(93,109)
Dividend for previous year	–	–	(82,500)	–	–	–	(82,500)
Subscription of employee shares	–	(168)	–	–	–	–	(168)
Balance as of 1 January 2007	**108,800**	**7,649**	**829,755**	**(35,383)**	**20,140**	**847**	**931,808**
Balance as of 1 January 2006	108,800	8,676	804,622	(188)	20,171	48	942,129
Market value of securities	–	–	–	–	8,075	–	8,075
Consolidation effects	–	92	(1,704)	(15,389)	(75)	205	(16,871)
Other neutral changes	–	–	(1,970)	(157)	(2,914)	–	(5,041)
Total	–	92	(3,674)	(15,546)	5,086	205	(13,837)
Net income	–	–	270,794	–	–	366	271,160
Dividend for previous year	–	–	(74,250)	–	–	–	(74,250)
Subscription of employee shares	–	(859)	–	–	–	–	(859)
Balance as of 1 January 2006	**108,800**	**7,909**	**997,492**	**(15,734)**	**25,257**	**619**	**1,124,343**

Balance Sheet

in T€	Notes	2007	2006
Intangible assets	[12]	172,481	189,034
- of which goodwill from acquisitions	[12]	99,724	102,866
Property, plant and equipment		1,124,804	1,082,642
Investment properties	[13]	7,899	8,292
Financial assets	[14]	17,815	19,439
Receivables and other assets	[17]	9,467	2,471
Securities	[19]	37,133	42,092
Deferred taxes	[15]	70,053	52,018
Recoverable income taxes		547	623
Non-current assets		**1,440,199**	**1,396,611**
Inventories	[16]	368,637	370,155
Accounts receivable – trade	[17]	757,237	628,766
Other receivables and assets	[17, 18]	308,671	345,169
- of which derivative financial instruments		205,335	242,666
Recoverable income taxes		36,951	10,582
Securities	[19]	3,696	15,219
Cash on hand and balances with banks		49,411	64,424
Current assets		**1,524,603**	**1,434,315**
ASSETS		2,964,802	2,830,926

T€	Notes	2007	2006
Subscribed capital	[21]	108,800	108,800
Additional paid-in capital		7,649	7,909
Other revenue reserves and profit retained	[22]	814,512	1,007,015
Minority interests		847	619
Equity		**931,808**	**1,124,343**
Bank loans and overdrafts	[28]	360,223	136,773
Other liabilities	[28]	15,127	13,985
Provisions for pensions and similar obligations	[25]	125,754	128,223
Provisions for mining obligations	[26]	357,565	338,158
Other provisions	[27]	123,839	125,416
Deferred taxes	[15]	21,662	79,534
Non-current debt		**1,004,170**	**822,089**
Bank loans and overdrafts	[28]	328,067	233,964
Accounts payable – trade	[28]	409,091	360,776
Other liabilities	[18, 28]	85,464	77,790
- of which derivative financial instruments		16,855	39,328
Income tax liabilities		6,155	16,646
Provisions	[26, 27]	200,047	195,318
Current debt		**1,028,824**	**884,494**
EQUITY AND LIABILITIES		2,964,802	2,830,926

Cash Flow Statement

	Notes	2007	2006
Operating result (EBIT I)		**285,702**	**278,038**
Depreciation (+)/write-ups (-) on fixed assets*		128,214	123,313
Increases (+)/Decrease (-) in non-current provisions (without interest rate effects)		(5,239)	(15,294)
Interest, dividends and similar income received		6,686	9,898
Realised gains/losses on the disposal of financial assets and securities		606	12,493
Interest paid		(24,297)	(15,274)
Other financing expenses (-) and -income (+)		2	(3,157)
Income tax expenses (-) and income (+)		(19,428)	(49,903)
Other non-cash items		(168)	2,634
Gross cash flow		**372,078**	**342,748**
Gain on disposals of fixed assets		(4,921)	(12,219)
Increase (-)/decrease (+) in inventories		1,715	(33,697)
Increase (-)/decrease (+) in receivables and other assets from operating activities		(501,137)	(75,265)
- of which premium volume for derivatives		(338,606)	(41,623)
Increase (+)/decrease (-) in liabilities from operating activities		27,264	(4,048)
- of which premium volume for derivatives		(28,405)	16,355
Increase (+)/decrease (-) in current provisions		6,075	(8,658)
Out-financing of provisions		(9,414)	(6,498)
Cash flow from operating activities		**(108,340)**	**202,363**
Proceeds from disposals of fixed assets		6,957	15,361
Disbursements for intangible assets		(9,314)	(6,331)
Disbursements for property, plant and equipment		(148,923)	(124,211)
Disbursements for financial assets		(1,504)	(1,892)
Proceeds from the sale of consolidated companies		3,557	–
Disbursements for acquisition of consolidated companies	[41]	(923)	(357,669)
Proceeds from sale/disbursements for acquisition of securities		9,434	44,974
Cash flow for investing activities		**(140,716)**	**(429,768)**
Free cash flow		**(249,056)**	**(227,405)**
Payment of dividend		(82,500)	(74,250)
Payments from allocations to equity		2,764	4,146
Purchase of own shares		(6,185)	(8,463)
Sale of own shares		319	–
Increase (+)/decrease (-) in liabilities from finance leases		1,060	–
Taking out (+)/repayment (-) of loans		166,293	249,447
Cash flow for financing activities		**81,751**	**170,880**
		0	**0**
Change in cash and cash equivalents affecting cash flow		**(167,305)**	**(56,525)**
Change in value of cash and cash equivalents		(387)	–
Changes from consolidation		(106)	3,115
Change in cash and cash equivalents	[42]	**(167,798)**	**(53,410)**

* Depreciation/amortisation of property, plant and equipment and intangible assets (including equity interests)

Development of Fixed Assets 2007/2006

in T€	Gross carrying amounts Balance as of 01.01.2007	Change from consolidation	Additions	Disposals	Reclassi-fication	Currency differences	Balance as of 31.12.2007
Concessions, industrial property rights, similar rights & assets as well as licences for such rights & assets	109,013	(59)	4,385	2,299	1,760	(1,992)	110,808
Goodwill from acquisitions	102,866	175	622	–	–	(3,939)	99,724
Internally generated intangible assets	4,048	–	797	–	2,257	–	7,102
Emission rights	10,465	–	2,656	12,995	–	–	126
Payments on account	5,751	–	3,510	21	(3,561)	(36)	5,643
Intangible assets [12]	**232,143**	**116**	**11,970**	**15,315**	**456**	**(5,967)**	**223,403**
Land, rights similar to land and buildings, including buildings on third-party land	423,337	1,508	28,025	2,358	17,233	(451)	467,294
Salt deposits	253,776	–	–	–	–	(10,380)	243,396
Technical equipment and machinery	1,637,012	696	70,824	23,247	6,545	(426)	1,691,404
Ships	9,122	–	17,909	–	–	(961)	26,070
Other equipment, fixtures and fittings	194,901	(1,346)	17,810	6,199	725	(145)	205,746
Payments on account and construction in progress	26,029	–	39,989	914	(21,561)	(123)	43,420
Leasing and similar rights	2,009	–	–	–	1,400	(21)	3,388
Property, plant and equipment [13]	**2,546,186**	**858**	**174,557**	**32,718**	**4,342**	**(12,507)**	**2,680,718**
Investment properties [14]	**17,968**	**–**	**–**	**765**	**192**	**–**	**17,395**
Investments in associated companies	9,682	(1,096)	281	11	–	–	8,856
Loans to associated companies	74	–	–	–	–	–	74
Investments	7,227	(580)	948	3	–	–	7,592
Loans to companies in which equity interests are held	279	–	–	238	–	–	41
Sundry loans and other financial assets	3,362	–	275	992	–	(2)	2,643
Financial assets [15]	**20,624**	**(1,676)**	**1,504**	**1,244**	**–**	**(2)**	**19,206**
Fixed assets	**2,816,921**	**(702)**	**188,031**	**50,042**	**4,990**	**(18,476)**	**2,940,722**

in T€	Gross carrying amounts Balance as of 01.01.2006	Change from consolidation	Additions	Disposals	Reclassi-fication	Currency differences	Balance as of 31.12.2006
Concessions, industrial property rights, similar rights &. assets as well as licences for such rights & assets	92,120	38,679	2,153	3,143	(19,202)	(1,594)	109,013
Goodwill from acquisitions	13,857	92,265	–	–	–	(3,256)	102,866
Internally generated intangible assets	2,945	–	709	–	394	–	4,048
Emission rights	10,808	–	12,239	12,582	–	–	10,465
Payments on account	2,398	1,038	3,469	722	(432)	–	5,751
Intangible assets [12]	**122,128**	**131,982**	**18,570**	**16,447**	**(19,240)**	**(4,850)**	**232,143**
Land, rights similar to land and buildings, including buildings on third-party land	404,860	10,554	8,433	517	7	–	423,337
Salt deposits	–	243,117	–	–	19,240	(8,581)	253,776
Technical equipment and machinery	1,541,459	8,410	81,275	20,192	26,063	(3)	1,637,012
Ships	–	9,589	–	–	–	(467)	9,122
Other equipment, fixtures and fittings	187,764	1,398	13,827	8,557	549	(80)	194,901
Payments on account and construction in progress	29,457	1,441	22,838	1,314	(26,393)	–	26,029
Leasing and similar rights	1,813	196	–	–	–	–	2,009
Property, plant and equipment	**2,165,353**	**274,705**	**126,373**	**30,580**	**19,466**	**(9,131)**	**2,546,186**
Investment properties [13]	**22,985**	**–**	**1**	**4,792**	**(226)**	**–**	**17,968**
Investments in associated companies	8,718	–	1,096	132	–	–	9,682
Loans to associated companies	74	–	–	–	–	–	74
Investments	6,558	159	529	19	–	–	7,227
Loans to companies in which equity interests are held	322	–	–	43	–	–	279
Sundry loans and other financial assets	4,641	–	267	1,545	–	(1)	3,362
Financial assets [14]	**20,313**	**159**	**1,892**	**1,739**	**–**	**(1)**	**20,624**
Fixed assets	**2,330,779**	**406,846**	**146,836**	**53,558**	**–**	**(13,982)**	**2,816,921**

Depreciation, amortisation and write-downs									Net carrying amounts
Balance as of 01.01.2007	Change from consolidation	Scheduled additions	Non-scheduled additions	Disposals	Re-classification	Write-ups	Currency differences	Balance as of 01.01.2007	Balance as of 01.01.2007
41973	(49)	8,048	36	2,296	907	52	(135)	48,432	62,376
–	–	–	–	–	–	–	–	–	99,724
1,136	–	1,340	–	–	14	–	–	2,490	4,612
–	–	–	–	–	–	–	–	–	126
–	–	–	–	–	–	–	–	–	5,643
43,109	**(49)**	**9,388**	**36**	**2,296**	**921**	**52**	**(135)**	**50,922**	**172,481**
196,578	482	13,759	139	1,370	12,345	–	(20)	221,913	245,381
2,359	–	1,549	–	–	–	–	(21)	3,887	239,509
1,108,080	465	85,621	–	21,092	(8,435)	–	(39)	1,164,600	526,804
141	–	907	–	–	–	–	(15)	1,033	25,037
155,804	(785)	16,275	–	5,860	(1,838)	–	(18)	163,578	42,168
–	–	–	–	–	–	–	–	–	43,420
582	–	325	–	–	–	–	(4)	903	2,485
1,463,544	**162**	**118,436**	**139**	**28,322**	**2,072**	**–**	**(117)**	**1,555,914**	**1,124,804**
9,676	**–**	**60**	**–**	**399**	**159**	**–**	**–**	**9,496**	**7,899**
372	–	–	–	–	–	–	–	372	8,484
74	–	–	–	–	–	–	–	74	–
728	–	–	207	–	–	–	–	935	6,657
–	–	–	–	–	–	–	–	–	41
11	–	–	–	–	–	1	–	10	2,633
1,185	**–**	**–**	**207**	**–**	**–**	**1**	**–**	**1,391**	**17,815**
1,517,514	**113**	**127,884**	**382**	**31,017**	**3,152**	**53**	**(252)**	**1,617,723**	**1,322,999**

Depreciation, amortisation and write-downs									Net carrrying amounts
Balance as of 01.01.2006	Change from consolidation	Scheduled additions	Non-scheduled additions	Disposals	Re-classification	Write-ups	Currency differences	Balance as of 31.12.2006	Balance as of 31.12.2006
39,377	–	7,011	68	3,132	(1,260)	26	(65)	41,973	67,040
–	–	–	–	–	–	–	–	–	102,866
542	–	594	–	–	–	–	–	1,136	2,912
–	–	–	–	–	–	–	–	–	10,465
–	–	–	–	–	–	–	–	–	5,751
39,919	**–**	**7,605**	**68**	**3,132**	**(1,260)**	**26**	**(65)**	**43,109**	**189,034**
184,330	–	12,901	243	213	(683)	–	–	196,578	226,759
–	–	1,099	–	–	1,260	–	–	2,359	251,417
1,040,452	–	84,617	65	17,722	668	–	–	1,108,080	528,932
–	–	141	–	–	–	–	–	141	8,981
148,156	–	15,735	215	8,262	(1)	–	(39)	155,804	39,097
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**26,029**
488	**–**	**94**	**–**	**–**	**–**	**–**	**–**	**582**	**1,427**
1,373,426	**–**	**114,587**	**523**	**26,197**	**1,244**	**–**	**(39)**	**1,463,544**	**1,082,642**
11,766	–	123	265	2,494	16	–	–	9,676	8,292
405	–	–	–	33	–	–	–	372	9,310
74	–	–	–	–	–	–	–	74	–
560	–	–	218	–	–	50	–	728	6,499
–	–	–	–	–	–	–	–	–	279
10	–	–	1	–	–	–	–	11	3,351
1,049	**–**	**–**	**219**	**33**	**–**	**50**	**–**	**1,185**	**19,439**
1,426,160	**–**	**122,315**	**1,075**	**31,856**	**–**	**76**	**(104)**	**1,517,514**	**1,299,407**

Development of Provisions

in T€	Balance as of 01.01.2007	Currency differences	Change in scope of consolidation	Allocations
Backfilling of mines and shafts	174,877	–	–	5,426
Mining damage risks	36,465	–	–	762
Maintenance of stockpiles	90,037	–	–	8,639
Other mining obligations	36,779	–	–	991
Provisions for mining obligations [26]	**338,158**	**–**	**–**	**15,818**
Jubilee pay	21,690	–	–	2,006
Partial retirement	58,980	–	–	19,306
Social plan expenses	613	–	–	15
Other personnel obligations	14,915	5	–	15,037
Personnel obligations [27]	**96,198**	**5**	**–**	**36,364**
Other provisions	**29,218**	**3**	**–**	**10,619**
Provisions (non-current debt)	**463,574**	**8**	**–**	**62,801**
Other taxes	639	(32)	39	2,734
Provisions for mining obligations	6,481	–	–	97
Personnel obligations	79,396	(107)	(55)	87,573
Provisions for obligations from sale transactions [27]	50,569	(8)	–	40,637
Provisions for obligations from purchase contracts [27]	20,057	(358)	–	18,941
Other provisions	38,176	(841)	(3)	20,864
Provisions (current debt)	**195,318**	**(1,346)**	**(19)**	**170,846**
Provisions	**658,892**	**(1,338)**	**(19)**	**233,647**

Segment Reporting

	Total revenues		of which intersegment revenues	
T€	**2007**	2006	**2007**	2006
Potash and Magnesium Products	1,480,377	1,304,617	72,502	65,700
COMPO	629,056	562,865	11,663	10,445
fertiva	657,782	558,951	9,733	2,753
Salt	548,991	488,749	3,858	2,961
Waste Management and Recycling	70,678	69,492	149	120
Services and Trading	134,963	131,151	79,956	76,178
Reconciliation [1] [37]	(177,781)	(158,138)	(177,861)	(158,157)
K+S Group	**3,344,066**	**2,957,687**	**0**	**0**

	Assets [39]		Liabilities	
T€	**2007**	2006	**2007**	2006
Potash and Magnesium Products	1,094,024	1,229,449	656,397	591,848
COMPO	455,135	431,174	170,606	164,727
fertiva	267,776	252,575	239,029	233,997
Salt	888,647	956,382	184,011	167,392
Waste Management and Recycling	45,333	40,946	5,342	4,599
Services and Trading	86,166	71,635	29,243	28,540
Reconciliation [1] [37]	127,721	(151,235)	748,366	515,480
K+S Group	**2,964,802**	**2,830,926**	**2,032,994**	**1,706,583**

[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.

Accrued interest	Provisions used	Provisions reversed	Reclassification	CTA reclassification	Balance as of 31.12.2007
7,223	7,585	101	–	–	179,840
1,655	423	658	–	–	37,801
3,303	765	449	–	–	100,765
1,753	364	–	–	–	39,159
13,934	**9,137**	**1,208**	**–**	**–**	**357,565**
894	1,406	109	–	–	23,075
–	23,583	–	–	9,414	45,289
–	41	486	–	–	101
–	11,292	391	–	–	18,274
894	**36,322**	**986**	**–**	**9,414**	**86,739**
(914)	**353**	**1,419**	**(54)**	**–**	**37,100**
13,914	**45,812**	**3,613**	**(54)**	**9,414**	**481,404**
–	596	–	–	–	2,784
–	79	–	–	–	6,499
–	74,749	1,055	–	–	91,003
–	23,841	23,010	(7)	–	44,340
–	17,074	1,923	–	–	19,643
–	20,806	1,612	–	–	35,778
–	**137,145**	**27,600**	**(7)**	**–**	**200,047**
13,914	**182,957**	**31,213**	**(61)**	**9,414**	**681,451**

of which with third parties [38]		EBIT I		Gross cash flow	
2007	2006	**2007**	2006	**2007**	2006
1,407,875	1,238,917	177,913	158,627	256,016	233,958
617,393	552,420	32,049	29,254	41,949	34,364
648,049	556,198	25,276	16,758	26,925	15,143
545,133	485,788	47,846	67,591	77,583	95,985
70,529	69,372	11,477	13,794	14,831	16,938
55,007	54,973	27,650	25,364	33,732	30,927
80	19	(36,509)	(33,350)	(78,958)	(84,567)
3,344,066	**2,957,687**	**285,702**	**278,038**	**372,078**	**342,748**

Invested capital [2]		Capital expenditure [3] [40]		Employees as of 31 Dec. [4]	
2007	2006	**2007**	2006	**2007**	2006
847,513	874,416	79,671	83,778	7,626	7,550
308,617	292,474	12,634	11,366	1,252	1,260
(91,082)	(98,733)	4,191	735	59	61
684,517	702,531	47,902	21,167	2,294	2,194
30,085	26,052	6,918	4,337	34	34
41,239	26,981	15,006	8,143	387	407
17,229	22,738	5,252	1,012	381	367
1,838,118	**1,846,459**	**171,574**	**130,538**	**12,033**	**11,873**

[2] Operating assets and working capital
[3] Relates to property, plant and equipment as well as intangible assets
[4] Workforce as of 31 Dec. including temporary employees (without students and interns) measured on a full-time equivalent basis

Notes

General principles

The group parent company, K+S Aktiengesellschaft (K+S AG), which is registered in Germany, has prepared the consolidated financial statements of the K+S Group as of and for the period ended 31 December 2007 based on the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB) as well as the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) in force on the reporting date insofar as those have been recognised by the European Union. In the interests of clearer presentation, the individual captions in the consolidated financial statements are presented in € thousands (T€).

The consolidated financial statements were approved for release by the Board of Executive Directors at its meeting on 22 February 2007 and after being considered by the audit committee, were presented to the Supervisory Board for approval for its meeting on 12 March 2008.

Scope of consolidation

The scope of consolidation changed as follows in 2007:

Inversiones y Prospecciones Mineras Tarapacá Ltda., which was founded in the preceding year, was fully consolidated for the first time. The company is engaged in the acquisition and maintenance of rights related to SPL Group's salt production in the Chilean Atacama Desert.

Following the acquisition of the remaining 66.7% of the shares of Salsul Indústria e Comércio Ltda. by Salina Diamante Branco Ltda. in November 2007, the company, previously reported as an investment, was fully consolidated. The company distributes the salt products of Salina Diamante Branco Ltda.

Following a merger with effect from 31 December 2007, the assets and liabilities of the previously non-consolidated Plan de Buns S.A.S. were transferred to SCPA du Roure S.A.S.

In connection with the restructuring under corporate law of the SPL Group, SPL Overseas Corp. was liquidated.

Following its sale in September 2007, the previously consolidated biodata ANALYTIK GmbH was no longer consolidated. The sale generated income of T€ 3,290.

No details have been provided about the effects of the companies consolidated for the first time on the grounds of immateriality.

The following 22 (2006: 23) domestic and 43 (2006: 42) foreign companies have been fully consolidated in the consolidated financial statements.

Germany (in %)	Share of capital	Share of voting rights
K+S Aktiengesellschaft, Kassel	–	–
Chemische Fabrik Kalk GmbH, Cologne	100.00	100.00
COMPO Gesellschaft mbH & Co. KG, Münster	100.00	100.00
data process GmbH, Kassel	100.00	100.00
Deutscher Straßen-Dienst GmbH, Hanover	100.00	100.00
esco – european salt company GmbH & Co. KG, Hanover	100.00	100.00
esco international GmbH, Hanover	100.00	100.00
fertiva GmbH, Mannheim	100.00	100.00
German Bulk Chartering GmbH, Hamburg	100.00	100.00
K+S Baustoffrecycling GmbH, Sehnde	100.00	100.00
K+S Beteiligungs GmbH, Kassel	100.00	100.00
K+S Consulting GmbH, Kassel	100.00	100.00
K+S Entsorgung GmbH, Kassel	100.00	100.00
K+S KALI GmbH, Kassel	100.00	100.00
K+S Projekt GmbH, Kassel	100.00	100.00
K+S Salz GmbH, Hanover	100.00	100.00
Kali-Transport Gesellschaft mbH, Hamburg	100.00	100.00
Kali-Union Verwaltungsgesellschaft mbH, Kassel	100.00	100.00
park GmbH, Recklinghausen	100.00	100.00
Torf- und Humuswerk Gnarrenburg GmbH, Gnarrenburg	100.00	100.00
Torf- und Humuswerk Uchte GmbH, Uchte	100.00	100.00
UBT See- und Hafen-Spedition GmbH Rostock, Rostock	100.00	100.00

Outside Germany (in %)	Share of capital	Share of voting rights
Compagnie de Compactage de Wittenheim S.A.S., Wittenheim, France	100.00	100.00
Compania Minera Punta de Lobos Ltda., Santiago de Chile, Chile	99.63	100.00
COMPO Agricoltura S.p.A., Cesano Maderno, Italy	100.00	100.00
COMPO Agricultura S.L., Barcelona, Spain	100.00	100.00
COMPO Agro Chile Ltda., Santiago de Chile, Chile	100.00	100.00
COMPO Austria GmbH, Vienna, Austria	100.00	100.00
COMPO Benelux N.V., Deinze, Belgium	100.00	100.00
COMPO do Brasil S.A., Guaratinguetá, Brazil	100.00	100.00
COMPO Fertilizantes de México S.A. de C.V., Mexico-City, Mexico	100.00	100.00
COMPO France S.A.S., Roche-lez-Beaupré, France	100.00	100.00
COMPO Hellas S.A., Marousi, Greece	100.00	100.00
COMPO Horticulture et Jardin S.A.S., Roche-lez-Beaupré, France	100.00	100.00
COMPO Jardin AG, Allschwil, Switzerland	100.00	100.00
Empresa de Servicios Ltda., Santiago de Chile, Chile	99.63	100.00
Empresa Maritima S.A., Santiago de Chile, Chile	48.57	99.41
esco benelux N.V., Brussels, Belgium	100.00	100.00
esco France S.A.S., Levallois-Perret, France	100.00	100.00
esco Spain S.L., Barcelona, Spain	100.00	100.00
Frisia Zout B.V., Harlingen, The Netherlands	100.00	100.00
International Salt Company LLC., Clarks Summit, USA	100.00	100.00
Inversiones Columbus Ltda., Santiago de Chile, Chile	2.00	100.00
Inversiones Empremar Ltda., Santiago de Chile, Chile	48.86	100.00
Inversiones K+S Sal de Chile Ltda., Santiago de Chile, Chile	100.00	100.00
Inversiones y Prospecciones Mineras Tarapacá Ltda., Santiago de Chile, Chile	100.00	100.00
K+S Finance Ltd., St. Julians, Malta	100.00	100.00
K+S Investments Ltd., St. Julians, Malta	100.00	100.00
K+S KALI & SCPA France S.A.S., Reims, France	100.00	100.00
K+S North America Corporation, New York, USA	100.00	100.00
K+S Sal do Brasil Participacoes e Investimentos Ltda., São Paulo, Brazil	100.00	100.00
K+S Salt of the Americas Holding B.V., Harlingen, Niederlande	100.00	100.00
Salina Diamante Branco Ltda., Natal, Brazil	100.00	100.00
Salines Cérébos et de Bayonne S.A.S., Levallois-Perret, France	100.00	100.00
Salsul Indústria e Comércio Ltda., Guaiba-RS, Brasilien	100.00	100.00
SCPA du Roure S.A.S., Le Teil, France	100.00	100.00
SCPA Masdac S.A.S., Pré en Pail, France	100.00	100.00
SCPA Rodez S.A.S., Onet le Château, France	97.45	97.45
Servicios Maritimos Patillos S.A., Santiago de Chile, Chile	49.81	50.00
Servicios Portuarios Patillos S.A., Santiago de Chile, Chile	99.63	100.00
Sociedad Punta de Lobos S.A., Santiago de Chile, Chile	99.63	99.63
SPL Brasil Empreendimentos e Participacoes Ltda., São Paulo, Brazil	100.00	100.00
SPL USA Inc., Clarks Summit, USA	100.00	100.00
Transporte por Containers S.A., Valparaiso, Chile	47.95	100.00
VATEL Companhia de Produtos Alimentares S.A., Alverca, Portugal	100.00	100.00

Interests in companies over which the K+S Group can exercise a significant influence (associated companies) are measured using the equity method unless they are of minor importance. The K+S Group holds shares in five associated companies: However, significant business relations are only maintained with one associated company (see Related companies and persons on page 181). The potential impact on earnings of accounting such equity interests using the equity method is immaterial from a group perspective.

As a result of their overall minor importance, all interests in associated companies were stated at acquisition cost in financial year 2007.

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.

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 of minor importance.

In the capital consolidation, the acquisition costs of the investments are set off against the share of the remeasured equity attributable to them as of the time of acquisition. Asset-side balances that remain after allocation to the assets and liabilities are carried as goodwill. Liability-side balances from consolidation are released directly affecting profit or loss.

Accounting and valuation principles

Recording of income and expenses

Revenues comprise sales of products and services less any related decreases. Revenues deriving from the sale of products are reported as of the time when the associated risks of ownership have passed. Services are reported as revenues after having been performed. In addition, payment must be sufficiently probable in both cases. Other incomes, such as interest or dividends, are recorded for the relevant period as of the time when a respective contractual or legal claim arises.

Operating expenses are charged to income on the date of performance or at the time they are incurred.

Intangible assets

Intangible assets acquired are stated at acquisition cost. Internally generated intangible assets are capitalized at development cost provided that they are likely to yield a future economic benefit and the costs of such assets can be measured reliably.

Insofar, as their useful lives can be determined, intangible assets are amortised on a regular straight-line basis; in the event that a useful life of unlimited duration is anticipated, straight-line amortisation is dispensed with. A useful life of unlimited duration is also assumed in the case of goodwill (*Geschäfts- oder Firmenwert*). The following useful lives are applied in the case of straight-line amortisation:

Useful lives for intangible assets	Years
Port concessions	250
Brands	5 – 15
Other intangible assets	2 – 10

Special write-downs are recorded in the event of impairment. If the reasons giving rise to the write-down no longer exist, a write-up is recognised that may not exceed the amortised carrying amount.

The value of such goodwill is tested at regular intervals. Appropriate impairment charges are recognised where necessary. Any need for recognition of an impairment charge is determined in accordance with IAS 36 by making a comparison with the discounted future cash flow that is expected for the cash-generating units to which the corresponding amounts of goodwill have been allocated.

Property, plant and equipment

Property, plant and equipment are stated at acquisition or production cost less regular, use-related depreciation. The acquisition or production costs also include future recultivation expenses. Interest on borrowed capital is not capitalized. Non-scheduled depreciation charges are recognised for any impairment losses that exceed the use-related depreciation already recorded; they are reported under other operating expenses. Such impairment losses are determined in accordance with IAS 36 by making a comparison with the discounted future cash flows that are expected for the assets affected. If no independent cash flows can be allocated to the assets affected, the cash flows for the corresponding cash-generating unit are used. Should the reasons giving rise to the non-scheduled depreciation charge cease to apply, appropriate write-ups are recognised.

Gallery and excavation work as well as salt deposits acquired are capitalised under property, plant and equipment.

If property, plant and equipment are sold or in case of their retirement, the gain or loss represented by the difference between sale proceeds and the residual carrying amount are recorded under other operating income or expenses.

Property, plant and equipment are depreciated using the straight-line method and the depreciation charges are based on customary useful life.

Scheduled straight-line amortisation is based on the following useful lives that apply across the Group:

Useful lives for property, plant and equipment	Years
Salt deposits	19 – 250
Gallery and excavation work	5 – 125
Buildings	14 – 33⅓
Technical equipment and machinery	4 – 25
Other equipment, factory and office equipment	3 – 10

Finance leases

A lease relationship is an agreement under which the lessor transfers to the lessee the right to use an asset for a particular period of time against a single payment or a series of payments. A finance lease arises if substantially all the risk and rewards incident to ownership of an asset are transferred to the lessee. If that is the case, the lessee capitalises the asset at its present value or, if lower, at the present value of the minimum lease payments. A corresponding amount is recognised as a liability arising from the lease. The asset is depreciated in a manner that essentially does not differ from the treatment applied to comparable assets. Finance leases have hitherto been of minor importance for the K+S Group.

Investment properties

Investment properties are mainly leased objects. They are stated at cost less straight-line, scheduled, use-related depreciation. The underlying useful lives are 50 years. Proceeds from the sale of investment properties are recorded in the financial result.

Financial instruments

Financial instruments are contracts that give rise to a financial asset for one of the parties to such contract and to a financial liability or equity instrument for the other party. Essentially, financial assets and financial liabilities are disclosed separately from each other (no offsetting). Financial assets mainly comprise cash on hand and balances with banks, trade receivables, other receivables, securities, financial investments as well as derivative financial instruments with a positive market value. Financial liabilities comprise particularly trade payables, financial liabilities, other liabilities as well as derivative financial instruments with a negative market value. Financial instruments are recognised for the first time at their fair value as soon as the reporting enterprise becomes a contractual party for the financial instrument. Transaction costs that are to be allocated directly to the acquisition are taken into account in determining the carrying amount insofar as the financial instruments are not subsequently measured at fair value with recognition in profit or loss.

The allocation of financial instruments to one of the following categories defined in IAS 39 determines subsequent measurement:

- Loans and receivables:
  This category mainly comprises trade receivables, other receivables, loans, and cash on hand and bank balances. The item cash on hand and bank balances as disclosed in the balance sheet mainly comprises cheques, cash on hand and bank balances. It also includes securities with maturities of less than three months and which are not subject to any significant fluctuations in value. Loans are essentially measured at acquisition cost. Interest-free loans or loans at low rates of interest are stated at present value. Foreseeable risks are reflected by special write-downs.

  After being recognised for the first time, the other financial assets belonging to this category are measured at amortised cost applying the effective interest method less impairments. Non-interest-bearing or low-interest receivables due in more than three months are discounted. Any impairments that may be required are based on the expected risk of default and are recorded in separate allowance accounts. Receivables are derecognised when settled or when they become uncollectible. Other assets are derecognised on disposal or in the absence of value.

- Financial assets stated at fair value through profit or loss:
  This category comprises securities “held for trading,” which have been acquired with the intention to be sold over the short term. Derivatives with positive market values are also classified as “held for trading” unless they form part of a hedging relationship in accordance with IAS 39. They are stated at fair value. Changes in value are recognised in income. Securities are derecognised after disposal on the settlement date.

- Financial assets available for sale:
  This category comprises all financial assets not allocated to any of the categories mentioned above. Securities are essentially categorised as “available for sale” unless a different categorisation is required for an explicitly designated purpose. They are measured for the first time on the transaction settlement date for the purchase. Equity instruments such as, for example, investments in (non-consolidated) associated companies as well as stocks held in listed companies also belong to this category.

  Basically, financial instruments belonging to this category are subsequently measured at fair value. Changes in fair value arising on subsequent measurement are taken to the revaluation reserve without recognition in profit or loss. Realised gains or losses are only recognised in income upon sale. If there are objective indications of lasting impairment on the balance sheet date, a special write-down to the lower value is to be recognised. The amount recorded in the revaluation reserve is derecognised without recognition in profit or loss. Subsequent impairment reversals are not recognised in profit or loss.

In the case of financial instruments for which there are no active markets allowing fair values to be determined reliably, such financial instruments are stated at acquisition cost. This applies to investments in (non-consolidated) associated companies and equity investments. Lasting impairments are accounted for by special write-downs to lower values with recognition in net profit. Such write-downs may not be reversed. Shares and investments are derecognised upon disposal to a party outside the group. Securities are derecognised after disposal on the settlement date.

- Financial liabilities carried at amortised cost:
  All financial liabilities with the exception of derivative financial instruments are stated at amortised cost applying the effective interest method. Liabilities are derecognised on settlement or if the reasons for recognizing a liability no longer apply.

- Financial assets stated at fair value through profit or loss:
  This category comprises derivative financial instruments with negative market values and which are essentially classified as "held for trading." This rule does not apply to derivatives which are part of a hedging relationship in accordance with IAS 39.

Derivatives
Hedging relationships for derivatives and underlying transactions are only established for a portion of the derivatives. Hedging relationships cannot be established for most derivatives because of the requirements contained in IAS 39. Derivatives are stated at respective market value. Changes in market value are recognised in profit or loss.

Derivatives are derecognised on the settlement date or, if the derivatives expire early ("knock-out" attained), on the expiry date.

Inventories
In accordance with IAS 2, assets that are designated for sale in the normal course of business (finished goods and merchandise), are in the process of being produced for sale (work in progress) or are used in production or the rendering of services (raw materials and supplies) are recorded under inventories.

Inventories are valued at average cost or at the lower net selling price. In addition to direct costs, production costs also include reasonable proportions of fixed and variable material and manufacturing overheads as long as they occur in connection with the production process. The same applies to general administrative expenses, pension and support expenses as well as other social expenses. Interest on borrowed capital is not included. The net selling price corresponds to the estimated price less the costs that are yet to be incurred until completion and the necessary selling expenses.

Provisions for pensions and similar obligations

Pension provisions for employees and pensioners in Germany are computed in accordance with actuarial principles applying the projected unit credit method and a discount factor of 4.6 %. Pension obligations of foreign companies are computed applying similar principles and with due consideration given to country-specific features. Insofar as plan assets exist, such assets are offset against pension provisions.

Mining and other provisions

Provisions are recognised in an amount corresponding to the extent to which they are expected to be needed for discharging obligations in relation to third parties arising from a past event. Such need must be more probable than improbable and it must be possible to reliably estimate the amount of the obligations. Non-current provisions with a residual maturity of more than one year are discounted applying a capital market rate of interest of suitable duration to take account of future cost increases insofar as the interest rate effect is material.

Deferred taxes

In accordance with IAS 12, deferred taxes are determined using the balance sheet liability method that is in common use internationally. This results in the recognition of deferred tax items for all temporary differences between the carrying amounts disclosed in the tax accounts and the consolidated balance sheet as well as for tax loss carryforwards and for appropriate consolidation procedures. However, we have only recognised deferred tax assets to the extent that their realization has an adequately concrete form. Deferred taxes are measured applying the tax rates that, under current provisions of the law, would apply in the future when the temporary differences will probably be reversed. The effects of changes in tax legislation on deferred tax assets and liabilities are recognised in profit or loss for such period in which the material condition causing such amendments to enter into force arise (in Germany: Bundesrat approval). Deferred tax assets and liabilities are not discounted applying the rules contained in IAS 12. Deferred tax assets and liabilities are offset within individual companies or tax groups according to timing.

Discretionary assumptions and estimates

Discretionary assumptions concerning the application of accounting and valuation methods

Non-current intangible assets, property, plant and equipment and investment property are stated in the balance sheet at amortised cost. No use is made of the also allowed alternative treatment of reporting them at fair value.

Securities are generally classified as “available for sale” so that changes in fair value to be recognised in the balance sheet are recorded in equity without recognition in income. Insofar as securities are classified at fair value and recognised in profit or loss, changes in fair value have a direct effect on the net profit or loss for the period.

Estimates concerning the application of accounting and valuation methods

The values stat ed in IFRS financial statements are in part based on estimates concerning their basis and size. Estimates are particularly necessary in the case of

- determining the useful lives of depreciable fixed assets,
- determining measurement premises for impairment tests, especially for capitalized goodwill,
- determining the discount factor to be applied in valuating pension provisions as well as
- determining amounts, performance due dates and interest rates for discounting in connection with the measuring of provisions for mining obligations.

Despite exercising the greatest of care in producing such estimates, actual developments may deviate from the assumptions made.

Foreign currency translation

In the single-entity financial statements of group companies, all receivables and liabilities denominated in foreign currencies are measured at the exchange rate applicable on the balance sheet date irrespective of whether they are hedged or not. Hedging transactions, which viewed from an economic angle, serve the purpose of hedging exchange rates are carried at their respective market values.

The annual financial statements of foreign group companies are converted to euros in accordance with the functional currency concept set forth in IAS 21. All companies conduct their operations independently in financial, economic and organisational terms. The functional currency generally corresponds to the local currency, with the US dollar used as the functional currency only in the case of Empresa Maritima S.A., as these companies generate the greater part of their cash inflows and cash outflows in this currency. Assets and liabilities are translated at the exchange rate prevailing on the balance sheet date and income and expenses, at the average exchange rate for the year.

Balances arising on the exchange rates prevailing on the balance sheet date for the preceding year are reported as a separate component in equity as differences from currency translation without recognition in profit or loss. The balance of these translation differences compared with the preceding year was T€ -19,649.

If group companies are no longer consolidated, the currency translation difference concerned is released and recognised in profit or loss.

The translation of currencies important for the group was based on the following euro exchange rates:

Exchange rate in relation to € 1	2007 Rate on report. date	2007 Average rate for the year	2006 Rate on report. date	2006 Average rate for the year
US-dollar (USD)	1,472	1,370	1,317	1,256
Swiss franc (CHF)	1,655	1,643	1,607	1,573
Brazilian real (BRL)	2,619	2,664	2,813	2,730
Chilean peso (CLP)	733,032	714,905	700,592	666,252
Mexican peso (MXN)	16,059	14,975	14,293	13,683

Effects of new accounting standards and interpretations

The following accounting standards and interpretations were applied for the first time in financial year 2007.

Standard/Interpretation			Date of entry into force [1]	Endorsement[2] (31.12.2007)
Changes	IAS 1	Presentation of Financial Statements – Information on Capital	01.01.2007	yes
New	IFRS 7	Financial Instruments: Disclosures	01.01.2007	yes
New	IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	01.03.2006	yes
New	IFRIC 8	Scope of IFRS	01.05.2006	yes
New	IFRIC 9	Reassessment of Embedded Derivatives	01.06.2006	yes
New	IFRIC 10	Interim Financial Reporting and Impairment	01.11.2006	yes

[1] Applies to the first reporting period of a financial year which begins on or after that date
[2] Adoption of the IFRS standards and interpretations by the EU Commission

IAS 1 "Presentation of Financial Statements – Information on Capital"
The amendment of IAS 1 leads to extended disclosure obligations with respect to the aims and methods of capital management. The information is presented in Note (23).

IFRS 7 "Financial Instruments: Disclosures"
The aim of IFRS 7 is to enable persons to whom the balance sheet is addressed to have a better insight into the financial instruments of a company. To this end, extended supplementary information concerning both the significance of the financial instruments and the risks arising therefrom is envisaged. The information on financial instruments is explained in the Notes to the particular balance sheet items and in Note (29); further comments on financial risks can be found in the Management Report.

IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies"
IFRIC 7 sets out regulations on how a company is to proceed with respect to the accounting treatment of its functional currency if hyperinflation is realised for the first time. This new regulation has no impact on the consolidated financial statements of the K+S Group for 2007.

IFRIC 8 "Scope of IFRS 2"
IFRIC 8 specifies the scope of IFRS 2 "Share-based Payment." Accordingly, IFRS 2 must also be applied if there is no directly identifiable consideration in return for the share-based payments or the consideration received is smaller than the fair value of the equity instruments granted. IFRIC 8 has no impact on the consolidated financial statements of the K+S Group for 2007.

IFRIC 9 "Reassessment of Embedded Derivatives"
IFRIC 9 deals with the question of when an embedded derivative must be separated from the host contract and accounted for on a stand-alone basis. It is stipulated that such an assessment is only to be made when the entity first becomes a party to the contract. A subsequent reassessment is only to be made if there has been a significant change in the terms of the contract. IFRIC 9 has no impact on the consolidated financial statements of the K+S Group for 2007.

IFRIC 10 "Interim Financial Reporting and Impairment"

IFRIC 10 stipulates that an impairment loss recognised in the interim report in respect of goodwill, an investment in either an equity instrument of the category "available for sale" or a financial asset carried at cost shall not be reversed at a later period. IFRIC 10 has no impact on the consolidated financial statements of the K+S Group for 2007.

New accounting standards and regulations yet to be applied

The following accounting standards and interpretations were published by the IASB up to the balance sheet date, but their application by the K+S Group will only become mandatory at a later date.

Standard/Interpretation			Date of entry into force [1]	Endorsement [2] (31.12.2007)
Changes	IAS 1	Presentation of Financial Statements	01.01.2009	no
Changes	IAS 23	Borrowing Costs	01.01.2009	no
New	IFRS 8	Operating Segments	01.01.2009	yes
New	IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	01.03.2007	yes
New	IFRIC 12	Service Concession Arrangements	01.01.2008	no
New	IFRIC 13	Customer Loyalty Programmes	01.07.2008	no
New	IFRIC 14	IAS 19 - limit on an asset and minimum funding requirements	01.01.2008	no

[1] Applies to the first reporting period of a financial year which begins on or after that date
[2] Adoption of the IFRS standards and interpretations by the EU Commission

IAS 1 „Presentation of Financial Statements"

The aim of the amended IAS 1 is to facilitate the analysis of financial statements by persons to whom such statements are addressed. This is to be achieved, for example, by an amended statement of changes in equity and by a more comprehensive overall performance statement. The impact of the amendments of IAS 1 on the consolidated financial statements of the K+S Group is currently being examined.

IAS 23 "Borrowing Costs"

The amendment of IAS 23 stipulates that borrowing costs which can be directly allocated to the construction or production of a "qualifying asset" are to be capitalised in future. The current alternative treatment of an expenditure-charged recording of borrowing costs will cease to apply. The impact of the amendments of IAS 23 on the consolidated financial statements of the K+S Group is currently being examined.

IFRS 8 "Operating Segments"

IFRS 8 replaces the hitherto valid IAS 14 "Segment Reporting". A business segment is defined as an operating part of a company, whose earnings are regularly presented to persons responsible so that they can decide on the further allocation of resources. The presentation of the segments is thus essentially geared towards the internal reporting structure of the financial information. The impact of IFRS 8 on the consolidated financial statements of the K+S Group is currently being examined.

IFRIC 11 – “IFRS 2 - Group and Treasury Share Transactions”

IFRIC 11 states precisely when specific share-based remuneration can be treated as transactions with settlement in cash or transactions with settlement through equity instruments. From today’s perspective, IFRIC 11 has no impact on the consolidated financial statements of the K+S Group.

IFRIC 12 “Service Concession Arrangements”

IFRIC 12 regulates the capitalisation of concessions which are issued by governments or other public corporations to private operators in order to provide public services. From today’s perspective, IFRIC 12 has no impact on the consolidated financial statements of the K+S Group.

IFRIC 13 “Customer Loyalty Programmes”

IFRIC 13 covers programmes in which customers are awarded bonus points for buying products or services, which can later be exchanged for free or reduced-price goods. From today’s perspective, IFRIC 13 has no impact on the consolidated financial statements of the K+S Group.

IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”

IFRIC 14 deals with the case of surplus coverage of pension obligations by externally formed plan assets. Criteria are set out for when this surplus cover is available to the company as an economic benefit and has to be capitalized as an asset. From today’s perspective, IFRIC 14 has no impact on the consolidated financial statements of the K+S Group.

Notes to the income statement

The income statement is presented on page 131.

In the income statement, operating earnings (EBIT I), a key controlling variable for the K+S Group, are reported as a separate item. This information ensures that the effects of hedging US dollar receipts – effects that are important for the earnings position of the K+S Group – are disclosed in the appropriate period, i.e. in the year in which the transactions concerned fall due (“realised market value”).

K+S hedges anticipated US dollar receipts for up to three years in advance to alleviate the possible effects of changes in exchange rates on earnings. The derivatives that are used in this regard (see Note (18)) do not satisfy the restrictive requirement of high effectiveness contained in IAS 39, so that a hedge relationship cannot be recognised. The result of this is that changes in market value of all derivatives have to be disclosed in the income statement affecting profit or loss as of each reporting date, which can cause substantial fluctuations in earnings over time. To isolate these valuation effects related to reporting dates, they are disclosed separately from operating earnings and are incorporated in EBIT II. The use of this approach results in operating earnings (EBIT I) including the full contribution to earnings deriving from the hedging transactions realized over the course of the financial year.

However, as a result of the restrictive rules contained in IAS 39, some of the contributions to earnings are regularly already recorded as market value changes and recognised in profit or loss in preceding years. To avoid the double reporting of earnings, the earnings reported in the reconciliation to EBIT I are eliminated in EBIT II. Thus, EBIT II corresponds to earnings under IFRSs, which takes account of the reporting-date-based market valuation of hedging transactions in accordance with IAS 39.

The comparative figures for 2006 were changed as follows after the integration of the SPL companies was completed in 2007:

- Cost of sales: T€ 14,168
- Selling expenses: T€ (13,850)
- General and administrative expenses: T€ (346)
- Other operating expenses: T€ 28

(1) Revenues

The revenues generated by the K+S Group amounted to T€ 3,344,066 (2006: T€ 2,957,687), with T€ 3,198,818 (2006: T€ 2,840,926) resulting from the sale of goods and T€ 145,248 (2006: T€ 116,761) resulting from the rendering of services. The breakdown of the revenues by business segment as well as intersegment revenues are presented in the segment information on page xx et.seq. The regional breakdown of the revenues is disclosed in the notes to the segment reporting under Note (38).

(2) Other operating income

Other operating income includes the following material items:

T€	2007	2006
Foreign exchange rate gains	56,679	54,914
- of which realised market values less premiums paid	48,268	12,360
Release of provisions	31,032	26,090
Compensation and refunds received	15,475	11,291
Reversals of allowances for receivables	5,685	4,757
Income from gas price hedging	5,319	–
Rentals and leasing	2,036	2,644
- of which investment property	1,517	2,096
Disposals of fixed assets	1,885	511
Income from the sale of emission rights	734	2,990
Sundry income	19,350	16,747
Other operating income	138,195	119,944

Compensation and refunds received mainly comprised refunds related to semi-retirement totalling T€ 9,925 (2006: T€ 3,503) and refunds of contributions to professional associations totalling T€ 4,584 (2006: T€ 3,669). It also covers income from compensation for damages.

The "Realised market values less premiums paid" included under the item "Foreign exchange rate gains" is necessary for the presentation of EBIT I. This item is adjusted under "Market value changes from hedging transactions" (see Note (5)).

(3) Other operating expenses

Other operating expenses include the following material items:

T€	2007	2006
Exchange rate hedging costs/foreign exchange rate losses	66,177	7,042
Partial retirement expenses	14,312	12,401
Allocations/reverals, other provisions	6,414	(5,801)
Allocations/utilisation	4,507	4,462
Allowances for trade receivables	3,750	4,586
Depreciation	3,190	3,360
Ancillary capital expenditure costs	2,390	3,084
Expenses/refunds for disused plants and maintenance of Merkers	1,975	4,643
Losses on disposals of fixed assets	1,565	3,775
Expenses related to leased investment properties	1,437	2,080
Sundry expenses	26,240	23,898
Other operating expenses	**131,957**	**63,530**

The exchange rate hedging costs/losses arising from exchange rate differences in the amount of T€ 66,177 are compared against foreign exchange gains of T€ 56,679, which are disclosed under other operating income. This yields a foreign currency result in operating earnings (EBIT 1) of T€ (9,498) (2006: T€ 47,872).

(4) Income from investments, net

T€	2007	2006
Result from distributions from affiliates	1,528	2,038
Expenses for absorption of losses	–	(2)
Write-ups/write-downs on investments	(207)	(168)
Income from the disposal of investments	3,263	(99)
Income from investments, net	**4,584**	**1,769**

(5) Market value changes from hedging transactions

T€	2007	2006
Realised market values less premiums paid	(48,268)	(12,360)
Unrealised market values less premiums paid	(19,401)	–
Market value changes for hedging transactions that have yet to reach maturity	(266,850)	95,921
- of which positive market changes	–	112,363
- of which negative market changes	(266,850)	(16,442)
Market values of expired options maturing in 2008	(58,101)	–
- of which premiums paid	(50,387)	–
Market value changes from hedging transactions	**(392,620)**	**83,561**

For information regarding “Realised market values less premiums paid,” see Note (2).

The market value changes for hedge transactions that have yet to reach maturity relate to derivative financial instruments concluded to hedge future currency positions and for which no hedging relationship can be established in accordance with IAS 39.

(6) Interest income, net

T€	2007	2006
Interest and similar income	6,686	9,898
Interest expenses in allocations to provisions for pensions	(4,047)	(7,445)
Interest expenses in allocations to provisions for mining obligations	(13,934)	(13,645)
Interest expenses in allocations to provisions for jubilee benefits	(894)	(888)
Sundry interest and similar expenses	(23,383)	(15,441)
Interest income, net	(35,572)	(27,521)

Interest expenses in allocation to provisions for pensions were offset against plan income from the Contractual Trust Arrangement (CTA) . The decline in interest expenses compared with the preceding period is largely due to the increase of T€ 42,369 in plan assets at the end of financial year 2006 and which resulted in higher plan income in the period under review (see Note (25)).

(7) Other financial result

T€	2007	2006
Income from the disposal of securities	481	9,372
Losses from the disposal of securities	(113)	(3,537)
Income from the disposal of other financial investments	278	12,077
Losses from the disposal of other financial investments	(40)	(938)
Income from the disposal of financial assets	**606**	**16,974**
Income from the measuring of securities at market value	40	637
Expenses resulting from the measuring of sucurities at market value	(32)	(1,747)
Income from the measuring of other financial investments at market value	1	208
Expenses resulting from the measuring of other financial investments at market value	(393)	(1,057)
Income from the measuring of financial assets at market value	**(384)**	**(1,959)**
Other financing costs	**(315)**	**(7,638)**
Other financial result	(93)	7,377

The disposal of property not required for business operations produced income of T€ 218 (2006: T€ 12,062) and losses of T€ 40 (2006: T€ 900) In the preceding year, non-recurrent expenses totalling T€ 7,275 were incurred in connection with the acquisition of SPL and were disclosed under other financial expenses.

(8) Taxes on income

T€	2007	2006
Current taxes	19,428	49,903
- Germany	3,257	43,947
- other countries	16,171	5,956
Deferred taxes	(68,902)	20,392
- Germany	(63,221)	60,585
- other countries	(5,681)	(40,193)
- from loss carryforwards	(47,654)	11,841
Taxes on income	(49,474)	70,295

As a result of the corporate tax reform, new rates of corporate income tax and trade tax will apply in Germany from 2008. Domestic deferred taxes have therefore already been calculated using the new tax rate of 27.8 % (2006: 37.0 %). In addition to the corporate income tax rate of 15.0 % and the solidarity surcharge of 5.5 %, the average trade tax rate of 12.0 % was taken into account. The change in the tax rates and the related remeasurement of deferred taxes gives rise to a non-recurrent deferred tax expense of T€ 14,584 for 2007. Deferred taxes for other countries are computed applying the respective national income tax rates (cumulative).

The following table reconciles the anticipated to the reported tax expense. The anticipated income tax expense was calculated assuming a domestic group income tax rate of 37.2 % for 2007, comprising 25 % corporate income tax plus a solidarity surcharge of 5.5 % and an average trade tax rate of 14.6 %.

T€	2007	2006
Earnings before income taxes	(142,583)	341,455
Anticipated income tax expense (37.2 % group tax rate; prevoius year: 37.0 %)	**(53,041)**	**126,338**
Changes in anticipated tax expense:		
Effects of changes in tax rates	14,955	(154)
Tax-exempt income from investments and profits on disposals	(3,139)	(5,620)
Reductions in tax resulting from tax-exempt income and other items		
- Trade tax additions/reductions	2,409	(4,559)
- Step-up of carrying amounts for tax purposes from merger	–	(41,855)
- Other tax-exempt income	(773)	(935)
Increases in tax resulting from non-deductible expenses and other items	1,399	627
Permanent deviations	3,827	4,310
Effects from tax rate differences	(6,544)	(1,480)
Taxes for preceding years	(8,093)	(6,686)
Other effects	(474)	309
Actual tax expense	**(49,474)**	**70,295**
Tax rate	**–**	**20.6%**

(9) Cost of materials

T€	2007	2006
Raw materials, supplies and purchases merchandise	1,201,819	1,033,884
Purchased services	201,104	179,309
Energy costs	216,153	207,497
Cost of materials	**1,619,076**	**1,420,690**

(10) Personnel expenses/ Number of employess

T€	2007	2006
Wages and salaries	540,752	522,277
Social security	137,184	134,874
Pension expenses	9,146	6,208
Support	247	185
Personnel expenses	**687,329**	**663,544**

Under the stock option programme, the Board of Executive Directors and certain managerial personnel 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 maximum period of five years.

In 2007, payments for stock options exercised totalling T€ 10,176 (2006: T€ 6,080) were recorded under personnel expenses. The expense was partially neutralized through the utilisation of provisions. A provision has been recognised for stock options that had not been exercised as of the balance sheet date (see Note (27)).

Under the employee share ownership programme, K+S Group employees have the possibility of acquiring K+S shares at a discount. A one-year lock-up period applies to employee shares.

Expenses totalling T€ 2,382 (2006: T€ 2,377) were incurred in connection with the employee share ownership programme resolved in 2007. Employees who hold their shares for three years without interruption receive free bonus shares at a ratio of 1:10 on a non-recurrent basis. This resulted in personnel expenses of T€ 640 in 2007 (2006: T€ 1,357).

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.

Personnel expenses include sums totalling T€ 729 that are unrelated to the period.

Employees, including those with temporary contracts (average number)	2007	2006
Germany	9,972	9,894
Outside Germany	1,987	1,498
Total	**11,959**	**11,392**
- of which trainees	546	526

(11) Earnings per share

T€	2007	2006
Group earnings after taxes and minority interests	(93,337)	270,794
Elimination of market value changes (gross)	392,620	(83,561)
Elimination of deferred taxes on market value changes	(123,950)	30,918
Group earnings, adjusted *	**175,333**	**218,151**
Average number of shares (million)	41.24	41.24
Earnings per share (in €)	(2.26)	6.57
Earnings per share, adjusted (in €) *	**4.25**	**5.29**

* Adjusted for the effect of market value changes for hedging transactions; a tax rate of 31.6% (2006: 37.0%) is assumed for adjusted group earnings and for adjusted earnings per share.

In accordance with IAS 33, earnings per share are to be determined on the basis of group earnings. They also include the effects of the valuation of hedging transactions as of the reporting date (see Note (5)). To eliminate these influences, which are inclined to fluctuate substantially, we also report adjusted group earnings. In addition, adjusted earnings per share for 2006 had included non-recurrent deferred tax income of € 1.02 per share.

In order to determine earnings per share, the respective earnings are divided by the weighted average number of shares outstanding. As none of the conditions resulting in the dilution of earnings per share exist in the case of K+S at the present time, undiluted earnings per share correspond to diluted earnings per share. Neither discontinued activities nor changes in accounting treatment needed to be taken into account in earnings per share.

If use is made of the authorized capital (see Note (21)), earnings per share could potentially become diluted in the future.

Notes to the balance sheet

The balance sheet is presented on page 132. The development of the gross carrying amounts and depreciation on the individual fixed assets items is shown separately on pages 134 et seq.

(12) Intangible assets

The amortisation charges for the financial year are recognised in the income statement in line with the use of the assets concerned and are disclosed under the following items:

- Cost of sales
- Selling expenses
- General and administrative expenses
- Research and development costs
- Other operating expenses

The goodwill disclosed in the consolidated balance sheet is allocated to the following cash-generating units:

T€	2007	2006
Salt business segment America	85,867	89,009
Salt business segment Europe	13,251	13,251
COMPO business segment	606	606
Total Goodwill	**99,724**	**102,866**

In connection with the testing of goodwill for impairment, the residual carrying amounts for the respective cash-generating units were compared with the value in use of the goodwill. In keeping with the definition of a cash-generating unit, each of the K+S Group business segments was essentially considered to constitute such unit. The Salt business segment is divided into the cash-generating units Salt America and Salt Europe. The determination of value in use was based on the present value of the future cash flows of the business segments assuming continued use. The cash flow forecast is based on the current medium-term plans of the K+S Group and the respective business segments. The key premises underlying the medium-term plans are largely based on past experience. The forecast period covers the years 2008 to 2012, with a growth rate of 2.0% assumed for subsequent years (2006: 2.0%) The following discount factors were applied as of 31 December 2007:

Interest rates in %	2007 before taxes	2007 after taxes	2006 before taxes	2006 after taxes
Salt business segment America	10.3	8.5	9.0	7.5
Salt business segment Europe	10.5	7.5	10.0	6.5
COMPO business segment	10.5	7.5	10.0	6.5

The rates of interest for the cash-generating units Salt Europe as well as COMPO correspond to the weighted cost of capital for the K+S Group before and after taxes. The rate of interest for the cash-generating unit Salt America takes account of a country risk premium for Chile as well as the level of Chilean income taxes.

The impairment test conducted at the end of financial year 2007 confirmed that the goodwill had retained its value.

In connection with the testing for impairment of the other intangible assets, the residual carrying amounts for the respective assets were compared with their value in use as of the balance sheet date. The impairment test conducted at the end of financial year 2007 required recognition of a write-down totalling T€ 36 (2006: T€ 68) disclosed under other operating expenses.

In financial year 2007, a brand with a useful life of unlimited duration was capitalised in the amount of T€ 1,705; there were no indications that it had suffered any impairment as of the reporting date.

(13) Investment properties

The fair value of investment properties amounted to T€ 27,482 as of 31 December 2007 (2006: T€ 28,054). The fair values were estimated by internal specialist departments on the basis of local market conditions. In determining the values, particular account was taken of local property valuation records and, in part, on external valuation reports. No extraordinary write-downs were recognised for investment properties in financial year 2007 (2006: T€ 265).

(14) Financial assets

T€ 15,141 (2006: T€ 15,809) of the amount relates to associated companies and participating interests and insofar is not exposed to interest rate risks. It is not possible to determine a reliable fair value for this item.

T€ 2,674 (2006: T€ 3,630) relates to loans (mainly to employees) and other financial assets that essentially carry a fixed rate of interest and are therefore exposed to an interest rate risk in respect of fair value. The effective annual rates of interest range between 0% and 5.0% and the remaining fixed interest period generally ranges between 1 year and 17 years. The fair values approximate the carrying amounts. If the interest rates change by +/- 1%, the fair values would change by T€ (103) and T€ 110 (2006: T€ (142) and T€ 150).

The investment write-down recognised in the year under review was reported under income from investments, net.

The maximum default risk as of the balance sheet date corresponds to the amount stated in the balance sheet. There are no specific grounds that would suggest the occurrence of events of default. There are no significant concentrations of default risk.

(15) Deferred taxes

The following deferred tax assets and liabilities relate to reporting and measurement differences for individual balance sheet line items and tax loss carryforwards:

	Deferred tax assets		Deferred tax liabilities	
T€	2007	2006	2007	2006
Intangible assets	7,176	10,326	10,454	13,668
Property, plant and equipment	630	1,893	77,625	81,797
Financial assets	1	–	5	9,334
Inventories	3,090	9,733	4	11
Receivables and other assets	8,866	13,383	26,383	48,227
- of which derivative financial instruments	223	–	20,648	43,170
Provisions	54,484	74,540	1,624	5,214
Liabilities	25,292	4,948	1,442	8,556
Gross amount	**99,539**	**114,823**	117,537	**166,807**
- of which long term	60,410	82,989	90,378	113,853
Tax loss carryfowards	66,702	22,690	–	–
Consolidation	(1,092)	1,257	(779)	(521)
Balances	(95,096)	(86,752)	(95,096)	(86,752)
Balance sheet carrying amount (net)	70,053	52,018	21,662	79,534

The capitalisation of deferred taxes totalling T€ 752 (2006: T€ 2,557) was dispensed with as use of the underlying loss carryfowards appears unlikely. The underlying loss carryforwards amount to T€ 4,561 (2006: T€ 13,462). During the year under review, T€ +7,825 (2004: T€ (4,665)) in deferred taxes were offset directly against equity without recognition in profit or loss.

(16) Inventories

T€	2007	2006
Raw materials and supplies	134,612	114,175
Work in progress	32,647	21,046
Finished products and merchandise	201,078	234,451
Payments on account	300	483
Inventories	368,637	370,155

Inventories of T€ 37,048 (2006: T€ 37,487) were stated at net realisable value. The reporting of net realisable value resulted in the writing down of inventories by T€ 5,606 (2006: T€ 5,019) during the period under review.

(17) Receivables and other assets

T€	2007	Of which residual term > 1 year	2006	Of which residual term > 1 year
Accounts receivable - trade	757,237	–	628,766	848
Receivables from associated companies	11,803	–	12,144	–
Receivables from companies in which participating interests are held	1,598	–	790	–
Other assets	304,737	122,605	334,706	136,924
- of which derivative financial instruments	205,335	113,138	242,666	134,453
Receivables and other assets	1,075,375	122,605	976,406	137,772

The preceding year's accounts receivable trade were reduced by T€ 728 while receivables while receivables from companies in which participating interests are held were increased by the same amount.

The allowances that largely relate to accounts receivable trade developed as follows *:

T€	2007	2006
Balance as of 1 January	23,151	23,027
Change in scope of consolidation	(8)	1,121
Addition	4,424	5,978
Reversal	1,151	3,230
Utilisation	5,475	3,745
Balance as of 31 December	**20,941**	**23,151**

* The allowances shown were offset against credit insurance receivables.

Allowances of T€ 20,791(2006: T€ 23,075) were recognised for the accounts receivable trade portfolio in the past financial year. T€ 150 (2006: T€ 76) resulted from allowances for other receivables and other assets. The allowances are based on the anticipated risk of default. If receivables have a residual term of more than three months, they are discounted as of the balance sheet date applying money market rates. To this extent, the receivables are exposed to an interest rate risk and thus, to a change in fair value. As of 31 December 2007, receivables bearing no or low interest were written down by T€ 2,638 (2006: T€ 2,678).

The following table provides information about the extent of the risk of default contained in the items "accounts receivable – trade" as well as "other receivables and nonderivative financial assets".

T€	Carrying amount	Of which neither overdue nor adjusted as of the reporting date	Of which unadjusted but overdue as of the reporting date			
			< 30 days	> 31 and < 90 days	> 91 and < 180 days	> 180 days
	2007					
Accounts receivable – trade	757,237	626,968	24,791	6,103	822	1,691
other receivables and non-derivative financial instruments	100,127	60,698	6,073	1,566	44	1,291
	2006					
Accounts receivable – trade	628,766	509,517	24,962	7,282	349	1,596
other receivables and non-derivative financial instruments	96,655	64,344	2,311	1,096	391	84

As of 31 December 2007, the extent of accounts receivable trade for which contractual conditions were renegotiated or which were otherwise adjusted or overdue was insignificant.

Receivables management is geared towards collecting all outstanding accounts punctually and in full as well as to avoid the loss of receivables. Invoices are issued on a daily basis and invoice data is transferred to debtor accounts online. Accounts outstanding are monitored on an on-going basis with system support and in line with the payment terms agreed with customers. Payment terms generally range from 10 to 180 days, with longer terms being customary on some markets. In the case of arrears, reminders are issued at regular, two-week intervals.

The risk of default is understood as the risk of loss resulting from a contractual partner failing to discharge its payment obligations. Customer receivables are to a large extent secured against this risk by means of appropriate insurance cover and other hedging instruments. This ensures that only low, partial losses are incurred in the event of default. An internal credit check is conducted in the case of customers for whom such cover cannot be obtained. The Group is not exposed to any significant concentration of risk with respect to receivables.

The maximum risk of default with respect to receivables and other assets is reflected in the carrying amount disclosed in the balance sheet. For the very unlikely event of a simultaneous default on all unsecured receivables, the maxim default sum as of 31 December 2007 was T€ 54,377 (2006: T€ 36,861).

(18) Derivative financial instruments

Group currency and interest rate management is performed centrally for all group companies. This also applies to the use of derivative financial instruments, e. g. those aimed at limiting certain costs. The use of derivative financial instruments is regulated by an internal guideline. A strict segregation of functions is ensured between trading, settlement and control. Derivative financial instruments are only traded with banks that have a high credit standing. The entire portfolio of derivative financial instruments is spread across several banks to reduce the risk of default. The level of risk of default is limited to no more than the derivatives capitalised on the balance sheet.

The goal of interest rate management is to curb the risks arising from increasing interest rates by changes in the general level of interest rates. To this end, use is made of options (interest rate caps) that prevent an increase in the interest rate burden exceeding a defined level.

Depending on assessments of the market, derivatives are also used to restrict increases in energy costs. There were no more of these derivatives as of 31 December 2007.

Derivatives are used to hedge exchange rate risks in order to reduce the risks to which business operations can be exposed as a result of changes in exchange rates. Exchange rate risks mainly relate to payment receipts in US dollars and, to a lesser extent, in pound sterling. While forward exchange transactions are generally used for the pound sterling, US dollar payments are mainly hedged by means of foreign currency option transactions.

Pound sterling hedging transactions are generally concluded for a maximum term of up to one year. US dollar hedging transactions in the Potash and Magnesium Products as well as Salt and COMPO business segments are concluded for a term of up to three years, which largely corresponds to the medium-term planning horizon. The hedging volume of these transactions is determined on the basis of revenue and cost planning using safety margins and updated on an ongoing basis to avoid excess hedging or hedging shortfalls. By contrast, in the case of the fertiva business segment's trading business, selective exchange rate hedging is applied for US dollar receivables. Here, generally forward exchange transactions are used to achieve as certain a computational basis as possible.

Until December 2007, the derivatives used to hedge future anticipated US dollar items were mainly options with lower and upper knock-out thresholds (double-barrier options) and supplement selectively by means of forward volatility agreements. If the spot rate is quoted at or beyond one of the knock-out thresholds during the term, the option expires. By means of active currency management, these knock-out thresholds can be shifted through the acceptance of additional premium payments. This mainly took the form of selling an option with the existing knock-out thresholds and buying an option with new knock-out thresholds. With the change in hedging strategy resolved at the end of 2007, these derivatives will no longer be used as operational hedging instruments. Nevertheless, the existing portfolio of these derivatives, which have terms up to the end of 2010, will be used in an economically meaningful manner. Thus, until then, larger market value changes, related to reporting dates, may continued to occur.

The derivatives used since December 2007 are options that offer worst-case hedging and simultaneously permit the realisation of possible opportunities arising from market developments.

Trade in all the derivatives mentioned above is solely OTC. Because of market transparency, forward exchange transactions are concluded directly with one bank after a comparison with interbank terms has been made. There is no such transparent market for trading in options. That is why quotations are obtained from several banks for all major option transactions and the deal is made with the bank providing the best quotation.

Essentially, IAS 39 permits hedging relationships to be established between underlying transactions and derivative financial instruments. However, most of the conditions for the establishment of a hedging relationship are not fulfilled, especially because the options used do not meet the so-called effectiveness criterion contained in IAS 39. By contrast, in the fertiva business segment hedging relationships with foreign exchange transactions are established when a claim arises, because the conditions contained in IAS 39 are regularly met in the case of these transactions.

Market value changes resulting from the measurement of derivatives are recognised in profit or loss irrespective of whether hedging relationships have been established. Insofar as hedging relationships exist, market value changes are reported in EBIT I; otherwise, market value changes are reported in EBIT II.

The main risk associated with the use of currency derivatives stems from exchange rate fluctuations, because they, alongside other factors, have a direct impact on the market values of the respective derivatives. In the case of the currency options with knockout thresholds (on the attainment of which the options expire and have no value) acquired by K+S, the risk consists in the entire loss of the corresponding market value and any premiums paid for the currency options. As a result of the accelerated depreciation of the US dollar, significant market value losses occurred in the second half of 2007 and some of the options expired as a result of knock-out thresholds being attained. Most of the currency options sold are positions that have arisen as a result of the adjusting of knock-out thresholds ("closed out"), i.e. corresponding to the options sold are options bought with identical parameters. This means that those positions do not carry any risk. On a modest scale, currency options were sold in the past to achieve premium-neutral and premium minimising structures. In the case of these currency options sold , a loss can arise if the exchange rate on the exercise date is lower than the exchange rates agreed in the option or if certain defined thresholds are attained during the term of the derivatives. As of 31 December 2007, there were only limited obligations. In the case of the forward exchange transactions concluded, there is also a market value risk on the respective reporting dates: However, there are countervailing effects stemming from the currency-based measurement of receivables.

The market values computed correspond to the value upon premature hypothetical termination on the balance sheet date. The values are computed using recognised mathematical models generally used by market players. The computations were particularly based on the following parameters that applied on the balance sheet date:

- the spot exchange rates for the currencies concerned,
- the agreed hedging rates and exercise prices,
- traded volatilities, i.e. the anticipated range of fluctuation for the exchange rates concerned, and
- the interest rates applicable to the currencies concerned.

The effects of exercise or the reporting date valuation of the derivatives are reported in two items in the income statement (please see the explanation on pages 151 et seq.). In the case of derivatives that were exercised in the year under review or expired derivatives, that would have become exercisable in the reporting year, they are reported under other operating income and expenses and thus in operating earnings (EBIT I). Changes recognised in profit or loss resulting from the market value changes to be recorded for derivates that remain unexercised on the balance sheet date and losses for options that have become worthless but had an original maturity in future periods, including premiums paid, are reported under EBIT II. The disclosure on two earnings levels makes it possible to present the commercial success of the business transactions hedged operationally in isolation from the market value changes. Otherwise, the effects of changes in market value especially as a result of the use of currency options with knockout thresholds could completely distort the commercial success in both a positive and a negative sense to a large extent. Contributions to earnings deriving from existing double-knock-out options that no longer serve to hedge the operational basic business, are now generally reported under EBIT II , irrespective of whether they arise from the exercise, sale, forfeiture or valuation as of the reporting date.

The following positions were open as of 31 December 2007:

in T€	2007		2006	
	Notional amounts [1]	Fair values	Notional amounts [1]	Fair values
USD forward exchange transactions				
- of which maturing in 2007	–	–	20,722	455
- of which maturing in 2008	27,059	582	–	–
USD foreign currency options bought which maturing in 2008	577,598	15,003	–	–
Bought knock-out USD currency options				
- of which maturing in 2007	–	–	659,144	107,310
- of which maturing in 2008	642,097	76,683	627,942	62,172
- of which maturing in 2009	720,474	64,820	899,217	72,303
- of which maturing in 2010	719,345	33,469	–	–
Sold knock-out USD currency options				
- of which maturing in 2007	–	–	366,972	(66)
- of which maturing in 2008	25,000	(670)	–	–
- of which economically neutralised obligations maturing between 2008 and 2010	–	–	390,947	(37,709)
USD foreign currency transactions in total	**2,711,573**	**189,887**	**2,964,944**	**204,465**

[1] Translated into euros using weighted hedging rates

US dollar forward exchange transactions with a nominal value of T€ 27,059 (2006: T€ 20,722) and a fair value of T€ 582 (2006: T€ 455) were included in the hedging relationships with US dollar receivables.

How the aforementioned market values would have changed assuming a different exchange rate on the balance sheet date is shown below. The particular form of the derivatives (with knock-out thresholds) used in 2007 does not permit sensitivity to be viewed in meaningful manner by applying a general exchange rate change of, for example, +/-10%. That is why sensitivity is determined by stating the change in market value that would have occurred if the exchange rate had been 2 USD cents before the respective knock-out threshold each time. As for reason of risk spreading there are different knock-out thresholds – within respective calendar years too – , market value changes are shown depending on particular exchange rate levels.

in T€	2007
Rates before attainment of upper knock-outs	Change in market value
1.48 USD/EUR	(43,009)
1.50 USD/EUR	(111,050)
1.52 USD/EUR	(157,209)
1.54 USD/EUR	(178,692)
Rates before attainment of lower knock-outs	Change in market value
1.20 USD/EUR	(41,084)
1.15 USD/EUR	(84,411)
1.10 USD/EUR	(97,006)

in T€	2006
Rates before attainment of upper knock-outs	Change in market value
1.38 USD/EUR	(117,386)
1.40 USD/EUR	(174,898)
1.42 USD/EUR	(191,498)
1.44 USD/EUR	(198,168)
Rates before attainment of lower knock-outs	Change in market value
1.15 USD/EUR	(56,154)
1.10 USD/EUR	(155,796)
1.05 USD/EUR	(175,559)

The simple options used to hedge operational USD receipts as from December 2007 would have changed as follows if the spot rate had changed by +/-10%: At a rate of 1.3131 USD/EUR (-10%), the market value reported would have declined by T€ (13,603). At a rate of 1.6049 USD/EUR (+10%), the market value would have risen by T€ 40,813.

These market value changes would have resulted in a corresponding increase or reduction in unadjusted group earnings.

In addition to derivatives for hedging operating foreign currency positions, derivative financial instruments are acquired in individual cases in order to hedge price or exchange rate risks for particular securities. The market values of these derivatives are reported under other assets or other liabilities and changes in their market value are recorded in the financial result. To hedge interest rate risks, there are interest rate caps with a value of T€ 65,000 as of the reporting date. The residual term of these instruments is about 1.5 years, with the nominal value declining in line with the relevant financial liabilities. The market value of these instruments as of 31 December 2007 amounted to T€ 320. In addition, there is an interest rate derivative instrument with a nominal value of T€ 10,000 and a residual term of six years. As of 31 December 2007, the negative market value of T€ 1,727 was recognised as a liability.

To view sensitivity, only the interest rate derivative concluded with the security is taken into account. If interest rates had changed by +1% as of 31 December 2007, the market value change would have amounted to T€ (254) (2006: T€ (296)). If interest rates had changed by (1)%, this would have produced a market value change of T€ 266 (2006: T€ 287).

(19) Securities

T€	2007	2006
Recognised in profit or loss at fair value	3,696	12,356
- of which fixed-income securities	3,696	2,906
- of which variable income securities	–	9,450
Available for sale	37,133	44,955
- of which fixed-income securities	–	2,863
- of which share	37,133	42,092
Securities	**40,829**	**57,311**

Some securities were allocated to the off-balance sheet financing of pension obligations under a contractual trust arrangement (CTA) (see Note (25)).

The remaining securities serve in part to cover longer-term obligations and in part to cover current operating activities. To ensure that these purposes are fulfilled, investment policy is geared towards achieving reasonable returns at a manageable level of risk. Certain minimum issuer creditworthiness criteria apply to the picking of individual securities.

Essentially, derivative financial instruments are not used to hedge decreases in security prices, so that the securities – especially equities – are exposed to customary market default and price risks. In individual cases, however, derivatives are used to hedge risks from changes in interest rates.

Fixed-income securities are subject to the risk of a change in fair market value resulting from interest rates. The period of time over which fixed rates of interest apply range between 1 year and 24 years and the effective rates of interest extend from 5.5 % to 6.8 %. The variable income securities held in the previous year were sold during the year under review. They were subject to a cash flow risk arising from interest rates. The interest rate adjustment periods were six months and effective rates of interest were based on underlying money market rates plus an appropriate margin. The shares held in the securities portfolio are not exposed to a direct risk of changes in interest rates.

For the securities described above, the impact of a change in interest rates of +/- 1 % and of a price change of +/- 10 % as of the balance sheet date is stated below. The fixed-income securities carried at fair value result almost exclusively from a coverage overhang for a contractual trust arrangement (CTA) and are thus excluded from the application of IFRS 7. In the case of the variable income securities that were held in the previous year, sensitivity is only viewed in the context of the interest rate result (see Note (29)); market value changes are not taken into account due to the interest rate adjustments made. For the shares held on 31 December 2007, a change in price of +/- 10 % would have produced a market value change of T€ +/- 3,713 (2006: T€ +/- 4,209) that would have been taken directly to equity without recognition in profit or loss. The maximum risk of default for the holdings referred to above is limited to the market values stated.

(20) Equity

The development of individual equity items is shown separately on page 131.

(21) Subscribed capital

The subscribed capital of K+S Aktiengesellschaft amounts to € 108.8 million and is divided into 41.25 million no-par value bearer shares. In financial year 2007, an average 41.24 million no-par value shares were outstanding.

By a resolution of the Annual General Meeting of 9 May 2007, the Board of Executive Directors was authorised to acquire own shares totalling up to 10 % of the share capital until 31 October 2008. Purchases may be made on a stock exchange or by means of a public purchase offer addressed to all shareholders. In the event of a purchase effected on a stock exchange, the purchase price (exclusive of ancillary purchase costs) paid by the Company per share may not exceed or undercut the relevant exchange price by more than 5 percent. In the event of a public purchase offer addressed to all shareholders, the purchase price per share (exclusive of ancillary purchase costs) offeredmay not exceed or undercut the relevant exchange price by more than 10 percent. Shares purchased pursuant to the aforemetioned authorisation or an authorisation previously granted by the Annual General Meeting in accordance with Section 71, Paragraph 1, Number. 8 of the German Stock Corporation Act have to be used for the purposes specified in the AGM resolution granting such authorisation. This authorisation of 9 May 2007 cancels the authorisation to acquire own shares granted by the Annual General Meeting on 10 May 2006. K+S Aktiengesellschaft did not make any use of the new authorisation in financial year 2007.

Pursuant to a resolution of the Annual General Meeting dated 10 May 2006, 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 9 May 2011, against cash or in-kind contributions and by up to no more than € 54.4 million in the aggregate through the issuance of no more than 20,625 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 € 27.2 million of the share capital (the equivalent of 10.3125 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 computerized trading system for the ten 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 authorized to determine further details pertaining to the carrying out of such authorized capital increase with the approval of the Supervisory Board. K+S Aktiengesellschaft did not make any use of the possibility of implementing a capital increase in financial year 2007.

In December 2006, the Kassel Regional Court ruled in favour of the plaintiff in an action brought by Schutzvereinigung aktienrechtlicher Minderheitsbeteiligungen e.V. to have the resolution adopted under item 7 of the agenda for the Annual General Meeting of 10 May 2006 (authorisation to issue convertible bonds or bonds with warrants and issue conditional capital along with amendments to the articles of associations and authorisation to amend the articles of association) set aside. It can be assumed that the Frankfurt Higher Regional Court will dismiss the appeal in the ruling that it is expected to be issued in the middle of April 2008.

(22) Other revenue reserves and profit retained

Other reserves and profit retained are reported in the consolidated financial statements as a single caption in order to reflect the peculiarities of the consolidation. The development of the K+S Aktiengesellschaft individual reserves and profit retained is shown separately.

in T€	2007	2006
Other reserves and retained profits as of 1 January	1,007,015	824,605
Consolidation-related effects	(173)	(17,168)
Dividend payment for previous year	(82,500)	(74,250)
Group earnings after taxes and minority interests	(93,337)	270,794
Other neutral changes	(16,493)	3,034
Other reserves and retained profits as of 31 December	**814,512**	**1,007,015**

The other changes essentially comprise deferred taxes not recognised in profit or loss, currency-related effects as well as the market valuation of securities.

The dividend distribution is based on the annual financial statements of K+S Aktiengesellschaft as prepared in accordance with German commercial law. The intention is to propose to the Annual General Meeting that a dividend of € 2.00 per share (2006: € 2.00), i.e. T€ 82,500 in total (2006: T€ 82,500), be distributed to the shareholders. On the basis of this assumption, the profit retained of K+S Aktiengesellschaft as of the balance sheet date is made up as follows:

in T€	2007	2006
K+S Aktiengesellschaft retained profits as of 1 January	82,500	74,250
Dividend payment for previous year	(82,500)	(74,250)
Net income of K+S Aktiengesellschaft	82,500	135,984
Allocations to other revenue reserves from net income	–	(53,484)
K+S Aktiengesellschaft retained profits as of 31 December	**82,500**	**82,500**

Other K+S Aktiengesellschaft revenue reserves developed as follows over financial year 2007:

in T€	2007	2006
Other K+S Aktiengesellschaft reserves as of 1 January	109,180	55,696
Allocation from net income	–	53,484
Other K+S Aktiengesellschaft reserves as of 31 December	**109,180**	**109,180**

(23) Information about capital management

in T€	2007	2006
Equity	931,808	1,124,343
Non-current debt	1,004,170	822,089
Current debt	1,028,824	884,494
Total assets	**2,964,802**	**2,830,926**
- Equity ratio	31.4 %	39.7 %
- Borrowed capital quota	68.6 %	60.3 %

The decline in equity of T€ 192,535 compared with the previous year is mainly attributable to the dividend payment (T€ 82,500) and the negative result for the period (T€ (93,109)) due to write-downs on derivative financial instruments as of the reporting date; equity also decreased because of the market valuation of securities as well as currency translation for subsidiaries with a functional currency. The increase in debt primarily resulted from the premium expenses related to US dollar options. Consequently, the equity ratio fell from 39.7 % to 30.6 % compared with 2006.

Potential measures to influence the equity ratio can affect both equity (e.g. retention of profits, payment of dividends) and debt (e.g. the taking out and repayment of loans). Essentially, it is expected that as a result of positive group earnings in excess of planned dividend payments and the application of future free cash flow to scale back financial liabilities, the equity ratio will return to a level of approx. 35 % to 40 % over the medium term.

(24) Provisions

The development of provisions is shown separately on pages 136 et seq.

(25) Provisions for pensions and similar obligations

The pension provisions concern various defined benefit pension plans operated by the K+S Group. They mainly relate to unfunded direct undertakings on the part of domestic group companies under pension plans that have been discontinued in the meantime. Most of the obligations apply to pensioners.

The level of the pension obligations is calculated as the actuarial present value of pension claims acquired (projected unit credit). The K+S Group has financed a part of these claims through external plan assets under a contractual trust arrangement (CTA). The following assumptions have been made in performing the calculations:

in %	2007	2006
Discount factor	4.6	4.6
Annual anticipated increase in earnings	1.8	1.5
Annual anticipated increase in benefits	1.8	1.5
Anticipated yield on planned assets	5.9	5.4

The anticipated yield for plan assets is based on the anticipated income from the securities held as plan assets at the beginning of the financial year. At the end of financial year 2007, plan assets comprised the following:

T€	2007	2006
Fixed-income securities	40,552	40,545
Variable income securities	19,960	20,562
Shares	17,076	19,158
Cash and cash equivalents	2,827	2,000
Plan assets as of 31 December	**80,415**	**82,265**

Further contributions to plan assets for 2008 are being reviewed.

Actuarial gains and losses are only recorded in the income statement insofar as they exceed the 10% corridor (maximum of 10% of obligations and 10% of plan assets). The excess amount is spread over the average remaining working lives of active employees and recognised in profit or loss.

The following tables show the development of the projected unit credit and of plan assets:

T€	2007	2006
Projected unit credit as of 1 January	202,569	208,241
Changes in scope of consolidation	9	504
Service costs	2,267	2,562
Interest expenses	8,897	9,173
Plan adjustments/discharges	2,037	(125)
Reversal/Reclassification	(59)	(205)
Pension payments	(15,003)	(15,896)
Actuarial gains (-)/losses (+)	7,855	(1,677)
Exchange rate fluctuation	(49)	(8)
Projected unit credit as of 31 December	**208,523**	**202,569**

T€	2007	2006
Plan assets as of 1 January	82,265	41,670
Anticipated income from plan assets	4,854	2,265
Differences between anticipated and actual income	(3,211)	(482)
Employer contributions	–	42,369
Pension payments	(3,493)	(3,557)
Plan assets as of 31 December	**80,415**	**82,265**

The balance sheet carrying amounts correspond to the balance of plan assets and the present value of benefits adjusted for actuarial gains or losses that not yet been recorded.

T€	2007	2006
Projected unit credit as of 31 December	208,523	202,569
- of which fully covered by plan assets	35,965	37,601
- of which partially covered by plan assets	113,853	112,222
Plan assets as of 31 Dezember	80,415	82,265
Funded status	**128,108**	**120,304**
Unrecognized actuarial gains (-)/losses (+)	(6,049)	5,013
Carrying amounts as of 31 December	**122,059**	**125,317**
- of which pension provisions (+)	125,754	128,223
- of which assets (-)	(3,695)	(2,906)

Pension expenses for defined benefit pension obligations comprise the following:

T€	2007	2006
Service costs	2,267	2,562
Interest expenses	8,897	9,173
Plan adjustments/discharges	2,037	(125)
Reversal	(59)	(154)
Repayment of actuarial losses	4	7
Anticipated income from plan assets	(4,854)	(2,265)
Pension expenses	**8,292**	**9,198**

The service costs and costs related to plan adjustments are reported under the following items of the income statement in accordance with the allocation of employees:

- Cost of sales
- Selling expenses
- General and administrative expenses
- Research and development costs
- Other operating expenses

Interest expenses and anticipated income arising from plan assets are recorded under interest income, net. Reversals of provisions are disclosed under other operating income.

The development of pension obligations and plan assets over time is as follows:

T€	2007	2006	2005
Projected unit credit as of 31 December	208,523	202,569	208,241
Plan assets as of 31 December	80,415	82,265	41,670
Short (+)/surplus coverage (-)	**128,108**	**120,304**	**166,571**
Experience-based gains (+)/losses (-) from obligations	(3,719)	1,677	2,264
Other gains (+)/losses (-) from obligations	(4,136)	–	–
Experience-based gains (+)/losses (-) from planned assets	(3,211)	(482)	–

In addition, the K+S Group operates further retirement pension plans for which no pension provisions are recognised.

Statutory pension insurance is an important component of retirement pension planning for most employees, especially in Germany. For the K+S Group, the employer contributions made to such insurance and recorded under personnel expenses amounted to T€ 61,761 (2006: T€ 59,650) during the period under review. The future level of such expenses largely depends on how the underlying pension insurance systems develop.

Employers and employees make contributions under the supplementary pension plan that has been concluded in the meantime and is operated through the BASF pension fund. The provision of such pensions is to be classified as a multi-employer plan within the meaning of IAS 19.29. The plan is essentially a defined benefit plan. As reliable information regarding plan assets and obligations are only available for the pension fund as a whole and not for those shares in it attributable to the K+S Group, no sufficient information is available for reporting the plan on the balance sheet. That is why the plan is treated as a defined contribution plan in accordance with IAS 19.30. The contributions made by the K+S Group to the pension fund and recorded under personnel expenses amounted to T€ 2,464 in 2007 (2006: T€ 2,714).

A further defined benefit plan, which is to be treated as a defined contribution plan in accordance with IAS 19.30, exists at a Swiss subsidiary, the employee benefits unit of which is being linked to the Sammelstiftung der Rentenanstalt in Zurich. The expenses amounted to T€ 185 in 2007 (2006: T€ 189).

Under the K+S VorsorgePlus provident fund, which has been in operation since 2004, the basic benefit provision financed by the employer is used to build up retirement pension benefits by means of reinsured life insurance policies. As the claims acquired are fully covered by matching reinsurance with a fair value that equals the obligations, no provision needs to be recognised. The employer-financed contributions to the provident fund resulted in expenses of T€ 403 (2006: T€ 330) in 2007.

With effect from 1 August 2006, capital accumulation benefits were replaced by a new retirement benefit plan. This employer-financed benefit offers employees the possibility of using certain forms of retirement planning, such as the Chemical Industry Pension Plan, to acquire a company pension. The expenses amounted to T€ 537 in 2007 (2006: T€ 159). In addition, the K+S Group provides further premiums if employees convert part of their remuneration into contributions to the company pension system. In 2007, expenses of T€ 212 (2006: T€ 160) were recorded in this connection.

(26) Provisions for mining obligations

T€	2007	of which short term	2006	of which short term
Mine and shaft backfilling	186,339	6,499	181,358	6,481
Maintenance of stockpiles	100,765	–	90,037	–
Mine damages	37,801	–	36,465	–
Restoration	33,111	–	31,535	–
Other	6,048	–	5,244	–
Provisions for mining obligations	364,064	6,499	344,639	6,481

Provisions for mining obligations are recognised as a result of statutory and contractual requirements as well as conditions imposed by public agencies and essentially cover obligations to backfill mines and shafts as well as the obligation to maintain stockpiles. In addition, provisions also exist for mining damage risks and restoration obligations.

Mining obligations are based on such provisions of statute as the Federal Mining Law (Bundesberggesetz) and are given concrete form primarily in plant plans and permit decisions issued under water law. These obligations, which are mainly of a public law type, require surface securing and recultivation measures. Mining damage can result from underground extraction and the related lowering of the land at surface level or as a result of damage connected with the production process in the form of dust or the excessive release of saline substances. The provisions take account of identifiable obligations connected with use restoration as well as obligations arising from mining damages that have already been caused or have already arisen.

The amount of the provisions to be recognised is based on expected expenditures or estimated compensation. Provisions for mining obligations mainly have a long-term character, and, on the basis of future anticipated expenditure, are carried at the discounted sum required to settle the obligation as of the balance sheet date. A future rate of price increases of 1.5 % and an interest rate of 5.0 % as a discount factor are applied. The anticipated timing of the settlement of such obligations largely depends on the remaining economic useful life of the sites. With respect to mining damage, the obligations in part extend well beyond 2050.

The allocation to mining provisions for the year under review in the amount of T€ 29,849 (2006: T€ 25,824) is largely attributable to the annual accumulation of the provisions in the amount of T€ 13,934 (2006: T€ 13,645) resulting from the reduction in the period of time until settlement. Further allocations were necessary for the recognition of supplementary provisions for mining risks.

Mining provisions in the amount of T€ 9,216 (2006: T€ 9,625) were used to discharge the obligation to maintain disused sites. Further sums were spent on expenditure connected with mining damage risks.

The reversal of provisions in the amount of T€ 1,208 (2006: T€ 261) largely resulted from a reduction in anticipated individual obligations.

(27) Other provisions

The non-current obligations to employees mainly comprise:

- Provisions for semi-retirement T€ 45,289 (2006: T€ 58,980),
- Provisions for anniversary bonuses T€ 23,075 (2006: T€ 21,690),
- Provisions for the stock option programme T€ 16,287 (2006: T€ 11,517).

The provisions for semi-retirement take account of obligations arising from concluded and potential semi-retirement contracts; in the case of potential semi-retirement contracts, employees have a legal right to the conclusion of a semi-retirement contract. Measurement encompasses both fulfilment shortfalls (difference between the value of fulltime employment and semi-retirement remuneration plus related employer contributions to social insurance) as well as step-up contributions to semi-retirement remuneration and contributions to statutory pension insurance. They are stated at present value applying a discount factor of 4.6 % with an anticipated annual increase in salaries and wages of 1.8 % (2006: 1.5 %).

Provisions for anniversary bonuses are recognised for future payments in connection with 25-, 40- and 50-year length of service anniversaries. They are measured using the projected unit credit method. They are computed applying a discount factor of 4.6 % (2006: 4.6 %) as well as an anticipated annual increase in salaries and wages of 1.8 % (2006: 1.5 %).

The provisions for the stock option programme relate to virtual stock options to be settled in cash. The composition of these options at the beginning of the reporting period were as follows:

Number of options	Exercisable for the first time	Expiry	Fair value in T€	Provision in T€
7,035	May 2005	May 2008	30	30
6,750	May 2006	May 2009	41	41
989,698	May 2007	May 2010	9,214	7,681
932,065	May 2008	May 2011	11,292	3,765
1,935,548			**20,577**	**11,517**

In 2007, eligible employees exercised 1,710 options that could be exercised for the first time in May 2006 and 989,698 options that could be exercised for the first time in May 2007. This resulted in provision utilisation of T€ 7,692.

In addition, employees acquired 811,690 options that can be exercised for the first time in May 2009. This resulted in total expenditure of T€ 12,462 for allocation to provisions in 2007.

As of 31 December 2007, the composition of virtual stock options was as follows:

Number of options	Exercisable for the first time	Expiry	Fair value in T€	Provision in T€
7,035	May 2005	May 2008	30	30
5,040	May 2006	May 2009	30	30
932,065	May 2008	May 2011	13,440	11,222
811,690	May 2009	May 2012	15,016	5,005
1,755,830			**28,516**	**16,287**

The intrinsic value (fair value) of the exercisable options was T€ 60 as of 31 December 2007. The fair value of the options that become exercisable for the first time in May 2008 as well as in May 2009 was determined on the basis of a multi-period binominal model. It relies on the price of the K+S share and the level of the MDAX on the valuation date as well as the historical volatility of the K+S share compared with the MDAX. The historic volatility of over-performance was determined using price data for the last 250 trading days, as this period corresponds to the average option term expected on the balance sheet date. The volatility computed in this way amounted to 33.81 % (2006: 21.74 %) for the option programme expiring in May 2011 and 34.43 % for the option programme expiring in May 2012. These calculations were performed using a base price for the K+S share of € 58.52 (expiry May 2011) and € 82.22 (expiry May 2012). A risk-free interest rate of 3.7 % was assumed. Anticipated fluctuation was not taken into account as it does not have any material impact on the value of the option. Anticipated dividends are also disregarded, as they are taken into account in the determination of the relevant performance of the K+S share in terms of the advantage to be gained from exercising the option. Intrinsic value was used as the fair value for the remaining options as the performance attained by these options is already well above the maximum settlement ceiling of 25 %. The provisions are distributed proportionately over the two-year lock-up period.

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

(28) Liabilities

T€	2007 total	Residual term < 1 year	Residual term > 1 year and < 5 years	Residual term > 5 years
Bank loans and overdrafts	688,290	328,067	357,577	2,646
Accounts payable – trade	409,091	408,905	186	–
Liabilities to affiliated companies	8,105	8,105	–	–
Other liabilities	92,486	62,510	29,976	–
- of which derivative financial instruments	16,855	2,006	14,849	–
Liabilities	**1,197,972**	**807,587**	**387,739**	**2,646**

T€	2007 total	Residual term < 1 year	Residual term > 1 year and < 5 years	Residual term > 5 years
Bank loans and overdrafts	370,737	233,964	136,773	–
Accounts payable – trade	360,776	360,703	73	–
Liabilities to affiliated companies	6,492	6,492	–	–
Other liabilities	85,283	45,123	40,160	–
- of which derivative financial instruments	39,328	13,153	26,175	–
Liabilities	**823,288**	**646,282**	**177,006**	**–**

The financial liabilities as of the balance sheet date mainly relate to K+S AG and subsidiaries in Brazil, Chile and the United States.

While the financial liabilities of K+S AG are denominated in euros, foreign subsidiaries are mainly financed by means of bank loans denominated in the US dollar and other local currencies.

Generally, fixed rates of interest apply for a limited period time and amount to 12 months at most. To this extent, interest-related cash flow risks resulting from interest rate adjustments exist. The effective rates of interest are based on the interest rates for the currencies concerned (euro, US dollar, Brazilian real, Chilean peso) plus the customary market margins.

(29) Further information about financial instruments

The following table shows the carrying amounts and fair values of Group financial instruments:

in T€	Evaluation category under IAS 39	2007 Book value	2007 Fair value	2006 Book value	2006 Fair value
Financial assets		**17,815**	**17,815**	**19,439**	**19,439**
Investments in associated companies	Available for sale	15,141	15,141	15,809	15,809
Loans	Loans and receivables	2,674	2,674	3,630	3,630
Accounts revceivable – trade	Loans and receivables	**757,237**	**757,237**	**628,766**	**628,766**
Other receivables and assets		**318,138**	**318,138**	**347,640**	**347,640**
Remaining receivables and non-derivative financial assets	Loans and receivables	100,127	100,127	96,655	96,655
Derivatives without hedging relationship	Held for trade	204,648	204,648	242,199	242,199
Derivatives with hedging relationship	–	687	687	467	467
Other assets *	–	12,676	12,676	8,319	8,319
Securities		**40,829**	**40,829**	**57,311**	**57,311**
Shares and fixed-income securities	Available for sale	37,133	37,133	44,955	44,955
Other fixed-income securities	–	3,696	3,696	2,906	2,906
Variable interest-bearing securities	Held for trade	–	–	9,450	9,450
Cash on hand and balances with banks	Loans and receivables	**49,411**	**49,411**	**64,424**	**64,424**
Financial liabilities	Financial liabilities at amortised cost	**688,290**	**688,290**	**370,737**	**370,737**
Accounts payable – trade	Financial liabilities at amortised cost	**409,091**	**409,091**	**360,776**	**360,776**
Remaining and other liabilities		**100,591**	**100,591**	**91,775**	**91,775**
Other non-derivative financial liabilities	Financial liabilities at amortised cost	63,727	63,727	36,937	36,937
Derivatives without hedging relationship	Held for trade	16,750	16,750	39,316	39,316
Derivatives with hedging relationship	–	105	105	12	12
Liabilities from finance leases	–	1,777	1,777	717	717
Other liabilities	–	18,232	18,232	14,793	14,793

* This item mainly comprises other clearing accounts

The carrying amounts of the financial instruments, aggregated according to the IAS 39 valuation categories, are as follows:

in T€	2007	2006
Financial assets available for sale	52,274	60,764
Loans and receivables	909,449	793,475
Financial assets held for trade	204,648	251,649
Financial liabilities at amortised cost	1,161,108	768,450
Financial liabilities held for trade	16,750	39,316

The fair values of the financial instruments are essentially determined on the basis of the available market information on the balance sheet date.

In the case of equity instruments measured at acquisition cost, it is not possible to determine fair values reliably because of the absence of active markets. This applies to shares in (non-consolidated) associated companies and to equity interests. It is assumed that the carrying amounts correspond to the fair values as of the balance sheet date.

In the case of trade receivables, other receivables and non-derivative assets as well as liquid assets, the carrying amounts correspond to the fair values for these instruments because the maturities are largely short.

In the case of securities for which no stock exchange prices are available, the balance sheet values are based on values provided by credit institutions.

In the case of financial liabilities, trade payables as well as other non-derivative and other liabilities, it is assumed that the carrying amounts correspond to the fair values for these instruments because the maturities are largely short.

For borrowings and financial lease liabilities, it is assumed that the carrying amounts correspond to fair values because of insignificant deviations in market and computational interest rates.

The net results for financial instruments are shown in the following table:

in T€	2007	2006
Financial assets available for sale	5,143	4,554
Loans and receivables	(25,745)	(19,059)
Financial assets and liabilities held for trade	(367,870)	153,907
Financial liabilities at amortised cost	(387)	(2,454)

The net result from the sale of financial assets available for sale mainly comprises gains or losses on the disposal of investments and securities as well as the ineffective component of exchange rate hedging. In the past financial year, an amount of T€ (5,227) (2006: T€ 8,075) arising from the measurement, without recognition in net profit or loss, was taken directly to the revaluation reserve. In the year under review, no amounts were withdrawn from the revaluation reserve and recognised in profit or loss (2006: T€ 3,025).

The net result for loans and receivables mainly includes the effects of currency translation and changes in allowances.

The net result for financial assets and liabilities held for trading mainly comprises changes in the market value of derivative financial instruments. It also included interest income and expenses for these financial instruments.

The net result for liabilities measured at amortised cost mainly comprises the effects of foreign currency translation.

Total interest income and expenses for financial assets and liabilities that are not measured at fair value and recognised in profit or loss were as follows:

in T€	2007	2006
Interest income	3,867	4,473
Interest expenses	(23,991)	(15,067)

In addition, sensitivity is stated for the interest income and expenses from financial instruments included in net interest income. Assuming a change in interest rates of +/- 1 %, net interest income would have deteriorated or improved by T€ 4,220 (2006: T€ 941 or T€ 980).

In addition to receivables and liabilities in the group currency, the euro, there are also items in foreign currencies. Had the euro appreciated or depreciated against the foreign currencies (mainly the US dollar) by 10 %, the change in the fair value, after offsetting, of foreign currency receivables and liabilities would have amounted to +/- T€ 24,905 (2006: T€ +/- 18,032).

(30) Contingent liabilities

in T€	2007	2006
Warranty agreements	767	767

(31) Other financial commitments

T€	2007	2006
Commitments under uncompleted capital expenditure projects	66,450	13,373
Commitments under long-term rental and leasing contracts		
- due in following year	15,722	13,019
- due in 2 to 5 years	27,998	26,913
- due after 5 years	5,413	2,010
Other financial commitments	**115,583**	**55,315**

The leasing obligations relate to operating leases for items of factory and office equipment such as printers, photocopiers and IT peripherals. In addition, cars are also leased. Given the relevant contractual arrangements, these items are not carried under fixed assets.

Notes to the segment reporting

The segment reporting is presented on pages 136 et seq.

(32) Definition of segments

The segments are primarily defined by product types. This corresponds to the internal organisation and reporting structure of the K+S Group. The secondary reporting format is based on regions..

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

The COMPO business segment markets branded products for the consumer sector (garden and lawn fertilizers, plant care products, plant protection agents and potting soils) and speciality 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 food grade salt, industrial salt and salt for chemical use, de-icing salt and sodium chloride brine.

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

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

(33) Principles of allocation of assets and liabilities

Assets, provisions and liabilities are allocated to the segments in accordance with their utilisation or origin. If they are utilised by or originate in more than one segment, they are allocated on the basis of appropriate keys.

Financial assets (except for participating interests) and non-current financial liabilities are not allocated to the segments.

(34) Principles of allocation of segment earnings

The data for the determination of segment earnings is produced by internal accounting on the basis of income statements in accordance with the nature of costs method (internal reporting structure of the K+S Group). The income statements of the companies included are allocated to the segments under profit centre accounting.

EBIT I (operating earnings) is applied as the most important internal earnings value and as an indicator of earnings capacity. In addition to disregarding net interest income and the tax expense, changes in the market value of derivatives as well as other income and expenses affecting the financial result are also excluded.

The earnings of the business segments are presented on a consolidated basis. Intra-segment deliveries and services are consolidated.

(35) 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 methods of determining the transfer prices are 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 closest to that under which arm's length prices are determined in comparable markets.

(36) Impairment charges

The impairment tests conducted at the end of financial year 2007 required recognition of a write-down totalling T€ 175 (2006: T€ 474) for the COMPO business segment which was disclosed under other operating expenses. In the fertiva business segment, an unscheduled investment write-down of T€ 207 (2006: T€ 0) was recognised in the income from investments, net. The Potash and Magnesium Products business segment had recorded an unscheduled investment write-down of T€ 218 in the previous year.

(37) Reconciliation

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

T€	2007	2006
Reconciliation of segment results		
Consolidation-related effects	(4,723)	(783)
Result for the central functions	(31,786)	(32,567)
	(36,509)	**(33,350)**
Reconciliation of segment assets		
Fixed assets	44,506	42,102
Deferred tax assets	70,053	52,018
Premiums for non-operational hedging instruments	453,421	–
Market values of derivatives (less premiums)	(265,819)	110,700
Tax refund claims from income taxes	37,498	11,205
Other receivables	19,745	12,635
Cash and cash equivalents	41,337	63,807
Consolidation-related effects	(273,020)	(443,702)
	127,721	**(151,235)**
Reconciliation of segment liabilities		
Provisions for pensions and suchlike	70,413	76,236
Other provisions	40,864	41,223
Deferred tax liabilities	21,662	79,534
Market values of derivatives	15,127	9,370
Financial liabilities	646,595	358,623
Liabilities	13,349	17,087
Income tax liabilities	6,155	16,646
Consolidation-related effects	(65,799)	(83,239)
	748,366	**515,480**

(38) Geographical breakdown of revenues

The breakdown of revenues by geographical region is as follows:

T€	2007	2006
Germany	654,071	699,710
Rest of Europe	1,575,687	1,421,765
Overseas	1,114,308	836,212
Total revenues	**3,344,066**	**2,957,687**

(39) Geographical breakdown of assets

The breakdown of the assets of the K+S Group, adjusted for income tax receivables and deferred tax assets (previous year adjusted accordingly) by geographical region is as follows:

T€	2007	2006
Germany	1,855,034	1,767,207
Rest of Europe	396,545	412,985
Overseas	605,672	587,511
Total assets	**2,857,251**	**2,767,703**

(40) Geographical breakdown of capital expenditure

The breakdown of capital expenditure on intangible assets and property, plant and equipment by geographical region is as follows:

T€	2007	2006
Germany	132,927	116,997
Rest of Europe	9,771	9,711
Overseas	28,876	3,830
Total capital expenditure	**171,574**	**130,538**

Notes to the cash flow statement

The cash flow statement is presented on page 133.

(41) Disbursements for the acquisition of consolidated companies

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

T€	2007	2006
Total acquisition price	923	361,660
Advance payments	–	(3,991)
Disbursements for acquisition of consolidated companies	**923**	**357,669**

(42) Cash and cash equivalents

T€	2007	2006
Cash on hand and balances with banks	49,411	64,424
Cash with affiliated companies	–	683
Cash received from associated companies	(5,129)	(3,539)
Current financial liabilities (maturity < 3 months)	(195,682)	(45,170)
Cash and cash equivalents	**(151,400)**	**16,398**

Other information

Auditors’ fees

In 2007, fees totalling T€ 850 (2006: T€ 850) for the auditing of the consolidated financial statements and the annual financial statements of the consolidated domestic companies were recorded as an expense. Other audit services attracted charges totalling a further T€ 45 (2006: T€ 39).

Government assistance

T€	2007	2006
Investment grants	(14)	1,964
Investment premiums	472	69
Performance-related assistance	9,925	3,503
Government assistance	**10,383**	**5,536**

The investment grants recorded relate to sums extended under the German Investment Grant Law for Development Area Investments (*Investitionszulagengesetz für Investitionen im Fördergebiet*). During financial year 2007, the investment grants to be repaid exceeded the received investment grants, so that, in total, a negative balance is disclosed. Investment premiums were granted for certain business location projects. Investment grants and premiums are deducted from the carrying amounts of the assets to which they relate.

The performance-related assistance concerns support that is provided by the Federal Labour Office (*Bundesagentur für Arbeit*) under the German Semi-retirement Act and is recognised as income. This income serves to offset the higher expenses associated with the refilling of employment positions in connection with semi-retirement.

Related companies and persons

In addition to the subsidiaries included in the consolidated financial statements, the K+S Group has relationships to further related companies; these include non-consolidated subsidiaries as well as companies on which the K+S Group can exercise decisive influence (associated companies). A complete overview of all related companies can be taken from the list of all equity holdings (list of shareholdings), which has been submitted to the electronic Federal Gazette (*Bundesanzeiger*) for publication. Interested persons can download it at www.k-plus-s.com or request it from K+S Aktiengesellschaft.

The following table shows the transactions of the K+S Group with non-consolidated subsidiaries that occurred in the period under review. The business was transacted on customary market terms.

in T€	2007	2006
Revenues from deliveries and services	37,737	46,452
Deliveries and services received	22,293	21,555
Income from dividend payments and profit distributions	1,289	1,885
Other income	1,020	769
Other expenses	773	844

The trade revenues mainly result from the sale of goods by consolidated companies to foreign distribution companies. Deliveries and services received mainly concern deliveries of explosives from a German subsidiary as well as commissions, which were billed by foreign distribution companies. Furthermore, there were sales of goods to an associated company totalling T€ 5,989 (2006: T€ 4,548).

On 31 December 2007, the following outstanding balances with non-consolidated subsidiaries were disclosed:

in T€	2007	2006
Receivables from associated companies	11,803	12,144
- of which from bank transactions	–	683
Liabilities to affiliated companies	8,105	6,492
- of which from bank transactions	5,129	3,539

On the reporting date, there were write-downs on receivables totalling T€ 129 (2006:T€ 43); in the year under review, additions to the write-down account resulted in expenses of T€ 93 (2006: T€ 9). Failure insurances for receivables from subsidiaries do not exist. The receivables and liabilities from bank transactions result from the centralised taking-out and investment of cash and cash at K+S Aktiengesellschaft (cash pooling). Furthermore, receivables from an associated company totalling T€ 1,511 (2006: T€ 728) were disclosed. There were no further material loans to related companies as of the balance sheet date.

Related persons are defined as persons, who are responsible for the planning, management and monitoring of a company. At the K+S Group, the Board of Executive Directors and the Supervisory Board belong to this group of persons. The remuneration of related persons is presented in the following section as well as in the remuneration report. Further material transactions with related persons did not occur.

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

T€	2007	2006
Total remuneration of the Supervisory Board	**1,083**	**1,123**
- of which fixed	296	336
- of which performance-related	787	787
Total remuneration of the Board of Executive Directos	**6,557**	**6,536**
- of which fixed	1,566	1,737
- of which performance-related	1,988	2,484
- of which from exercise of rights under the stock option programme	3,003	2,315
Total remuneration of former members of the Board of Executive Directors and their surviving dependents	**989**	**893**
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	**10,078**	**7,518**

The total remuneration of the Board of Executive Directors during the year under review was for five board members, of whom four members were in office for twelve months and one member for six months. In the previous year, five members had held office for twelve months.

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 the return on total investment and on a individual performance-related component and paid in the following financial year (previous year's figures adjusted in accordance with actual bonus payment);
- Granting of stock options (previous year's figures adjusted since they related to the payments from the exercise of options).

In 2007, for the members of the Board of Executive Directors active on 31 December 2007, the total expenditure resulting from share-based remuneration in 2007, which relates both to the virtual stock option programme granted in 2007 and to the programs still existing from previous years, was T€ 2,102 (2006: T€ 1,490). The emoluments received by individual members of the Board of Executive Directors for financial year 2007 are set forth in the remuneration report included in the corporate governance report; the remuneration report also constitutes an integral part of the management report.

Shareholdings in K+S Aktiengesellschaft

BASF SE holds about 10 % of our shares. Moreover, 7.28 % of our shares are held by MCC Holding Ltd. (Linea Ltd). Furthermore, the following investment companies informed us that as at 22 February 2008, they have exceeded the 3 % and 5 % reporting thresholds:

- Capital Group with its subsidiary Capital Research & Management: 5.20 %
- Janus Capital Group: 5.18 %
- Fidelity International with FMR LLC.: 4.97 %
- The Bank of New York Mellon Corporation with its subsidiary Newton Management Ltd.: 3.08 %

Exemptions pursuant to Section 264, Para. 3 and Section 264b of the German Commercial Code (HGB)

The following domestic companies, organised in the legal form of a corporation or partnership, have made use of the exemption rules contained in Section 264 Para. 3 and Section 264b of the German Commercial Code and dispensed with the publication of annual financial statements for 2007 as well as, to a large extent, the preparation of a management report and notes to the financial statements.

COMPO Gesellschaft mbH & Co. KG, Münster
data process GmbH, Kassel
Deutscher Straßen-Dienst GmbH, Hanover
esco – european salt company GmbH & Co. KG, Hanover
esco international GmbH, Hanover
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, Hanover
Kali-Transport Gesellschaft mbH, Hamburg
Kali-Union Verwaltungsgesellschaft mbH, Kassel
park GmbH, Recklinghausen
Torf- und Humuswerk Gnarrenburg GmbH, Gnarrenburg
Torf- und Humuswerk Uchte GmbH, Uchte
UBT See- und Hafen-Spedition GmbH Rostock, Rostock

Declaration on conformity concerning the German Corporate Governance Code

The declaration on conformity pursuant to Section 161 of the German 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 2006/2007 and is available to shareholders in the 2006 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 2007/2008 is also published on the K+S Internet home page and on page 28 of the 2007 financial report.

Members of the Supervisory Board
(on 31 December 2007)

Gerhard R. Wolf, Worms, Chairman
Former member of the Board of Executive Directors of BASF SE
Further Supervisory Board appointments: Hornbach Baumarkt AG (chairman)
Hornbach Holding AG (chairman)

Michael Vassiliadis, Hanover, Vice Chairman
Member of the Managing Board of the Mining, Chemicals and Energy Trade Union
Further Supervisory Board appointments: BASF SE
Evonik STEAG GmbH (vice chairman)
Henkel KGaA

Jella S. Benner-Heinacher, Meerbusch
Federal Manager of the Deutsche Schutzvereinigung für Wertpapierbesitz e.V.
Further Supervisory Board appointments: A.S. Création AG
TUI AG

Dr. Ralf Bethke, Deidesheim – Supervisory Board member since 1 July 2007
Former chairman of the Board of Executive Directors of K+S Aktiengesellschaft
Further Supervisory Board appointments: Benteler AG
Südzucker AG – since 24 July 2007
Süddeutsche Zuckerrübenverwertungs-Genossenschaft eG – since 3 July 2007
Other appointments to supervisory bodies: Dr. Jens Ehrhardt Kapital AG (chairman)

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

Rainer Grohe, Otterstadt
Former executive director of the Galileo Joint Undertaking
Further Supervisory Board appointments: Ball Packaging Europe GmbH (chairman)
Norddeutsche Affinerie AG
PFW Aerospace AG

Dr. Karl Heidenreich, Mannheim
Former member of the Board of Executive Directors of Landesbank Baden-Württemberg
Further Supervisory Board appointments: MVV Energie AG

Rüdiger Kienitz, Geisa
Member of the Works Council of the Werra Plant of K+S KALI GmbH

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

Dieter Kuhn, Bernburg
Vice Chairman of the Group Works Council of the K+S Group

Heinz-Gerd Kunaschewski, Philippsthal
Vice Chairman of the Collective Works Council of Kali und Salz

Dr. Bernd Malmström, Berlin
Lawyer, advisor to the Board of Executive Directors of Deutsche Bahn AG

Further Supervisory Board appointments:	HHLA Intermodal GmbH & Co. KG IFCO-Systems B.V. (chairman) Lehnkering GmbH Petrotec AG (chairman) VTG AG
Other appointments to supervisory bodies:	BLG Logistics Group AG & Co. KG DAL – Deutsche-Afrika-Linien GmbH & Co. KG Fraport AG time:matters GmbH (chairman)

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

Other appointments to supervisory bodies:	AGRANA Zucker, Stärke und Frucht Holding AG, Austria (chairman) Bayerische Landesanstalt für Landwirtschaft BGD Bodengesundheitsdienst GmbH (chairman) College Council of the Fachhochschule Weihen-stephan (chairman) Raffinerie Tirlemontoise S.A., Belgium REKO Erdenvertrieb GmbH (chairman) Saint Louis Sucre S.A., France Südzucker Functional Food Holding GmbH – since 2 July 2007 Südzucker International GmbH (chairman) Südzucker Polska S.A., Poland (chairman) University Council of Hohenheim University Z&S Zucker u. Stärke Holding AG (vice chairman)

Renato De Salvo, Auhagen
Vice Chairman of the Works Council of the Sigmundshall Plant of K+S KALI GmbH

Dr. Eckart Sünner, Neustadt a.d.W.
Head of the Central Legal Affairs, Tax and Insurance Department of BASF SE

Further Supervisory Board appointments:	Infineon Technologies AG – since August 2007 Lucura Rückversicherungs AG (chairman) – until 31 December 2007
Other appointments to supervisory bodies:	BASF Corporation, USA – until 31 December 2007

Dr. Helmut Zentgraf, Burghaun
Manager of the Werra Plant of K+S KALI GmbH

Members of the Board of Executive Directors

Norbert Steiner, Baunatal, Chairman
ORGANIZATIONAL DIVISION 1
Salt Business Segment
Finance
Corporate Development and Controlling
Legal Affairs, Insurance, Compliance
Taxes, Audit
Investor Relations
Communications

Joachim Felker, Birkenheide
ORGANIZATIONAL DIVISION 2
Potash and Magnesium Products Business Segment
COMPO Business Segment
fertiva Business Segment

Gerd Grimmig, Söhrewald
ORGANIZATIONAL DIVISION 3
Waste Management and Recycling
Animal Hygiene Products
Consulting
Mining and Geology
Research and Development
Environmental Protection, Industrial Safety, Quality Management
Engineering Technology, Energy

Dr. Thomas Nöcker, Kassel, Personnel Director
ORGANIZATIONAL DIVISION 4
Logistics (KTG)
Trading Businesses (CFK)
Personnel
IT Services
Procurement
Property Management
Knowledge Management
Appointments to supervisory bodies: RAG Bildung GmbH

Kassel, 22 February 2008

K+S Aktiengesellschaft
The Board of Executive Directors

Auditors’ Report

We have audited the consolidated financial statements, consisting of the balance sheet, income statement, statement of changes in equity, cash flow statement and notes, prepared by K+S Aktiengesellschaft, Kassel, as well as the group management report for the financial year from 1 January to 31 December 2007. The preparation of the consolidated financial statements and the group management report in accordance with International Financial Report Standards (IFRSs) as applied within the EU and the supplementary commercial law provisions as applied in accordance with Section 315a, par. 1 of the German Commercial Code (HGB) is the responsibility of the company's Board of Executive Directors. Our responsibility is to express an opinion of the consolidated financial statements and the group management report on the basis of our audit.

We conducted our audit of 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 consolidated financial statements in accordance with the applicable accounting rules and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the 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 consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the determination of the scope of consolidation, 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 consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, which is based on our audit findings, the consolidated financial statements of K+S Aktiengesellschaft, Kassel, comply with the IFRSs as applied in the EU as well as the supplementary commercial law provisions as applied in accordance with Section 315a, par. 1 of the German Commercial Code (HGB) and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with such provisions. The group management report is consistent with the consolidated financial statements, provides a suitable understanding of the position of the group and suitably presents the risks of future development.

Hanover, 29 February 2008

Deloitte & Touche GmbH	(Dr. Künnemann)	(Scharpenberg)
Wirtschaftsprüfungsgesellschaft	Auditor	Auditor

NOTES

GLOSSARY
Definitions of key financial indicators

Book value per share $= \dfrac{\text{Adjusted equity}^{1)}}{\text{Total number of shares as of 31 Dec.}}$

Enterprise Value = Market capitalisation + net indebtedness

Equity/assets ratio I $= \dfrac{\text{Adjusted equity}^{1)}}{\text{Operating assets}}$

Equity/assets ratio II $= \dfrac{\text{Adjusted equity}^{1)} + \text{non-current debt}}{\text{Operating assets}}$

Indebtedness I $= \dfrac{\text{Bank loans and overdrafts}}{\text{Adjusted equity}^{1)}}$

Indebtedness II $= \dfrac{\text{Net indebtedness}}{\text{Adjusted equity}^{1)}}$

Liquidity ratio I $= \dfrac{\text{Cash and cash equivalents + current securities}}{\text{Current debt}}$

Liquidity ratio II $= \dfrac{\text{Cash and cash equivalents + current securities + current receivables}}{\text{Current debt}}$

Liquidity ratio III $= \dfrac{\text{Current assets}}{\text{Current debt}}$

Net indebtedness = Financial liabilities + provisions for pensions and similar obligations + provision for mining obligations + cash received from affiliated companies – cash and cash equivalents – securities – cash with affiliated companies

Operating assets = Intangible assets + property, plant and equipment + shares in associated companies + participating interests

Return on capital employed (ROCE) $= \dfrac{\text{Operating earnings (EBIT I)}}{\text{Operating assets}^{2)} + \text{working capital}^{2)}}$

Return on capital invested (ROI) $= \dfrac{\text{Operating earnings (EBIT I)}}{\text{Disbursements for acquisition of consolidated companies}}$

Return on equity $= \dfrac{\text{Adjusted group earnings}^{1)}}{\text{Adjusted equity}^{1), 2)}}$

Return on revenues $= \dfrac{\text{Adjusted group earnings}^{1)}}{\text{Revenues}}$

Return on total investment $= \dfrac{\text{Adjusted earnings before taxes}^{1)} + \text{interest expenses}}{\text{Adjusted balance sheet total}^{1), 2)}}$

Value Added = (ROCE – average costs of capital before taxes) x (operating assets [2] + working capital [2])

Working capital = Inventories + receivables and other assets [3] – current provisions – accounts payable trade – other payables [3]

1) Adjusted for the effect of market value changes in hedging transactions; for adjusted group earnings, the resulting tax effects were also eliminated

2) Annual average

3) Without market value of derivatives but including premiums paid for derivates used in operations; without receivables and liabilities relating to funds invested

Financial and economic terms

Cash flow	Net balance of incoming and outgoing payments during a reporting period.
Dividend	Part of retained profit distributed to shareholders.
DVFA	Short for German Association for Financial Analysis and Asset Management e.V. The DVFA earnings developed by this association are intended to represent a comparative yardstick that is as objective as possible for evaluating the earnings strength of business enterprises. With the changeover to the internationally recognised IFRS accounting standards, such additional information is superfluous.
EBIT I	Refers to the operating earnings of the K+S Group. It is free of non-cash changes in market value of the currency options that we use to hedge the US dollar exchange rate and only include the hedging gains actually achieved as a result of exchange rate hedging for the period under review.
EBIT II	Under IFRSs, changes in the market value of the double-barrier options that we use to hedge the US dollar exchange rate are reported in the income statement. While the cash hedging result from options already exercised as well as losses from expired options, which would have been exercised in the period under review, are included in operating earnings EBIT I, we report the non-cash market value changes of the options still outstanding as well as losses from expired options with a due date in future periods as a reconciliation to EBIT II
Enterprise Value	Is an indicator of the value of a company frequently used by financial analysts. Enterprise value is frequently compared with other figures (e.g. revenues, EBITDA, EBIT), which produces enterprise value multiples, for example.
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 investment companies and asset managers).
Gross domestic product	Value of the economic performance that comprises all the goods and services produced in a country within a reporting period.
Liquidity ratios	Provide information about the extent to which current payment obligations are covered by cash and cash equivalents, current receivables and current assets.
Value Added	This figure is based on the assumption that a company creates added value for the investor when the return on the average capital employed exceeds the underlying cost of capital. This excess return is multiplied by the average capital employed (annual average for operating assets + working capital) to give the company's added value for the year under review.

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Annual General Meeting, Kassel	13 May 2009
Interim report 31 March 2009	13 May 2009
Dividend payment	14 May 2009

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