

# THE FOOD CHALLENGE



**TEN-YEAR SUMMARY K+S GROUP<sup>1</sup>**

	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
	IFRS	IFRS	HGB	HGB						
<b>Revenues, Earnings, Cash Flow</b>										
Revenues	€ million	5,150.9	4,632.7	3,573.8	4,794.4	3,344.1	2,957.7	2,815.7	2,538.6	2,287.8
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	€ million	1,217.7	953.0	411.8	1,484.4	413.9	401.1	383.1	289.5	223.7
Operating earnings (EBIT I)	€ million	975.7	714.5	238.0	1,342.7	285.7	278.0	250.9	162.9	115.7
Result after operating hedges (EBIT II)	€ million	951.2	719.1	241.9	1,192.3	(106.9)	361.6	271.7	136.5	—
Earnings before taxes	€ million	887.3	599.1	126.5	1,199.1	(142.6)	341.5	259.6	123.4	111.6
Earnings before taxes, adjusted <sup>2</sup>	€ million	911.8	594.5	122.6	1,349.5	250.0	257.9	238.8	149.9	—
Group earnings from continued operations	€ million	656.1	457.1	—	—	—	—	—	—	—
Group earnings from continued operations, adjusted <sup>2</sup>	€ million	673.6	453.8	—	—	—	—	—	—	—
Group earnings <sup>3</sup>	€ million	564.3	448.6	96.4	870.9	(93.3)	228.9 <sup>4</sup>	174.4	86.8	101.3
Group earnings, adjusted <sup>2,3</sup>	€ million	581.8	445.3	93.6	979.3	175.3	176.2 <sup>4</sup>	161.3	103.5	—
Gross cash flow	€ million	910.6	812.7	323.9	1,177.9	372.1	342.7	341.5	274.1	209.1
Capital expenditure <sup>5</sup>	€ million	294.1	188.6	177.6	197.5	171.6	130.5	107.1	131.9	126.6
Depreciation <sup>5</sup>	€ million	242.0	238.5	173.8	141.7	128.2	123.1	132.2	126.6	108.0
Working capital	€ million	840.9	959.4	970.5	962.3	570.6	603.1	456.4	333.1	250.9
<b>Balance Sheet</b>										
Equity <sup>6</sup>	€ million	3,084.6	2,651.6	2,094.6	1,718.3	931.8	1,124.3	942.1	880.6	584.9
Property, plant and equipment and intangible assets	€ million	3,247.9	2,803.3	2,658.0	1,423.5	1,297.3	1,271.7	874.1	883.3	659.8
Net indebtedness	€ million	610.8	732.5	1,351.3	570.0	1,085.1	718.3	321.4	340.5	220.5
Balance sheet total	€ million	6,056.9	5,573.7	5,217.1	3,473.8	2,964.8	2,830.9	2,259.1	2,147.7	1,754.5
<b>Employees</b>										
Employees as of 31 Dec. <sup>7</sup>	number	14,496	14,186	15,208	12,368	12,033	11,873	11,012	10,988	10,554
– of which trainees	number	636	620	642	615	614	620	591	591	550
Average number of employees <sup>7</sup>	number	14,314	14,091	13,044	12,214	11,959	11,392	11,017	11,068	10,541
Personnel expenses <sup>8</sup>	€ million	976.1	944.4	756.4	738.5	687.3	663.5	671.1	613.3	562.7
<b>Ratios</b>										
Earnings per share from continued operations, adjusted <sup>2</sup>	€	3.52	2.37	—	—	—	—	—	—	—
Earnings per share, adjusted <sup>2,3</sup>	€	3.04	2.33	0.56	5.94	1.06	1.07 <sup>4</sup>	0.95	0.61	0.61
Dividend per share <sup>9</sup>	€	1.30	1.00	0.20	2.40	0.50	0.50	0.45	0.33	0.25
Dividend yield <sup>9</sup>	%	3.7	1.8	0.5	6.0	1.2	2.4	3.5	3.3	4.6
EBITDA margin	%	23.6	20.6	11.5	31.0	12.4	13.6	13.6	11.4	9.8
EBIT margin	%	18.9	15.4	6.7	28.0	8.5	9.4	8.9	6.4	5.1
Return on revenues <sup>2</sup>	%	13.1	9.8	2.6	20.4	5.2	6.0 <sup>4</sup>	5.7	4.1	2.8
Return on Capital Employed (ROCE) <sup>10</sup>	%	27.5	22.0	9.3	64.0	15.5	17.4	19.5	14.2	12.7
Return on total investment <sup>2,11</sup>	%	16.4	14.7	6.9	44.9	11.0	12.3	12.7	9.1	7.2
Return on equity after taxes <sup>2,11</sup>	%	20.2	18.7	8.4	68.6	16.1	17.7 <sup>4</sup>	17.8	12.1	17.3
Book value per share	€	16.12	13.85	10.94	10.41	5.65	6.81	5.54	5.18	3.44
Gross cash flow per share	€	4.76	4.25	1.95	7.14	2.25	2.08	2.02	1.61	1.25
<b>The Share</b>										
Closing price as of 31 Dec. <sup>12</sup>	XETRA, €	34.92	56.36	39.99	39.97	40.69	20.55	12.76	9.78	5.44
Market capitalisation	€ billion	6.7	10.8	7.7	6.6	6.7	3.4	2.1	1.7	0.9
Enterprise value as of 31 Dec.	€ billion	7.3	11.5	9.0	7.2	7.8	4.1	2.4	2.0	0.9
Total number of shares as of 31 Dec.	million	191.40	191.40	191.40	165.00	165.00	165.00	170.00	170.00	180.00
Outstanding shares as of 31 Dec. <sup>13</sup>	million	191.40	191.40	191.40	165.00	165.00	165.00	165.00	170.00	166.08
Average number of shares <sup>14</sup>	million	191.33	191.34	166.15	164.95	164.94	164.96	169.24	170.00	167.08
										171.28

## BUSINESS SEGMENTS AT A GLANCE

### POTASH AND MAGNESIUM PRODUCTS

	2011	2010	2009	2008	2007
in € million					
Revenues	2,131.9	1,867.0	1,421.7	2,397.4	1,407.9
EBITDA	833.8	567.1	317.2	1,286.3	255.1
EBIT I	739.5	475.9	231.7	1,203.2	177.9
Capital expenditure	162.1	96.9	107.4	111.1	79.7
Employees (number)	8,188	7,900	7,818	7,845	7,672

Potash and magnesium crude salts are extracted at six mines. We use them to produce a wide range of fertilizers and, in addition, we process our raw materials into products for industrial applications, high-purity potassium and magnesium salts for the pharmaceutical, cosmetics and food industries as well as elements for feed.

### SALT

	2011	2010	2009	2008	2007
in € million					
Revenues	1,710.1	1,728.8	1,014.6	618.6	545.1
EBITDA	337.9	369.7	200.3	77.6	76.5
EBIT I	211.4	238.1	140.4	45.2	47.8
Capital expenditure	112.3	79.0	48.0	58.6	47.9
Employees (number)	5,230	5,235	5,279	2,394	2,294

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 by winter road clearance services to ensure safety on the roads. They are produced in Germany and in other Western European countries as well as in North and South America.

<sup>1</sup> Unless stated otherwise, information for the years 2011 and 2010 refers to the continued operations of the K+S Group. Due to its disposal, the COMPO business is in accordance with IFRS disclosed as "discontinued operation".

### ← Footnotes Ten-Year Summary

<sup>1</sup> Unless stated otherwise, information for the years 2011 and 2010 refers to the continued operations of the K+S Group. Due to its disposal, the COMPO business is in accordance with IFRS disclosed as "discontinued operation". The income statement and the cash flow statement of the previous year were adjusted accordingly, while the balance sheet and therefore the key figures working capital, net indebtedness and book value per share of 2010 were not adjusted and also include the discontinued operations.

<sup>2</sup> The adjusted key figures only include the result from operating forecast hedges of the respective reporting period reported in EBIT I, which eliminates effects from changes in the market value of the hedges (see also 'Notes to the income statement and the statement of comprehensive income' on page 180). Related effects on deferred and cash taxes are also eliminated; tax rate for 2011: 28.4% (2010: 28.2%).

<sup>3</sup> Earnings from continued and discontinued operations.

<sup>4</sup> Without non-recurrent deferred tax income of € 41.9 million or € 0.25 per share.

<sup>5</sup> Investments in or depreciation on property, plant and equipment, intangible and investment properties as well as depreciation on financial assets.

### NITROGEN FERTILIZERS<sup>1</sup>

	2011	2010	2009	2008	2007
in € million					
Revenues	1,156.8	902.4	1,016.2	1,652.4	1,265.4
EBITDA	71.6	45.2	(94.4)	133.9	68.2
EBIT I	69.4	43.3	(108.1)	121.4	57.3
Capital expenditure	1.0	0.5	11.2	10.7	16.8
Employees (number)	158	171	1,249	1,318	1,311

The Nitrogen Fertilizers business segment markets nitrogenous fertilizers with a focus on bulk customers in agriculture and special crops such as fruit, vegetables and grapes. In addition to the fertilizers produced exclusively by BASF, goods of other reputable European fertilizer producers are also marketed.

### COMPLEMENTARY BUSINESS SEGMENTS

	2011	2010	2009	2008	2007
in € million					
Revenues	150.4	134.0	120.7	125.3	125.1
EBITDA	29.0	27.7	21.7	31.2	42.4
EBIT I	17.9	21.2	15.2	25.1	37.7
Capital expenditure	4.3	4.2	4.6	10.0	17.2
Employees (number)	290	280	278	285	273

In addition to recycling activities and the disposal of waste at potash and rock salt mines as well as the granulation of CATSAN®, the term "Complementary Business Segments" bundles together further activities of importance to the K+S Group. With K+S Transport GmbH, Hamburg, the K+S Group possesses its own logistics service provider. Chemische Fabrik Kalk GmbH (CFK) trades in different basic chemicals.

<sup>6</sup> Up to the end of 2003: incl. 50 % special reserve and difference from capital consolidation.

<sup>7</sup> FTE: Full-time equivalents; part-time positions are weighted in accordance with their respective share of working hours.

<sup>8</sup> Personnel expenses also include expenditures connected with partial retirement and early retirement.

<sup>9</sup> The figure for 2011 corresponds to the dividend proposal; the dividend yield is based on the year-end closing price.

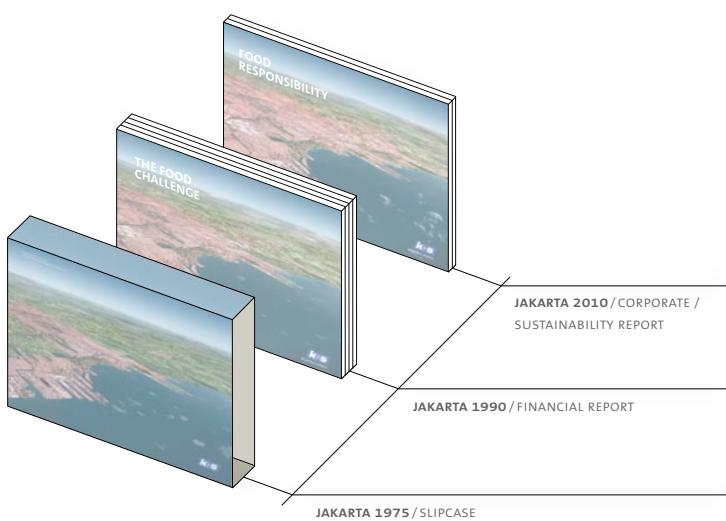
<sup>10</sup> Information for the years 2010 and 2011 refers to the continued operations of the K+S Group. Taking into account the discontinued operations of COMPO, ROCE in 2011 amounts to 24.1% (2010: 20.9%).

<sup>11</sup> Information refers to the continued and discontinued operations of the K+S Group.

<sup>12</sup> The price of the K+S share since the capital increase in December 2009 has been traded ex subscription right. Historical values were not adjusted.

<sup>13</sup> Total number of shares less the number of own shares held by K+S as of the balance sheet date.

<sup>14</sup> Total number of shares less the average number of own shares held by K+S.



← COVER PICTURE

The development of metropolises in emerging market countries is an expression of dynamic population growth as well as of a pleasingly increase in prosperity of the people living in those countries. However, rapid urbanisation also means that a growing population increasingly switching to food rich in protein demands many times more cereals. At the same time, urbanisation leads to a sealing of considerable areas of agricultural land. Thus the title pictures of our reports show the size of the Indonesian capital Jakarta in the years 1975, 1990 and 2010 on the basis of satellite images. The number of inhabitants there has doubled to about 10 million people in only 35 years. During the same period, urban areas almost octuplicated. In future, an adequate supply of food will be one of the central challenges for mankind.

LETTER TO OUR SHAREHOLDERS  
KASSEL, 2 MARCH 2012

*Dear Shareholders,*

"If I had plenty of land, I should fear no man ...", are the words of the peasant Pachom in Tolstoy's short story "How Much Land Does a Man Need?". Admittedly, Tolstoy's interest here lay in man's efforts to acquire material property, but the wording of the question, "How much land does a man need?" is indeed impressively clearly formulated and now, some 125 years later, when we consider the issue of feeding the world, it is more pertinent than ever.

At the end of October 2011, the population of the world went through the seven billion barrier. This number and in particular the two to three billion additional people expected by 2050 present all of us with a huge challenge which, despite the numerous urgent warnings of the UN, to date has not been tackled decisively enough: Just how do we provide the world with enough food? This scarcely is an issue for people in developed countries who enjoy a relatively high standard of living and only spend a fraction of their available income on food; it is the debt and real estate crisis that is currently causing them their worries. It is only in passing, if at all, that people might notice newspaper reports describing that international prices of cereals are significantly above the multi-year average. While this may be a somewhat abstract issue in these countries, for those belonging to the lower income groups in emerging and developing countries, this means in very practical terms that a significant portion of their income is being absorbed through the tangible inflation of food prices. Anyone compelled to spend the larger part of their income on feeding their families,

will regard their very existence as under threat when food prices rise by 10 % per annum, as was the case last year in some countries in South-East Asia or the Near and Middle East for example.

With population growth and the increased consumption of protein that regularly accompanies increased prosperity on the one hand, and urbanisation, desertification and soil salinisation on the other, the coming decades will see a further, continual decline in the globally available agricultural land per capita. So it is imperative that a greater focus is once again placed on agriculture. We have the potential on this earth to adequately feed even as many as ten billion people. However, this requires that agriculture, particularly in emerging and developing countries, has to become more efficient and ultimately more productive – through structural reforms and land reforms especially, but also through the use of modern agricultural technology, seed, fertilizers and plant protection products. If, for example, the global average yield per hectare for wheat is only about half of what it is in Western Europe, this then highlights the potential yields that remain untapped and the degree to which hunger and unaffordable food prices can be avoided in emerging and developing countries. As the Chairman of the Board of Executive Directors of a potash fertilizer producer, I am of course not without a certain interest in declaring my opinion, but it is almost inevitable to state that in order to achieve an optimal crop yield per hectare in China or India for example, the potash input would have to be – and can be – increased by factors of 1.7 or 2.5 respectively. These countries are in no way exceptional. In the majority of emerging and developing countries, fertilizers are still not applied in a balanced way, despite the increased use of potash witnessed in recent years.

Therefore the theme of this year's Financial Report is quite deliberately entitled "The Food Challenge". Exemplary for the trend in many emerging countries are our reports' cover pictures showing satellite perspectives of the Indonesian capital, Jakarta, in 1975, 1990 and 2010. During this time span, the population of this metropolis more than doubled to approximately ten million people. The dynamic and prospering development is pleasing. The effects of the concomitant rapidly progressing phenomenon of urbanisation, however, are as impressive as they are alarming. These are the key challenges we will have to overcome in the future, which we too, as a producer of potash and salt, will need to sustainably deal with – even if the capital markets routinely keep us on tenterhooks with their sometimes euphoric, sometimes anxious glance towards quarterly results.

We will probably never get an answer to the question of whether the current sweeping uncertainty – also to be seen in the economy – was triggered by the sovereign debt crises, the real economy itself or by an overly pessimistic capital market, and if, in the latter case, the current troubles are merely the result of a "self-fulfilling prophecy". However, it is clearly noticeable that, within a globalised and interconnected world, the so far countervailing regional economic cycles will become steadily more and more harmonised with one another, and that market players synchronously stepping on the accelerator or the brake will become an ever more frequent occurrence. The problem inherent in this trend is that it can lead to extremely exaggerated movements in either direction.

Is the capital market merely acting as a prisoner of its own, only trying to make the best of these circumstances, consequently acting or being forced to act in an even more short-termist and

nervous manner? Whatever the truth is here, I find it hard to comprehend that at the end of the past year we, K+S, were supposed to be worth almost 40 % less than just five months before, simply because investors and analysts under the influence of some kind of déjà-vu feared that, in the wake of the financial crisis, the prices of cereals would plunge, the demand for potash would decline significantly and that potash prices would collapse as a result. You will notice my continuous use of the subjunctive tense here, because in reality the prices of cereals have yet to plunge, nor are there any indications that agriculture will forego the next potash application, nor have potash prices collapsed. It is only the wholesalers who have responded to the global uncertainty with a conservative approach in managing their fertilizer stocks for the coming season, meaning that as long as the world does not stop spinning, this will only lead to a postponement of demand.

While the capital market perceived the glass to be half-empty rather than half-full, particularly towards the end of 2011, in the past year, the K+S GROUP

- + generated revenues of € 5.2 billion; this represents a year-on-year increase of 11 %;
- + increased operating earnings by 37 % to € 976 million, the second-highest earnings ever achieved in the Group's history;
- + boosted the adjusted earnings per share, including the COMPO effect, by 30 % to € 3.04;
- + commenced with the € 360 million package of measures for the Werra river so laying the cornerstone for a further significant reduction of saline waste water, thereby significantly improving the prospects for 5,000 employees in this region and
- + took a decisive strategic step forward with the acquisition of POTASH ONE and the decision to establish a new potash plant in Canada.

In view of the successful course of the year 2011, the Board of Executive Directors will propose to the Annual General Meeting that the dividend for the past year be increased by 30 % and that a dividend of € 1.30 per share be paid.

Dear Shareholders, you may rest assured also in the future that your **K+S GROUP** will be remaining on course. In recent years, the Board of Executive Directors and the Supervisory Board have sharpened the **K+S GROUP**'s strategic focus on the twin pillars of potash and salt: The acquisition of the Chilean salt producer **SPL** in 2006, the take-over in 2009 of the us-American salt producer **MORTON SALT**, the acquisition of the Canadian potash exploration company **POTASH ONE** as well as the disposal of **COMPO** last year are all integral steps in this strategy.

Of major importance for the **K+S GROUP** as a whole is the decision to embark on the construction of a new potash production plant in Canada – the Legacy Project. This new plant in the Province of Saskatchewan is to commence operations in 2015 and, after a few years, will in two phases produce up to 2.86 million tonnes of potassium chloride per year. Following the completion of a third phase, production levels could even rise to as much as 4 million tonnes of potassium chloride per year. The estimated volume of capital expenditure for the two initial expansion phases runs to approximately 3.25 billion Canadian dollars, will be spread over a number of years and thus will not overstrain the **K+S GROUP** financially. The implementation of the Legacy Project will lead to an increase of our potash capacities and to an extension of the average lifetime of our potash plants. Furthermore, the combination with our existing domestic potash mines will significantly boost our international competitiveness.

Another step of equally wide-ranging importance is the aforementioned € 360 million package of measures aimed at disposing of the saline waste water produced by our Werra plant in Germany. Within the next four years, we want to achieve a 50 % reduction of saline waste water. The official starting signal was given by us in October – a significant step toward the long-term, sustainable disposal of saline waste water, which will boost the prospects not just of our sites and our employees, but also those of a great many people living in the region. As a commodities company, we are thus clearly and unambiguously committing ourselves to our German base. And of course, preparations are continuing for the approval applications for the saline waste water pipelines, regardless of the fact that the test criteria for pipelines defined in conjunction with the federal states of Hesse and Thuringia and agreed on by the Round Table, which form the basis for the investment decision, are still unfulfilled.

Despite all the macroeconomic uncertainties, 2012 should nevertheless be another good year for our K+S GROUP: The current pricing level for agricultural raw materials offers attractive income prospects for farmers and should therefore lead to a positive development in fertilizer demand in those sales regions of relevance for K+S. However, for the Salt business, due to the weather-related unusually poor start to the de-icing business, we are anticipating significantly lower volumes of business compared to the above-average performance in 2011. In sum, we are anticipating K+S GROUP's total revenues to remain stable for 2012; operating earnings and adjusted earnings after taxes should, however, decrease moderately due primarily to the muted demand for de-icing salt. Nevertheless, without the impact of last year's disposal of the COMPO business, there is a good chance for an at least stable dividend for the year 2012.

CONTENT →

Also, on behalf of my fellow members of the Board of Executive Directors, I would like to thank our employees wholeheartedly for their high level of commitment and their extraordinary team spirit.

I would like to thank you, dear shareholders, customers and partners of the k+s GROUP, for your trust and support once again and the constructive dialogue of the past financial year. We want to continue to shape the future with you, create new capacities for growing markets and convince you with our achievements!



NORBERT STEINER  
CHAIRMAN OF THE BOARD OF EXECUTIVE DIRECTORS





<p>← Ten-Year Summary K+S GROUP      U3</p> <p>← Business Segments at a Glance      U4</p> <p>← Letter to our Shareholders</p> <p><b>THE FOOD CHALLENGE</b>      4</p> <p><b>1 TO OUR SHAREHOLDERS</b></p> <p>1.1 Vision/Mission      11</p> <p>1.2 Board of Executive Directors      12</p> <p>1.3 Supervisory Board Report      14</p> <p><b>2 K+S ON THE CAPITAL MARKET</b></p> <p>2.1 The Share      24</p> <p>2.2 Bond and Rating      27</p> <p>2.3 Investor Relations      28</p>	<p><b>3 CORPORATE GOVERNANCE</b></p> <p>3.1 Declaration on Corporate Governance and Corporate Governance Report      35</p> <p>3.2 Members of the Board of Executive Directors      41</p> <p>3.3 Members of the Supervisory Board      42</p> <p>3.4 Remuneration Report      45</p> <p><b>4 K+S GROUP MANAGEMENT REPORT</b></p> <p>4.1 Group Structure and Business Operations      59</p> <p>4.2 Corporate Strategy      70</p> <p>4.3 Enterprise Management and Supervision      72</p> <p>4.4 Important Non-Financial Matters      75</p> <p>4.5 Research and Development      84</p> <p>4.6 Overview of Course of Business      88</p> <p>4.7 Earnings Position      94</p> <p>4.8 Financial Position      102</p> <p>4.9 Asset Position      108</p> <p>4.10 Business Segment Development      110</p> <p>4.11 Risk Report      118</p> <p>4.12 Subsequent Events      135</p> <p>4.13 General Statement on the Current Economic Situation      135</p> <p>4.14 Forecast Report      135</p>	<p><b>5 CONSOLIDATED FINANCIAL STATEMENTS OF THE K+S GROUP</b></p> <p>5.1 Auditor's Report      155</p> <p>5.2 Income Statement      156</p> <p>5.3 Cash Flow Statement      157</p> <p>5.4 Balance Sheet      158</p> <p>5.5 Statement of Changes in Equity      159</p> <p>5.6 Development of Fixed Assets      160</p> <p>5.7 Development of Provisions      164</p> <p>5.8 Segment Reporting      166</p> <p>5.9 Notes      168</p>	<p><b>CONTENT</b></p> <p>FURTHER INFORMATION</p> <p>Information about Raw Material Deposits      214</p> <p>Definitions of Key Financial Indicators      217</p> <p>Glossary      218</p> <p>Index of Figures      221</p> <p>Index of Tables      222</p> <p>Index      224</p> <p>Financial Calendar, Contact, Imprint      226</p>
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# THE FOOD CHALLENGE

IN FUTURE, THE ADEQUATE SUPPLY OF FOOD WILL BE ONE OF THE CENTRAL CHALLENGES FOR MANKIND.

Population growth and changing dietary habits are resulting in a significantly increasing need for food. As the land globally available for agriculture reaches its natural limits and is even increasingly threatened by urbanisation, erosion and desertification, it will in future be yet more important to further increase crop yields on the existing cultivated land. However, this can only be achieved if the whole agricultural sector acts in concert. Farmers alone cannot manage this. Rather, they are reliant upon high-yielding seed, needs-based fertilisation systems, modern agricultural machinery technology, effective and environmentally-friendly plant protection products, application-oriented agricultural sciences, modern regulatory framework conditions as well as capital and futures markets providing liquidity.

Nutrition is therefore a very complex challenge, which many, many people on this planet face every day. This, we want to illustrate for you exemplarily in the series of images in this year's Financial Report. Whether miner, stock market trader, application advisor, farmer or university professor, they all deal with nutrition in a variety of different ways, but nonetheless all pursue a common goal: making adequate, healthy and affordable nutrition possible for mankind!



**RAW MATERIALS**  
MAKING RESOURCES USABLE

6



**TRADING**  
SECURING VALUES

18



**SOLUTIONS**  
SHARING KNOWLEDGE

30



**RISK**  
PROVIDING SECURITY

54



**NUTRITION**  
CREATING FUNDAMENTALS

150





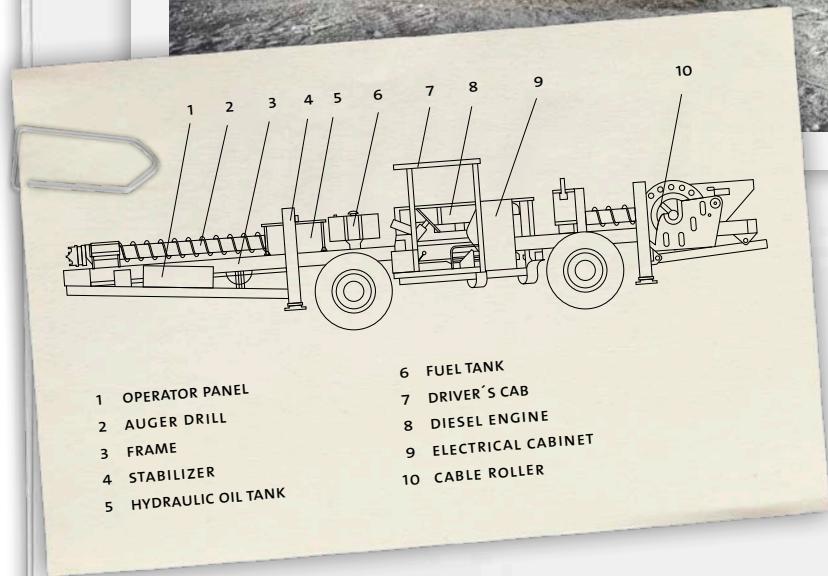
“OUR POTASH AND SALT MINES ARE AMONG THE MOST MODERN IN THE WORLD. AND I WORK IN ONE OF THE MOST IMPRESSIVE – IN THE BERNBURG SALT MINE. THE

## RAW MATERIALS

EXTRACTED IN OUR MINES FORM THE BASIS FROM WHICH WE CREATE ESSENTIAL PRODUCTS FOR THE AGRICULTURAL SECTOR, THE INDUSTRY AND EVERYDAY USE BY CONSUMERS.”



THOMAS WOLPERDING (52),  
HEAD OF UNDERGROUND PRODUCTION AND TECHNOLOGY / DEPUTY PLANT MANAGER OF THE BERNBURG AND BRAUNSCHWEIG-LÜNEBURG SALT MINES



*Products from K+S create the elementary prerequisites for quality of life and growth in numerous areas of everyday life.*



**Top left:** Loader with mined rock salt on the way to the tipple  
**Top right:** View of the mine layout plan of the Bernburg salt mine  
**Bottom right:** Discussion between Thomas Wolperding and his colleague Thomas Weilbeer

# MAKING RESOURCES USABLE

ENORMOUS LOADERS ARE ON THE MOVE IN AN UNDERGROUND LABYRINTH. FULLY LOADED, EACH OF THEM CAN WEIGH UP TO 80 TONNES. THEY ARE CARRYING THE PRECIOUS CRUDE SALT.

The history of the Earth created great deposits of potash and salt in Germany, which have been successfully extracted for already over a century. The know-how used today worldwide was partly developed by generations of engineers in our mines. As potash and rock salt occur in the same geological layers, they can be extracted by means of similar techniques. That is a great advantage. It is a very capital-intensive business, because the resources we work with are to be found deep underground. Their extraction demands a lot from man and machine. Thus only accordingly structured companies with a strong capital base and standard-setting safety procedures can manage this on a large scale.

The Bernburg salt mine in Saxony-Anhalt is an impressive example of the way we work and of the dimensions of our underground operations. A chamber is up to 35 metres high, 20 metres wide, 400 metres long and almost recalls the interior of a cathedral. The loaders transport about 20 tonnes of crude salt on each journey. A single detonation loosens up to 5,000 tonnes of salt. The white gold!

The Bernburg mine has an annual capacity of about 2.5 million tonnes of rock salt, 1.4 million tonnes of salt in brine and 300,000 tonnes of evaporated salt for the production of food grade salt, industrial salt, salt for chemical use and de-icing salt.

Mining and the extraction of potash and salt has always been the core business of K+S. The strategy of our Company continues to aim for growth in these areas. Our unique range of goods and services for agriculture, industry, and private consumers creates the bases for growth and high yields in almost all areas of everyday life. Worldwide, the K+S GROUP currently employs more than 14,000 people and achieved revenues of over € 5 billion in 2011.

## TO OUR SHAREHOLDERS

SOURCE OF GROWTH AND LIFE THROUGH  
NUTRIENTS AND MINERALS.

# 1

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## 1.1 VISION/MISSION

ON THE BASIS OF OUR CORE VALUES, WE WANT:

- + to mine and process raw materials and improve nutrition, health and quality of life with our products and services
- + to occupy leading positions in the markets
- + to be our customers' preferred partner
- + to strengthen our raw material and production base and expand it globally
- + to further increase the value added by developing new products and more efficient processes
- + to achieve a fair balance of economic, ecological and social concerns
- + to create sustainable values for our stakeholders and take on responsibility in society
- + to be an attractive employer for employees from all over the world



from left to right: Gerd Grämmig, Dr. Thomas Nöcker, Jan Peter Nonnenkamp, Norbert Steiner, Joachim Felker

## 1.2 BOARD OF EXECUTIVE DIRECTORS

### NORBERT STEINER

LAWYER, CHAIRMAN OF THE BOARD OF EXECUTIVE DIRECTORS

Born in Siegen in 1954. After studying law in Heidelberg and a traineeship within the district of the Higher Regional Court in Karlsruhe, in 1983, he began his career in the tax department of BASF AG, whose sub-department of customs and excise duties he headed from 1988 onwards. In 1993, he became head of the legal affairs, tax and insurance department of K+S AKTIENGESELLSCHAFT. In May 2000, Norbert Steiner became a member of the Board of Executive Directors, in January 2006, Deputy Chairman and in July 2007, Chairman of the Board of Executive Directors of K+S AKTIENGESELLSCHAFT. He has responsibility for the Salt business segment as well as Corporate Development and Controlling, Legal Affairs/Compliance, Investor Relations, Communications and International HR Coordination. Since January 2012, he furthermore took over responsibility for the areas of Finance and Accounting, Taxes, Audit and Insurance from Mr. Nonnenkamp until further notice.

### DR. THOMAS NÖCKER

LAWYER

Born in Neukirchen-Vluyn in 1958. After studying law and subsequently obtaining a doctorate from Münster University, he completed legal traineeships e. g. in Düsseldorf and Montreal, Canada. In 1991 he started his professional career at RAG AG, where he held various positions. In 1998, he was appointed member of the Board of Executive Directors of RAG SAARBERG AG and assigned responsibility for personnel, legal affairs and IT management/organisation. Dr. Thomas Nöcker has been a member of the Board of Executive Directors of K+S AKTIENGESELLSCHAFT since August 2003. He is Personnel Director with responsibility for the areas Personnel, IT-Services, Organisation and Project Management, Property Management, Knowledge Management, Health Management, Logistics, and Trading Business (cfr). Since January 2012, he furthermore took over responsibility for the areas of Purchasing and Materials Management from Mr. Nonnenkamp until further notice.

### JOACHIM FELKER

INDUSTRIAL BUSINESS MANAGER

Born in Bad Godesberg in 1952. After matriculating in 1974, he did his training in industrial business management at BASF AG and worked there as a commercial assistant. Between 1980 and 1999, he held several management and marketing positions within the BASF Group, including in Asia. He lastly worked as senior director of the fertilizers sector. Since 2000, Joachim Felker has been working within the K+S GROUP, initially as managing director of FERTIVA GMBH and from 2003 onwards as a senior management member of K+S KALI GMBH. In October 2005, he became a member of the Board of Executive Directors of K+S AKTIENGESELLSCHAFT. He is responsible for the Potash and Magnesium Products as well as Nitrogen Fertilizers business segments.

### JAN PETER NONNENKAMP

ECONOMICS GRADUATE

Born in Bremen in 1963. After completing his training as a bank clerk, he graduated in economics from the Private University of Witten/Herdecke in 1990. He then worked in consumer and capital goods industry companies, including FIELMANN AG and LEOPOLD KOSTAL GMBH & CO. KG, holding various financial positions. As of 2004, as a member of the Board of Executive Directors of KNORR-BREMSE AG, he was responsible for the finance, accounting and tax departments. Since June 2009, he has been a member of the Board of Executive Directors of K+S AKTIENGESELLSCHAFT with responsibility for the areas Finance and Accounting, Purchasing, Materials Management and Warehousing, Tax, Audit, and Insurance. Mr. Nonnenkamp retired from the Board of Executive Directors as of 31 December 2011.

### GERD GRIMMIG

ENGINEERING GRADUATE

Born in Freden in 1953. After studying mining at Clausthal Technical University, he worked in mining operations at various plants and in the mining division at the head office of KALI UND SALZ AG (now K+S AKTIENGESELLSCHAFT). Between 1990 and 1996, he held several plant manager positions in the mining division. Between January 1997 and September 2001, Gerd Grimmig was managing director of KALI UND SALZ GMBH and responsible for the mining department. Since October 2000, he has been a member of the Board of Executive Directors of K+S AKTIENGESELLSCHAFT. His areas of responsibility are Mining, Geology, Technology/Energy, Research and Development, Environment, Occupational Safety, Quality Management, Inactive Plants, Waste Management and Recycling, Animal Hygiene Products, MSW CHEMIE, and Consulting.

Further information about the members of the Board of Executive Directors, their responsibilities and appointments can be found in the 'Corporate Governance' section on page 35.

## 1.3 SUPERVISORY BOARD REPORT

*Dear Shareholders,*

The following report of the Supervisory Board informs you about its activities in financial year 2011 and the findings of the audit of the 2011 annual financial statements and consolidated financial statements. The main focuses of our meetings and discussions with the Board of Executive Directors included:

- + the K+S GROUP strategy,
- + the sale of the COMPO business,
- + the implications resulting from the sale of the BASF nitrogen fertilizer plants for the business of K+S NITROGEN,
- + the disposal of saline waste water in the Hesse-Thuringia potash district, and
- + the results of the feasibility study on the development of an acquired potash deposit in Canada (Legacy Project).

### ADVICE TO THE BOARD OF EXECUTIVE DIRECTORS AND MONITORING OF MANAGEMENT

In financial year 2011 too, the Supervisory Board diligently performed the control and consultancy tasks imposed on it by law, the Articles of Association and its bylaws. A large number of matters were discussed in depth and resolutions were adopted regarding transactions requiring approval. We have advised the Board of Executive Directors on an ongoing basis on the management of the Company and monitored the latter's executive management. We were constantly involved in an appropriate and timely fashion in all decisions of fundamental importance. The Board of Executive Directors informed us on a regular basis, promptly and comprehensively about the course of business, the earnings and financial position, the employment situation, and the planning and strategic development of the Company. Deviations from planning were explained to the Supervisory Board in detail. The risk situation and risk management were always taken into careful consideration.

The Supervisory Board regularly received written reports from the Board of Executive Directors for the preparation of meetings. Between meetings, the chairman of the Supervisory Board maintained close contact with the Board of Executive Directors and discussed important events and upcoming decisions with it. At relevant separate meetings prior to the meetings of the Supervisory Board, the shareholder and employee representatives discussed important matters on the agendas.

With regard to business transactions, which were of key importance to the Company, the Supervisory Board was also immediately and comprehensively informed in writing by the Board of Executive Directors between the regular meetings.

The attendance of the 16 Supervisory Board members at the five Supervisory Board meetings during the period under review was, on average, 91 %. Five Supervisory Board members were unable to participate in one meeting each, and one Supervisory Board member in two meetings. Thus in 2011 too, no Supervisory Board member participated in fewer than half of the meetings. The committees met with all members in attendance except for one meeting each of the personnel committee and the audit committee at which, in the case of the former one member and in the case of the latter two members were prevented from attending.

### SUPERVISORY BOARD MEETINGS

A total of five Supervisory Board meetings, of which one was extraordinary, were held during the course of financial year 2011.

At the meeting of 9 March 2011, the Supervisory Board reviewed the annual financial statements, the consolidated financial statements and the management reports, approved the financial statements on the recommendation of the audit committee and agreed to the proposal of the Board of Executive Directors for the appropriation of profits for financial year 2010. The business situation and the outlook for the current year were discussed in depth. Moreover, we approved the proposed resolutions for the Annual General Meeting of 2011. The Board of Executive Directors then explained to the Supervisory Board the reasons for not participating in the bidding process for the acquisition of the BASF nitrogen fertilizer plants.

On 11 May 2011, the Board of Executive Directors provided comprehensive information about the results and the business developments during the first quarter. Furthermore, the Board of Executive Directors described the current status of the Legacy Project and then explained in detail the ongoing process of the sale of the COMPO business. In the subsequent debate, it was agreed unanimously that a sale of the COMPO business was the correct strategic step even taking into account a book loss.

At an extraordinary Supervisory Board meeting on 10 June 2011, the Supervisory Board again concerned itself with the sale of the COMPO business and gave its consent to the terms of sale described by the Board of Executive Directors. The Board of Executive Directors then explained the options arising for K+S in the event of a successful sale of the BASF nitrogen fertilizer plants to a third party.

At the meeting held on 23 and 24 August 2011, the Supervisory Board and the Board of Executive Directors discussed possible effects of the financial and sovereign debt crisis on the business of the K+S GROUP. The strategic orientation of the Potash and Magnesium Products, Salt as well as Nitrogen Fertilizers business segments was then set out in detail by the Board of Executive Directors. The Supervisory Board confirmed the opinion of the Board of Executive Directors that the strategic orientation of the K+S GROUP, i.e. the two-pillar strategy, which had been agreed by the Board of Executive Directors and the Supervisory Board in August 2010, should be adhered to. Following this, the Board of Executive Directors reported on the business development of the first half of the year and the outlook for 2011 as a whole. During a visit to the Werra plant, the head of the Research and Development department of K+S AKTIENGESELLSCHAFT and K+S representative at the Round Table on "Water Protection Werra/Weser and Potash Production" first provided an overview of the situation of the approvals of the discharge of saline waste water of the Werra and Neuhof-Ellers plants into the Werra and the underground. His comments were supplemented by explanations given by the manager of the Werra plant regarding the content and status of the implementation of the measures for reducing saline waste water at the Werra (a € 360 million package of measures). Finally, the Supervisory Board gained an impression of the start of construc-

tion measures at the site. A press release summarised the impressions and position of the Supervisory Board.

At the last meeting of the year, on 23 November 2011, the Supervisory Board resolved, at the suggestion of the personnel committee, not to prolong the term of office of Mr. Nonnenkamp as a member of the Board of Executive Directors, which was limited to 31 May 2012. Subsequently, it was unanimously agreed to terminate his mandate on 31 December 2011. The Board of Executive Directors then discussed the current business situation in the fertilizer and salt markets, detailed the approval situation and the € 360 million package of measures, and provided a detailed forecast of the expected revenues and earnings of the K+S GROUP in 2011. Finally, the Supervisory Board dealt with the status of the Legacy Project in Canada as well as the way forward and the planning for 2012 and the medium-term outlook, including the investment and financing framework for subsequent years. The plans and applications were checked carefully for conformity with the strategic objectives and approved by the Supervisory Board.

#### COMMITTEE MEETINGS

In addition to the mediation committee required by law, the Supervisory Board has established three further committees for the support of its responsibilities: the audit committee, the personnel committee and the nomination committee. The committees prepare resolutions of the Supervisory Board and topics, which are to be dealt with at plenary sessions. Except for the audit committee, the chairman of the Supervisory Board chairs the committees. The content and results of the committee meetings are reported on by the committee chairman at the respective subsequent plenary session. On 24 August 2011, the Supervisory Board resolved to elect Mr. Becker as a further member of the audit committee with immediate effect. An overview of the committees with their personnel composition can be found in the 'Corporate Governance' section of the Financial Report 2011 on page 35 and on the website of K+S AKTIENGESELLSCHAFT under 'Corporate Governance'.

The audit committee met three times in 2011. On 1 March 2011, in the presence of the auditor, the chairman of the Board of Executive Directors and the chief financial officer, the committee

examined the annual financial statements 2010 of K+S AKTIENGESELLSCHAFT, the consolidated financial statements 2010, the respective management reports and the proposal of the Board of Executive Directors for the appropriation of profits. Audits of the internal control system, the purchase price allocation at MORTON SALT and the adjustment of valuation parameters in the area of provisions were discussed in detail. Moreover, the recommendation to the plenary session for the nomination of the auditor for financial year 2011 to be proposed to the Annual General Meeting was resolved. In this context, the declaration of independence from DELOITTE & TOUCHE GMBH was obtained which is provided for by Item 7.2.1 of the German Corporate Governance Code. All committee members were present at the meeting. On 24 August 2011, the committee discussed the internal control system (ICS) and the ICS guideline with the chairman of the Board of Executive Directors and the chief financial officer and acknowledged and approved the project of the Board of Executive Directors to expand the ICS documentation in a targeted way and to examine the extent to which the individual ICS components can be interlinked even more effectively. The chairman of the Board of Executive Directors then reported on the status of the compliance organisation and on the compliance programme of the K+S GROUP. The committee welcomed the fact that on 1 March 2011, a compliance hotline was put into operation in Germany and that, in addition to the hotline already set up at MORTON SALT, hotlines are also to be established in other regions in which a relatively large number of K+S employees operate. Furthermore, it learned from a benchmark study of a major accountancy firm that compliance management at K+S meets international standards. Finally, the committee discussed the main focuses of the 2011 audit. At the last meeting of the year, on 23 November 2011, the head of internal auditing informed the audit committee, with the chairman of the Board of Executive Directors and the chief financial officer being present, about the organisation and operation of internal auditing in the K+S GROUP. The committee then again dealt with the main focuses of the 2011 audit and with the nomination of the auditor to be proposed to the 2011 Annual General Meeting. Finally, in telephone conferences on 30 April, 6 August and 5 November 2011, the respective quarterly reports awaiting publication were discussed between the members of the audit committee, the chairman of the Board of Executive Directors and the chief financial officer.

The personnel committee, which prepares the personnel decisions of the Supervisory Board and is responsible for other matters concerning the Board of Executive Directors, met a total

of four times in 2011. It concerned itself with the attainment and agreement of goals of the members of the Board of Executive Directors, the remuneration of the Board of Executive Directors, the expiration of mandates, and the structure and long-term succession planning of the Board of Executive Directors. Detailed information about the level of remuneration of the Board of Executive Directors in 2011 as well as the structure of the remuneration system, which has not changed materially since its approval by the Annual General Meeting on 11 May 2010, can be found on page 45 of the financial report.

The members of the nomination committee met twice in 2011. The subject of their discussions included the criteria for the composition of the Supervisory Board on the part of the shareholder representatives and the succession planning for the mandates expiring over the coming two years.

For the mediation committee, formed in accordance with the German Co-Determination Act (Mitbestimmungsgesetz), no meeting was called in the past financial year.

## CORPORATE GOVERNANCE

At regular intervals, the Supervisory Board considers the application and further development of the provisions contained in the German Corporate Governance Code (the "Code") within the Company. Detailed information regarding the Supervisory Board can be found in the 'Corporate Governance' section of the Financial Report 2011 on page 35.

In the past year, on 23 November 2011, the Supervisory Board and the Board of Executive Directors resolved the joint declaration on conformity 2011/2012, according to which, thus far with only one exception, the Company is complying with all the recommendations of the respective version of the Code. The suggestions of the Code were and are also being followed, with only two exceptions. The declaration on conformity can be found on the website of K+S AKTIENGESELLSCHAFT under 'Corporate Governance' and on page 35 of the Financial Report 2011. Moreover, the Supervisory Board welcomed the self-obligation entered into together with the other DAX-listed companies to increase the proportion of women in management positions. In addition, the Supervisory Board discussed and approved the proposals of the audit committee on extending the questionnaire for the annual efficiency review.

No conflicts of interests involving members of the Board of Executive Directors or the Supervisory Board, about which the Annual General Meeting needed to be informed, were disclosed to the Supervisory Board in the reporting period. In order to prevent potential conflicts of interests, Mr. Cardona did not participate in two plenary sessions and Dr. Sünder did not participate in one plenary session in discussions on topics that might also have concerned interests of MCC EUROCHEM OJSC and BASF SE respectively. Mr. Vassiliadis explained that, in the event of corresponding topics being dealt with in the Supervisory Board of BASF SE, he would not participate in its discussions relating to them.

#### AUDIT OF THE 2011 ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

DELOITTE & TOUCHE GMBH, Hanover, audited the annual financial statements and the management report of K+S AKTIENGESELLSCHAFT, which were prepared by the Board of Executive Directors in accordance with the rules of the German Commercial Code (HGB), as well as the consolidated financial statements and the Group management report, which were prepared on the basis of the IFRS international financial reporting standards, for financial year 2011 and issued unqualified audit certificates for both of them. The aforementioned documents, the Board of Executive Director's recommendation concerning the appropriation of the accumulated profit and the audit reports of DELOITTE & TOUCHE GMBH, each of which had been submitted to the members of the audit committee and the Supervisory Board on time, were dealt with comprehensively at the audit committee meeting held on 2 March 2012, as well as at the Supervisory Board meeting held on 14 March 2012, at which the chairman of the audit committee and the auditor DELOITTE & TOUCHE reported the result of their audits in depth. Neither DELOITTE & TOUCHE nor the audit committee identified weaknesses in the control and risk management system relating to the accounting process. All questions raised at the meetings were answered exhaustively by the Board of Executive Directors and the auditor. After itself examining the annual financial statements, the consolidated financial statements, the management report and the Group management report, the Supervisory Board did not raise any objections. It agreed with the Board of Executive Directors in its assessment of the position of K+S AKTIENGESELLSCHAFT and of the Group and, at the suggestion of the audit committee, approved the financial statements for financial year 2011. The 2011 annual financial statements of K+S AKTIENGESELLSCHAFT were thus ratified.

The resolution on the appropriation of profits proposed by the Board of Executive Directors was also examined with regard to the present and future expected financial situation of the K+S GROUP. Following extensive discussion, the Supervisory Board approved the proposal made by the Board of Executive Directors.

The Supervisory Board expresses its thanks to the members of the Board of Executive Directors, all employees and employee representatives for their continued high level of commitment and the very successful work done in the past financial year.



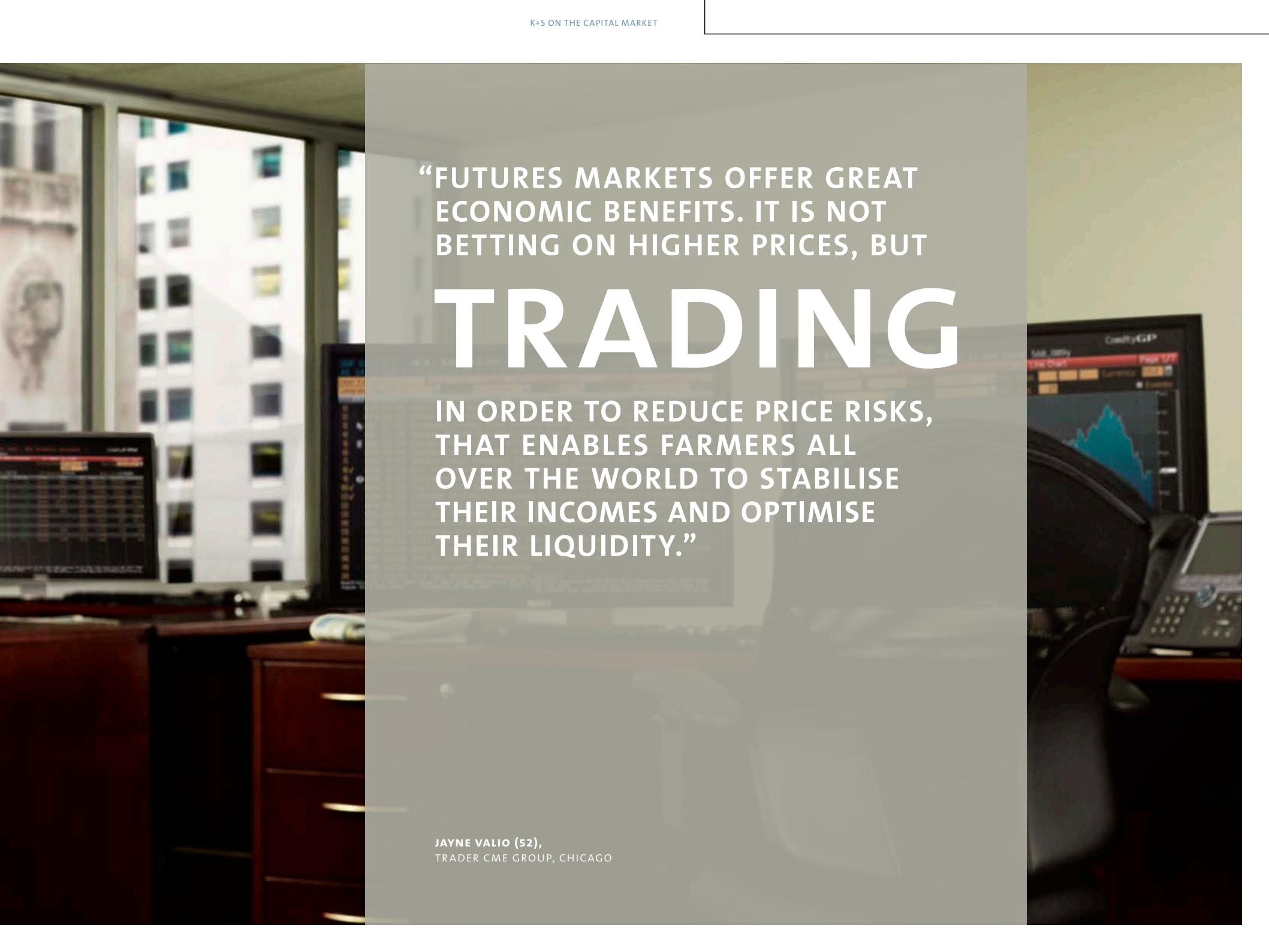
ON BEHALF OF THE SUPERVISORY BOARD

A handwritten signature in blue ink that reads "Ralf Bethke".

DR. RALF BETHKE  
CHAIRMAN OF THE SUPERVISORY BOARD

KASSEL, 14 MARCH 2012



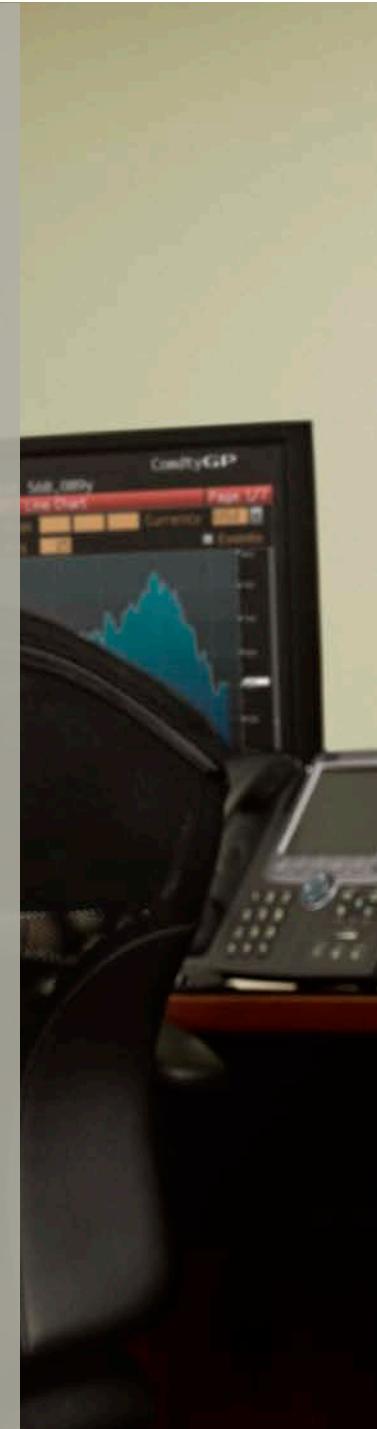


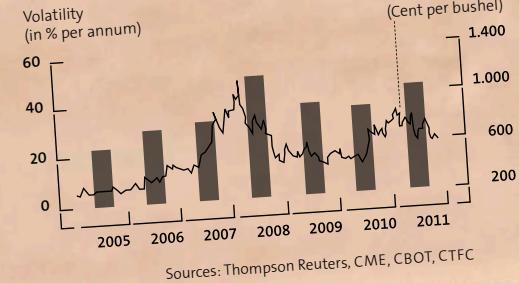
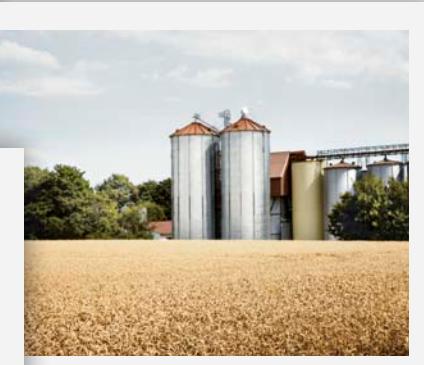
“FUTURES MARKETS OFFER GREAT ECONOMIC BENEFITS. IT IS NOT BETTING ON HIGHER PRICES, BUT

# TRADING

IN ORDER TO REDUCE PRICE RISKS,  
THAT ENABLES FARMERS ALL  
OVER THE WORLD TO STABILISE  
THEIR INCOMES AND OPTIMISE  
THEIR LIQUIDITY.”

JAYNE VALIO (52),  
TRADER CME GROUP, CHICAGO





Sources: Thompson Reuters, CME, CBOT, CTFC

*The balancing of supply and demand takes place on the commodity market.*



Top left: View of the "Chicago Board of Trade" building  
Bottom left: Loading of a dry bulk vessel with cereals  
Bottom right: Wheatfield and silos for storing the harvest

# SECURING VALUES

FUTURES MARKETS ENABLE FARMERS AND WHOLESALERS TO SECURE THEIR INCOMES AND PLACE THEIR INVESTMENT DECISIONS ON A SOLID FOOTING.

Trading on commodity futures exchanges has to repeatedly fend off severe criticism: Speculative and profit-hungry traders, so it is said, plunge the markets into turmoil, leaving only a few winners, but many losers. But if we step back just a little, we will see a more differentiated picture. Futures markets are by no means the infamous shark pool. For many customers of the K+S GROUP, who operate in the agricultural sector, commodity futures trading has become an everyday and meaningful tool, which contributes towards securing their existence. The commodity futures business is as much an integral part of the value chain as are sowing and harvesting. Because before a portion of rice is added to the water on the stove, it has a long journey behind it, which has also passed through the global commodity

trading floor. Thus, the image of the greedy speculator does not truly reflect what happens on the exchanges, because the speculator too essentially generates an economic benefit by providing liquidity and correspondingly supporting the balancing of supply and demand.

The futures market is therefore a seismograph for farmers worldwide. The stock market helps them in longer-term planning and investment. Despite different and unforeseeable uncertainties, for example due to regional crop failures here and above-average yields there, farmers are constantly able to determine how global supply and demand for their products and therefore the price are changing. Depending on the harvest situation, a constantly growing global demand results in

significant premiums and discounts on prices. In order to nonetheless be able to make investment decisions and sleep soundly, commodity trading helps in the firm agreement of future prices and thus secures values. It is therefore not so much speculation that is the reason for the ups and downs, but the increasingly difficult task of supplying the world's population with cereals and the grain stocks tending to decline, which can act as a buffer in bad times. But not only farmers benefit from planning certainty. Other market participants too, such as regional and national traders or food producers can place their business on a secure footing with the help of the futures markets.

## K+S ON THE CAPITAL MARKET

K+S SHARE WITH SIGNIFICANT LOSSES IN THE DIFFICULT STOCK EXCHANGE  
YEAR 2011 ((38.0 %); incl. dividend: (36.3 %)) / A € 5,000 investment in K+S shares yielded  
€ 10,028 in five years; +14.9 % p. a. / Dividend proposal of € 1.30/share significantly above  
previous year (€ 1.00/share) / At the end of 2011, K+S bond was quoted at 107.732 % (+0.256 per-  
centage points year on year; return as at balance sheet date: 2.046 %) / Research coverage  
again slightly expanded

# 2

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**CAPITAL MARKET KEY INDICATORS<sup>1</sup>**

TAB: 2.0.1

		2011	2010	2009	2008	2007
Earnings per share from continued operations, adjusted <sup>2</sup>	€/share	3.52	2.37	—	—	—
Earnings per share, adjusted <sup>2,3</sup>	€/share	3.04	2.33	0.56	5.94	1.06
Gross cash flow per share	€/share	4.76	4.25	1.95	7.14	2.25
Book value per share	€/share	16.12	13.85	10.94	10.41	5.65
Year-end closing price (XETRA) <sup>4</sup>	€	34.92	56.36	39.99	39.97	40.69
Highest price (XETRA) <sup>4</sup>	€	58.60	56.65	53.04	95.90	40.69
Lowest price (XETRA) <sup>4</sup>	€	33.35	35.94	29.85	27.72	18.50
Year-end market capitalisation	€ billion	6.7	10.8	7.7	6.6	6.7
Total stock exchange turnover	€ billion	17.7	16.8	16.9	33.4	10.2
Average daily turnover	€ million	68.7	65.7	66.4	131.6	40.6
Index weighting as of 31 Dec.; 2007: MDAX	%	1.2	1.3	1.1	1.2	5.9
Total number of shares as of 31 Dec.	million	191.40	191.40	191.40	165.00	165.00
Outstanding shares as of 31 Dec. <sup>5</sup>	million	191.40	191.40	191.40	165.00	165.00
Average number of shares <sup>6</sup>	million	191.33	191.34	166.15	164.95	164.96
Dividend per share <sup>7</sup>	€/share	1.30	1.00	0.20	2.40	0.50
Total dividend payment <sup>7</sup>	€ million	248.8	191.4	38.3	396.0	82.5
Payout ratio <sup>7,8</sup>	%	42.8	43.0	40.9	40.4	47.1
Dividend yield (closing price) <sup>7</sup>	%	3.7	1.8	0.5	6.0	1.2
Return on equity after taxes <sup>2,9</sup>	%	20.2	18.7	8.4	68.6	16.1
Return on Capital Employed (ROCE) <sup>10</sup>	%	27.5	22.0	9.3	64.0	15.5
Enterprise value (EV) as of 31 Dec.	€ billion	7.3	11.5	9.0	7.2	7.8
Enterprise value to revenues (EV/revenues)	x	1.4	2.5	2.5	1.5	2.3
Enterprise value to EBITDA (EV/EBITDA)	x	6.0	12.1	21.8	4.8	18.8
Enterprise value to EBIT (EV/EBIT)	x	7.5	16.1	37.8	5.3	27.3

**K+S SHARE**

Type of shares: no-par value shares  
 Total number of shares: 191,400,000 units  
 WKN/ISIN: KSAG88/DE000KSAG888  
 Market segment: Prime Standard  
 Prime industry: chemicals  
 Industrial group: chemicals, commodities  
 Listing: all stock exchanges in Germany  
 Bloomberg ticker symbol:  
 SDF GR and SDF GY  
 Reuters ticker symbol: SDFG  
 ADR CUSIP: 48265W108

**K+S BOND**

WKN/ISIN: A1A 6FV/DE000A1A6FV5  
 Stock exchange listing:  
 Luxembourg Stock Exchange  
 Issuing volume: € 750 million  
 Denomination: € 1,000  
 Issue price: 99.598 %  
 Interest coupon: 5.000 %  
 Maturity: 24 Sept. 2014  
 Rating: S&P: BBB+; Moody's: Baa2

**COMPANY RATING**

S&P: BBB+ (outlook: stable)  
 Moody's: Baa2 (outlook: stable)

<sup>1</sup> Unless stated otherwise, information for the years 2011 and 2010 refers to the continued operations of the K+S Group. Due to its disposal, the COMPO business is in accordance with IFRS disclosed as "discontinued operation". The income statement and the cash flow statement of the previous year were adjusted accordingly, while the balance sheet and therefore the key figures working capital, net indebtedness and book value per share of 2010 were not adjusted and also include the discontinued operations.

<sup>2</sup> The adjusted key figures only include the result from operating forecast hedges of the respective reporting period reported in EBIT I, which eliminates effects from changes in the market value of the hedges (see also 'Notes to the income statement and the statement of comprehensive income' on page 180). Related effects on deferred and cash taxes are also eliminated; tax rate for 2011: 28.4% (2010: 28.2%).

<sup>3</sup> Earnings from continued and discontinued operations.

<sup>4</sup> The price of the K+S share since the capital increase in December 2009 has been traded ex subscription right. Historical values were not adjusted.

<sup>5</sup> Total number of shares less the number of own shares held by K+S as of the balance sheet date.

<sup>6</sup> Total number of shares less the average number of own shares held by K+S.

<sup>7</sup> The figure for 2011 corresponds to the dividend proposal; the dividend yield is based on the year-end closing price.

<sup>8</sup> Applied to the adjusted earnings per share.

<sup>9</sup> Information refers to the continued and discontinued operations of the K+S Group.

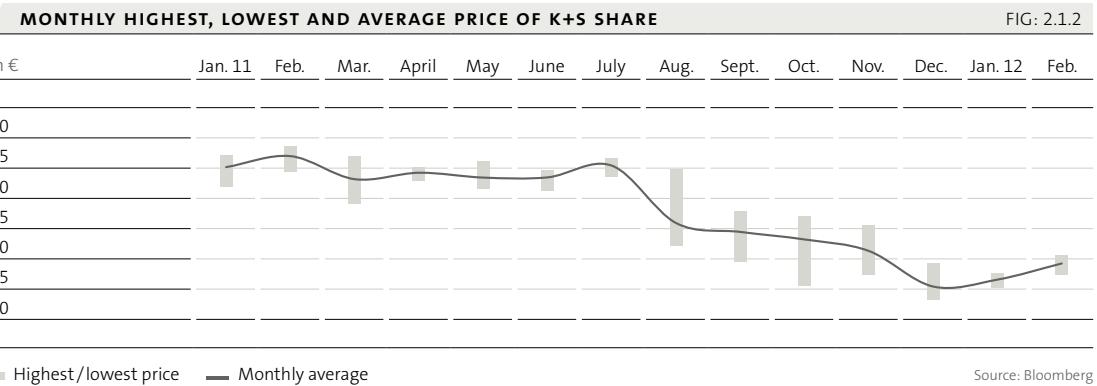
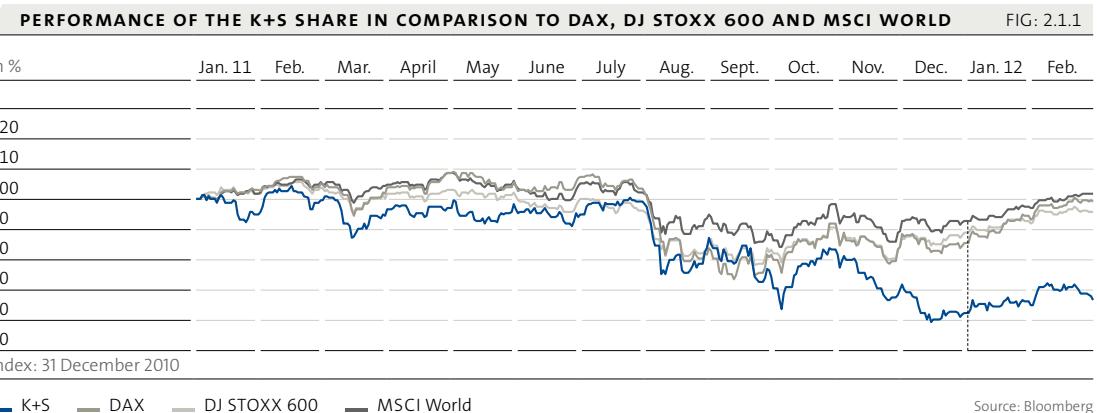
<sup>10</sup> Unless stated otherwise, information for the year 2011 and 2010 refers to the continued operations of the K+S Group. Taking into account the discontinued operations of COMPO, ROCE in 2011 amounts to 24.1% (2010: 20.9%).

## 2.1 THE SHARE

### DEBT CRISIS RESULTS IN FALLING INTERNATIONAL STOCK INDICES

The international stock markets were characterised by high volatility in stock exchange year 2011. The German DAX index, an important benchmark for K+S, was negatively impacted by the debt crisis in the eurozone, triggered in particular by the developments in Greece, Ireland as well as Portugal, and fell by 14.7%. The European stock index DJ STOXX 600 fell by 11.3% to 244 points and the global MSCI WORLD STANDARD index was down by 7.6% to 1,182 points. / FIG: 2.1.1

With a loss of 38.0%, the K+S share performed significantly more weakly than the European benchmark indices in the year under review. Among others, the sale of all shares constituting its K+S equity interest of 10.3% by means of a share placement by BASF SE in March 2011 and the reduction in the shareholding of the major shareholder MERITUS TRUST COMPANY LIMITED by about 5% in the first half of the year had a negative effect. As a producer with a rather high proportion of fixed costs, the K+S share was disproportionately adversely affected by fears of a falling potassium chloride price at the end of 2011 in comparison to its competitors. A very mild winter in the fourth quarter and the associated below-average sales volume of de-icing salt together with a far more difficult share environment in Europe as compared to that of our competitors from North America also had a dampening effect on our share performance. / FIG: 2.1.2



A different picture appears if we examine a longer period of time: The value of the share increased over the last five years by almost 80%, while the DAX, MSCI WORLD STANDARD and DJ STOXX 600 fell by 11%, 20%

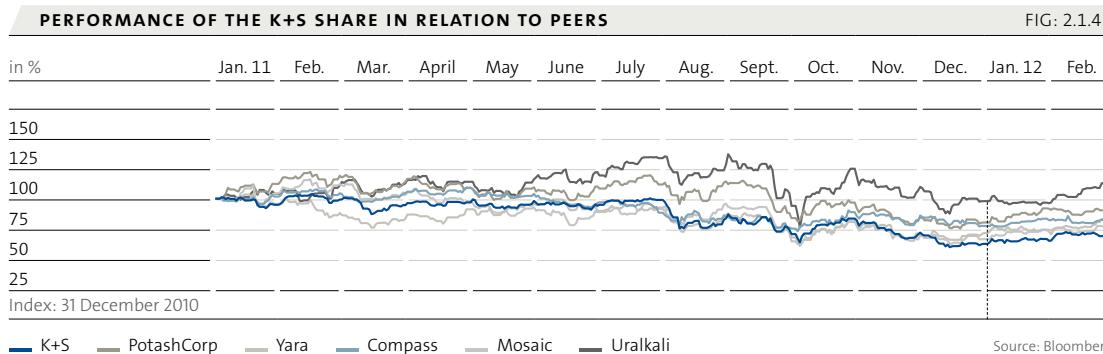
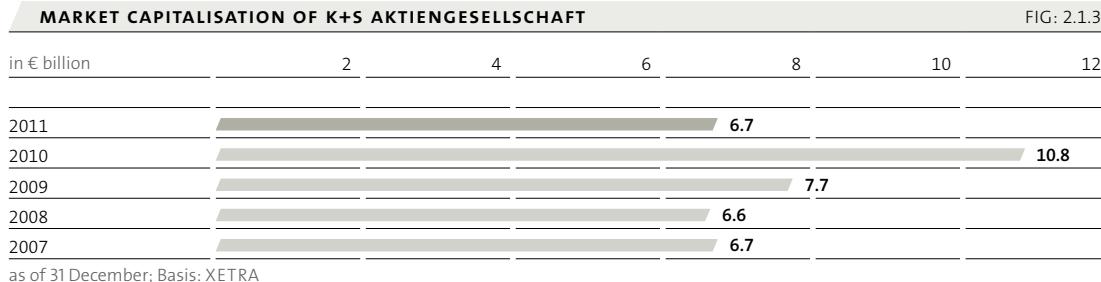
and 33% respectively. The positive performance of the K+S share can be seen even more clearly in a 10-year comparison. / TAB: 2.1.1 / FIG: 2.1.3

	PERFORMANCE			TAB: 2.1.1
	1 year 2011	5 years 2007–2011	10 years 2002–2011	
in %				
K+S share (excluding dividends)	(38.0)	+ 79.3	+ 573.1	
K+S share (including dividends)	(36.3)	+ 103.0	+ 691.2	
DAX (performance index)	(14.7)	(10.6)	+ 14.3	
DJ STOXX 600	(11.3)	(33.1)	(18.1)	
MSCI World Standard	(7.6)	(20.3)	+ 17.8	

### PERFORMANCE OF THE K+S SHARE SINCE THE START OF THE YEAR IN RELATION TO COMPETITORS

We are also following the relative performance of our share compared to our publicly traded competitors, the so-called peer group. Among others, it includes North American fertilizer producers POTASHCORP and MOSAIC, Russian potash producer URALKALI, Norwegian fertilizer supplier YARA, and salt manufacturer COMPASS from the United States. / FIG: 2.1.4

The positive price development of the shares of international fertilizer producers in the first quarter due to a successful spring season and accompanying price increases for fertilizers also persisted at the start of the second quarter. However, lower prices of the most important agricultural commodities and a tense stock market environment resulted in price losses during the



Source: Bloomberg

further course of this quarter. In the third and fourth quarter, prices decreased further due to the debt crisis, a slowdown in economic growth and another round of declines in prices for important agricultural raw materials. A more cautious management of early stocking up on the trading side and reductions in output by fertilizer producers contributed to a further uncertainty on the

part of market participants at the end of the year. During the course of 2011, the share of our competitor URALKALI lost 2 %, followed by POTASHCORP, which fell by 20 %. The prices of our competitors COMPASS, YARA and MOSAIC fell by up to 34 % and thus similarly tangible as the K+S share (38 %).

### K+S SHARE PRICE SLIGHTLY RECOVERED ON A LOW LEVEL AT THE START OF 2012

The year 2012 began for the K+S share with a price recovery on a low level. On 29 February 2012, the K+S share stood at about € 37,50 and was thus about 7 % above its level at the end of 2011. The DAX rose by about 16 % during the same period. The very mild winter seen for many years in North America and Europe at the start of the year had a burdening effect.

### INVESTMENT IN K+S SHARES HAS DOUBLED OVER THE LAST FIVE YEARS

Despite the downward trend in 2011, an investment in K+S shares has paid off extraordinarily well during the last five years. A shareholder who acquired K+S shares for € 5,000 on 31 December 2006 and reinvested dividend payments made and subscription rights allocated from the capital increase in 2009 over the following five years in K+S shares found his portfolio worth € 10,028

on 31 December 2011. The value of the portfolio thus rose by an annual average of 14.9 % over those five years. By comparison: The DAX fell by a total of 10.6 % during the same period. / FIG: 2.1.5

### SHAREHOLDER STRUCTURE WITH INCREASED FREE FLOAT

In March 2011, BASF SE placed all its remaining 10.3 % of shares in K+S AKTIENGESELLSCHAFT via the stock market. The major shareholder MERITUS TRUST COMPANY LIMITED, which manages the industrial shareholdings of Andrey Melnichenko on a fiduciary basis, reduced its holding by about 5 % to just under 10 %. Under the free float definition applied by DEUTSCHE BÖRSE AG, the free float has been at about 90 % since then.

Our shareholder structure is currently as follows:

+ MERITUS TRUST COMPANY LIMITED VIA EUROCHEM GROUP SE: 9.88 % (notification of 11 July 2011)

+ BLACKROCK INC.: 5.46 % (notification of 22 March 2011)  
+ PRUDENTIAL PLC. VIA M&G INVESTMENT MANAGEMENT LIMITED: 3.00 % (notification of 2 November 2011 and correction as of 8 February 2012)

/ FIG: 2.1.6

According to a shareholder survey carried out by an external provider in November 2011, around 7 % of the shares are held by domestic institutional investors and 53 % by foreign ones. About 20 % of the shares are held by predominantly domestic private investors. In terms of geographical distribution, about 28 % of our shares are held in Germany, followed by the United States and Canada (21 %), Russia (10 %) and Great Britain (10 %).

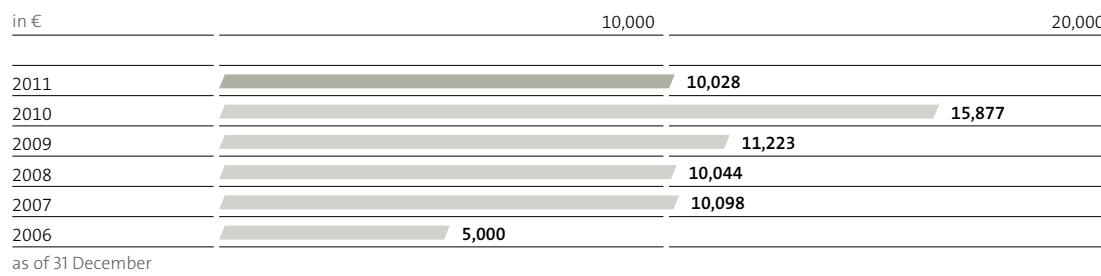
### AMERICAN DEPOSITORY RECEIPTS FOR TRADING IN NORTH AMERICA

In North America, we offer an AMERICAN DEPOSITORY RECEIPTS (ADR) programme to assist investors there in trading in K+S securities and thus to expand the international shareholder basis. As the ADRs are listed in US dollars and the dividends are also paid in US dollars, their form is essentially similar to that of US stocks. Two ADRs underlie one K+S share. The ADRs are traded on the OTC (over-the-counter) market in the form of a "level 1" ADR programme. The K+S ADRs are listed on the OTCQX trading platform.

/ FURTHER INFORMATION on this is available on our homepage at [www.k-plus-s.com](http://www.k-plus-s.com) in the Investor Relations / Share / ADR programme section, as well as on the website of the trading platform OTCQX [www.otcqx.com](http://www.otcqx.com)

### PERFORMANCE OF THE PORTFOLIO OF K+S SHARES<sup>1</sup>

FIG: 2.1.5



<sup>1</sup> Including reinvestment of dividends on the day after the AGM and assuming the exercise of granted subscription rights without affecting expenditure within the framework of the 2009 capital increase; plus cash remaining.

## LISTING IN STOCK MARKET INDICES

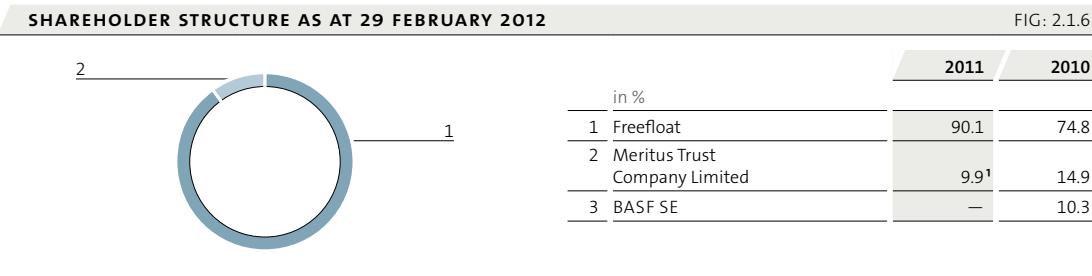
According to the stock exchange ranking of February 2012, we were in 24th place on the DAX in terms of market capitalisation (previous year: 22nd) and, in terms of trading volume, in 18th place (previous year: 19th). Furthermore, the K+S share is quoted, among others, on the following stock market indices:

- + DAX
- + DJ STOXX 600
- + DJ EURO STOXX
- + MSCI WORLD STANDARD
- + MSCI EUROPE STANDARD
- + MSCI GERMANY STANDARD
- + S&P EURO INDEX

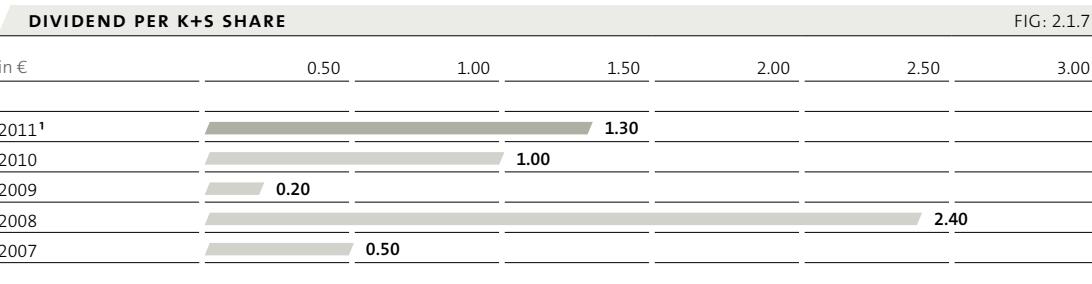
## AT € 1.30, DIVIDEND PROPOSAL SIGNIFICANTLY HIGHER THAN IN PREVIOUS YEAR

We pursue an essentially earnings-based dividend policy. With this measure, a payout ratio of between 40 and 50 % of the adjusted Group earnings after taxes (including discontinued operations) forms the basis for the amount of the future dividend proposals to be determined by the Board of Executive Directors and the Supervisory Board. The Board of Executive Directors will thus propose to the Annual General Meeting that a dividend of € 1.30 per share be paid for the past financial year in line with the significantly higher earnings. / FIG: 2.1.7

This would correspond to a dividend payout ratio of about 43 %. With 191.4 million shares outstanding, this would therefore result in a total dividend payment of € 248.8 million. Based on the share price at the end of the year, the dividend proposal leads to a dividend yield of 3.7 %.



<sup>1</sup> Notification of 11 July 2011.



<sup>1</sup> The figure for 2011 corresponds to the dividend proposal.

## 2.2 BOND AND RATING

### THE K+S BOND

K+S AKTIENGESELLSCHAFT placed its first bond on the capital market in September 2009. The bond has a volume of € 750 million and a term of five years. With an interest coupon of 5.0 % p.a. and an issue price of 99.598 %, the yield on issue was 5.093 % p.a. The proceeds

from the bond issue were used to finance part of the purchase price for the takeover of MORTON SALT.

Against the backdrop of the sovereign debt crisis in the eurozone and concerns about a double-dip, the bond prices of debtors with good credit ratings rose. As at the end of 2011, the K+S bond was quoted at 107.732 % in comparison to 107.476 % at the end of the previous year; it therefore increased by 0.256 percentage points.



FIG: 2.1.8

The yield of the K+S bond therefore also declined as at the reporting date 30 December 2011 to 2.046 % p.a. from 2.848 % at the end of 2010. The positive price development continued also at the beginning of the year 2012.

/ FIG: 2.1.8

#### RATING

Since the start of 2009, we have been submitting ourselves to an external rating process. On 8 September 2011, the rating agency STANDARD & POOR'S raised the rating to "BBB+" with a "stable" outlook. MOODY'S rating has remained unchanged since 29 November 2010 at "Baa2" and with the outlook "stable". K+S thus continues to enjoy a rating in the targeted investment grade segment.

## 2.3 INVESTOR RELATIONS

### RESEARCH COVERAGE OF K+S AGAIN SLIGHTLY EXPANDED

The already very extensive research coverage of K+S has again increased slightly in comparison to the previous year. The banks regularly analysing us range from an investment boutique with regional expertise to major banks with an international approach. Three coverages were terminated and four new ones commenced.

The following 34 banks analyse K+S on a regular basis:

- + B. METZLER SEEL. SOHN & CO.
- + BANKHAUS LAMPE
- + BANK OF AMERICA | MERRILL LYNCH
- + BERENBERG BANK
- + BHF-BANK
- + BMO BANK OF MONTREAL
- + CA CHEUVREUX
- + CITIGROUP
- + COMMERZBANK
- + DEUTSCHE BANK
- + DZ BANK
- + EQUINET
- + EQUITA
- + EURO PACIFIC CAPITAL (new)
- + EXANE BNP PARIBAS
- + GOLDMAN SACHS
- + HSBC TRINKAUS & BURKHARDT
- + INDEPENDENT RESEARCH
- + ING BANK (new)
- + J.P. MORGAN CAZENOVE
- + LBBW
- + LIBERUM CAPITAL (new)
- + MACQUARIE SECURITIES EUROPE
- + MAIN FIRST BANK
- + M.M. WARBURG & CO
- + MORGAN STANLEY
- + NOMURA
- + REDBURN PARTNERS
- + SANFORD C. BERNSTEIN (new)
- + SCOTIABANK
- + SILVIA QUANDT RESEARCH
- + SOCIÉTÉ GÉNÉRALE
- + UBS INVESTMENT RESEARCH
- + WESTLB

In the last of the research surveys that we carry out regularly, twelve banks gave us a "buy/accumulate" recommendation, ten a "hold/neutral" recommendation and eight banks a "reduce/sell" recommendation. The average target share price was at about € 45. The 'Investor Relations' section of our homepage carries a constantly updated overview of current research recommendations as well as consensus forecasts for revenues and earnings.

/ **MORE INFORMATION** on this is available on our homepage at [www.k-plus-s.com](http://www.k-plus-s.com) in the Investor Relations/Share section.

#### **K+S INVESTOR RELATIONS OFFERS A COMPREHENSIVE RANGE OF INFORMATION**

In the past year, we have responded to the ever greater need for information on the part of the capital market with an offer of numerous roadshows and conference days. We held investor meetings in Europe, North America, Asia and Australia. We also organised numerous one-on-one interviews and conference calls. We again intensified our contact with private shareholders through participation in five share forums in Germany. The aim of our Investor Relations work is transparent and fair financial communication with all market participants, in order to maintain and strengthen confidence in the quality and integrity of our corporate management, and provide comprehensive, fast and optimally objective information about our strategy as well as about all events relevant to the capital markets that concern the K+S GROUP.

#### **EXTERNAL FEEDBACK**

Our efforts were recognised last year again by third parties:

- + The K+S 2010 Financial Report achieved fourth place among 30 stocks quoted on the DAX in the highly regarded competition held by the German **MANAGER MAGAZINE** (previous year: 1st place) and sixth (previous year: 1st place) in the total ranking of about 160 companies examined from the DAX, MDAX, SDAX and TecDAX.
- + In 2011, our Investor Relations work was recognised with 7th place (previous year: 9th place) for the "Capital IR price" by the business magazine **CAPITAL** and the **GERMAN ASSOCIATION FOR FINANCIAL ANALYSIS AND ASSET MANAGEMENT (DVFA)**.
- + In the **BIRD** online readers vote organised by Börse Online, we came 4th among companies quoted on the DAX (previous year: 2nd place) for the best Investor Relations work in Germany. In the overall rating, our IR work was awarded 7th place (previous year: 7th place).
- + In the **THOMSON EXTEL SURVEY** we achieved 18th place in the DAX category for the "German Investor Relations Price 2011" (previous year: 18th place).

We are very pleased with this recognition. It acts both as an incentive and an obligation for us to continue to improve our service to our shareholders, bond holders and all other interested parties.

Finally, annual anonymous surveys of our shareholders and analysts show a high degree of satisfaction with

our Investor Relations work and, furthermore, provide us with good ideas for further improving our financial market communication. The keen interest in K+S is also evident from the fact that, in 2011, a total of approximately 46,000 financial and quarterly reports, of which 21,000 were in English, were downloaded from our homepage.

#### **IT PAYS TO VISIT OUR HOMEPAGE**

Our homepage offers investors and interested third parties a wide range of information. On our Investor Relations page, you will find all our financial, sustainability and interim reports, "facts & figures", consensus estimates, answers to frequently asked questions, as well as current Company presentations, recordings of conference calls and video webcasts. It is also possible to subscribe to podcasts. A special newsletter also ensures an automatic and immediate supply of current press releases and Company news by e-mail. Just give it a try!

/ **MORE INFORMATION** is available on our homepage at [www.k-plus-s.com](http://www.k-plus-s.com) in the 'Investor Relations' section.

#### **K+S AKTIENGESELLSCHAFT INVESTOR RELATIONS**

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Internet: [www.k-plus-s.com/en/investor-relations](http://www.k-plus-s.com/en/investor-relations)



A photograph of a green tractor working in a field of leafy green crops, likely sugar beets. A white circular sign with the number '15' is planted in the foreground on the left side.

15

“IN APPLIED RESEARCH AND ADVISORY, WE TAKE MANY VERY DIFFERENT WAYS IN ORDER TO FIND APPROPRIATE

# SOLUTIONS

FOR FARMERS. WE BASE OUR APPROACH ON THEIR INDIVIDUAL NEEDS, SHARE KNOWLEDGE AND EXCHANGE NEW INSIGHTS WITH OUR PARTNERS.”

PROF. DR. ANDREAS GRANSEE (53),  
HEAD OF RESEARCH AND ADVISORY SERVICE AGRO,  
K+S KALI GMBH, KASSEL

A close-up photograph of leafy green crops, showing the texture of the leaves. A white circular sign with the number '16' is planted in the foreground on the right side.

16



*Increasing crop yields and agricultural productivity is and remains the top priority in the research and application consulting undertaken by the K+S Group.*

**Top left:** Laboratory of the DLG International Crop Production Centre in Bernburg

**Top right:** Conversation between Prof. Dr. Andreas Gransee and an employee of the Anhalt University

**Bottom left:** Sugar beet from a field test



# SHARING KNOWLEDGE

EVERY DAY WE CONDUCT RESEARCH INTO INNOVATIVE SOLUTIONS FOR THE EVEN MORE EFFICIENT USE OF NUTRIENTS. THE KNOWLEDGE WE GAIN FROM THIS CREATES THE PREREQUISITES FOR A CONTINUOUS FURTHER DEVELOPMENT OF OUR APPLICATION CONSULTING.



The use of natural resources brings great responsibility with it. Only if we use our resources of water and soil carefully and as efficiently as possible can interventions in nature be minimised and the challenges posed by securing the world's food supply be met with a good conscience.

Those who acquire knowledge over decades and keep it to themselves do nobody a favour. The K+S GROUP has over a century's wealth of experience – a century, in which we have acquired much knowledge and expertise and applied it in practice. Because only here can be seen what really works. Research has to prove itself not in the test tube but on the fields.

Farmers should be able to rely on our expertise. Our employees work at the interface between knowledge and practice, between the laboratory, greenhouse and field. From on-site tests and in exchange with partner institutes at universities at home and abroad we gain knowledge, which helps to even better address the increasing challenges facing farmers. We want to find solutions for an effective transfer of knowledge from research to the farmer, in particular in emerging market and developing countries.

The optimal use of fertilizers and the mix of nutrients available as a result of this play a decisive role in agricultural production for the crop yield and ultimately the economic success. We not only secure the livelihoods of

farmers, but also make a not insignificant contribution to feeding the world's population.

Thus, every day, we pass on the knowledge accumulated over a century and support farmers throughout the world with our needs-based application consulting, so that they can achieve even better crop yields in future. Yields, which not only aim for a quick result, but are intended to be sustainable, so that good results can be achieved in the future too.

## CORPORATE GOVERNANCE

THE PRINCIPLES OF MODERN CORPORATE GOVERNANCE form the basis of our internal decision-making and control processes / Only one deviation from Code recommendations and two deviations from Code suggestions / Pro-active and transparent communication is our demand

# 3

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3.3 Members of the Supervisory Board	42
3.4 Remuneration Report	45

K+S pursues the goal of responsible and transparent corporate governance and control, oriented towards the creation of long-term value. This principle forms the basis of our decision-making and control processes.

In accordance with Sec. 289a of the German Commercial Code (Handelsgesetzbuch – HGB), the Board of Executive Directors issues the following declaration on corporate governance in the management report of K+S AKTIENGESELLSCHAFT; with this statement, a report in accordance with Item 3.10 of the German Corporate Governance Code (Code) is also provided:

### 3.1 DECLARATION ON CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE REPORT

#### DECLARATION ON CONFORMITY 2011/2012

In December 2011, the Board of Executive Directors and the Supervisory Board of K+S AKTIENGESELLSCHAFT submitted the following joint declaration on conformity in accordance with Sec. 161 of the German Stock Corporation Act (Aktiengesetz – AktG):

"We declare that the recommendations which were made by the Government Commission on the German Corporate Governance Code (version of 26 May 2010) and published by the German Federal Ministry of Justice

in the official section of the electronic Federal Gazette (Bundesanzeiger) were complied with in 2011 and will be complied with in 2012.

Only the recommendation under Item 5.4.6 of the Code is not currently complied with in its full scope, since this far only the chairmanship and membership on the audit committee of the Supervisory Board is taken into account in remuneration; no remuneration in addition to the separate attendance allowance was considered necessary for the remaining committees."

**/ THIS AND ALL EARLIER DECLARATIONS ON CONFORMITY**  
are carried on the Internet at [www.k-plus-s.com](http://www.k-plus-s.com) in the 'Corporate Governance' section.

With regard to the numerous suggestions contained in the Code, the following two are the only ones not to have been or not to have fully been implemented by K+S:

- + The Annual General Meeting has not as yet been carried live on the Internet in its full length (Code Item 2.3.4), but was only carried up to the end of the speech by the chairman of the Board of Executive Directors.
- + The variable remuneration of the Supervisory Board is linked to the return on total investment of a given financial year and does not contain any components that are based on the long-term success of the Company (Code Item 5.4.6 Para. 2 Sent. 2).

#### GOVERNING BODIES

The governing bodies are the Annual General Meeting, the Board of Executive Directors and the Supervisory Board. The powers vested in these bodies are governed by the German Stock Corporation Act, the Articles of Association and the respective bylaws of the Board of Executive Directors and the Supervisory Board.

#### SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

The shareholders assert their rights at the Annual General Meeting and decide on fundamental matters affecting K+S AKTIENGESELLSCHAFT by exercising their voting rights. Each share carries one vote (one share, one vote principle). All documents of decision-making importance are also made available to the shareholders on our website. The Annual General Meeting is also carried live on the Internet until the end of the speech by the chairman of the Board of Executive Directors. The shareholders can have their voting rights exercised by an authorised representative of their choice, for example through proxies designated by K+S, to whom instructions can be issued. The granting of a power of attorney and the issuance of instructions are also possible through an electronic power of attorney and voting instruction system on the K+S website. Shortly after the end of the Annual General Meeting, we publish details of attendance and the results of the voting on the Internet.

**/ FURTHER INFORMATION** about the Annual General Meeting can be found at [www.k-plus-s.com/hv](http://www.k-plus-s.com/hv)

## **OPERATIONS OF THE BOARD OF EXECUTIVE DIRECTORS**

The Board of Executive Directors is responsible for managing the Company in accordance with the law, the Articles of Association and its bylaws, taking into account the resolutions adopted by the Annual General Meeting. The Board of Executive Directors represents the Company in its dealings with third parties. Pursuant to Art. 5 Para. 1 of the Articles of Association of the Company, the Board of Executive Directors comprises at least two members. The number of members is determined by the Supervisory Board. In 2011, the Board of Executive Directors consisted of five members. The bylaws govern their cooperation and the allocation of business responsibilities. The affected members of the Board of Executive Directors are required to be informed about matters concerning more than one business segment or department; measures which also concern other segments or departments or deviate from the usual day-to-day business are required to be agreed with the other members of the Board of Executive Directors. If possible, such matters are to be discussed at meetings of the Board of Executive Directors and measures are to be resolved there, if necessary. A resolution should always be passed concerning important measures connected with personnel and structural organisation as well as business transactions and measures, which require the approval of the Supervisory Board.

**/ THE BYLAWS OF THE BOARD OF EXECUTIVE DIRECTORS**  
can be found on our website under 'Corporate Governance'.

**/ FURTHER INFORMATION ABOUT THE COMPOSITION OF THE BOARD OF EXECUTIVE DIRECTORS AND THE DISTRIBUTION OF RESPONSIBILITIES** can be found on page 41 and on our website under 'Corporate Governance'.

The main instrument of the Board of Executive Directors for the exercise of its managerial responsibility and its duty of supervision is the internal control system (ics). The ics includes principles, regulations, measures and procedures, which are oriented towards the organisational implementation of management decisions. It consists of the components "internal control system" and "internal monitoring system" and is reviewed on a regular basis.

Control of the **K+S GROUP** is exercised through regular discussions between the Board of Executive Directors, the management of the business segments and the heads of the holding companies. Meetings of the Board of Executive Directors take place on a regular basis every two weeks. The starting point for the control of the Group as a whole and its operating units are the benchmarks set by the Board of Executive Directors of **K+S AKTIENGESELLSCHAFT**, which are derived from the vision, mission and overall strategy of the **K+S GROUP**. An essential instrument for the implementation of the goals and targets is the totality of internal regulations of the **K+S GROUP**. A number of controlling instruments are available to the management. Furthermore, the risk and compliance management system and the internal audit are important elements of the internal control system.

The internal monitoring system is intended to ensure compliance with planned corporate goals and the rules of the internal control system. It consists of process-integrated as well as process-independent monitoring measures.

**/ FURTHER INFORMATION ABOUT THE INTERNAL CONTROL SYSTEM AND ITS COMPONENTS** can be found in the 'Enterprise management and supervision' section on page 72, and information about the risk management system in the Risk Report on page 118.

## **OPERATIONS OF THE SUPERVISORY BOARD**

Pursuant to Art. 8 Para. 1 of the Articles of Association of the Company, the Supervisory Board's composition is governed by statutory provisions. It currently consists of 16 members and is subject to co-determination in accordance with the German Co-Determination Act (Mitbestimmungsgesetz). The Supervisory Board members are thus elected as representatives of the shareholders by the Annual General Meeting and as employee representatives by the employees of the **K+S GROUP** in Germany on a 50-percent basis. An election is held every five years.

**/ FURTHER INFORMATION ABOUT THE COMPOSITION OF THE SUPERVISORY BOARD AND ITS COMMITTEES** can be found on page 42 and on our website under 'Corporate Governance'.

The Supervisory Board oversees and advises the Board of Executive Directors in connection with the carrying on of business. It is involved in all decisions of fundamental importance in sufficient time and appropriately. The Board of Executive Directors informs it on a regular basis, promptly and comprehensively about the course of business, the earnings and financial position, the employment situation, and the planning and further development of the Company. The Supervisory Board regularly receives written reports from the Board of Executive Directors for the preparation of meetings.

After careful review and discussion, the Supervisory Board adopts resolutions on the reports and proposals, where necessary. In the case of particular business transactions of great importance to the Company, the Supervisory Board is also provided with immediate and extensive information by the Board of Executive Directors between regular meetings. The Supervisory Board regularly carries out an efficiency review in the form of a questionnaire in order to obtain pointers for the future work of the Supervisory Board and the committees.

**/ FURTHER DETAILS ON THE SUPERVISORY BOARD'S ACTIVITIES IN THE FINANCIAL YEAR 2011** can be found in the Supervisory Board Report on page 14 of this financial report.

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

- + The audit committee exercises the tasks arising from the German Stock Corporation Act (AktG) as well as from Item 5.3.2 of the German Corporate Governance Code. It is particularly involved in monitoring the accounting process and the effectiveness of the internal control system, the risk management system, the internal audit system, and the compliance system and in the audit of the financial statements. It also discusses the quarterly and half-yearly financial reports with the Board of Executive Directors prior to publication. On the basis of his professional experience as former head of the Central Legal Affairs, Tax and Insurance Department and as former Chief Compliance Officer of BASF SE, Dr. Sünder, chairman of the audit committee, possesses comprehensive knowledge and experience with respect to the application

of accounting principles and internal control procedures. The audit committee consists of six members and includes an equal number of representatives of the shareholders and of the employees.

- + The personnel committee is responsible for preparing the appointment of members of the Board of Executive Directors, including long-term succession planning. With regard to determining the total remuneration of the various members of the Board of Executive Directors, the committee submits proposals for resolutions to the plenary meeting of the Supervisory Board. The chairman of the Supervisory Board is simultaneously the chairman of this committee. The personnel committee consists of four members and includes an equal number of representatives of the shareholders and of the employees.
- + The nomination committee recommends suitable Supervisory Board candidates to the Supervisory Board to be proposed to the Annual General Meeting. The chairman of the Supervisory Board is simultaneously the chairman of this committee. The committee consists of four members, all of whom are representatives of the shareholders.
- + The mediation committee performs the tasks set forth in Sec. 31 Para. 3 Sent. 1 of the German Co-Determination Act. The chairman of the Supervisory Board is simultaneously the chairman of this committee. The four members of the committee include an equal number of representatives of the shareholders and of the employees.

**/ THE BYLAWS OF THE SUPERVISORY BOARD** can be found on our website under 'Corporate Governance'.

#### **OBJECTIVE FOR THE COMPOSITION OF THE SUPERVISORY BOARD**

The Supervisory Board of the Company currently consists of 16 members, of whom eight were elected by the Annual General Meeting and eight by the employees of the K+S GROUP's German companies (two of these members are representatives of the trade unions). The term of office of the chairman ends at the close of the Annual General Meeting 2012, that of Mr. Cardona at the close of the Annual General Meeting 2015 and those of the remaining members at the close of the Annual General Meeting 2013.

It can be seen from the most recent declaration on conformity of the Company that, among others, the recommendation under Item 5.4.1 of the German Corporate Governance Code is being followed, according to which the Supervisory Board should name specific goals for its composition. It should be noted that the Supervisory Board does not itself decide on its own composition and can therefore only work to achieve the realisation of the objectives it pursues by correspondingly suggesting candidates to be proposed to the Annual General Meeting. As a corporate body, it is not in a position to influence proposals for the nomination of employee representatives.

Mindful of this, at its meeting of 24 November 2010, the Supervisory Board resolved the following:

"The Supervisory Board shall ensure that its members are persons of integrity, associated with the social market

economy and have competence and many years of experience in the management of and/or consulting services to commercial enterprises or business-oriented institutions. Experience and specific knowledge of the main fields of activity of the Company are desirable. At least one independent financial expert must belong to the Supervisory Board.

On the basis of his or her nationality or professional experience, at least one member of the Supervisory Board should take particular account of the increased internationality of the Company. Experience in relation to the regions in which the K+S GROUP has a particular presence is especially desirable.

Within this framework, the aim is for the Supervisory Board to include a percentage share of female members that corresponds at least to the percentage share of women in the total number of employees of the K+S GROUP.

A further aim is that at least half of the shareholder representatives on the Supervisory Board are independent. This assumes in particular that the persons concerned do not hold a governing or advisory position with significant customers, suppliers, lenders, other business partners or main competitors and also otherwise do not have a significant business or personal relationship to the Company or its Board of Executive Directors. Potential conflicts of interests on the part of the persons proposed for election to the Supervisory Board should be prevented, where possible.

The Supervisory Board shall only submit candidates to propose to the Annual General Meeting who will have not yet completed their 70th year at the time of their election.”

The Supervisory Board is of the opinion that at present, the existing objectives are fulfilled with the exception of one: With Ms. Benner-Heinacher, the Supervisory Board only has one female member. In light of the current proportion of women of approximately 10 % in the total workforce of the K+S GROUP, the membership of at least two women is aimed for.

#### **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 relevant to the Company as a whole concerning corporate strategy, planning, business development and the financial and earnings position, as well as about any particular business risks and opportunities. Important business transactions and measures require the consent of the Supervisory Board; more information on this can be found in Sec. 12 of the bylaws of the Supervisory Board.

#### **CONFLICTS OF INTERESTS**

No conflicts of interests involving members of the Board of Executive Directors or the Supervisory Board, about which the Annual General Meeting needed to be informed, were disclosed to the Supervisory Board in the reporting period. In order to prevent potential conflicts of interests, Mr. Cardona did not participate in two plenary sessions and Dr. Sünnler did not participate in one plenary session in discussions on topics that might also have concerned the interests of MCC EUROCHEM OJSC and BASF SE respectively. Mr. Vassiliadis explained that, in the event of corresponding topics being dealt with in the Supervisory Board of BASF SE, he would not participate in discussions regarding them.

#### **D&O INSURANCE**

K+S has taken out D&O insurance, among other things, in case, on the basis of statutory third-party liability provisions a claim for compensation is raised against members of the Board of Executive Directors or of the Supervisory Board because of a breach of duty committed in the exercise of their activity. The deductible is 10 % of the respective damage up to a maximum of one-and-a-half times the fixed annual remuneration. The D&O insurance also applies to managers and other senior employees.

#### **SHARE TRANSACTIONS OF MEMBERS OF THE SUPERVISORY BOARD AND THE BOARD OF EXECUTIVE DIRECTORS**

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

In 2011, four members of the governing bodies notified directors' dealings to K+S AKTIENGESELLSCHAFT.

/ TAB: 3.1.1, 3.1.2

/ A CONSTANTLY UPDATED TABLE can be found on our website at [www.k-plus-s.com/en/meldungen/directors-dealings](http://www.k-plus-s.com/en/meldungen/directors-dealings)

**DIRECTORS' DEALINGS OF MEMBERS OF THE BOARD OF EXECUTIVE DIRECTORS**

TAB: 3.1.1

	Date	Transaction	Number	Price in €	Volume in €
Dr. Thomas Nöcker	04.10.2011	Share purchase	1,000	35.49	35,488.00
	23.09.2011	Share purchase	1,000	39.00	39,000.00
	11.08.2011	Share purchase	2,000	40.39	80,772.00
	13.05.2011	Share purchase	2,000	52.39	104,786.00
	11.03.2011	Share purchase	2,000	50.89	101,773.12
Jan Peter Nonnenkamp	02.12.2011	Share sale	2,000	39.50	79,000.00
	18.08.2011	Share purchase	1,000	43.97	43,970.00
	11.08.2011	Share purchase	1,000	40.44	40,440.00

**DIRECTORS' DEALINGS OF MEMBERS OF THE SUPERVISORY BOARD**

TAB: 3.1.2

	Date	Transaction	Number	Price in €	Volume in €
Dr. Rainer Gerling	15.08.2011	Share purchase	650	44.12	28,675.00
	15.03.2011	Share purchase	983	50.83	49,962.00
Klaus Krüger	30.09.2011	Share purchase	100	41.00	4,100.00
	13.04.2011	Share purchase	60	57.00	3,420.00

As on 31 December 2011, the members of the Board of Executive Directors and the Supervisory Board held less than 1% of the total number of shares issued by K+S AKTIENGESELLSCHAFT.

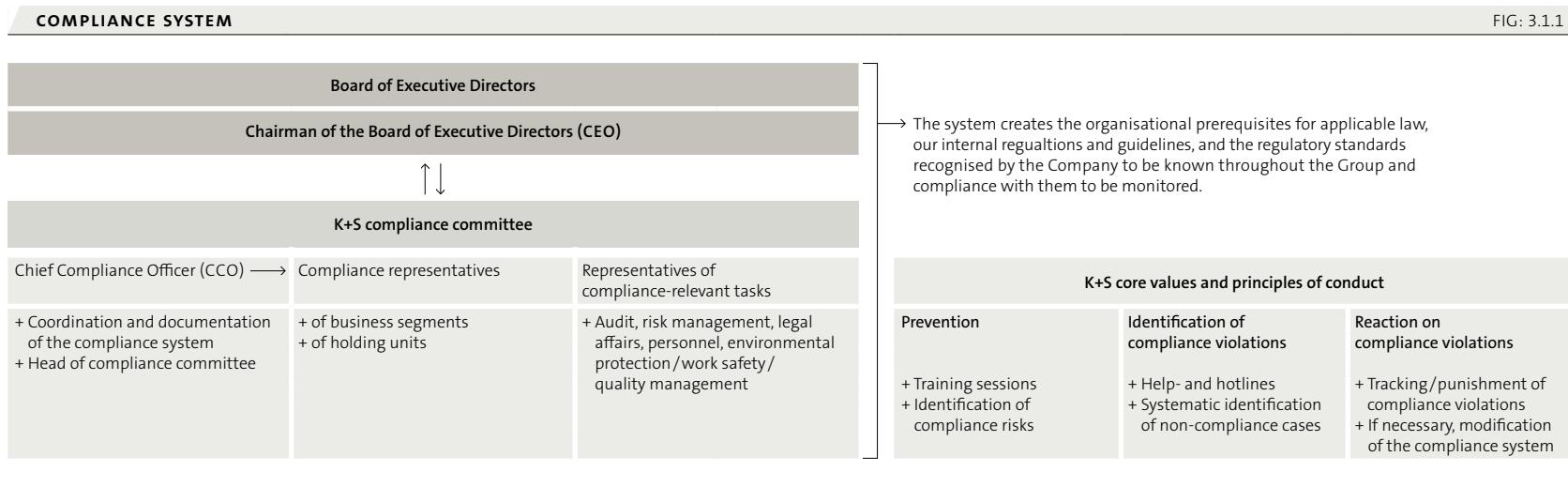
**COMPLIANCE**

Our compliance system creates the organisational prerequisites for applicable law, our internal regulations and guidelines, and the regulatory standards recognised by the Company to be known throughout the Group and for compliance with them to be monitored. We thus want not only to avoid the risks of liability, penalties and fines as well as other financial disadvantages for the

Company, but also to ensure a positive reputation of the Company and its employees in the public eye. We regard it as a matter of course that breaches of compliance are pursued and punished.

The Board of Executive Directors has entrusted a chief compliance officer, who reports directly to the chairman of the Board of Executive Directors, with coordinating and documenting compliance activities across the Group. He heads the central compliance committee to which the compliance representatives of the holding and the business segments as well as the heads of the holding units belong, who perform compliance-relevant tasks (e.g. internal audit, risk management, legal affairs, personnel, environmental protection, work safety and quality management).

Over and above the legal obligations, we have defined for ourselves core values and principles of conduct (the Code of Conduct) derived from them which form a compulsory framework for our conduct and our decisions as well as provide orientation for our corporate actions. Our core values and principles of conduct are published on our homepage at [www.k-plus-s.com](http://www.k-plus-s.com) in the 'About K+S' section. Every employee is made familiar with these core values and principles of conduct applying throughout the Group, as well as with the Company guidelines derived from them. Obligatory training sessions for potentially affected employees are held in relation to specific issues (e.g. anti-trust law, anti-corruption measures, environmental protection and work safety laws). The employees have the possibility of seeking advice in



compliance-related matters through internal helplines. Moreover, we have set up external hotlines (ombudsmen) for the notification of compliance breaches, anonymously if desired. / FIG: 3.1.1

#### ACCOUNTING AND AUDIT POLICIES

International Financial Reporting Standards (IFRS) have been applied since the beginning of 2005 in preparing the consolidated financial statements of **K+S AKTIENGESELLSCHAFT**. The audits for 2011 were conducted by **DELOITTE & TOUCHE GMBH**, Hanover, which has issued

a declaration of independence pursuant to Item 7.2.1 of the German Corporate Governance Code. The auditor is 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 auditor elected by the Annual General Meeting. The chairman of the Supervisory Board and the chairman of the audit committee are immediately advised by the auditor of any grounds giving rise to exclusions or objections that may arise during the audit if they cannot be eliminated immediately. Furthermore, the auditor should immediately advise of all findings and occurrences of relevance to the

tasks of the Supervisory Board that may arise during the audit. In addition, the auditor is required to advise the Supervisory Board or make an appropriate note in the audit report if, during the course of the audit, the auditor ascertains any facts suggesting incompatibility with the declaration on conformity issued by the Board of Executive Directors and the Supervisory Board in accordance with Sec. 161 of the German Stock Corporation Act.

FIG: 3.1.1

**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 information on the Annual General Meeting, press releases, ad hoc notifications and disclosures of voting rights, all financial reports, corporate/sustainability reports, but also analysts' recommendations and consensus forecasts as well as Company presentations from roadshows and investors' conferences on our website.

The financial calendar can be found in the financial report, in the half-yearly and quarterly financial reports and on the Company's 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 this website, along with detailed information on the implementation of the recommendations and suggestions contained in the German Corporate Governance Code. An e-mail newsletter provides constant information about new developments in the Group.

**3.2 MEMBERS OF THE BOARD OF EXECUTIVE DIRECTORS**

As of 31 December 2011

**Norbert Steiner (57), lawyer, Chairman**

- + Corporate Development and Controlling
- + Legal Affairs/Compliance
- + Investor Relations
- + Communications and Media
- + Senior management/International HR Coordination
- + Salt

In office until 11 May 2015

First appointed: 12 May 2000

Supervisory Board appointments:

- + E.ON MITTE AG, Kassel
- + K+S KALI GMBH (chairman), Kassel<sup>1</sup>

**Joachim Felker (59), industrial business manager**

- + Potash and Magnesium Products
- + Nitrogen Fertilizers

In office until 30 September 2012

First appointed: 1 October 2005

Supervisory Board appointments:

- + K+S KALI GMBH, Kassel<sup>1</sup>

**Gerd Grimmig (58), engineering graduate**

- + Mining
- + Geology
- + Technology/Energy
- + Research and Development
- + Environmental Protection, Work Safety, Quality Management
- + Inactive plants
- + Waste Management and Recycling
- + Animal Hygiene Products
- + Consulting
- + MSW CHEMIE

In office until 30 September 2013

First appointed: 1 October 2000

Supervisory Board appointments:

- + K+S KALI GMBH, Kassel<sup>1</sup>

**Dr. Thomas Nöcker (53), lawyer, Personnel Director**

- + Personnel
- + IT Services
- + Organisation and Project Management
- + Property Management
- + Knowledge Management
- + Health Management
- + Global Logistics Strategy
- + Logistics Purchasing
- + K+S TRANSPORT GMBH
- + Trading Business (CFK)

<sup>1</sup> Group appointment

In office until 31 July 2016  
First appointed: 1 August 2003

Supervisory Board appointments:  
+ K+S KALI GMBH, Kassel<sup>1</sup>

**Jan Peter Nonnenkamp (48), economics graduate<sup>2</sup>**  
+ Finance and Accounting  
+ Purchasing, Materials Management and Warehousing  
+ Audit  
+ Taxes  
+ Insurance

In office until 31 December 2011  
First appointed: 1 June 2009

/ **CVS OF THE MEMBERS OF THE BOARD OF EXECUTIVE DIRECTORS** can be found on our website at [www.k-plus-s.com/en/vorstand](http://www.k-plus-s.com/en/vorstand)

## HONORY CHAIRMAN OF THE SUPERVISORY BOARD

**Gerhard R. Wolf (76), business administration graduate**  
Former member of the Board of Executive Directors of  
BASF AG, Ludwigshafen  
Former chairman of the Supervisory Board of  
K+S AKTIENGESELLSCHAFT

Further Supervisory Board appointments:  
+ BENTELER INTERNATIONAL AG, Salzburg  
(vice-chairman)  
+ DR. JENS EHRHARDT KAPITAL AG, Pullach (chairman)  
+ SÜDDEUTSCHE ZUCKERRÜBENVERWERTUNGSGENOSSENSCHAFT EG, Stuttgart-Ochsenfurt  
+ SÜDZUCKER AG Mannheim/Ochsenfurt, Mannheim

**Michael Vassiliadis (47), chemical laboratory technician, Vice-Chairman, Employee representative**  
Chairman of the Mining, Chemicals and Energy Trade Union, Hanover

In office until the end of the 2013 AGM  
First appointed: 7 May 2003

Further Supervisory Board appointments:  
+ BASF SE, Ludwigshafen  
+ HENKEL AG & CO. KGAA, Düsseldorf  
+ STEAG GMBH, Essen (vice-chairman)

## 3.3 MEMBERS OF THE SUPERVISORY BOARD

As of 31 December 2011  
**Dr. Ralf Bethke (69), business administration graduate, Chairman, Shareholder representative**  
Former chairman of the Board of Executive Directors of  
K+S AKTIENGESELLSCHAFT

Supervisory Board chairman since 14 May 2008  
In office until the end of the 2012 AGM  
First appointed: 1 July 2007

<sup>1</sup> Group appointment

<sup>2</sup> Mr. Nonnenkamp retired from the Board of Executive Directors as of 31 December 2011. His responsibilities in the areas of Finance and Accounting, Audit, Taxes and Insurance were taken over by Mr. Steiner in January 2012 until further notice, and the remaining areas by Dr. Nöcker.

**Ralf Becker (46), trade union secretary,  
Employee representative**

State District Manager North of the Mining, Chemicals and Energy Trade Union, Hanover

In office until the end of the 2013 AGM

First appointed: 1 August 2009

## Further Supervisory Board appointments:

+ CONTINENTAL REIFEN DEUTSCHLAND GMBH,  
Hanover (vice-chairman)

**Jella S. Benner-Heinacher (51), lawyer,  
Shareholder representative**

Federal Managing Director (vice-chairman) of DEUTSCHE SCHUTZVEREINIGUNG FÜR WERTPAPIERBESITZ E.V., Düsseldorf

In office until the end of the 2013 AGM

First appointed: 7 May 2003

## Further Supervisory Board appointments:

+ A.S. CRÉATION TAPETEN AG, Gummersbach

**George Cardona (60), economist,  
Shareholder representative**

Member of the Board of Directors of OJSC EUROCHEM MINERAL AND CHEMICAL CO., Russia

In office until the end of the 2015 AGM

First appointed: 9 October 2009

## Other appointments to supervisory bodies:

- + Board of DONALINK LTD., Cyprus
- + Board of ERGLIS LTD., Cyprus (chairman)
- + Board of EUROCHEM GROUP SE, Cyprus (chairman)
- + Board of HAMILTON ART LTD., Isle of Man (chairman)
- + Board of HAMILTON JETS LTD., Bermuda (chairman)
- + Board of HAREWOOD HOUSE LTD., Jersey, Channel Islands (chairman)
- + Board of LINEA LTD., Bermuda (chairman)
- + Board of LINETRUST PTC LTD., Bermuda (chairman)
- + Board of Directors of OJSC SIBERIAN COAL ENERGY CO., Russia
- + Board of SUEK PLC., Cyprus
- + Board of SIBENERGY PLC., Cyprus
- + Board of VALISE LTD., Bermuda (chairman)
- + Board of VALTON LTD., Bermuda (chairman)

**Harald Döll (47), power plant electronic technician,  
Employee representative**

Chairman of the Works Council of K+S KALI GMBH's Werra plant

In office until the end of the 2013 AGM

First appointed: 1 August 2009

**Dr. Rainer Gerling (53), engineering graduate,  
Employee representative**

Head of K+S KALI GMBH's Werra plant

In office until the end of the 2013 AGM

First appointed: 14 May 2008

**Rainer Grohe (71), engineering graduate,  
Shareholder representative**

Assistant Professor at the Bundeswehr University, Munich

In office until the end of the 2013 AGM

First appointed: 6 May 1998

Further Supervisory Board appointments:

- + AURUBIS AG, Hamburg
  - + GRAPHIT KROPFMÜHL AG, Hauzenberg (vice-chairman)
  - + PFW AEROSPACE AG, Speyer
  - + SASAG AG, Elsteraue
- 

**Dr. Karl Heidenreich (70), business administration graduate, Shareholder representative**

Former member of the Board of Executive Directors of LANDESBANK BADEN-WÜRTTEMBERG, Stuttgart / Karlsruhe / Mannheim

In office until the end of the 2013 AGM  
First appointed: 7 May 2003

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**Rüdiger Kienitz (51), mining technologist, Employee representative**

Member of the Works Council of K+S KALI GMBH's Werra plant

In office until the end of the 2013 AGM  
First appointed: 26 March 1998

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**Klaus Krüger (57), mining technologist,**

**Employee representative**

Chairman of the Works Council of K+S KALI GMBH's Zielitz plant  
Chairman of the Collective Works Council of the K+S GROUP

In office until the end of the 2013 AGM  
First appointed: 9 August 1999

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**Dieter Kuhn (53), mining engineer,**

**Employee representative**

Chairman of the Works Council of the Bernburg plant of ESCO GMBH & CO. KG  
First Vice-Chairman of the Collective Works Council of the K+S GROUP

In office until the end of the 2013 AGM  
First appointed: 7 May 2003

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**Dr. Bernd Malmström (70), lawyer,**

**Shareholder representative**

Solicitor

In office until the end of the 2013 AGM  
First appointed: 7 May 2003

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Further Supervisory Board appointments:

- + HHLA INTERMODAL GMBH, Hamburg
- + IPCO-SYSTEMS N.V., Amsterdam (chairman)
- + LEHNKERING GMBH, Duisburg (chairman)
- + SBB SCHWEIZER BUNDESBAHNEN AG, Berne (Administrative Board)
- + VTG AG, Hamburg

Other appointments to supervisory bodies:

- + DAL – DEUTSCHE-AFRIKA-LINIEN GMBH & CO. KG, Hamburg
  - + TIME:MATTERS GMBH, Neu-Isenburg (chairman)
- 

**Dr. Rudolf Müller (68), agricultural engineering graduate, Shareholder representative**

Former member of the Board of Executive Directors of SÜDZUCKER AG Mannheim / Ochsenfurt, Mannheim

In office until the end of the 2013 AGM  
First appointed: 7 May 2003

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Other appointments to supervisory bodies:

- + University council of the University of Hohenheim, Stuttgart
-

**Renato De Salvo (47), shop fitter,  
Employee representative**

Shop fitter at k+s KALI GMBH's Sigmundshall plant

In office until the end of the 2013 AGM  
First appointed: 7 May 2003

**Dr. Eckart Sünder (67), lawyer,  
Shareholder representative**

OF COUNSEL, ALLEN & OVERY LLP, Mannheim office

In office until the end of the 2013 AGM  
First appointed: 28 April 1992

Further Supervisory Board appointments:

+ INFINEON TECHNOLOGIES AG, Neubiberg

/ **CVS OF THE MEMBERS OF THE SUPERVISORY BOARD** can be found on our website at [www.k-plus-s.com/en/aufsichtsrat](http://www.k-plus-s.com/en/aufsichtsrat)

## SUPERVISORY BOARD COMMITTEES

### AUDIT COMMITTEE

- + Dr. Eckart Sünder (chairman)
- + Ralf Becker (since 24 August 2011)
- + Dr. Ralf Bethke
- + Dr. Karl Heidenreich
- + Klaus Krüger
- + Michael Vassiliadis

### NOMINATION COMMITTEE

- + Dr. Ralf Bethke (chairman)
- + Jella S. Benner-Heinacher
- + Dr. Bernd Malmström
- + Dr. Rudolf Müller

### PERSONNEL COMMITTEE

- + Dr. Ralf Bethke (chairman)
- + Rainer Grohe
- + Klaus Krüger
- + Michael Vassiliadis

### MEDIATION COMMITTEE

- + Dr. Ralf Bethke (chairman)
- + Dr. Eckart Sünder
- + Klaus Krüger
- + Michael Vassiliadis

## 3.4 REMUNERATION REPORT

In the following, we explain the basic features of the remuneration system for the Board of Executive Directors and the Supervisory Board of k+s AKTIENGESELLSCHAFT, together with the concrete design of the individual components.

### REMUNERATION OF THE BOARD OF EXECUTIVE DIRECTORS

#### REMUNERATION STRUCTURE

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, the comparison with other senior management, 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 annual elements and those with a long-term incentive character. The annual 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. There is also a variable remuneration component, based on key figures, with a long-term incentive (LTI) character.

Furthermore, the members of the Board of Executive Directors have received pension commitments.

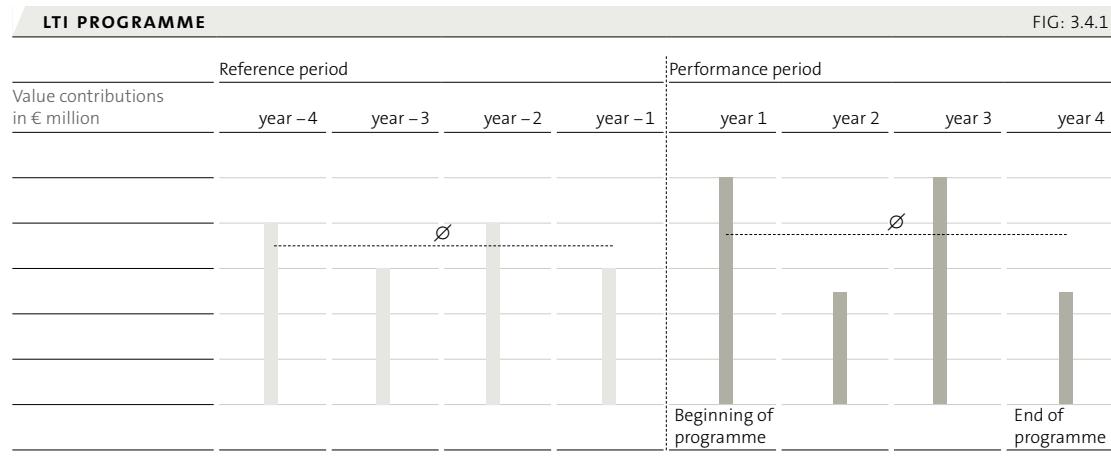
The fixed remuneration as basic remuneration not related to performance is paid monthly. In addition to this, the members of the Board of Executive Directors receive benefits, in particular contributions to pension, health and long-term care insurance as well as in-kind benefits, which consist mainly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

/ FURTHER INFORMATION ABOUT THE CALCULATION OF THE COST OF CAPITAL AND THE RETURN ON TOTAL INVESTMENT can be found on page 101.

In order to harmonise the interests of shareholders to a high degree with those of the Board of Executive Directors, a part of the bonus is determined on the basis of the return on the total investment of the Group. Moreover, the personal performance of the members of the Board of Executive Directors is taken into consideration when calculating the bonuses; the payment is made in the following financial year.

The structure of the annual remuneration in a normal year provides for a fixed remuneration of 40 % and variable, short-term performance-related components of 60 %. Of the variable component, 80 % is linked to the performance of the Company, i.e. to the return on total investment achieved; the remaining 20 % is dependent on personal performance. Variable remuneration of 100 % is reached if, on the one hand, the return on total investment achieved reaches at least 115 % of the respective cost of capital rate and, on the other hand, personal

FIG: 3.4.1



performance was assessed as being 100 %. Remuneration on the basis of the return on total investment is capped at a value of 20 percentage points above the minimum return. The ranges for target accomplishment of the two variable remuneration components are between 0 % and about 150 %. The amount of the remuneration on the basis of a normal year is reviewed annually.

In addition, it is possible to obtain income from a long-term incentive programme based on key figures as a variable component of remuneration with a long-term incentive and risk character. It is based on a multi-annual assessment in terms of the value contributions achieved. The contribution of the Board of Executive

Directors to the Company's success is thus determined on the basis of two four-year periods. The value contribution is derived as follows:

Operating earnings (EBIT I)

- + Interest income of the financial year
- Cost of capital (before taxes) of the financial year
- = Value contribution

There is a cap for the value contribution at ± € 500 million per financial year.

To determine the result of an LTI tranche, two four-year periods are compared (a “reference period” and a “per-

LTI PROGRAMMES 2008 TO 2011

FIG: 3.4.2

in € million	2004	2005	2006	2007	2008 <sup>1</sup>	2009	2010	2011 <sup>1</sup>	2012	2013	2014	Result
LTI 2008					Ø 84			Ø 325				Difference = € 241 million △ 200%
	60	96	114	68	500	(32)	334	500	—	—	—	Payment <sup>2</sup> = € 700,000
LTI 2009	—				Ø 194			not yet complete (Ø to date 267)				
LTI 2010	—	—	114	68	500	(32)	334	500	—	—	—	not yet complete (Ø to date 417)
LTI 2011	—	—	—	—	68	500	(32)	334	500	—	—	not yet complete (Ø to date 500)

Average reference period      Average performance period

<sup>1</sup> In the years 2008 and 2011, the cap limit was reached due to very good value contributions.

<sup>2</sup> For an ordinary member of the Board of Executive Directors; payment is made in April of the year following the end of the programme.

formance period"). The reference period covers the four years before the commencement of the particular LTI, while the performance period covers the four years of the particular LTI term. Figure 3.4.1 shows the time periods of the LTI programme. / FIG: 3.4.1

At the beginning of an LTI, the average of the four value contributions of the reference period is computed, and after the expiry of the programme, the average of the four value contributions of the performance period is determined. The difference between these average value contributions is reflected as a percentage on a scale from € (200) million to € +200 million. A stable development, i.e. a difference of € 0 million, corresponds to 100 % and is defined

as a normal year. In such a normal year the variable component of remuneration with a long-term incentive character for an ordinary member of the Board of Executive Directors is € 350,000. In the case of underperformance, the payment decreases on a straight-line basis to 0 % in line with the percentage deviation. In the case of overperformance, the payment increases correspondingly up to an upper limit of 200 % (= € 700,000). For the chairman of the Board of Executive Directors, the component of remuneration is one-and-a-half times as much, i.e. € 525,000 in a normal year and € 1,050,000 on attaining the upper limit.

Payment is made in April of the year following the end of the programme. In the event of termination of the

employment contract or reaching retirement age, a discounted payment on a pro rata basis of all current tranches is normally made in April of the following year.

For the gaps in inflow arising as a result of having, in 2010, switched the variable remuneration components with a long-term incentive effect from a two-year to a four-year term in 2012 and 2013, the new LTI programme was already started virtually in 2008 and 2009 with one tranche in each particular case. / FIG: 3.4.2

The new system of remuneration of the Board of Executive Directors was approved by a large majority at the Annual General Meeting of 2010 and signalled by

**ILLUSTRATIVE CALCULATION OF THE ANNUAL REMUNERATION OF AN ORDINARY MEMBER  
OF THE BOARD OF EXECUTIVE DIRECTORS**

TAB: 3.4.1

	Achievement of target 100 %	Achievement of target 0 %	Maximum achievement of target
<b>in €</b>			
Fixed remuneration: 40%	380,000	380,000	380,000
Bonus: 60%	570,000 <sup>1</sup>	0 <sup>2</sup>	867,000 <sup>3</sup>
– of which performance of the Company: 80%	456,000	0	696,000
– of which personal achievement of target: 20%	114,000	0	171,000
LTI programme	350,000 <sup>4</sup>	0 <sup>5</sup>	700,000 <sup>6</sup>
<b>Total annual remuneration</b>	<b>1,300,000</b>	<b>380,000</b>	<b>1,947,000</b>

<sup>1</sup> Return on total investment = minimum return; personal achievement of target  $\triangleq$  100 %.<sup>2</sup> Return on total investment = 0%; personal achievement of target  $\triangleq$  0 %.<sup>3</sup> Return on total investment  $\geq$  minimum return + 20 percentage points; personal achievement of target  $\triangleq$  150 %.<sup>4</sup> Difference of the average value contributions of reference and performance period = € 0 million  $\triangleq$  100 %.<sup>5</sup> Difference of the average value contributions of reference and performance period  $\leq$  € (200) million  $\triangleq$  0 %.<sup>6</sup> Difference of the average value contributions of reference and performance period  $\geq$  € +200 million  $\triangleq$  200 %.

**EUROSHAREHOLDERS**, the organisation of European shareholder associations, as a particularly shareholder-friendly remuneration system.

The LTI programme replaces the system in place between 1999 and 2009 with the possibility 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 were for the last time in 2009 able to use 30 % of their performance-related remuneration for own investments in K+S shares. By acquiring such basic shares, the participants received virtual options that trigger a cash payment when exercised. The amount of the cash payment is determined according to the relative performance of the K+S share in relation to the DAX benchmark. The basic prices of the K+S share and the DAX decisive for the calculation of performance correspond to the average share price during the 100 trading days until the respective base reference date (the third from last Friday before the Ordinary Annual General Meeting). A subsequent change of the success targets or comparison parameters is impossible.

**REMUNERATION OF THE BOARD OF EXECUTIVE DIRECTORS**

TAB: 3.4.2

	Fixed remuneration	Benefits	Bonus	Claims / Payments from LTI programmes	Total
<b>in € thousand</b>					
Norbert Steiner	2011	590.0	24.9	1,102.0	1,050.0
	2010	590.0	24.7	1,017.7	—
Joachim Felker	2011	380.0	21.4	720.0	700.0
	2010	380.0	19.9	645.0	—
Gerd Grimmig	2011	380.0	30.7	720.0	700.0
	2010	380.0	30.1	645.7	—
Dr. Thomas Nöcker	2011	380.0	23.7	720.0	700.0
	2010	380.0	23.5	645.0	—
Jan Peter Nonnenkamp <sup>1</sup>	2011	538.0	22.4	1,045.0	1,928.0
	2010	380.0	23.2	645.0	—
<b>Total</b>	<b>2011</b>	<b>2,268.0</b>	<b>123.1</b>	<b>4,307.0</b>	<b>5,078.0</b>
	<b>2010</b>	<b>2,110.0</b>	<b>121.4</b>	<b>3,597.7</b>	<b>5,829.1</b>

<sup>1</sup> Mr. Nonnenkamp retired from the Board of Executive Directors at 31 December 2011. Claims to fixed remuneration, bonuses and discounted payments from the current LTI programmes existed until the original agreed term of the contract on 31 May 2012 and have been paid within the framework of the termination of the contract on 31 December 2011.

The options granted up to 2009 expire after a total period of five years, after which the unexercised options expire without compensation. After a lock-up period of two years, it is possible to exercise the options within two time windows per year, in May and November, following the publication of the quarterly figures. 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 a change of control, a special window opens up for the exercise of all still outstanding options.

In the event of withdrawal or resignation, those virtual options that have not yet been exercised by that time expire.

Table 3.4.1 shows a sample calculation of the annual remuneration of an ordinary member of the Board of Executive Directors. / TAB: 3.4.1

#### AMOUNT OF REMUNERATION

Details of the remuneration of the Board of Executive Directors for the financial year 2011 are provided in individualised form in table 3.4.2. / TAB: 3.4.2

In both the year under review and the previous year, the total remuneration of the Board of Executive Directors accounted for five board members, all of whom were in office for twelve months. The reported increase in bonuses in comparison to the previous year is in particular the result of the further increase in return on total investment in 2011. Moreover, with the end of the four-year term of the 2008 LTI programme in 2011, the claims of the members of the Board of Executive Directors arising from these new variable remuneration components have to be disclosed for the first time. As shown in figure 3.4.2 on page 47, the value contributions generated in the four-year performance period were significantly higher

than those of the reference period. Consequently, the 2008 LTI programme attained the cap limit.

In November 2011, the Supervisory Board and Mr. Nonnenkamp agreed mutually to end the term of office as a member of the Board of Executive Directors and the contractual relationship at the end of the year. Claims to remuneration, however, existed until the end of the originally agreed term of the contract on 31 May 2012. The remuneration components shown in the table above therefore include not only the remuneration for 2011, but also the proportionate fixed component for 2012, the proportionate bonus for 2012 calculated on the basis of the planning as well as the discounted payments on a pro rata basis from all confirmed LTI programmes.

The values of the stock options acquired but not yet exercised in the framework of the option programme offered for the last time in 2009 are shown in table 3.4.3 (value had they been exercised on 31 December 2011). / TAB: 3.4.3

In 2011, no member of the Board of Executive Directors exercised virtual options of the still ongoing 2009 option programme. In the previous year, the payments for the virtual options of the 2008 option programme fully exercised by members of the Board of Executive Directors in 2010 were for the individual members of the Board of Executive Directors: Mr. Steiner € 278.2 thousand, Mr. Felker € 525.9 thousand, Mr. Grimmig € 526.8 thousand and Dr. Nöcker € 525.9 thousand.

**VIRTUAL SHARE OPTION PROGRAMME 2009**  
TAB: 3.4.3

	Option programme 2009	
	Number of options	Value in € thousand on 31.12.
Norbert Steiner	2011	190,000
	2010	190,000
Joachim Felker	2011	152,900
	2010	152,900
Gerd Grimmig	2011	153,060
	2010	153,060
Dr. Thomas Nöcker	2011	152,900
	2010	152,900
Jan Peter Nonnenkamp	2011	—
	2010	—
<b>Total</b>	<b>2011</b>	<b>648,860</b>
	<b>2010</b>	<b>648,860</b>
		<b>1,816.0</b>

#### 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 as a member of the Board of Executive Directors, a pension module is created.

The pension modules are calculated on the basis of 40% of the fixed annual remuneration of the respective member of the Board of Executive Directors. The annual total pension under this modular system is limited upwards, in order to avoid unreasonable pensions in the case of long-standing appointments (>15 years).

<b>PENSIONS</b>					TAB: 3.4.4
		<b>Age</b>	<b>Fair value as of 1.1.</b>	<b>Pension expenses<sup>1</sup></b>	<b>Fair value as of 31.12.<sup>2</sup></b>
in € thousand					
Norbert Steiner	2011	57	2,721.6	514.5	3,225.2
	2010		2,033.5	466.5	2,721.6
Joachim Felker	2011	59	1,738.9	331.9	2,060.6
	2010		1,321.5	304.9	1,738.9
Gerd Grimmig	2011	58	2,544.8	386.6	2,918.5
	2010		2,006.6	354.6	2,544.8
Dr. Thomas Nöcker	2011	53	1,553.9	330.9	1,863.7
	2010		1,129.3	296.8	1,553.9
Jan Peter Nonnenkamp	2011	48	393.7	297.3	757.2
	2010		98.6	264.7	393.7
<b>Total</b>	<b>2011</b>		<b>8,952.9</b>	<b>1,861.2</b>	<b>10,825.2</b>
	<b>2010</b>		<b>6,589.5</b>	<b>1,687.5</b>	<b>8,952.9</b>

<sup>1</sup> Including interest expenses.

<sup>2</sup> Due to the application of the „corridor method“, under which actuarial gains and losses are only recorded if they exceed the 10 % corridor in the income statement, the projected unit credits as of 1 January are not transferable to the corresponding values as of 31 December.

The upper limit for an ordinary member of the Board of Executive Directors is € 225,000, and for the chairman of the Board of Executive Directors it is € 300,000. The figures will be reviewed in a three-year cycle – beginning with financial year 2014 – and adjusted if necessary.

The amount is computed in accordance with actuarial principles and put aside for retirement; the factors for the creation of the modules for 2011 for the members of the Board of Executive Directors are between 15.0 and 9.0 %, 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. Only on payment are pension benefits 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 event of death. In the event of an occupational or general disability of a member of the Board of Executive Directors before pension age has been reached, that member receives a 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 orphan 30 % and each half-orphan 15 % of the benefit. The maximum amount for the benefit for surviving dependants 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 after completing his 60th year of life, this is regarded as an insured event within the meaning of the benefit commitment.

For members of the Board of Executive Directors, the amounts shown in table 3.4.4 were allocated to the pension provisions in 2011. / TAB: 3.4.4

The pension module earned by each of the members of the Board of Executive Directors in 2011 results in pension expenses, which are calculated in accordance with actuarial principles. The increase in comparison to the previous year’s figure is attributable to the fact, that the period until the assumed start of the pension has been shortened by one year.

## **EARLY TERMINATION OF BOARD OF EXECUTIVE DIRECTORS' CONTRACTS**

In the event of an effective recall of the appointment as board member, a member of the Board of Executive Directors receives, at the time of the termination, a severance payment of 1.5 times the fixed remuneration, however, up to a maximum amount of the total remuneration for the remaining period of the contract of service.

In the event of an early dissolution of a Board of Executive Directors' contract as the result of a takeover ("change of control"), the payment of the fixed remuneration and bonuses outstanding until the end of the original term of appointment is made plus a compensatory payment if there is no reason that justifies a termination without notice of the contract of the person concerned. The bonus is calculated in accordance with the average of the preceding two years, plus a compensatory payment. The compensatory payment is 1.5 times the annual fixed remuneration. In the event of a change of control, the members of the Board of Executive Directors enjoy no extraordinary right of termination.

## **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. Apart from the service contracts mentioned, there are no contractual relationships between the Company or its Group companies with members of the Board of Executive Directors or persons closely related to them.

The total remuneration of the previous members of the Board of Executive Directors and their surviving spouse came to € 1.1 million (previous year: € 1.0 million) during the year under review.

## **REMUNERATION OF THE SUPERVISORY BOARD**

### **REMUNERATION STRUCTURE**

The remuneration of the Supervisory Board is regulated in Sec. 12 of the Articles of Association. It states that a member of the Supervisory Board receives annual fixed remuneration of € 55,000 as well as annual variable remuneration, which is determined in the following way by the amount of the return on total investment achieved by the K+S GROUP in the respective financial year:

The prerequisite for the claim to payment of variable remuneration is the achievement of a minimum return. This corresponds to 115 % of the cost of capital before taxes of the K+S GROUP in the financial year concerned. If the minimum return is achieved, a member of the Supervisory Board receives variable remuneration of € 15,000. For each percentage point by which the return on total investment exceeds the minimum return, the variable remuneration is increased by € 1,500 in each case. The variable remuneration is limited to a maximum amount of € 45,000 per year. The chairman of the Supervisory Board receives twice the amount and the vice-chairman one-and-a-half times the amount of the remuneration. The members of the audit committee receive a further remuneration of € 7,500 per year.

The chairman of this committee also receives twice the amount of this remuneration. The Company pays an attendance fee of € 500 to each member of the Supervisory Board for attending a meeting of the Supervisory Board or of a Supervisory Board committee to which they belong, but in the event of more than one meeting being attended on one day a maximum of € 1,000 per day will be paid. The members of the Supervisory Board are entitled to the reimbursement from the Company of any expenses necessary and reasonable for the performance of their duties. Furthermore, they are entitled to the reimbursement of any value added tax (VAT) to be paid as a consequence of their activities in the capacity of Supervisory Board members.

/ FURTHER INFORMATION ABOUT THE CALCULATION OF THE COST OF CAPITAL AND THE RETURN ON TOTAL INVESTMENT can be found on page 101.

### **AMOUNT OF REMUNERATION**

Details of the remuneration of the Supervisory Board for the financial year 2011 are provided in individualised form in table 3.4.5. / TAB: 3.4.5

The reported increase in variable remuneration in comparison to the previous year is in particular the result of the increase in return on total investment in 2011.

Additionally, in 2011, members of the Supervisory Board were reimbursed expenses totalling € 57.0 thousand (previous year: € 29.7 thousand). The increase can be attributed in particular to trips made by Supervisory Board members to sites of the K+S GROUP. In financial

year 2011, no remuneration was paid for activities on the Supervisory Board of subsidiaries; neither were benefits for personally performed services, in particular consultancy or brokerage services, granted to the members of the Supervisory Board.

#### PLANNED CHANGE TO THE REMUNERATION STRUCTURE

It will be proposed to the Annual General Meeting on 9 May 2012 that the remuneration of the Supervisory Board be altered in future. The Board of Executive Directors and the Supervisory Board consider that an exclusively fixed remuneration of the members of the Supervisory Board better takes account of the consulting and controlling function of the Supervisory Board, which generally exists independently of the success of the Company, than the existing form of remuneration, which also includes a variable component. Furthermore, it appears reasonable to adjust the remuneration for the activity in the committees of the Supervisory Board to the greater workload and complexity. The planned change to the Supervisory Board remuneration is intended to ensure that in future too members can be found for the Supervisory Board who have a high level of competence and long-term as well as international experience in the governance of and in providing advice to companies or business-related institutions.

A member of the Supervisory Board shall from 2012 onwards receive fixed annual remuneration of € 100,000 (previously: € 55,000). The previous annual variable remuneration, which was determined by the amount

of the return on total investment achieved by the K+S GROUP in the respective financial year and could amount to a maximum of € 45,000, will cease and not be replaced. The chairman of the Supervisory Board shall receive twice this amount and the vice-chairman one-and-a-half times the amount of such remuneration.

The work in the committees of the Supervisory Board has increased significantly in scope and complexity in recent years. The members of the audit committee shall therefore receive annual remuneration of € 15,000 each (previously € 7,500), and the members of the personnel committee annual remuneration of € 7,500 each (previously not remunerated). For his or her activity on

**REMUNERATION OF THE SUPERVISORY BOARD<sup>1</sup>**

TAB: 3.4.5

in €		Fixed remuneration	Variable remuneration	Audit committee	Attendance allowance	Total
Dr. Ralf Bethke (Chairman)	2011	110,000	48,000	7,500	7,000	172,500
	2010	110,000	39,000	7,500	6,000	162,500
Michael Vassiliadis (Vice-Chairman)	2011	82,500	36,000	7,500	3,500	129,500
	2010	82,500	29,250	7,500	5,500	124,750
Ralf Becker	2011	55,000	24,000	2,651	3,000	84,651
	2010	55,000	19,500	—	3,000	77,500
Jella S. Benner-Heinacher	2011	55,000	24,000		3,500	82,500
	2010	55,000	19,500		3,000	77,500
George Cardona	2011	55,000	24,000		2,000	81,000
	2010	55,000	19,500		3,000	77,500
Harald Döll	2011	55,000	24,000		2,500	81,500
	2010	55,000	19,500		3,000	77,500
Dr. Rainer Gerling	2011	55,000	24,000		2,500	81,500
	2010	55,000	19,500		3,000	77,500
Rainer Grohe	2011	55,000	24,000		4,000	83,000
	2010	55,000	19,500		3,500	78,000
Dr. Karl Heidenreich	2011	55,000	24,000	7,500	4,000	90,500
	2010	55,000	19,500	7,500	4,500	86,500
Rüdiger Kienitz	2011	55,000	24,000		2,500	81,500
	2010	55,000	19,500		3,000	77,500

<sup>1</sup> Without reimbursement for the value added tax (VAT) to be paid by the members of the Supervisory Board as a consequence of their activities.

the nomination committee, each member shall receive annual remuneration of € 7,500 (previously not remunerated) if at least two meetings have taken place in the respective year. The chairmen of these committees shall receive twice this amount and the vice-chairman one-and-a-half times the amount of this remuneration. Finally, for participation in a meeting of the Supervisory Board or one of its committees to which he or she belongs, each member of the Supervisory Board shall in future receive an attendance fee of € 750 (previously € 500), and in the case of more than one meeting on the

same day, however, a maximum of € 1,500 per day (previously € 1,000). The members of the Supervisory Board will continue to be entitled to the reimbursement from the Company of any expenses necessary and reasonable for the performance of their duties, as well as to the reimbursement of any value added tax (VAT) to be paid as a consequence of their activities in the capacity of Supervisory Board members.

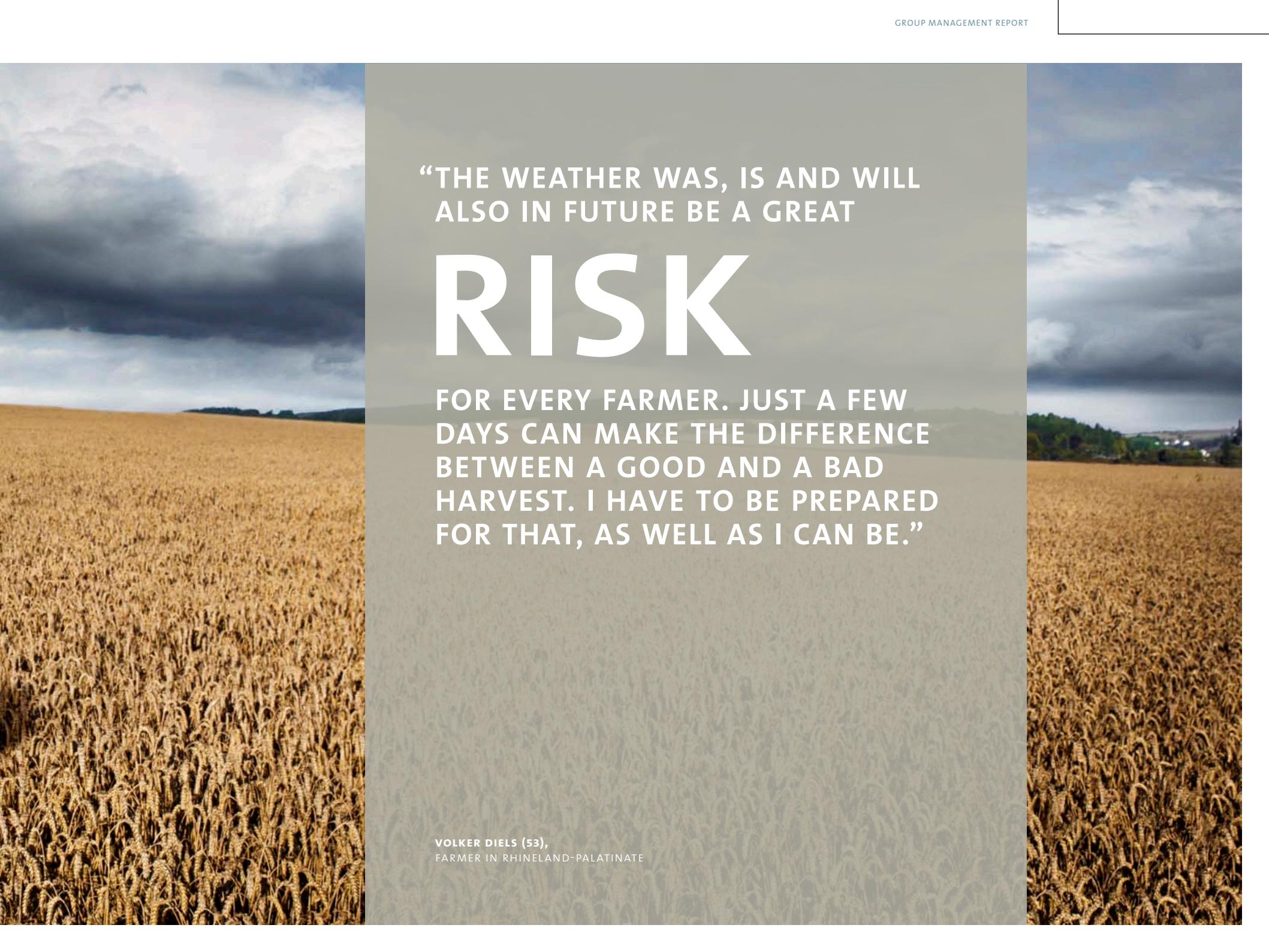
#### REMUNERATION OF THE SUPERVISORY BOARD<sup>1</sup> (CONTINUED)

TAB: 3.4.5

		Fixed remuneration	Variable remuneration	Audit committee	Attendance allowance	Total
in €						
Klaus Krüger	2011	55,000	24,000	7,500	5,000	91,500
	2010	55,000	19,500	7,500	6,000	88,000
Dieter Kuhn	2011	55,000	24,000		2,500	81,500
	2010	55,000	19,500		3,000	77,500
Dr. Bernd Malmström	2011	55,000	24,000		2,000	81,000
	2010	55,000	19,500		3,000	77,500
Dr. Rudolf Müller	2011	55,000	24,000		3,500	82,500
	2010	55,000	19,500		2,500	77,000
Renato De Salvo	2011	55,000	24,000		2,000	81,000
	2010	55,000	19,500		3,000	77,500
Dr. Eckart Sünder	2011	55,000	24,000	15,000	4,000	98,000
	2010	55,000	19,500	15,000	4,500	94,000
<b>Total</b>	<b>2011</b>	<b>962,500</b>	<b>420,000</b>	<b>47,651</b>	<b>53,500</b>	<b>1,483,651</b>
	<b>2010</b>	<b>962,500</b>	<b>341,250</b>	<b>45,000</b>	<b>59,500</b>	<b>1,408,250</b>

<sup>1</sup> Without reimbursement for the value added tax (VAT) to be paid by the members of the Supervisory Board as a consequence of their activities.





“THE WEATHER WAS, IS AND WILL  
ALSO IN FUTURE BE A GREAT

# RISK

FOR EVERY FARMER. JUST A FEW  
DAYS CAN MAKE THE DIFFERENCE  
BETWEEN A GOOD AND A BAD  
HARVEST. I HAVE TO BE PREPARED  
FOR THAT, AS WELL AS I CAN BE.”

VOLKER DIELS (53),  
FARMER IN RHINELAND-PALATINATE



*The needs-based use of fertilizers increases yields and reduces risks.*



Top left: Bringing in the harvest as a thunderstorm builds  
Bottom left and middle: Filling the fertilizer spreader and spreading the fertilizer on the field  
Bottom right: Volker Diels on his combine harvester



# PROVIDING SECURITY

WITH OUR PARTNERS IN AGRICULTURE, WE DEVELOP TAILOR-MADE CONCEPTS FOR THE APPLICATION OF FERTILIZERS, WHICH MAKE IT POSSIBLE TO BE BETTER PREPARED FOR THE UNCERTAINTIES CAUSED BY EXTERNAL FACTORS, SUCH AS THE WEATHER.



The modern cultivation of crop plants extracts many nutrients from the soil, which have to be added to it again to ensure sustainably good crop yields. Farmers depend on special information: What is needed is the assessment of the amount of fertilizer and the form of nutrient that suit local conditions or professional information on certain types of fertilizer and fertilization systems.

Each soil requires specific nutrient management. The requirements in a rather wet region differ, for example, fundamentally from those in dry areas. Potash and magnesium fertilizers make it possible to store more water in the soil while at the same time improving the root

growth of the plant. It can thus use the existing water resources more efficiently.

A forward-looking application of fertilizer is often crucial to success for the farmer. This way, he can secure crop yields and prepare himself best possible for adverse weather conditions. The needs-based application of fertilizers is therefore decisive in minimising risk. The farmer has to pre-estimate the time and volume for the application of fertilizers depending on the course of growth of the plant. Only through professional preparation can he lay the foundations for a good harvest.

## K+S GROUP MANAGEMENT REPORT

### HIGH FERTILIZER DEMAND RESULTING FROM ATTRACTIVE FRAMEWORK

CONDITIONS / Again strong salt business due to above-average sales volumes of de-icing salt / Group revenues up 11% to € 5.2 billion / Significant rise in operating earnings EBIT I to € 976 million (+37%) / Important strategic steps: Start of Legacy Project, disposal of COMPO business / K+S GROUP with attractive prospects for 2012 and 2013

# 4

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## 4.1 GROUP STRUCTURE AND BUSINESS OPERATIONS

### GROUP LEGAL STRUCTURE

K+S AKTIENGESELLSCHAFT 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 AKTIENGESELLSCHAFT, all significant affiliated companies in which K+S AKTIENGESELLSCHAFT holds, directly or indirectly, the majority of the voting rights, have been consolidated. Subsidiaries of minor importance are not consolidated.

/ DETAILS REGARDING SUBSIDIARIES, EQUITY INTERESTS AND RELATED COMPANIES can be found in the list of shareholders on page 211 and on page 209.

Significant subsidiaries are the directly held K+S KALI GMBH, K+S SALZ GMBH, K+S NITROGEN GMBH, K+S FINANCE BELGIUM BVBA and K+S INVESTMENTS LTD. K+S SALZ GMBH groups together ESCO – EUROPEAN SALT COMPANY GMBH & CO. KG as well as K+S NETHERLANDS HOLDING B.V., which holds both the shares in the companies associated with the business activities of SOCIEDAD PUNTA DE LOBOS S.A. (SPL) in Chile and the companies associated with the Legacy Project in Canada. K+S FINANCE BELGIUM BVBA, together with K+S NETHERLANDS HOLDING B.V., holds the shares in MORTON SALT INC. through subsidiaries. While K+S KALI GMBH and K+S SALZ GMBH essentially hold their

foreign subsidiaries through their own intermediate holding companies, the foreign activities of the Nitrogen Fertilizers business segment are largely managed under K+S BETEILIGUNGS GMBH, a direct subsidiary of K+S AKTIENGESELLSCHAFT. The Complementary Business Segments too are largely related to K+S AKTIENGESELLSCHAFT through subsidiaries.

In comparison to 31 December 2010, the scope of consolidation has changed as follows: Following the takeover of 100 % of shares in POTASH ONE INC. by K+S CANADA

HOLDINGS INC., POTASH ONE INC. including its main subsidiaries was merged into K+S CANADA HOLDINGS INC. as of 31 March 2011. In addition, K+S POTASH CANADA GP was included in the scope of consolidation as a subsidiary of K+S CANADA HOLDINGS INC. Furthermore, K+S SALT OF THE AMERICAS HOLDING B.V. was renamed K+S NETHERLANDS HOLDING B.V. and KALI TRANSPORT GESELLSCHAFT MBH was renamed K+S TRANSPORT GMBH. The COMPO business and its associated companies were sold to the European private equity investor TRITON with effect from 18 October 2011.

BUSINESS SECTORS AND ORGANISATIONAL STRUCTURE

FIG: 4.1.1



## BUSINESS SECTORS AND ORGANISATIONAL STRUCTURE

The reporting of the K+S GROUP is divided into four business segments that are interlinked in terms of strategic, technical and economic aspects. / FIG: 4.1.1

/ SUPPLEMENTARY INFORMATION ABOUT THE PRODUCTS AND SERVICES OF THE BUSINESS SEGMENTS can be found in the Corporate/Sustainability Report and on our website [www.k-plus-s.com](http://www.k-plus-s.com)

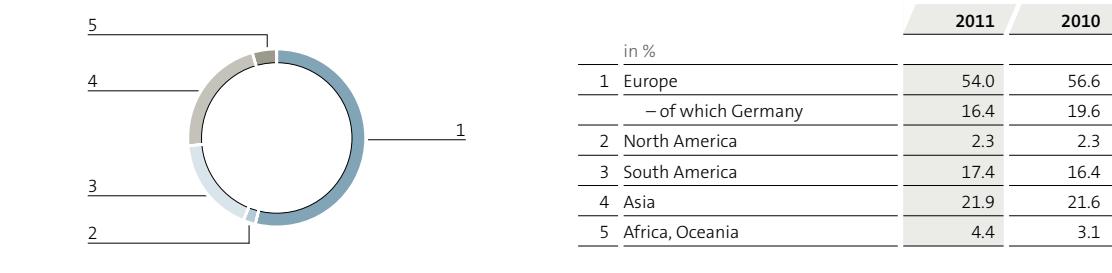


### POTASH AND MAGNESIUM PRODUCTS BUSINESS SEGMENT

The Potash and Magnesium Products business segment extracts potash and magnesium crude salts at six mines in Germany, which are further processed there and at a former mining site to create end products or intermediate products. Furthermore, the business segment has three processing sites in France. The annual production capacity of the business segment is up to 7.5 million tonnes of potash and magnesium products. As a result of the acquisition of the Canadian company POTASH ONE, the business segment will in future have the possibility to increase the annual production capacity with the Legacy Project by at least 2.86 million tonnes over the long term. A broad distribution network facilitates the sale of these products on all relevant European and overseas markets. The Potash and Magnesium Products business segment is predominantly reflected in K+S

### POTASH AND MAGNESIUM PRODUCTS – SALES VOLUMES BY REGION

FIG: 4.1.2



KALI GMBH, its subsidiaries and K+S POTASH CANADA GP. The offices of the senior management are in Kassel. / FURTHER INFORMATION ABOUT THE LEGACY PROJECT can be found on page 147.

### IMPORTANT PRODUCTS AND SERVICES

The Potash and Magnesium Products business segment offers its customers fertilizers, products for industrial applications, high-purity potassium and magnesium salts for the pharmaceutical, cosmetics and food industries as well as elements for the production of feed. Potassium chloride is the best-selling product group. This fertilizer with universal areas of application is used globally, in particular for important crops, such as cereals, corn, rice and soy beans. Potassium chloride is directly spread on fields as a granulate or mixed first with other straight fertilizers in bulk blenders. We also supply potassium chloride as a fine-grain "standard" product for the fertilizer industry, which processes it

along with other nutrients to produce complex fertilizers. The fertilizer specialities of the business segment differ from classic potassium chloride because of their different nutrient formulas with magnesium, sulphur and trace elements. Moreover, the business segment offers a wide range of high-quality potassium and magnesium products for industrial applications, available in different degrees of purity and in specific grain sizes. These are used, for example, in chlorine-alkaline electrolysis in the chemical industry, in the production of glass and synthetic materials, in the mineral oil industry, in metallurgical processes, in the textile industry, in biotechnology and in the recycling of synthetic materials. Furthermore, the Potash and Magnesium Products business segment provides a product portfolio meeting the especially high demands of the pharmaceutical, cosmetics, food and animal feed industries. Consulting is a key element in the range of services offered by the business segment. A team of consultants, consisting of

about 30 regional consultants as well as globally active agriculturalists, provide important information and suggestions for innovations in relation to the use of fertilizers in agriculture. Technical application advice for industrial products is available worldwide.

**/ FURTHER INFORMATION ABOUT PRODUCTS, SERVICES AND AREAS OF APPLICATION** of the Potash and Magnesium Products business segment can be found in the Corporate/Sustainability Report.

#### IMPORTANT SALES MARKETS AND COMPETITIVE POSITIONS

The business segment achieves slightly more than half of its revenues in Europe. Here it benefits from the logically favourable location of the production sites for European customers. In the southern hemisphere too, the business segment enjoys significant market positions. Also in South America, particularly in Brazil, as well as in Asia, the business segment holds a noteworthy market position. Here, attractively priced container shipments are used, too. / FIG: 4.1.2

The Potash and Magnesium Products business segment is the world's fifth-largest and the largest producer of potash and magnesium products in Western Europe and, in 2011, had an approximately 10 % share in the global sales volume of potash. Important competitors are the North American companies POTASH CORP., MOSAIC and AGRIM, which operate a joint export organisation with CANPOTEX, the Russian URALKALI and the Belarusian BELARUSKALI, which operate outside their domestic markets together through the export

organisation BPC, Israel's ICL, Jordan's APC and Chile's SQM. The fertilizer specialities containing potassium and magnesium clearly distinguish the business segment from competitors and, with these fertilizers, it occupies the leading position in the world. With its products for industrial, technical and pharmaceutical applications too, K+S is among the most competitive suppliers worldwide, and by far the largest supplier in Europe.



#### NITROGEN FERTILIZERS BUSINESS SEGMENT

The two-pillar strategy of the K+S GROUP provides in particular for growth in the Potash and Magnesium Products and the Salt business segments and for a corresponding focus of management and financial resources on this. Against this background, the COMPO business was sold to the European private equity investor TRITON in June 2011, and the closing took place on 18 October 2011. Consequently, the COMPO business is no longer part of the Nitrogen Fertilizers business segment and is stated as a "discontinued operation" in accordance with IFRS.

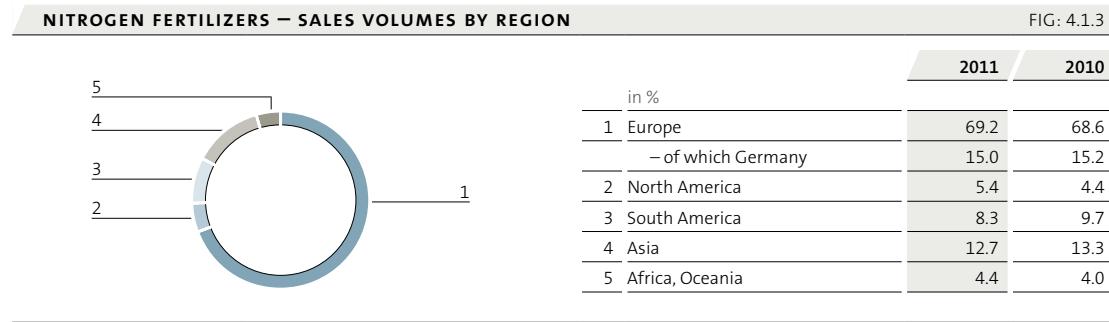
Following the disposal of the COMPO business, the Nitrogen Fertilizers business segment consists chiefly of K+S NITROGEN GMBH. K+S NITROGEN markets nitrogenous fertilizers with a focus on bulk customers in agriculture and special crops such as fruit, vegetables and grapes. The head office of the company is in Mannheim. In addition to the fertilizers produced exclusively for it by BASF,

K+S NITROGEN also markets the goods of other reputable European fertilizer producers.

At the end of September 2011, BASF announced the sale of considerable parts of its fertilizer production facilities to the Russian fertilizer producer EUROCHEM. The existing contracts between BASF and K+S for the delivery of complex and straight nitrogen fertilizers to K+S NITROGEN cannot be terminated before 31 December 2014.

#### IMPORTANT PRODUCTS AND SERVICES

The products of the Nitrogen Fertilizers business segment fall into the following groups: straight nitrogen fertilizers, complex fertilizers containing nitrogen, and ammonium sulphate. Among the straight nitrogen fertilizers, calcium ammonium nitrate and ammonium sulphate nitrate are the top-selling products. In addition to nitrogen, complex fertilizers contain the nutrients potassium and phosphate as well as – depending on need and application – magnesium, sulphur or trace elements. With the nitrogen-stabilised ENTEC products, K+S NITROGEN has innovative fertilizers, which are characterised by a unique nitrogen efficiency and, in comparison to conventional products, significantly reduce the risk of nitrate shifting and nitrous oxide emissions. In 2011, K+S NITROGEN started the marketing of a newly developed urease inhibitor. Through its addition to urea, the environmentally damaging ammonia emissions can be significantly reduced and the nitrogen efficiency increased. Ammonium sulphate is predominantly used in Europe as a raw material in fertilizer



production, while overseas, especially in South America, it is generally spread directly onto the fields.

/ FURTHER INFORMATION ABOUT PRODUCTS, SERVICES AND AREAS OF APPLICATION of the Nitrogen Fertilizers business segment can be found in the Corporate/Sustainability Report.

#### IMPORTANT SALES MARKETS AND COMPETITIVE POSITIONS

Every year, the Nitrogen Fertilizers business segment supplies up to 5 million tonnes of fertilizers to 60 different countries all over the world. It achieves about two thirds of its revenues in Europe and about one third overseas. With the international branches of the K+S GROUP and selected external sales partners, the business segment has an efficient global distribution network at its disposal. In major European core markets such as Germany, France, Spain, Italy, Greece and Turkey, and in individual overseas markets such as Mexico, Singapore and China, the business segment has its own sales organisations. / FIG: 4.1.3

Worldwide, urea (46 % of which is nitrogen) is the dominant nitrogen fertilizer. Urea is produced on the basis of gas and ammonia by several hundred producers around the world. On the other hand, nitrate-containing nitrogen fertilizers dominate in Europe and North America, since these are more advantageous to users, given the soil and climate conditions there. The world's leading supplier of nitrogen fertilizers is the Norwegian producer YARA. In Europe, in addition to YARA, the AGROFERT Group and the OCI FERTILIZER GROUP are the most important competitors of K+S NITROGEN. K+S NITROGEN is one of the world's leading providers of the sulphur-containing nitrogen fertilizer ammonium sulphate.



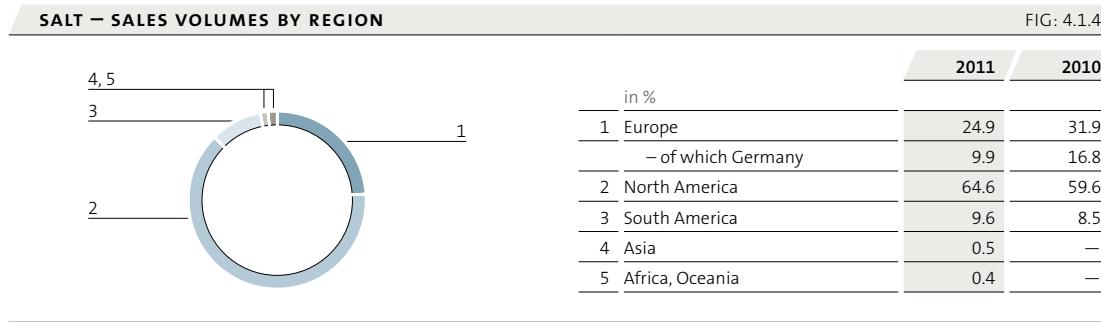
#### SALT BUSINESS SEGMENT

In the Salt business segment, the K+S GROUP markets food grade salt, industrial salt, salt for chemical use and de-icing salt. With an annual production capacity of about 30 million tonnes of salt, K+S is the world's largest supplier of salt products. The business segment comprises the sub-units ESCO – EUROPEAN SALT COMPANY GMBH & CO. KG ("ESCO"), Hanover, whose activities are mainly focused on Europe, the Chilean SOCIEDAD PUNTA DE LOBOS S.A. (SPL), Santiago de Chile, with activities in South America and the United States, as well as MORTON SALT, INC., Chicago, one of the largest salt producers in North America. ESCO operates three rock salt mines, two brine plants, as well as several plants processing evaporated salt in Germany, France, the Netherlands, Portugal and Spain, and has numerous distribution sites in Europe. The annual production capacity of ESCO in Europe is about 8.0 million tonnes of crystallised salt and 1.7 million tonnes of salt in brine. The Chilean SPL extracts rock salt in Salar Grande de Tarapacá through cost-effective open-cast mining. The production capacity there is about 6.5 million tonnes per year and is planned to be expanded by 1.5 million tonnes to an annual 8 million tonnes by the end of 2012. Moreover, SALINAS DIAMANTE BRANCO, which belongs to the SPL Group, operates a sea salt facility with an annual capacity of 0.5 million tonnes in the north-eastern part of Brazil. In the United States, SPL distributes its salt products via the INTERNATIONAL SALT COMPANY (ISCO). Furthermore, Chilean shipping company EMPREMAR S.A., with a fleet of five ships of its own as well as additional chartered

ships providing maritime logistics for the SPL Group in South America, also forms part of the Salt business segment. MORTON SALT operates six rock salt mines, seven solar plants and ten plants processing evaporated salt in the United States, in Canada and in the Bahamas. The annual production capacity totals about 13 million tonnes of salt. The Salt business segment is represented in Europe as well as North America and South America with its own distribution units and via platform companies of the K+S GROUP. Furthermore, the business segment exports salt products to Asia and other regions of the world.

#### IMPORTANT PRODUCTS AND SERVICES

The Salt business segment offers its customers food grade salt, industrial salt, salt for chemical use and de-icing salt, which are all based on sodium chloride (common salt). Depending on the particular applications, the products differ primarily in terms of their grain size, degree of purity, the form in which they are supplied and possible additives. In the food grade salt segment, the K+S GROUP produces both salt for the food-stuff industry as well as food grade salt for end users, to which also premium products such as kosher salt or low-sodium salt belong. Industrial salts are used by dyeing works, in the textile industry, in the production of foodstuffs for animals, for the preserving of fish, in drilling fluids used for the extraction of oil and natural gas, as well as in many other industrial areas. Pharmaceutical salts are a key element in infusion and dialysis solutions. In the industrial salts segment too, products for end users such as water-softening salts are manufactured. Salt for chemical use is one of the most important



raw materials for the chemical industry. In electrolysis plants it is split into chlorine, caustic soda and hydrogen. It reaches the end user in the form of, for example, an element of polyvinylchloride (PVC). Winter road maintenance services, public and private road authorities, road maintenance depots and commercial bulk customers procure de-icing agents from the K+S GROUP, and household packages for end users round off the product range. In addition, de-icing salts are on offer, which through the addition of calcium chloride create more heat in contact with ice and snow than conventional products, and thus work more quickly, especially at very low temperatures.

/ FURTHER INFORMATION ABOUT PRODUCTS, SERVICES AND AREAS OF APPLICATION of the Salt business segment can be found in the Corporate/Sustainability Report.

#### IMPORTANT SALES MARKETS AND COMPETITIVE POSITIONS

The key sales markets of the Salt business segment in Europe include Germany, the Benelux countries, France,

Scandinavia, the Iberian Peninsula, the Czech Republic, and Poland, while the United States, Canada, Brazil, and Chile are markets of particular importance on the American continent. Regionally, the de-icing salt business is strongly dependent on weather conditions. Thanks to its unique network of production facilities in Europe, North America and South America, K+S can respond more flexibly to fluctuations in demand for de-icing salt than the local competitors. In the other segments, owing to the limited possibility for substitution in most applications, the demand situation is relatively stable. While the market for salt in Western Europe is comparatively mature and only exhibits slight growth rates, a trend towards a stronger increase in demand is being observed in the emerging market countries. Salt deposits are widely dispersed geographically; owing to the relatively high share of transport costs in the total costs, the markets are normally regionally limited, starting from the location of the production sites. / FIG: 4.1.4

The sector was characterised by a process of consolidation in recent years. With its purchase of a 38 % interest in ESCO held by the SOLVAY Group in 2004, its acquisition of the Chilean salt producer SPL in 2006 as well as its takeover of MORTON SALT successfully completed in October 2009, the K+S GROUP has played an active role in shaping this process. ESCO is Europe's leading producer of salt products for the food sector, salts for chemical and industrial use, and de-icing salts, in addition to the competitors SÜDSALZ, SALINS DU MIDI and AKZO NOBEL. With SPL, the K+S GROUP has gained access to the dynamically growing South and Central American markets. MORTON SALT is one of the largest salt producers in North America, together with CARGILL and COMPASS MINERALS INTERNATIONAL. With the acquisition of MORTON SALT, the K+S GROUP, in terms of production capacity, became the world's largest salt producer, with an annual capacity of about 30 million tonnes.



#### COMPLEMENTARY BUSINESS SEGMENTS

In addition to disposal activities for the underground disposal and the reutilisation of waste in potash and rock salt mines, the salt slag and building material recycling (waste management and recycling) as well as the granulation of CATSAN® at the Salzdetfurth site, the term "Complementary Business Segments" bundles further activities of importance to the K+S GROUP. With K+S TRANSPORT GMBH, Hamburg, the K+S GROUP possesses

its own logistics service provider. CHEMISCHE FABRIK KALK GMBH (CFK) trades in different basic chemicals.

#### IMPORTANT PRODUCTS AND SERVICES

The Waste Management and Recycling business segment uses the underground caverns created as a result of the extraction of crude salts for the long-range safe disposal of waste and for waste recycling while employing the available infrastructure of active potash and rock salt mines. The business segment operates two underground storage sites. The waste stored there is isolated permanently from the biosphere. Additionally, the K+S GROUP operates five underground reutilisation plants for waste. Officially approved waste is used here to fill caverns. Flue gas cleaning residues, for example, are suitable for underground reutilisation. The salt deposits used by the K+S GROUP for the disposal of waste and for waste recycling are impervious to gas and liquids as well as securely separated from the layers carrying groundwater. A combination of geological and artificial barriers ensures the highest possible degree of safety. For the secondary aluminium industry, the business segment offers smelting salts and the recycling of salt slag. Building material recycling also belongs to the range of services.

With K+S TRANSPORT GMBH in Hamburg and its subsidiaries, the K+S GROUP has, in addition to the Chilean shipping company EMPREMAR, which is assigned to the Salt business segment, a further logistics service provider of its own. The operation of the "Kalikai" in Hamburg, with a storage capacity of about 400,000 tonnes

one of Europe's largest transshipment facilities for bulk goods, is K+S TRANSPORT GMBH's core business and of strategic importance for the Potash and Magnesium Products business segment at the same time. The K+S GROUP's container business is also directed from Hamburg, including pre-shipment from the production sites to the loading terminals.

At the Salzdetfurth site, a way has been found of successfully continuing to use existing plants and extensive sections of the infrastructure of a disused potash plant economically, preserving jobs and even again significantly expanding operations. Here we granulate, for example, the well-known animal hygiene brand product CATSAN® for MARS GMBH.

CFK's product range comprises a selection of basic chemicals including caustic soda, nitric acid, sodium carbonate (soda) as well as calcium chloride and magnesium chloride.

#### IMPORTANT SALES MARKETS AND COMPETITIVE POSITIONS

The core markets of the Waste Management and Recycling business segment are located in Western and Central Europe. Moreover, the Eastern European countries, primarily Poland and the Baltic states, offer growth potential as the demand for EU-compliant underground waste management solutions for waste disposal is increasing there. The market for underground waste disposal is very competitive, but the K+S GROUP offers specific added value for the customer with its full-service

solutions. In the case of recycling salt slag from the secondary aluminium industry too, the K+S GROUP is a leading provider in Germany and in the rest of Europe. CRK's customers include many well-known European chemical companies, glassworks, metal processing companies, detergent producers and breweries as well as cities and local authorities, which use calcium chloride or magnesium chloride for winter road maintenance services.

## KEY SITES

At the end of 2011, the K+S GROUP employed nearly 14,500 people in Germany and abroad. Figures 4.1.5 and 4.1.6 provide an overview of the most important K+S GROUP sites and the number of staff employed by them at the end of 2011. / FIG: 4.1.5, 4.1.6

## INFORMATION ABOUT RAW MATERIAL DEPOSITS

An overview of our raw material deposits and reserves can be found in the 'Further Information' section on page 214.

## MANAGEMENT AND CONTROL

### DECLARATION ON CORPORATE GOVERNANCE

The declaration pursuant to Sec. 161 of the German Stock Corporation Act (AktG), the description of how the Board of Executive Directors and the Supervisory Board function, as well as the composition and procedures of the committees and further information regarding corpo-

rate governance, are included in the Declaration on Corporate Governance in the 'Corporate Governance' section on page 35.

### BASIC FEATURES OF THE REMUNERATION SYSTEM

The information to be disclosed in accordance with Sec. 315 Para. 2 No. 4 of the German Commercial Code (HGB) and Items 4.2.4, 4.2.5 and 5.4.6 Para. 3 of the German Corporate Governance Code is contained in the Remuneration Report included in the 'Corporate Governance' section on page 45; the Remuneration Report constitutes an integral part of the Group Management Report.

### PARTICIPANTS IN AND TERMS OF PROGRAMMES WITH A LONG-TERM INCENTIVE CHARACTER

Between 1999 and 2009, K+S made it possible for the Board of Executive Directors and the management to participate in a virtual stock option programme. In 2009, a total of 308 people were entitled to this (see Financial Report 2009). You can find a more detailed description of the programme, whose structure was identical for the Board of Executive Directors and for the remaining participants in the option programme, in the Remuneration Report on page 48.

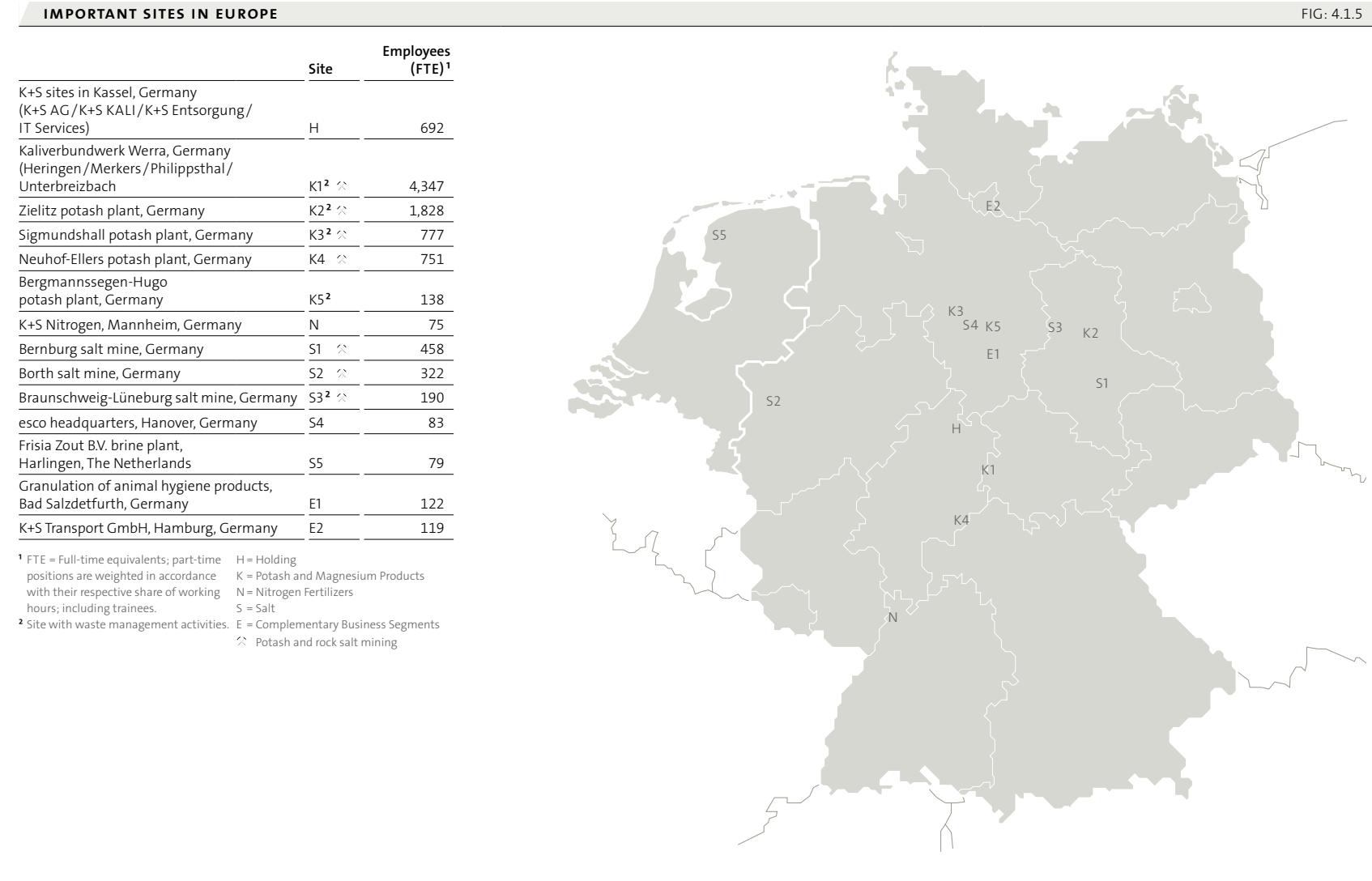
Against the background of the statutory provisions amended by the German Act on the Appropriateness of Management Board Remuneration and the recommendations of the German Corporate Governance Code on the form of management board remuneration, an adjustment to the variable component of remuneration with a

long-term incentive character (the so-called "Long-term Incentive" (LTI)) became necessary. A variable remuneration component based on key figures was therefore introduced starting in 2010. It is based on a multi-annual assessment in accordance with the value added achieved. In 2011, a total of 311 people working for K+S were eligible to participate. You can find a more detailed description of the programme, which is in its fundamental structure identical for the Board of Executive Directors and for the remaining participants, in the Remuneration Report on pages 46.

### LEGAL AND ECONOMIC INFLUENCING FACTORS

The K+S GROUP must observe numerous national and international laws and legal directives: Alongside the general legal regulations, mining and environmental law (e.g. water law, waste law, air pollution law, soil protection law etc.) as well as work safety and health protection 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, collective pay bargaining agreements in Germany and North America are particularly important, as 70 % of our workforce is employed in Germany and, since the takeover of MORTON SALT, 21 % work in North America. Personnel expenses constitute a main cost



## IMPORTANT SITES IN AMERICA

	Site	Employees (FTE) <sup>1</sup>
K+S Potash Canada GP (Legacy Project), Saskatchewan, Canada	K6 ☰	34
Salina Diamante Branco sea salt facility, Brazil	S6	270
Rittman evaporated salt facility, USA	S7	252
Morton Salt headquarters, Chicago, USA	S8	237
Ojibway salt mine, Canada	S9 ☰	220
Grand Saline salt mine, USA	S10 ☰	208
Empremar shipping company, Santiago de Chile, Chile	S11	204
Pugwash salt mine, Canada	S12 ☰	201
SPL open-cast mining operations, Atacama Desert / Patillos, Chile	S13 ☰	172
Fairport salt mine, USA	S14 ☰	170
Hutchinson evaporated salt facility, USA	S15	164
Weeks Island salt mine, USA	S16 ☰	160
Silver Springs evaporated salt facility, USA	S17	157
Mine Seleine salt mine, Canada	S18 ☰	147
Grantsville solar salt facility, USA	S19	143
SPL headquarters, Santiago de Chile, Chile	S20	131
Manistee evaporated salt facility, USA	S21	117
Windsor evaporated salt facility, Canada	S22	93
ISCO distribution company, Clarks Summit, USA	S23	78
Newark evaporated salt and sea salt facility, USA	S24	78
Inagua sea salt facility, Bahamas	S25	72
Port Canaveral processing site, USA	S26	58
Lindbergh brine plant, Canada	S27	51
Canadian Salt headquarters, Montreal, Canada	S28	39
Glendale evaporated salt facility, USA	S29	32

<sup>1</sup> FTE = Full-time equivalents; part-time positions are weighted in accordance with their respective share of working hours; including trainees.

H = Holding  
K = Potash and Magnesium Products  
N = Nitrogen Fertilizers  
S = Salt  
☐ = Potash and rock salt mining

FIG: 4.1.6



item for the K+S GROUP. Over the past few years, we have been able to enhance our capacity to react to earnings developments both by means of flexible working hour models and variable salary components. The latter are, among other things, linked to company success. Transport, energy and raw material costs as well as the development of the US dollar and Canadian dollar exchange rates also have a great impact on the success of the K+S GROUP.

/ THE MACROECONOMIC ENVIRONMENT and its effects on K+S are described on page 88.

#### **INFORMATION PURSUANT TO SEC. 315 PARA. 4 GERMAN COMMERCIAL CODE (HGB)**

##### **ITEM 1: COMPOSITION OF SUBSCRIBED CAPITAL**

The share capital amounts to € 191,400,000 and is divided into 191,400,000 shares. The bearer shares of the Company are no-par value bearer shares. There are no other classes of shares.

##### **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. No corresponding shareholder agreements are known to the Board of Executive Directors.

##### **ITEM 3: DIRECT OR INDIRECT INTERESTS IN THE CAPITAL EXCEEDING 10 %**

There are no direct or indirect interests in the capital exceeding 10 %.

##### **ITEM 4: HOLDERS OF SHARES WITH SPECIAL RIGHTS CONFERRING CONTROL POWERS**

There are no shares with 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 PROVI- SIONS OF THE ARTICLES OF ASSOCIATION CONCERNING THE APPOINTMENT AND DISMISSAL OF MEMBERS OF THE BOARD OF EXECUTIVE DIRECTORS AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

The appointment and dismissal of the Board of Executive Directors are governed by Sec. 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 Art. 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 of the chairman of the Board of Executive Directors for important reasons.

Amendments to the Articles of Association can be resolved by the Annual General Meeting by a simple

majority of the share capital represented (Sec. 179 Para. 2 AktG in conjunction with Art. 17 Para. 2 of the Articles of Association) unless statutory provisions impose larger majority requirements.

##### **ITEM 7: BOARD OF EXECUTIVE DIRECTORS' AUTHORISATIONS CONCERNING THE POSSIBILITY OF ISSUING OR BUYING BACK SHARES**

The Board of Executive Directors is authorised to acquire own shares representing no more than 10 % of the total number of no-par value shares comprising the share capital of K+S AKTIENGESELLSCHAFT until 10 May 2015. At no time may the Company hold more than 10 % of the total number of no-par value shares comprising its share capital. Purchases are to be made on a stock exchange or by means of a public purchase offer directed to all shareholders. In the event of a purchase effected on a stock exchange, the purchase price per share must not exceed or undercut the relevant stock exchange price by more than 10 %, being the price of the K+S share in the XETRA computerised trading system determined by the opening auction on the day of purchase of the shares. In the event of a purchase effected by means of a public purchase offer directed to all shareholders, the purchase price offered per share may not exceed or undercut the relevant stock exchange price by more than 10 %, being the weighted average exchange price of the K+S share in the XETRA computerised trading system during the last ten exchange trading days immediately preceding the publication of the purchase offer.

The Board of Executive Directors is furthermore authorised, with the approval of the Supervisory Board, to dispose of shares in the Company which were acquired on the basis of an authorisation in accordance with Sec. 71 Para. 1 No. 8 AktG, on a stock exchange or by means of a public offer directed to all shareholders. In 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 stock exchange price;
- + Issuance of shares as consideration for the purpose of acquiring companies, parts of companies or interests in companies;
- + Servicing of convertible bonds and bonds with warrants, which have been issued on the basis of the authorisation of the Annual General Meeting.

The authorisation to exclude subscription rights applies in respect of all shares representing a proportionate amount of the share capital that is not greater than 10 % of the share capital at the time of the adoption of the resolution or at the time of exercising the authorisation, depending on when the amount of the share capital is the smaller amount. The maximum limit of 10 % of the share capital is reduced by the proportionate amount of the share capital corresponding to those shares that are issued in connection with a capital increase from authorised capital or from conditional capital excluding subscription rights while this authorisation is in effect.

The Board of Executive Directors is finally authorised, with the approval of the Supervisory Board, to cancel shares in the Company which were acquired on the basis of an authorisation in accordance with Sec. 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 Sec. 237 Para. 3 No. 3 AktG without 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 Sec. 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 AGREEMENTS THAT APPLY IN THE EVENT OF A CHANGE OF CONTROL RESULTING FROM A TAKEOVER BID**

In 2010, K+S concluded a syndicated credit line for € 800 million. All bank advances made within the framework of the credit line will become due and payable immediately and the entire credit line become redeemable in accordance with the conditions set out in these agreements if one person acting alone or more persons acting in concert acquire control over K+S AKTIENGESELLSCHAFT. Moreover, in 2009, K+S issued a bond in the amount of € 750 million. In the event of a change of control, the bond holders have the right to terminate debentures that have not yet been redeemed.

#### **ITEM 9: AGREEMENTS CONCLUDED WITH THE BOARD OF EXECUTIVE DIRECTORS OR EMPLOYEES CONCERNING COMPENSATION IN THE EVENT OF A TAKEOVER BID**

Agreements of this type exist with the members of the Board of Executive Directors of K+S AKTIENGESELLSCHAFT and are explained in detail in the Remuneration Report on page 51. The stock option programme for the Board of Executive Directors and for senior management, granted for the last time in 2009, provides for a special time window for the exercise of all still outstanding options in the event of a change of control. The exact form of this programme, which is identical for the Board of Executive Directors and for senior management, is also explained in the Remuneration Report (see page 49). The programme with a long-term incentive character (LTI), introduced in 2010 for the Board of Executive Directors and for senior management, includes no compensation agreements.

#### **EXPLANATORY REPORT OF THE BOARD OF EXECUTIVE DIRECTORS ON THE INFORMATION IN ACCORDANCE WITH SEC. 315 PARA. 4 GERMAN COMMERCIAL CODE (HGB)**

As the information to be disclosed in respect of items 1 to 6 of Sec. 315 Para. 4 of the German Commercial Code (HGB) in the Group Management Report (page 68) speaks for itself, we limit ourselves here to providing the following explanations in accordance with Sec. 176 Para. 1 Sent. 1 AktG:

#### **ITEM 7: BOARD OF EXECUTIVE DIRECTORS' AUTHORISATIONS CONCERNING THE POSSIBILITY OF ISSUING OR BUYING BACK SHARES**

The authorisation granted by the Annual General Meeting to the Board of Executive Directors to purchase own shares of the Company to a limited extent is 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 further existing possibility of cancelling own shares is also a common alternative use that lies in the interest of the Company and its shareholders.

#### **ITEM 8: SIGNIFICANT AGREEMENTS THAT APPLY IN THE EVENT OF A CHANGE OF CONTROL RESULTING FROM A TAKEOVER BID**

The provisions that credit agreements and bond conditions contain 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.

#### **ITEM 9: AGREEMENTS CONCLUDED WITH THE BOARD OF EXECUTIVE DIRECTORS OR EMPLOYEES CONCERNING COMPENSATION IN THE EVENT OF A TAKEOVER BID**

The existing compensation agreements with the members of the Board of Executive Directors and the special time window of exercise governed by the share option programme for the Board of Executive Directors and for

senior management in the event of a takeover bid, which was granted for the last time in 2009, take into appropriate consideration both the legitimate interests of those concerned and of the Company and its shareholders.

## **4.2 CORPORATE STRATEGY**

### **VISION AND MISSION**

Our vision and mission provide the framework for our activities and for the strategic orientation of the Group and are to bring closer the basis for our thinking and actions to our employees, shareholders, lenders, customers, suppliers and the public.

/ **OUR VISION AND MISSION** can be found on page 11 of this Financial Report, while further information is also available in the Corporate/Sustainability Report.

### **GROWTH STRATEGY**

<b>COMPONENTS OF THE K+S GROWTH STRATEGY</b>			FIG: 4.2.1
Differentiation and Sustainable Margin Growth through Specialisation		Expansion of Strategic Business Sectors through Acquisitions and Cooperations	
Expansion of the Balanced Regional Portfolio	Setting Standards for Quality, Reliability and Service	Increasing Efficiency and Exploiting Synergies	

#### **DIFFERENTIATION AND SUSTAINABLE MARGIN GROWTH THROUGH SPECIALISATION**

The K+S GROUP aims to consolidate and expand market positions in its core business sectors, in particular through the increased marketing of speciality products. The refinement strategy makes it possible to achieve higher margins in the Fertilizer and Salt business sectors.

#### **INCREASING EFFICIENCY AND EXPLOITING SYNERGIES**

In respect of the most important competitors in the main sales markets in the fertilizer and salt businesses, the cost position is a key success factor. In addition to consistently pursuing cost-cutting and flexibilisation initiatives throughout the whole process chain, the focus is also on the optimisation of the international production network and the associated volume flows and logistics costs. Comparable mining processes make synergies between the Potash and Magnesium Products and Salt business segments possible in the exchange of technical, geological and logistics know-how as well as economies of scale in the procurement of machines and auxiliary materials.

#### **EXPANSION OF THE BALANCED REGIONAL PORTFOLIO**

Worldwide, both fertilizer and salt markets are characterised by seasonal and regional fluctuations in demand. The strategy of the K+S GROUP is aimed at a balanced regional portfolio, which makes a balance of weather-related

fluctuations and a cushioning of cyclical market trends possible.

In the fertilizer sector, the balanced market presence in the important agricultural markets of Europe, South America and Asia makes the equalisation of seasonal fluctuations between the northern and southern hemispheres as well as a reduction of the impact of economic trends on regional demand possible. Expanding the market presence in important overseas markets and tapping into new attractive sales markets in future growth regions therefore continue to be pursued.

Local production is a decisive factor in the opening up of new markets in the salt business, which is strongly volume-driven. In the Salt business segment, the improvement in the earnings profile as a result of the reduction in dependence on the regional volatility of the de-icing salt business was an important driver of our acquisitions in South and North America (SPL and MORTON SALT).

#### SETTING STANDARDS FOR QUALITY, RELIABILITY AND SERVICE

The goal of the K+S GROUP is to be its customers' preferred partner in the market. High product quality and reliability are decisive preconditions for this. In addition to the specialisation strategy, better and innovative services are promoted, where these create value. Particularly in the fertilizer area, individual advice to customers makes it possible to identify needs-based solutions and

thus to strengthen customer loyalty. With our offers we endeavour to set new standards in the market.

#### STRATEGIC DIRECTION OF THE BUSINESS SECTORS

With the Fertilizer and Salt business sectors, the K+S GROUP has two synergetically related and complementary business sectors with attractive growth prospects at its disposal.

In addition to organic growth, we also strive to achieve growth via acquisitions and cooperations in the established business sectors.

Thus, the acquisition of POTASH ONE, which will result in an expansion of the potash capacities and to an exten-

sion of the average useful life of our mines, is characteristic of our two-pillar strategy. This pursues the goal of focussing management and financial resources in future particularly on the Potash and Magnesium Products and Salt business segments. Against this backdrop, we have also sold the COMPO business to the European investment company TRITON.

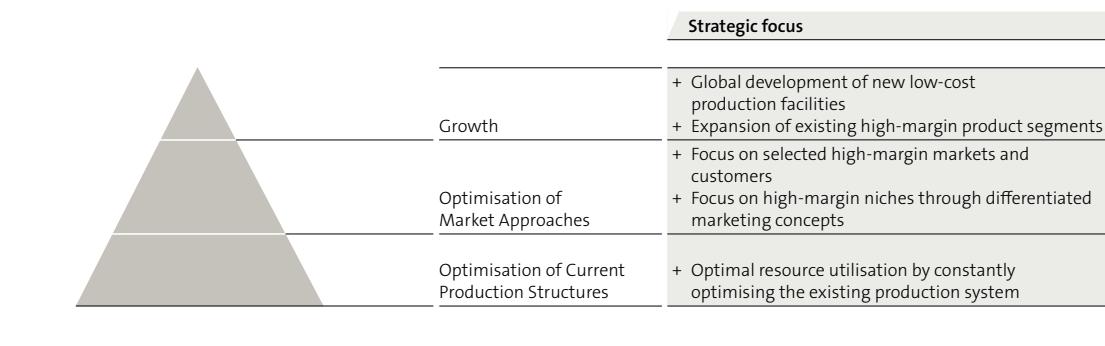
/ FURTHER INFORMATION ABOUT THE ACQUISITION OF POTASH ONE can be found on page 170, DETAILED INFORMATION ABOUT THE DISPOSAL OF COMPO can be found in the Notes on page 169.

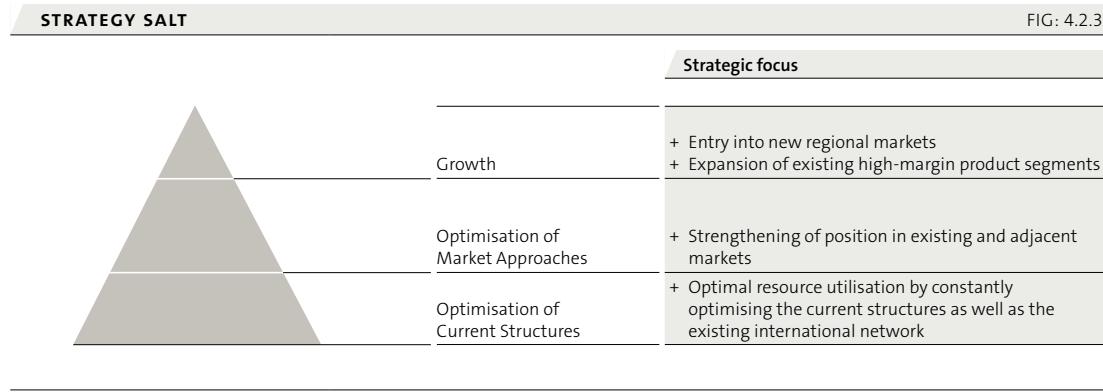
#### POTASH AND MAGNESIUM PRODUCTS

The strategic fields of action arising for the future of the Potash and Magnesium Products business segment are shown in figure 4.2.2. / FIG: 4.2.2

STRATEGY POTASH AND MAGNESIUM PRODUCTS

FIG: 4.2.2





#### SALT

For the Salt business segment we see the strategic fields of action for the future shown in figure 4.2.3. / FIG: 4.2.3

#### STRATEGIC GROUP STRUCTURE

As regards the shaping of the Group structure in terms of company law, in addition to the presentation of our business segment structure, the optimisation of Group financing and tax optimisation are the main focuses.

/ INFORMATION ABOUT THE FUTURE DIRECTION OF THE GROUP can be found in our Forecast Report on page 135.

#### STRATEGIC FINANCING MEASURES

Essentially, we pursue the following goals with the financial measures that we have adopted:

- + Ensuring a balanced capital structure;

- + Limiting refinancing risks through diversification of the financing sources and instruments as well as the maturity profile;
- + Optimisation of costs through capital procurement on sustainably favourable terms.

/ INFORMATION ABOUT THE GOALS OF FINANCIAL MANAGEMENT can be found in the 'Financial Position' section on page 102.

As part of these objectives, in financial year 2010, we optimised the maturity profile of the financing instruments of the K+S GROUP. To that end, two revolving credit lines were aggregated into one syndicated credit line with more favourable terms and its maturity extended from April 2012 to July 2015.

/ AN OVERVIEW OF THE MATURITY PROFILE can be found on page 133.

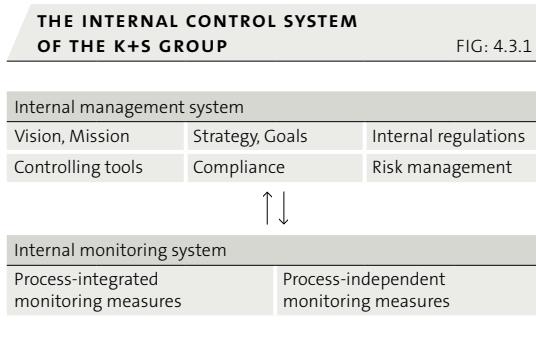
Furthermore, in financial year 2011, we largely concluded the out-financing of pension obligations within the framework of the CTA programme.

/ MORE INFORMATION ABOUT FUTURE FINANCING MEASURES can be found in the Forecast Report section on page 144.

## 4.3 ENTERPRISE MANAGEMENT AND SUPERVISION

The internal control system (ICS) of the K+S GROUP is the chief instrument for the Board of Executive Directors to exercise its managerial responsibility and its oversight duty. The ICS includes principles, regulations, measures and procedures, which are oriented towards the organisational implementation of management decisions. It serves in particular:

- + the achievement of established corporate goals;
- + to secure the effectiveness and economy of business operations;
- + the adequacy and reliability of internal and external accounting procedures;
- + compliance with laws, regulations and instructions of the management;
- + the promotion of correct, economic, purposeful and effective processes and
- + to secure assets against fraud, waste, abuse and mismanagement.



The ICS of the K+S GROUP consists of the components "internal management system" and "internal monitoring system". The continuous monitoring of the effectiveness of the systems controlled across the Group constitutes a key element of the ICS. / FIG: 4.3.1

## INTERNAL MANAGEMENT SYSTEM OF THE K+S GROUP

Control of the K+S GROUP is exercised through regular discussions between the Board of Executive Directors, the management of the business segments and the heads of the holding companies. Meetings of the Board of Executive Directors take place on a regular basis every two weeks. The internal management system covers all areas of the Company. Thus, short response times to changes in all areas and on all decision-making levels of

the K+S GROUP can be guaranteed. In the event of significant changes of relevance to earnings, this is immediately reported to senior management and the Board of Executive Directors.

### VISION, MISSION, STRATEGY AND GOALS AS THE STARTING POINT FOR THE MANAGEMENT OF THE GROUP AS A WHOLE WITH THE AID OF INTERNAL REGULATIONS

The starting point for the management of the Group as a whole and its operating units are the targets of the Board of Executive Directors of K+S AKTIENGESELLSCHAFT, which are derived from the vision, mission and overall strategy of the K+S GROUP. An essential instrument for the implementation of goals and targets is the totality of internal regulations of the K+S GROUP.

### CONTROLLING TOOLS

The following controlling tools are available to the management:

#### ROLLING FORECASTS

For the current financial year and the two subsequent years, a generally monthly rolling forecast of earnings and liquidity is established, which can be accessed by authorised employees via an internal electronic portal.

#### MONTHLY REPORTING

The business segments report on a monthly basis on current developments and variances with respect to output, sales, revenues, costs, earnings, personnel, capital expen-

diture as well as other financial indicators. This information is also available via the above-mentioned portal. Furthermore, operational early indicators are continuously analysed. For instance, the price development of futures for agricultural raw materials permits a rough estimate of the earnings prospects of the agricultural sector and provides, among other things, indications of the demand for fertilizers, the sales volume and the possible capacity utilisation. In the Salt business segment, progress with tenders for de-icing salts provides an indication of the performance of market shares and price developments. Across the Group, the development of gas and oil prices is an important indicator of how energy costs could develop in future, and the development of freight costs on the transport routes relevant to us is an early indicator of freight costs in future and of our regional portfolio.

### QUARTERLY MANAGEMENT DIALOGUE

A so-called management dialogue takes place every quarter between the Board of Executive Directors and the heads of the Potash and Magnesium Products, Nitrogen Fertilizers and Salt business segments. At each of the four meetings, an overview of the respectively current market situation and the rolling forecast is given. Furthermore, during the course of the year, key issues such as the definition of the strategy and its systematic implementation within annual and medium-term planning and the setting of goals and their achievement are discussed.

#### BODIES/COMMITTEES

To support the management, cross-business-segment committees regularly discuss topics concerning, among others, personnel, compliance and information technology. Special committees have been established to review and assess capital expenditure projects and acquisitions/divestments.

#### NON-FINANCIAL PERFORMANCE INDICATORS AND FINANCIAL PERFORMANCE INDICATORS

In addition to the financial performance indicators described below, the non-financial performance indicators, which are relevant for our economic position, are described in the section 'Important Non-Financial Matters' on page 75.

For the financial performance indicators, our focus is on the continuous monitoring and optimisation of:

- + Net cash flow (gross cash flow less maintenance capital expenditure)
- + EBITDA and operating earnings EBIT I
- + Capital expenditure
- + Return on capital employed (ROCE)
- + Adjusted earnings before income taxes
- + Adjusted Group earnings after taxes

/ **DEFINITIONS OF THE INDICATORS USED HERE** can be found in the 'Further Information' section on page 217.

The management of the activities of our business segments is exercised on the basis of the net cash flow and the earnings variables EBITDA and EBIT I. These are,

in our opinion, the appropriate variables for assessing earnings capacity. EBITDA also forms the basis for determining the level of Group indebtedness, which, among other things, is a target variable of the capital structure. Further key figures for the management of the capital structure, its target figures and its actually achieved values can be found on page 102. The capital expenditure is also an important management variable both at the business segment and Group level to achieve a targeted allocation of our financial resources.

#### / THE COMPARISON OF THE ACTUAL AND FORECAST

**COURSE OF BUSINESS** on page 93 includes the key indicators EBIT I, EBITDA, adjusted earnings before income taxes and adjusted Group earnings after taxes.

The focus of financial targets is on achieving a sustainable increase in enterprise value by generating added value, i.e. we want to sustainably earn for the K+S GROUP a premium on capital costs before taxes of at least 15 %. To monitor this objective, we use the performance indicator Return on capital employed (ROCE) and, with the aid of the weighted average cost of capital rate before taxes, derive the value added. We also continuously monitor the key figures of 'adjusted earnings before income taxes' and 'adjusted Group earnings after taxes'. The latter forms the basis for the long-term target dividend payout ratio of 40 to 50 % in accordance with our dividend policy.

#### / A PRESENTATION AND DESCRIPTION OF THE DEVELOPMENT OF EARNINGS FIGURES IN THE LAST FIVE YEARS

can be found in the 'Earnings position' section on page 94, of cash flow and capital expenditure in the 'Financial position' section on page 102.

#### COMPLIANCE AS AN ELEMENT IN SUPPORT OF THE INTERNAL MANAGEMENT SYSTEM

Compliance is the natural fundamental attitude for all activities of the K+S GROUP. The compliance system is oriented towards ensuring that behaviour complies with the law and conforms to the rules.

/ **FURTHER INFORMATION ABOUT THE SUBJECT OF COMPLIANCE** can be found in the 'Corporate Governance' section on page 35.

#### RISK MANAGEMENT – A KEY COMPONENT OF THE INTERNAL MANAGEMENT SYSTEM

The main task of risk management is to identify, evaluate, manage and communicate risks. The identified risks form the basis from which measures and checks are derived.

/ **FURTHER INFORMATION ON THE RISK MANAGEMENT SYSTEM** can be found in the Risk Report on page 118.

#### INTERNAL MONITORING SYSTEM OF THE K+S GROUP

The internal monitoring system is intended to ensure attainment of the planned corporate goals and compliance with the rules of the internal control system. It consists of process-integrated as well as process-independent monitoring measures.

#### PROCESS-INTEGRATED MONITORING MEASURES

Process-integrated monitoring measures are used to manage operational risks. These include loss risks,

which have their origin in inappropriate or incorrect internal processes, actions or systems. Their identification, evaluation and control are key aspects of the process-integrated monitoring measures. When designing processes, risks for process goal achievement must always be analysed and corresponding controls established. Controls should reveal the probability of errors occurring in work processes and errors that have actually occurred. Thus, upstream controls comprise measures intended to prevent errors. These measures are integrated into both our structural and procedural organisation. Downstream controls are used to identify early on errors that have already occurred, to intervene in a corrective way and thus to ensure correct process management.

#### PROCESS-INDEPENDENT MONITORING MEASURES

Process-independent monitoring measures are neither integrated into the work process nor responsible for the result of the monitored process. In the K+S GROUP they are carried out by the internal auditors. The annual assessment of the operational functionality of the ICS is supported by the results of audits performed.

## 4.4 IMPORTANT NON-FINANCIAL MATTERS

### K+S STRATEGY FOR DEALING WITH SUSTAINABILITY MATTERS

As a commodities company, we must think and act in long terms. Our vision, mission and strategy are oriented towards sustainable growth that creates values. For us, sustainable development means fitness for the future. We will only remain commercially successful if we also take environmental and social interests into sufficient account in our business strategy.

An early and systematic identification and evaluation of these matters and social trends and their inclusion in our management processes help us to boost our current business, seize new business opportunities and minimise risks.

/ FURTHER INFORMATION ABOUT THE VISION, MISSION AND CORPORATE STRATEGY can be found on page 11 and page 70 of this Financial Report.

In our Corporate/Sustainability Report for 2010, we presented for the first time our main fields of action for sustainable development, with their opportunities and risks, and with their importance for our stakeholders, together with our possibilities for influencing them. Our fields of action are derived from our vision/mission and from our corporate strategy, from global megatrends and management themes.

/ CRITERIA FOR KEY FIELDS OF ACTION FOR SUSTAINABLE DEVELOPMENT, RELATED OPPORTUNITIES, RISKS AND STAKEHOLDER EXPECTATIONS can be found in our Corporate/Sustainability Report on page 15.

Comprehensive information on how we deal with sustainability matters can be found in our Corporate/Sustainability Report. Three topics, which are relevant to our economic position, are discussed in detail below:

- + Employees
- + Water protection
- + Efficient use of energy and climate protection

### EMPLOYEES

#### FORWARD-LOOKING PERSONNEL POLICY

With a forward-looking personnel policy we contribute to the preservation of the K+S GROUP's international competitiveness. This begins with the early securing of new talent and is based on the future-orientated development of specialists and managers. For our employees, including those whom we are yet to take on, form the basis for leading us into a successful future.

We want to be an attractive employer for employees from all over the world. We offer jobs in a highly performing network of about 80 sites, which range from Chile through the United States, Canada and Europe to Singapore. Apart from challenging tasks, we also offer comprehensive advanced education and international

development opportunities, performance-based remuneration and employee participation in the Company's success.

#### CORNERSTONES OF PERSONNEL MANAGEMENT

- + Succession planning across the Group and across business segments
- + A commitment to increasing the proportion of women in management positions, equal opportunities and a better balance between the demands of work and family life
- + Needs-based vocational training
- + Targeted personnel development supported by further training and advanced education
- + Effective health management
- + Target-group-specific personnel marketing and recruitment

#### NUMBER OF EMPLOYEES SLIGHTLY UP

The number of K+S GROUP employees reported 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. / TAB: 4.4.1

As of 31 December 2011, the K+S GROUP employed a total of 14,496 people. Compared with 31 December 2010 (14,186 employees), the number thus increased slightly, as expected. While the number of employees in the Nitrogen Fertilizers business segment decreased and remained about the same in the Salt business segment,

#### EMPLOYEES BY BUSINESS SEGMENT<sup>1</sup>

TAB: 4.4.1

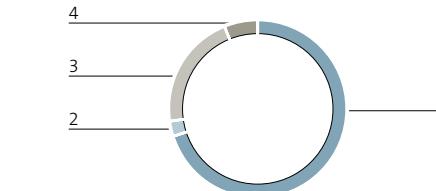
	2011	2010	%
in Full-time equivalents (FTE) as of 31 December <sup>2</sup>			
Potash and Magnesium Products	8,188	7,900	+3.6
Nitrogen Fertilizers	158	171	(7.6)
Salt	5,230	5,235	(0.1)
Complementary Business Segments	290	280	+3.6
Holding units	630	600	+5.0
<b>K+S Group</b>	<b>14,496</b>	<b>14,186</b>	<b>+2.2</b>

<sup>1</sup> Information refers to the continued operations of the K+S Group.

<sup>2</sup> FTE: Full-time equivalents; part-time positions are weighted in accordance with their respective share of working hours.

#### EMPLOYEES BY REGION

FIG: 4.4.1



	2011	2010
in %		
1 Germany	70	69
2 Rest of Europe	3	3
3 North America	21	21
4 South America	6	7

there was a moderate increase in the number of employees in the Potash and Magnesium Products business segment in order to maintain the volume of crude salt extracted and intensify activities in the area of environmental protection. Furthermore, the IT integration of MORTON SALT required an increase in personnel in K+S IT-SERVICES GMBH, which is one of the holding companies.

In terms of averages too, a slight increase can be seen in the number of employees. In the year under review, an average of 14,314 people were employed at K+S (2010: 14,091).

#### INTERNATIONALISATION OF THE K+S GROUP

As a result of the increasing internationalisation of the K+S GROUP since 2006, 30 % of employees are now

located outside Germany and more than a quarter outside Europe. / FIG: 4.4.1

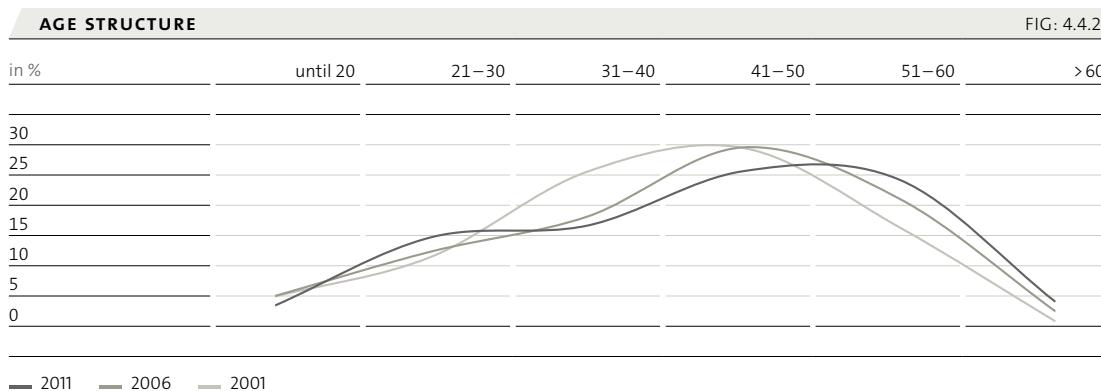
#### PERSONNEL EXPENSES

In 2011, the personal expenses of the K+S GROUP were € 976.1 million and thus, in line with expectations, moderately above the level of the previous year (2010: € 944.4 million). The increase is attributable in particular to pay settlements under collective bargaining agreements and higher performance-related remuneration resulting from increased earnings. Without the provision effects, pure personnel costs rose in comparison with the previous year for the same reasons by € 38.7 million or 4 % to € 987.0 million. In the previous year, the share of variable remuneration in personnel expenses was € 94.5 million or almost 10 % (2010: € 88.5 million or a good 9 %).

/ A COMPREHENSIVE VALUE CREATION CALCULATION can be found in our Corporate/Sustainability Report on page 66.

In 2011, we paid a total of € 787.0 million in wages and salaries (+3 %) and € 155.7 million in social security contributions (+2 %). The expenditure on company pensions amounted to € 33.4 million in the year under review and was thus € 9.1 million above the level of the previous year.

During the year under review, personnel expenses per employee amounted to € 68,188 (previous year: € 67,019) and thus rose by almost 2 %. This is attributable in particular to pay settlements under collective bargaining agreements and higher performance-related remuneration resulting from increased earnings.



#### AGE STRUCTURE AND TURNOVER

A comparatively long length of service with the Company and a low turnover underscore the attractiveness of K+S as an employer. Thus, at 4 %, the turnover rate was again at the low level of the previous year. In relation to total personnel, the turnover based on employees handing in their own notice of termination even remained unchanged at a good 1 %. Our age structure is becoming concentrated in the 41- to 50-year age group; the average age of a K+S employee remained unchanged at about 43 years. / FIG: 4.4.2

In 2010, we began the analysis of the site-specific age structures of our workforces and the respective demographic developments. A tool for assessing differentiated age structures was developed, which will be made available across the Group. A site in Germany was ini-

tially evaluated in 2011. We used the knowledge gained from this in order to further improve the tool. Subsequently, the analysis is being started gradually at the German sites and will then be extended throughout the Group. With this analysis we want to set the direction early on so that in future too the right employees will be in the right place.

#### PROPORTION OF FEMALE AND MALE EMPLOYEES

As a result of the mining operations of the Potash and Magnesium Products and Salt business segments, K+S has a large number of industrial employees working underground. In Germany, these positions were largely reserved for male employees, pursuant to legal regulations (Sec. 64a of the German Federal Mining Act). Only as at 31 July 2009 did the legislator remove the regulation without replacing it. This complies with the efforts of K+S

**TRAINING FIGURES<sup>1</sup>**

TAB: 4.4.2

	2011	2010	2009	2008	2007
Total trainees (number)	634	618	649	610	607
German training ratio (%)	6.3	6.3	6.3	6.0	6.1
Training expenditure (€ million)	15.0	14.2	13.5	12.6	11.6

<sup>1</sup> Information relates exclusively to Germany and, for the years 2011 and 2010, refers to the continued operations of the K+S Group.

to interest more women in careers in technology; already in summer 2010 we began to train our first female mining technologists.

At the end of 2011, the proportion of female employees across the Group was 11.2 % (2010: 10.8 %), in Germany it stood at 8.8 % (2010: 8.6 %) and at administration sites it was, on average, 38.4 % (2010: 38.5 %). The proportion of female managers across the Group was 9.7 % (2010: 8.3 %) and in Germany 8.7 % (2010: 7.2 %).

In October 2011 we signed up to a voluntary commitment on the part of the 30 DAX-listed companies, to increase the proportion of women in management positions, to equality of opportunity and to making it easier to combine professional and family life as an important element of diversity management. As part of this self-obligation, the K+S GROUP is pursuing the goal of increasing the proportion of women in management positions by about 30 %, starting from the figures of 31 December 2010 and to have a proportion of women in management positions which corresponds to that of

the female workforce in the entire workforce in Germany by 2020.

**NEEDS-BASED VOCATIONAL 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 includes the transfer of knowledge to younger employees and thus the targeted training of a new generation. This is an area in which we are already laying the groundwork for tomorrow's growth. Because this form of dual training, combining theoretical instruction in vocational schools with practical experience in the workplace, exists only in Germany, Austria and Switzerland, our reporting on the subject of training relates only to Germany. In line with our target that at least 160 training positions will be provided every year, in 2011 178 young people began their vocational training with us. This is happening in 17 professions at 14 German sites in the K+S GROUP. As at 31 December 2011, we employed a total of 634 trainees, an increase of 16 trainees in comparison with the previous year. At 6.3 %, the training

ratio at the domestic companies was on the high level of the previous year. The training that we provide, which is planned for the long term and geared to needs, ensures the necessary availability of future employees in industrial, mining, commercial, chemical, IT and logistics occupations. On such training, in 2011, we spent about € 11.7 million in personnel expenses as well as € 3.3 million in material costs (2010: personnel costs: € 11.4 million; material costs: € 2.8 million). We are pleased that in the year under review, we were again able to take on about 90 % of the successfully qualified trainees. / TAB: 4.4.2

**PERSONNEL DEVELOPMENT**

The aim of our personnel development is, in future too, to fill specialist and managerial positions primarily from our own ranks. Against the backdrop of the age-related loss of staff and the additional need for personnel due to the future growth of the K+S GROUP, sufficiently qualified new employees must be gained and existing employees prepared for increasing and changing job requirements in due time. We therefore regard personnel development with the components advanced education, further training and personnel marketing as an investment in our employees and thus in the future of the K+S GROUP.

Expenditure on personnel marketing in Germany totalled about € 13.4 million and thus rose by 11 % (2010: € 12.1 million). Of this, € 9.6 million was attributable to advanced education measures (2010: € 8.4 million), € 3.5 million to further training measures (2010: € 3.6 million) and € 0.2 million to activities in the area of personnel marketing

(2010: € 0.1 million). Already in 2011, we formulated the goal of increasing the meaningful expenditure on personnel development by 2016 by at least a third in comparison to 2010 (€ 12.1 million). We continue to keep to this goal.

Personnel development also plays an important role at our foreign sites.

#### ADVANCED EDUCATION

The provision of advanced education to our employees is becoming increasingly important due to rising and increasingly international requirements as well as technical innovations. In addition to advanced education measures that are required by law, the K+S GROUP also offers occupation-specific, occupation-transcending, as well as IT and language training. Employees receive direct support for new and complex tasks by means of process-accompanying training measures. In the annual or employee interviews, employees and their superiors jointly determine the advanced education requirements. In 2011, the number of participations of our employees in Germany in advanced education measures increased significantly to 11,069 (2010: 8,168 participations in advanced education measures). We invested about € 9.6 million in this (previous year: € 8.4 million), equivalent to € 921 per employee in Germany (previous year: € 864). Especially in the sphere of management competence, both the number and the quality of the training sessions further increased. / TAB: 4.4.3

#### ADVANCED EDUCATION FIGURES<sup>1</sup>

TAB: 4.4.3

	2011	2010	2009	2008	2007
Participants in advanced education measures	11,069	8,168	6,977	5,550	4,652
Advanced education expenditure in € million	9.6	8.4	6.3	4.4	3.8
Expenditure per participant in €	921	864	616	430	377

<sup>1</sup> Information relates exclusively to Germany and, for the years 2011 and 2010, refers to the continued operations of the K+S Group.

#### FURTHER TRAINING

We provide promising employees from technical, mining and production areas with further training to become a technician or with a more advanced qualification bringing with it the prospect of a management career. Our main partner in Germany is the Technical College for Economy and Technology (Fachschule für Wirtschaft und Technik – FWT) in Clausthal-Zellerfeld. At present, 80 employees are completing the first year of their technical training. Furthermore, within the framework of the sponsorship module "K+S StudiumPlus", which has been in existence since March 2011, winter semester 2011/12 sees the awarding of the first six grants for a full-time bachelor's/master's degree course.

#### PERSONNEL MARKETING

Personnel marketing comprises measures for promoting the image of K+S as an attractive employer, trainee marketing and university marketing. In 2011, we presented ourselves at 15 university fairs in Germany and intensified contacts to university-level institutions with a focus on mining and technology.

Since winter semester 2008/09, in Germany we have also been offering 15 grants as part of the "K+S min(d) ing" programme. We sponsor selected students with € 1,000 gross per semester for a total of two semesters. Within this period, they complete a three-month internship or a working student placement at K+S.

MORTON SALT, too, presents itself at university fairs, via job exchanges, and in newspapers, universities and professional organisations.

#### WORK SAFETY

Protecting our employees against work-related dangers is accorded the highest priority at K+S. We wish to still further reduce the very low number of accidents in comparison to other industrial companies. We are working on this, in part together with the relevant authorities and professional associations.

In Germany, accidents at work have to be reported pursuant to § 193 SGB (German Social Code) VII Sec. 1 if they result in an inability to work of more than three days.

In the past, we reported accidents at work at European sites in accordance with this definition. However, the nationally prescribed criteria for accident statistics in the USA and in Canada as well as in Chile/Brazil differ from the European procedure. Since 2011, we have therefore introduced uniform work safety reporting (Integrated Safety Report) across the Group, which defines injuries resulting in an inability to work of more than one day as an accident at work. In 2011, we had to report 979 injuries and 189 accidents at work with working hours lost. The average number of working hours lost per accident at work was 22 calendar days. In 2011, the "accidents at work with working hours lost per one million working hours" key ratio was 7.5. Despite the stricter definition, in the K+S GROUP, there were fewer accidents at work per one million working hours than on average for the professional association and the mining professional association. Unfortunately, we had a fatal accident at one of our European sites in 2011. The subsequently conducted detailed analysis of the occurrence showed that the accident was attributed to a combination of human error and a previously unknown danger potential in a packaging plant. We immediately increased the safety precautions on the machine concerned, checked all comparable equipment by means of an updated hazard assessment and issued special instructions to the employees involved in production and technology.

**/ ADDITIONAL INFORMATION ABOUT WORK SAFETY, PREVENTION AND OTHER EMPLOYEE ISSUES** can be found in our Corporate/Sustainability Report on page 95.

## WATER PROTECTION

It is our goal to continue and ensure potash production for decades to come in Hesse and Thuringia at today's production level on the basis of sustainable economic activity, while caring for and protecting the natural environment. We pay particular attention to water protection, especially – but not only – in the Hesse-Thuringia potash district.

## USE OF WATER

In addition to the substances potash, magnesium and sulphur, the crude salt extracted in our potash mines also contains salts and other elements that cannot be recycled. Depending on the site concerned, these substances are separated by means of thermal dissolution, flotation and, in combination with both, electrostatic separation (ESTA process). While the thermal dissolution and flotation processes inevitably involve the use of water, the dry ESTA process patented by K+S achieves significant water saving in comparison to classic wet separation.

In the Salt business segment, water is used primarily in solution mining, an extraction process in which the rock salt deposit is obtained through the controlled drill-hole solution mining procedure from above ground by means of one or more brine drillings (cavern drilling operations). Thus, freshwater is fed into the deposit. The water loosens the solid rock salt and is then pumped above ground as a concentrated brine. From there the

brine either goes directly to the chemical industry as a raw material or is further processed into solid evaporated salt. This is done by feeding the brine into closed evaporation vessels, where the sodium chloride crystallises.

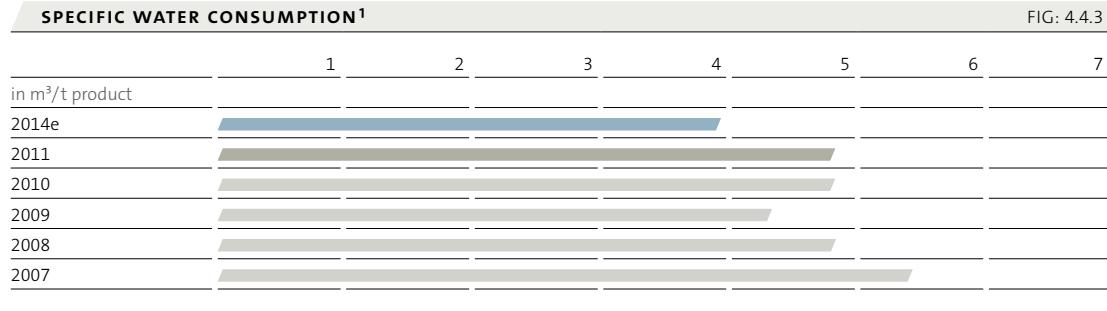
In 2011, we used 159 million m<sup>3</sup> of water across the Group (previous year: 160 million m<sup>3</sup> of water). At 4.8 m<sup>3</sup>/tonne, the specific use of water remained at about the level of the previous year. By 2014, we want to lower this to less than 4 m<sup>3</sup>/tonnes of goods, i.e. a further decrease of more than 10 %. / FIG: 4.4.3

## WASTE WATER

Throughout the world, potash production is inseparably associated with the necessity of disposing of solid and liquid residues. Residues from production arise either in solid form or as liquid residues (saline waste water).

We either heap the solid residues, which mainly consist of currently non-recyclable rock salt, or we return them to underground caverns. Within the framework of existing permits, we dispose of the liquid production residues and saline water arising due to precipitation onto our tailing piles by discharging them into flowing waters and by injecting them into deeper layers of rock known as plate dolomite.

We use state-of-the-art techniques to extract and process our natural crude salts, setting standards for our competitors. For example, in recent decades, we have



<sup>1</sup> Information for the years 2011 and 2010 refers to the continued operations of the K+S Group.

significantly reduced the saline waste water in the Hesse-Thuringia potash district:

- + from over 40 million m<sup>3</sup> in 1970
- + to 20 million m<sup>3</sup> in 1997
- + to 14 million m<sup>3</sup> in 2006.

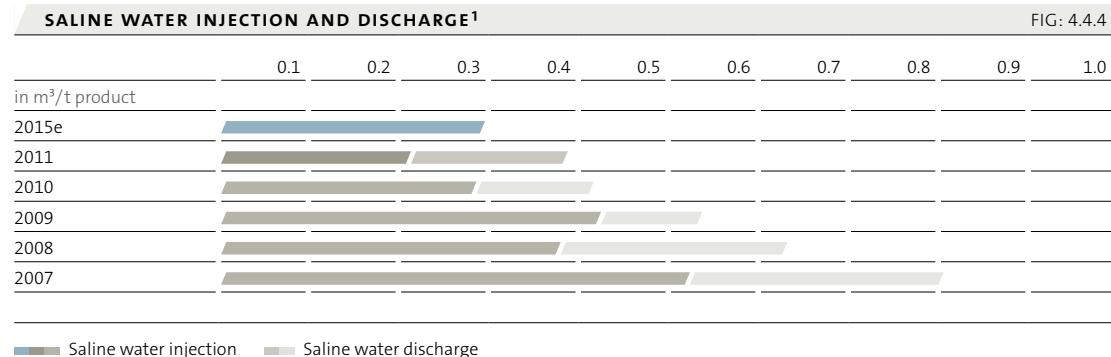
After the submission of our package of measures on water protection in October 2008, in February 2009, we concluded a public law agreement with the federal state of Hesse and the Free State of Thuringia with the aim of securing potash production in the Hesse-Thuringia potash district over the long term and further reducing its impact on the environment. In May 2009, in accordance with this public law agreement, we submitted our overall strategy for reducing the impact on the environment. The capital expenditure for the planned measures to improve water quality will come to a total

of € 360 million by the end of 2015. The first construction work began at the sites of the Werra plant in Hesse and Thuringia in October 2011. In total, a number of subprojects are planned which, by the end of 2015, will reduce by about 50 % to 7 million m<sup>3</sup> the occurrence of saline waste water in comparison to 2006 through changes in the production process, and in part through new process technology. Thus, we are setting a target of 0.3 m<sup>3</sup>/tonne of product in 2015 for the discharge into waters. This will make possible a lowering of the salt concentration in the River Werra by about 30 % in comparison to 2006 and bring with it further significant ecological improvements. To attain these objectives, a balance between discharges into and the exploitation of underground resources must be retained also beyond 2015.

With the planned measures we are approaching the limits of what is technically achievable and commercially viable. This will improve the prospects for not only our sites and their employees, but also for very many people in the region. We are thus even better harmonising commercial interests and ecological requirements and fulfilling our corporate responsibility to secure thousands of jobs in the potash industry. A description of possible risks arising from the change of or refusal to grant permits by public agencies in relation to the disposal of saline waste water, which would result in a persistent and material adverse effect on the asset, financial and earnings position of the K+S GROUP, can be found in the Risk Report on page 118.

In 2011, the volume of saline waste water in the Hesse-Thuringia potash district totalled 12.6 million m<sup>3</sup> or 0.4 m<sup>3</sup>/tonne of product (previous year: 13.7 million m<sup>3</sup> or 0.4 m<sup>3</sup>/tonne of product). Of this, we discharged 6.9 million m<sup>3</sup> or 0.2 m<sup>3</sup>/tonne of product (previous year: 9.4 million m<sup>3</sup> or 0.3 m<sup>3</sup>/tonne of product) and injected 5.7 million m<sup>3</sup> or 0.2 m<sup>3</sup>/tonne of product (previous year: 4.3 million m<sup>3</sup> or 0.1 m<sup>3</sup>/tonne of product). / FIG: 4.4.4

In 2011, a total of € 12.2 million was invested in water protection (2010: € 15.1 million). The operating costs for water protection amounted to € 108.4 million (2010: € 93.3 million).



<sup>1</sup> Information for the years 2011 and 2010 refers to the continued operations of the K+S Group.

## EFFICIENT USE OF ENERGY AND CLIMATE PROTECTION

K+S takes climate protection as an ecological and economic challenge seriously. Protecting the climate is one of the main challenges of the coming decades. We want to make our contribution towards using the existing resources even more efficiently.

### IMPROVING ENERGY EFFICIENCY AND REDUCING CO<sub>2</sub> EMISSIONS

The following key measures are currently being tracked at the sites of the Potash and Magnesium Products and the Salt business segments in order to improve energy efficiency and further reduce carbon dioxide emissions:

- + Use of the most efficient power plant technology (cogeneration): Our six potash plants have their own power stations, which are equipped with state-of-the-art cogeneration technology. Thanks to successful optimisation measures, utilisation levels for our power stations have been exceeding 90 % for some time. The sites thus work close to the highest level of theoretically achievable energy efficiency. Nevertheless, we are working on further improvements: Thus, together with E.ON at the Hattorf site, we are currently modernising the plant's own energy supply in order to increase the extent to which the power station is utilised and render it less dependent on the supply of power from outside. Simultaneously, the emission of a further 90,000 tonnes of CO<sub>2</sub> can be prevented each year.

- + Recovery and use of waste heat on production plants and power stations: The most energy-intensive process in the Salt business segment is the production of evaporated salt, which involves the vaporisation of large volumes of water. For this, brine is fed into closed evaporator vessels, where it is vaporised at temperatures of between 50 to 150 °C and the sodium chloride is crystallised out. The process is optimised to the extent that through heat recovery and multi-stage evaporation apparatus, which is partly operated in a vacuum, the highest possible level of energy use is achieved.
- + Continuous optimisation of our energy-saving production processes with the aim of reducing energy consumption throughout the entire value chain.

The energy required for the operation of our power plants, drying facilities and evaporated salt facilities – electricity and steam – is generated almost exclusively on the basis of natural gas.

### ENERGY CONSUMPTION

In 2011, total energy consumption amounted to 8,865 GWh (previous year: 8,958 GWh). Of this, 5,773 GWh were accounted for by natural gas, liquid gas or biogas, 1,384 GWh by externally obtained steam, 1,117 GWh by coal, 539 GWh by outside electricity and 88 GWh by light and heavy heating oil. We fed 154 GWh of electricity into the public network. Specific energy consumption per tonne of manufactured product was 267 kWh/tonne of product (previous year: 268 kWh/tonne of product). It

was possible to slightly reduce energy consumption yet again, both in absolute terms and per tonne of product. Nevertheless, the K+S GROUP's energy costs increased tangibly due to price factors.

It has been possible to gradually reduce energy consumption per tonne of produced goods in recent years. We see a realistic opportunity to further reduce specific energy consumption to approximately 250 kWh/tonne in 2014. / FIG: 4.4.5

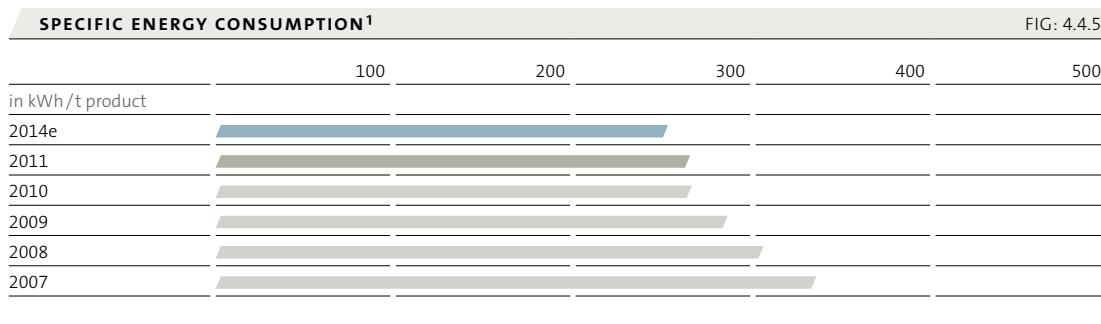
#### CO<sub>2</sub> EMISSIONS

CO<sub>2</sub> emissions in 2011 were 1.5 million tonnes (previous year: 1.6 million tonnes). Carbon dioxide emissions per tonne of manufactured product were 46 kg/tonne of product (previous year: 49 kg/tonne of product). Thus, as in previous years, it was possible to further reduce specific CO<sub>2</sub> emissions. We see a genuine possibility of further reducing CO<sub>2</sub> emissions to about 45 kg/tonne as of 2014. Moreover, K+S KALI GMBH is a partner in the self-obligation to protect the climate agreed between the Federal Government of Germany and the German industry. / FIG: 4.4.6

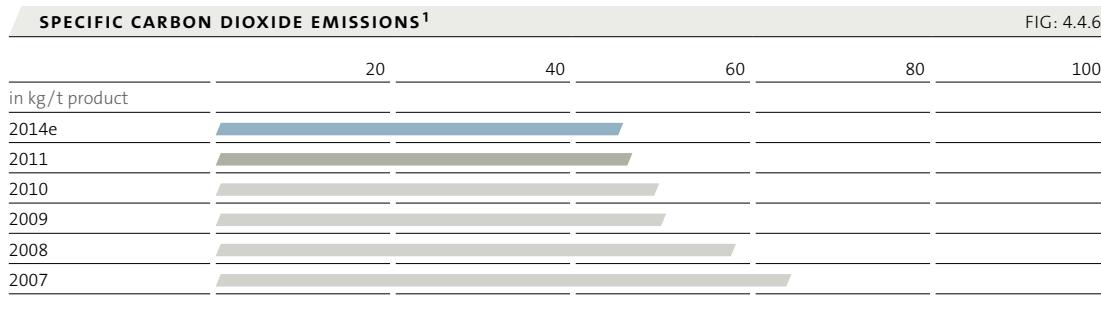
/ YOU CAN FIND MORE INFORMATION ABOUT THIS in our Corporate/Sustainability Report on page 80.

#### EMISSIONS TRADING

Emissions trading is one of the instruments envisaged by the 1997 Kyoto Protocol for reducing greenhouse gases. The European system for trading in emissions certificates entered into force in 2005. Companies



<sup>1</sup> Information for the years 2011 and 2010 refers to the continued operations of the K+S Group.



<sup>1</sup> Information for the years 2011 and 2010 refers to the continued operations of the K+S Group.

emitting more CO<sub>2</sub> than allowed under the emission rights allocated to them can choose whether to invest in projects to reduce emissions or to buy emission certificates on the market. The second trading period for

emissions trading started in January 2008. In the K+S GROUP, 16 facilities continue to be obliged to engage in emissions trading. However, by granting emission rights in accordance with the benchmark system, the energy

efficiency of the individual facilities is not fully taken into consideration in Germany. Instead, plants in the energy sector are assigned a “flat-rate” percentage reduction obligation. These are difficult to achieve, particularly for efficient industrial energy production facilities such as our power plants, which already have an efficiency level of over 90 % thanks to cogeneration. Thus applied, emissions trading fails to have the desired steering effect. Nonetheless, K+S emits less CO<sub>2</sub> than the allocated emission rights allow. While we have sold these in the first trading period with a return, since the beginning of the second trading period, we have been building up our stock and thus preparing ourselves already today for the third trading period (2013–2020), because in that period the free allocation of certificates is to be gradually reduced and thus the procurement of certificates will increasingly have to take place on the free market. To counter resultant future price risks, we have already acquired additionally needed certificates and disclosed them under non-current assets. In 2013 to 2020, they will be recognized affecting net income in a low single-digit million range per year.

## 4.5 RESEARCH AND DEVELOPMENT

### RESEARCH AND DEVELOPMENT ACTIVITIES

#### GOALS AND MAIN FOCUSES OF OUR R&D ACTIVITIES

In principle, we pursue the following two goals with our research and development activities:

- + Increasing customer benefit
- + The highest possible efficient use of resources

Against this backdrop, we focus our research and development activities on the optimisation of processes and the development of new and improved products. The continuous review and further development of the production methods and processes used by us is intended to ensure a sustainable and efficient use of raw materials, capital, energy and personnel. To this end, we evaluate new technologies and materials and operate research institutes of our own focusing on product development, product treatment, process technology and analytics. Within the framework of developing new fertilizers and improving those we already offer, we are committed to practice-oriented research in the sphere of plant nutrition and to working out solutions in order to meet the higher demand for food and feed due to a growing global population as well as changing eating habits. Our agricultural application consulting supports customers in the use of our products on-site and creates a transfer of knowledge to less developed regions.

In 2011 too, the efforts to reduce unavoidable solid and liquid residues in potash production were a main focus. Within the framework of the package of measures on water protection, further analyses were carried out and we pressed ahead with promising developments in the area of new treatment technologies. The key focuses of the research on process technology were the further improvement of the production and refining processes as well as the flexibilisation of the processes for adapting to changed raw material, production or market conditions. Furthermore, the work on improving exploration processes for potash and salt deposits was continued. With a view to the Legacy Project, we have expanded our R&D activities in solution mining and in the treatment of brine that will be extracted in the future. In application-oriented agricultural research, we further pursued projects with our research institute founded together with the University of Göttingen in 2010. At MORTON SALT, the focus of research was on the further development of product alternatives for the reduction of the sodium content in food as well as product development in the water softening and de-icing salt segments.

The K+S GROUP’s R&D budget is centrally coordinated across the Group and agreed with the Board of Executive Directors. To encourage synergy potential, central databases containing the results of research and scientific-technical know-how are maintained.

## USE OF EXTERNAL R&D KNOW-HOW

The research strategy of the K+S GROUP comprises internal and external research activities. An important element is cooperation, which permits the effective transfer of knowledge from research into practice, access to an international network and the use of synergies.

In 2011, € 2.3 million was spent on cooperation with external research institutions (2010: € 2.3 million); this is about 13 % of the total research and development costs of € 17.8 million spent in this financial year. The funds used focussed on the following areas:

### INTERNATIONAL FIELD TESTING

We assign field tests to specialised and experienced farms worldwide, which are accompanied on a scientific basis either directly by our employees or by local agricultural institutes. This approach enables us to obtain valuable findings relating to a diverse range of crops growing in various climatic zones on local soils and to optimise our products accordingly.

### COOPERATION WITH THE INTERNATIONAL PLANT NUTRITION INSTITUTE

To optimise the fertilizer application strategies for palm trees, the IPNI (INTERNATIONAL PLANT NUTRITION INSTITUTE), Norcross, USA, is currently carrying out a project on 'Best Management Practice'. The project is supported financially by K+S KALI GMBH and has the aim of establishing the best practice concept at plan-

tation companies in order to increase oil yields within the framework of sustainable and economical farming.

### JOINT INSTITUTE OF APPLIED PLANT NUTRITION TOGETHER WITH THE UNIVERSITY OF GÖTTINGEN

In November 2010, K+S KALI GMBH and the University of Göttingen founded the organisationally and legally independent INSTITUTE OF APPLIED PLANT NUTRITION – IAPN. In 2011, it proved possible to gain Professor Dr. Dittert, a renowned academic in this field of research, as head of the plant nutrition department. The aim of the IAPN is, within the framework of a public-private partnership, to create an interface between the academic world and business and to focus on practice-oriented research in the area of plant nutrition. The knowledge gained can be rapidly transferred via the K+S application consultants to practical experience. In particular, we will in future carry out research into the effect of the optimal fertilization with the nutrients potash, magnesium, sulphur and sodium on the efficient use of water by the soil/plant system. Another important area of work at the IAPN is the role of magnesium as an important nutrient in plant cultivation.

### AGRICULTURAL RESEARCH FOR DEVELOPMENT

Together with the INTERNATIONAL POTATO RESEARCH CENTRE CIP and the DEUTSCHE GESELLSCHAFT FÜR INTERNATIONALE ZUSAMMENARBEIT (GIZ), K+S KALI GMBH is researching into the balanced fertilization of potatoes as the world's third-most important staple

food. Priority is given to combating poverty in the partner countries of German development cooperation in Asia, Africa as well as Central and Latin America. The joint letter of intent was signed in May 2011.

### COOPERATION WITH THE WETSUS RESEARCH PLATFORM

Within the framework of a further public-private partnership, we are supporting the Dutch WETSUS research platform in work on the subject of 'blue energy'. This examines the possibilities for obtaining electrical power from the exchange between two solutions with very different salt concentrations, e.g. river water entering the sea. Furthermore, together with WETSUS, we are researching in the "Salt" working group on obtaining drinking water and usable salts from the concentrates of seawater desalination plants. The first projects have completed the basic research stage and, at present, laboratory-scale pilot plants are being designed.

### COOPERATION WITH UNIVERSITIES

In economic, scientific as well as technical areas, we cooperate with universities, thus far predominantly in Germany. Across the country, we provide financial support to university graduates at undergraduate, diploma and doctoral level in those areas that are the focus of our R&D activities. This allows us to identify talent early on and to recruit a qualified new generation of employees for our Company. A main focus in 2011 was the cooperation with the technical universities of Aachen, Clausthal-Zellerfeld and Freiberg.

## ORDERS AWARDED TO THE RESEARCH INSTITUTES OF BASF

K+S NITROGEN cooperates with BASF on research into innovative nitrogenous fertilizers; the contractual basis enables us to award orders to BASF flexibly and in relation to individual projects, while at the same time remaining able to cooperate with other university-level and research institutes.

## RESEARCH FIGURES

### RESEARCH COSTS AND DEVELOPMENT-RELATED CAPITAL EXPENDITURE

In the period under review, research costs of the continued operations totalled € 17.8 million and were thus significantly above the level of the previous year (2010: € 13.8 million). The majority of the research costs can again be attributed to the improvement of production processes for minimising solid and liquid production residues in potash production. In addition, about € 2.6 million were spent on research projects in solution mining as part of the planned drilling and brining out of the first cavern of the Legacy Project in Saskatchewan. As measured by revenues, the research intensity of the K+S GROUP is 0.3% (2010: 0.3%). This percentage is more or less the normal level in our sector. / TAB: 4.5.1

Under IFRS, certain development costs have to be capitalised in the balance sheet. In the year under review, development-related capital expenditure for the continued operations was, with € 1.6 million (2010: € 0.7 mil-

lion), above the level of the previous year and incurred in the Potash and Magnesium Products business segment. Capital expenditure was chiefly on the development and further development of our mining vehicles and extraction machinery as well as extraction technology. Capitalisation will result in depreciation charges for development-related capital expenditure over the coming years; however, at a relatively low level. / TAB: 4.5.2

### RESEARCH PERSONNEL

The number of people employed in research rose to 78 (2010: 73) due to the hiring of employees at the company management and at the MORTON SALT research institute in the USA. / FIG: 4.5.1, 4.5.2

### SELECTED RESEARCH AND DEVELOPMENT PROJECTS AND RESULTS

#### POTASH AND MAGNESIUM PRODUCTS BUSINESS SEGMENT

##### RESEARCH INTO AND DEVELOPMENT OF DRY TREATMENT TECHNOLOGIES

Within the framework of the package of measures on water protection, further research was carried out and we pressed ahead with promising developments in the area of dry treatment technologies.

##### OPTIMISATION OF EXPLORATION PROCEDURES

The optimisation of exploration procedures for potash deposits was continued in 2011. The aim is to in future be able to make still better forecasts for mining plan-

RESEARCH COSTS <sup>1</sup>		TAB: 4.5.1
	2011	2010
in € million		
Potash and Magnesium Products	9.0	5.2
Nitrogen Fertilizers	0.8	1.3
Salt	3.0	2.5
Other research costs	5.0	4.8
<b>Total</b>	<b>17.8</b>	<b>13.8</b>

<sup>1</sup> Information refers to the continued operations of the K+S Group.

ning. As part of the visualisation of deposits, field tests were, for example, carried out for the further development of measurement and sensor technology in order to improve the quality of the output data for computer models.

#### USE OF ONLINE ANALYTICS

In 2011, we pressed ahead with the use of innovative online analytics, i.e. chemical analysis procedures, which supply fast results about the composition of the crude salt or salt solutions on site. The continuous capture of data in real time leads to a process optimisation in our production sites and permits the even more efficient and effective treatment of crude salt.

#### NITROGEN FERTILIZERS BUSINESS SEGMENT

##### RESEARCH INTO THE YIELD EFFECT OF NITROGEN FERTILIZERS

The effectiveness of different nitrogen fertilizers was investigated on numerous agricultural crops and under

**RESEARCH FIGURES<sup>1</sup>**

TAB: 4.5.2

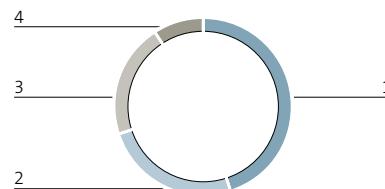
in € million	2011	2010	2009	2008	2007
Research costs	17.8	13.8	18.7	18.1	15.5
Research intensity (Research costs/revenues)	0.3%	0.3%	0.5%	0.4%	0.5%
Capitalised development-related capital expenditure	1.6	0.7	1.8	2.8	2.7
Employees as of 31 Dec. (number)	78	73	78	65	56

<sup>1</sup> Information for the years 2011 and 2010 refers to the continued operations of the K+S Group.

a wide variety of different conditions in local soils. Furthermore, the relevance to the environment of sulphate and nitrogen emissions in the application of fertilizers was analysed. Under precisely controlled test conditions, the washing out of sulphate in the soil and the emission of laughing gas ( $N_2O$ ) by nitrogen fertilizers are measured on the basis of multi-year testing. The aim is to confirm the environmental-friendliness and the benefits offered by our products.

**RESEARCH AND DEVELOPMENT QUALIFICATION STRUCTURE<sup>1</sup>**

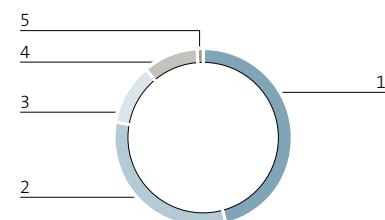
FIG: 4.5.1



in %	2011	2010
1 Vocational qualification	45	46
2 Doctorate degree	25	26
3 College graduates	21	18
4 Master craftsmen/Technicians	9	10

<sup>1</sup> Information refers to the continued operations of the K+S Group.**RESEARCH AND DEVELOPMENT PROFESSIONAL GROUPS<sup>1</sup>**

FIG: 4.5.2



in %	2011	2010
1 Laboratory specialists	46	46
2 Natural scientists	32	30
3 Commercial occupations	11	11
4 Engineers	10	12
5 Other	1	1

<sup>1</sup> Information refers to the continued operations of the K+S Group.**DEVELOPMENT OF A UREASE INHIBITOR**

Within the framework of the research activities of K+S NITROGEN, a urease inhibitor was developed, which can considerably reduce ammonia losses during the application of urea and thus facilitates a more efficient supply of nitrogen.

**SALT BUSINESS SEGMENT****OPTIMISATION OF EXTRACTION MANAGEMENT AND FACILITY SITES IN OPEN-CAST MINING**

In our open-cast mine in the Chilean Atacama desert, in 2011, together with the TECHNISCHE UNIVERSITÄT CLAUSTHAL-ZELLERFELD, we were able to complete the modelling of the salt deposit. With this project, we achieve an optimisation of the open-cast mining layout and extraction as well as the best possible location of sites of new product processing plants.

**INNOVATIVE DE-ICING AGENTS**

MORTON SALT examined new and improved recipes and application recommendations for de-icing agents with

the aim of offering consumers and commercial users possibilities to use them at even lower temperatures, to reduce corrosion and to optimise the volumes used as well as the effect in areas with a low density of traffic such as car parks and housing estates.

#### FURTHER DEVELOPMENT OF WATER-SOFTENING SALTS

In 2011, MORTON SALT developed the next generation of water-softening salts. The goal is to remain the market leader thanks to innovative products.

#### SODIUM REDUCTION IN FOOD

In order to enable food manufacturers in the USA to fulfil the country's guidelines on nutrition, further studies on the reduction of sodium in food were carried out.

#### RESEARCH IN THE AREA OF ORE MINING

Together with customers, we conducted research into the possibility of achieving ecological improvements in ore mining and ore processing through the use of salt.

At regular intervals, all research projects are jointly examined in cooperation with the clients in relation to their progress, applicability, framework conditions, the probability of realisation and potential returns.

#### BRAND PORTFOLIO AND PATENTS

In 2011, the K+S brand portfolio in the continued operations grew by 191 registrations and additions. As umbrella brands, the K+S GROUP uses, for example, ACTION MELT®, CÉRÉBOS®, KALI-STIER®, MORTON®, SPL®, UMBRELLA GIRL®, VATEL® and WINDSOR®. As product brands, for example, AXAL®, ENTEC®, KORN-KALI®, NITROPHOSKA®, PATENTKALI® and KALISEL® are used. Further brands for food grade salt in Chile are SAL LOBOS® and the sodium-reduced product range BIOSAL LIGHT® and BLIZZARD WIZARD® for de-icing salt in the USA. A total of 64 brand rights that were no longer used were abandoned. On the reporting date, in the continued operations, the K+S GROUP thus held 2,804 (2010: 2,677) national proprietary rights deriving from 635 basic trademarks. The K+S GROUP's global patent portfolio currently numbers 67 patent families, which are protected by 303 (2010: 284) national rights. The patents are used, for example, in the areas of electrostatic preparation processes, the production of granulates and flotation. In 2011, the patent portfolio of industrial property rights was increased by 30 trademarks. No licence fees were generated.

#### 4.6 OVERVIEW OF COURSE OF BUSINESS

##### MACROECONOMIC ENVIRONMENT

The growth of the global economy in 2011 cooled down noticeably at the end of the year after a moderate increase in the first three quarters. The gross domestic product nonetheless increased, as already expected in the Quarterly Financial Report Q3/11, by a total of 3.7%. Not only in the industrialised nations, but also in the emerging market countries, growth lost momentum during the course of the year. The reason for this was, on the one hand, a sharp slowdown in momentum with exports, and, on the other hand, less impetus in the domestic economy due to the expiry of stimulus programmes and a tightening of monetary policy in these countries. The increase in consumer prices accelerated significantly worldwide in 2011. / TAB: 4.6.1

In the Eurozone, the pace of growth progressively declined in the course of 2011. Due to the escalation of the sovereign debt crisis, measures were adopted in many countries to reduce the budget deficit. Burdens due to the sovereign debt crisis prompted declining economic dynamism in the core countries Germany and France, while uncertainty on the financial markets had also an increasing effect on the real economy over the year. In 2011, the gross domestic product in Germany grew by 3.0% after an increase of 3.7% in the previous year. Some European countries even saw their

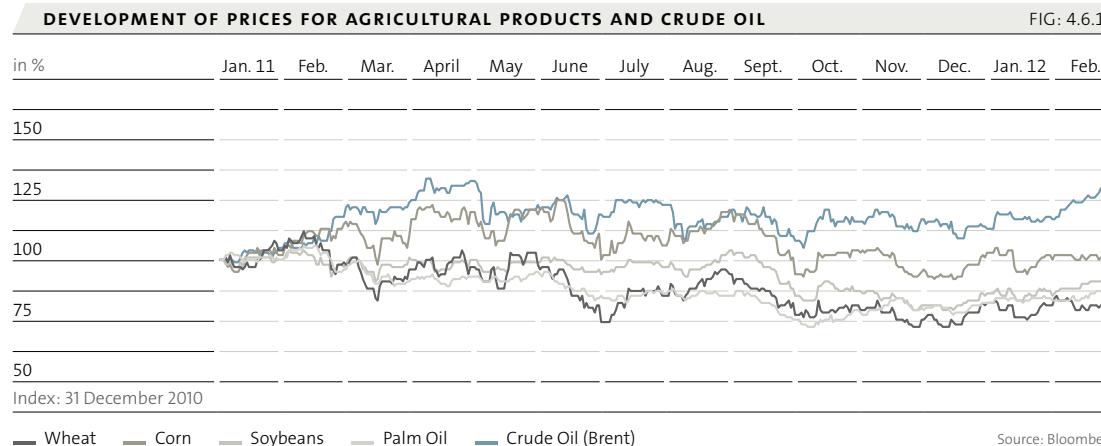
economies shrink: In Spain and Italy, the gross domestic product barely grew during the year, and the Greek and Portuguese economies slid into a deep recession. The gross domestic product of the eurozone as a whole nonetheless increased by 1.7 %, while inflation stood at 2.5 %. The European Central Bank (ECB) raised its key interest rate to 1.5 % in the middle of the year, but this rise in interest rates was again reversed in two steps to a level of 1.0 % by the end of the year.

The US economy developed slightly positive in the course of the year. After the dramatic rise in the oil price at the start of the year and the economic effects of the natural disaster in Japan had slowed down the recovery, it regained momentum somewhat during the second half of the year. The political discussion about the raising of the debt ceiling in July and August and the debt crisis in Europe made itself felt principally in the form of lower investments in stocking-up by companies. In 2011, the gross domestic product rose by 1.8 % and consumer prices by 3.2 %.

In the emerging market countries, the economy cooled down noticeably during 2011, after an extremely robust expansion of overall economic production in 2010. The effects of the debt crisis in the Eurozone as well as the economic uncertainty in the United States and Japan were increasingly reflected in the economic activities of the emerging market countries.

PERCENTAGE CHANGE IN GROSS DOMESTIC PRODUCT						TAB: 4.6.1
	2011	2010	2009	2008	2007	
in %; real						
Germany	+ 3.0	+ 3.7	(4.7)	+ 1.3	+ 2.5	
European Union (EU-27)	+ 1.7	+ 1.9	(4.2)	+ 1.2	+ 3.1	
World	+ 3.7	+ 5.1	(0.8)	+ 3.1	+ 4.8	

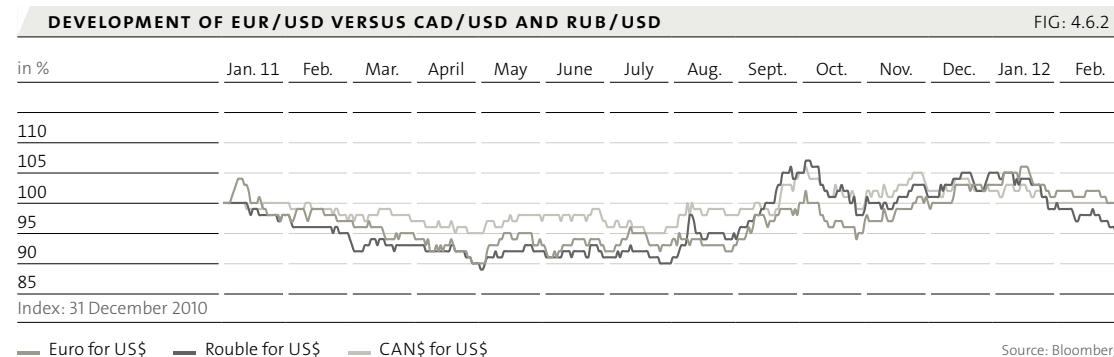
Source: Deka Bank



Source: Bloomberg

There was no uniform picture on the raw materials markets during the course of the year. After an increase in the oil price (Brent) against the backdrop of unrest in North Africa and the Middle East at the start of the year, there was a slight weakening in the second half of the

year due to the gloomier economic climate. At the end of the year, the oil price stood at US\$ 107 per barrel. In terms of the average for the year, a barrel of oil cost a good US\$ 110, about US\$ 30 or 38 % more than in 2010. There was a significant decrease in agricultural raw materials, in



particular in the third quarter. In the closing weeks of the year, however, prices again rose tangibly. While at the end of the year the corn price was slightly above the previous year's level, the prices for wheat, soy beans and palm oil were 15 to 20 % lower than those of the previous year. / FIG: 4.6.1

Developments on the international foreign exchange markets were influenced by the volatile development of the us dollar. After the us dollar weakened to about 1.48 USD/EUR at the start of the year, it rose significantly in the second half of the year and, at the end of December, stood at 1.30 USD/EUR or about 3 % higher against a year before (31 December 2010: 1.34 USD/EUR). In terms of the average for the year, the us dollar stood at 1.39 USD/EUR and thus fell by just under 5 % (2010: 1.33 USD/EUR). / FIG: 4.6.2

### IMPACT ON K+S

The changes in the macroeconomic environment impacted on the course of business for K+S as follows:

- + Towards the end of the year, the consequences of the debt crisis had a noticeable effect also on our Potash and Magnesium Products business segment. With the 2008/09 financial crisis still in mind, the trade sector demonstrated uncertainty at the end of the year and postponed the customary early stocking-up of fertilizers. The impact on 2011 as a whole was, however, relatively small; after 7.06 million tonnes in the previous year, the business segment sold 6.93 million tonnes in 2011 and thus again achieved a high level of utilisation.
- + The energy costs of the K+S GROUP are particularly affected by gas prices. As a result of the energy supply clauses agreed with our suppliers, changes in energy prices in the Potash and Magnesium Products

business segment are normally only reflected in our cost accounting with a delay of six to nine months. Against this background, the significantly higher level of energy prices in the course of 2011 resulted in a price-related increase in the K+S GROUP's energy costs in the second half of 2011.

- + With an average of 1.35 USD/EUR including hedge costs (2010: 1.35 USD/EUR), the hedging instruments used by us in the Potash and Magnesium Products business segment resulted in a more favourable exchange rate in comparison to the average USD/EUR spot rate (1.39 USD/EUR).
  - + In addition to the USD/EUR currency relationship, a relative comparison of the euro and the currencies of our competitors each in relation to the us dollar is also of importance for us. A strong us dollar has a positive impact on the earnings capacity of most of the world's potash producers in their respective local 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. Figure 4.6.2 shows that the temporary weakness of the us dollar against the euro in the first nine months had a negative impact on the K+S GROUP. The disadvantage was greater particularly in comparison to competitors from Canada, but diminished again significantly at the end of the year.
- / AN EXPLANATION OF THE MEASURES FOR MITIGATING ENERGY PRICE RISKS can be found in the Risk Report on page 128.

## INDUSTRY-SPECIFIC FRAMEWORK CONDITIONS

### FERTILIZER BUSINESS SECTOR

After the normalisation of demand for fertilizers in 2010, the first nine months of 2011 were particularly characterised by strong demand. In the fourth quarter, however, there was a more cautious management of the early stocking-up by the trade sector.

Although the prices of some agricultural products weakened over the year after having been at very high levels, they remained at a level which favoured the prospective yields of the agricultural sector, so that there was still a significant incentive to increase the yield per hectare through the greater use of fertilizers. For potash and magnesium products, global demand for potash of about 59 million tonnes led, particularly in the first nine months, to a very high utilisation of production capacities worldwide. This had effects on the price development of potassium chloride. The global price level rose from about US\$ 400/tonne to over US\$ 500/tonne. K+S pushed through a number of price increases in Europe during the year. It was possible to increase the price for granulated potassium chloride in three steps from € 335/tonne at the start of the year to up to € 375/tonne.

/ THE DEVELOPMENT OF PRICES OF AGRICULTURAL PRODUCTS is shown in figure 4.6.1 on page 89.

In 2011, the nitrogen fertilizer plants were also well utilised worldwide, and demand for complex and

straight nitrogen fertilizers as well as ammonium sulphate stood at a high level in the first nine months. However, the above-mentioned reluctance of the trade sector in the fourth quarter also made itself felt in nitrogen fertilizers. Prices for nitrogen fertilizers rose significantly in comparison to the average of last year, after input materials had also seen significant price increases.

### SALT BUSINESS SECTOR

#### DE-ICING SALT – WESTERN EUROPE

In the West European de-icing salt market, the wintry weather in the first quarter resulted in above-average demand, although this was significantly below the record level seen in the previous year. In the early stocking-up business for the winter season 2011/12 too, during the second and third quarters, there was strong demand for de-icing salt due to the above-average wintry weather at the start of the year. The price level increased tangibly during the year. The early stocking-up, which extended even into the fourth quarter, resulted in an overall average start to the winter season 2011/2012 despite the relatively mild weather towards the end of the year.

#### DE-ICING SALT – NORTH AMERICA

At the start of the year, the wintry weather on the East Coast of the United States triggered above-average demand for de-icing salt. In Canada, demand was normal. However, due to the mild winter of the previous year and the associated relatively high stocks, the North American price level was below that of the

comparable prior-year period. On the East Coast of the United States, there was a relatively early start to the early stocking-up business. Due to lower freight rates for salt imports, prices declined moderately in the local tenders. In the remaining de-icing salt regions of the United States important to K+S and in Canada too, demand for de-icing salt rose in the early stocking-up phase. Prices in the Mid-West remained stable, while a slight price increase was observed in Canada. Relatively mild weather in the fourth quarter, both in the United States and in Canada, resulted in below-average demand for de-icing salt.

### INDUSTRIAL SALT

In Europe and South America, the market for industrial salt was characterised by a stable demand trend and a slight price increase in 2011. In the North American market, in particular for water softening products, buying restraint continued to be observed due to the economic situation in the USA.

### FOOD GRADE SALT

The demand for food grade salt proved to be in good shape in the year under review, both in Europe as well as in North and South America. In Europe and North America there was a slight increase in the price level, while in South America prices fell.

### SALT FOR CHEMICAL USE

Demand for salt for chemical use stabilised at a high level in Europe at the start of the year and made possible

tangible price increases over the year. US and South American demand for salt for chemical use were stable in the year under review.

**/ THE MARKET POSITIONS OF THE BUSINESS SEGMENTS**  
can be found in the 'Group Structure and Business Operations' section on page 59.

#### KEY EVENTS AFFECTING THE COURSE OF BUSINESS

- + In 2011, the international fertilizer market was characterised by strong demand, as already described under the heading 'Industry-specific framework conditions', in particular in the first nine months of 2011. This resulted in the capacity utilisation of most potash producers reaching a relatively high level, so that in the course of the year, K+S was able, also in the light of a rising global market price level, to raise the prices for granulated potassium chloride in Europe from € 335/tonne to up to € 375/tonne. The European production plants for nitrogen fertilizers were also well utilised in 2011. The prices for nitrogen fertilizers increased significantly over the year in view of rising input costs.
- + Sales volumes of de-icing salt largely depend on wintry weather conditions during the first and fourth quarter. Against this backdrop, the positive de-icing salt business in Europe described in 'Industry-specific framework conditions', which was, in the year as a whole, above the multi-year average in terms of sales

volumes, resulted in an above-average contribution to revenues and earnings in the Salt business segment.

- + In line with the two-pillar strategy of the K+S GROUP, which provides in particular for growth in the Potash and Magnesium Products and the Salt business segments and for a corresponding focus of management and financial resources on this, with effect from 18 October 2011, COMPO was sold to the European private equity investor TRITON. The enterprise value of the company was € 205 million, while the disposal involved a book loss of € 102.3 million.

#### TREND IN SHARE PRICE

A detailed description of the K+S share price, including price trends, ratios and further important information about the K+S share in the section 'K+S on the Capital Market' can be found on page 23.

#### GENERAL STATEMENT OF THE BOARD OF EXECUTIVE DIRECTORS ON THE COURSE OF BUSINESS IN 2011

2011 was a very successful year for the K+S GROUP, despite all the uncertainties over, for instance, the sovereign debt crisis in the eurozone and its possible impact on the real economy, or the condition of the financial sector as a result of the property crisis in North America. Our fertilizer business was characterised by high

demand, especially during the first nine months. In the fourth quarter, however, there was a more cautious management of early stocking-up by the trade sector. Although the prices of important agricultural products weakened somewhat over the year after having been at very high levels, they remained at an attractive level, which provided a significant incentive for farmers all over the world to increase the yield per hectare, also through the greater use of fertilizers. In the Salt business segment, the wintry weather in the first quarter caused above-average demand in both North America and Europe. Despite the milder winter in the fourth quarter, it was possible to re-attain last year's sales volumes, so that the overall salt business in 2011 was once again clearly above the long-term average.

In 2011, we generated revenues of € 5.2 billion, an increase of 11% year on year. Operating earnings could be increased by 37% to € 976 million. Thus, the K+S GROUP achieved the second-best result in its history.

#### COMPARISON OF ACTUAL AND PROJECTED COURSE OF BUSINESS

##### REVENUE FORECAST

The forecast for 2011 made by the Board of Executive Directors on 1 March 2011 as part of the Financial Report 2010 (still including the discontinued operations of COMPO) assumed that revenues would increase tangibly in relation to the previous year's level. Against the

background of the positive demand and price trends emerging during the course of the first quarter of 2011, the forecast was raised to a significant increase in revenues with the publication of the Quarterly Financial Report Q1/11 in May. The outlook of the Half-yearly Financial Report H1/11, published in August, for the first time contained a specific range of expected revenues of between € 5.00 billion and € 5.30 billion. This outlook was further concretised in the Quarterly Financial Report Q3/11 with expected revenues of € 5.00 billion to € 5.25 billion.

In 2011, the revenues of the K+S GROUP reached € 5.15 billion and thus were, as expected, significantly above the previous year's level and within the forecast range.

#### EXPENSES FORECAST

In the Financial Report 2010, we forecast that the total costs could rise tangibly in comparison to the previous year. This statement retained its validity throughout the year. As far as personnel expenses are concerned, we initially expected a tangible increase. Since the publication of the Half-yearly Financial Report H1/11 in August, a moderate increase was anticipated. Concerning energy costs, from the start, we assumed a tangible increase, while we expected a stable development of freight costs. We initially expected depreciation and amortisation of about € 250 million. Since the publication of the Half-yearly Financial Report H1/11, we anticipated about € 230 million.

In 2011, personnel expenses stood at € 976.1 million and were, as expected, moderately above the previous year.

ACTUAL VS. FORECAST COMPARISON 2011					TAB: 4.6.2		
	Forecast Financial Report 2010 <sup>1</sup>	Forecast Q1/11 <sup>1</sup>	Forecast H1/11	Forecast 9M/11	Actual 2011	Actual 2010	%
<b>K+S Group</b>							
Revenues	€ billion	tangible increase	significant increase	5.00 to 5.30	5.00 to 5.25	5.15	4.63 11.2
EBITDA	€ million	significant increase	strong increase	1,150 to 1,300	1,150 to 1,250	1,217.7	953.0 27.8
Operating Earnings (EBIT I)	€ million	significant increase	strong increase	950 to 1,050	950 to 1,000	975.7	714.5 36.6
Financial result	€ million	significant improvement	significant improvement	significant improvement	significant improvement	(63.9) (120.0)	46.8
Group tax rate, adjusted	%	26 to 27	26 to 27	26 to 27	about 27	26.1	23.7 —
Group earnings from continued operations, adjusted	€ million	significant increase	strong increase	650 to 720	650 to 690	673.6	453.8 48.4
Earnings per share from continued operations, adjusted	€	significant increase	strong increase	3.40 to 3.75	3.40 to 3.60	3.52	2.37 48.5
Group earnings after taxes, adjusted <sup>2</sup>	€ million	significant increase	strong increase	560 to 630	550 to 590	581.8	445.3 30.7
Earnings per share, adjusted <sup>2</sup>	€	significant increase	strong increase	2.95 to 3.30	2.90 to 3.10	3.04	2.33 30.5
Capital expenditure <sup>3</sup>	€ million	> 300 <sup>4</sup>	> 300 <sup>4</sup>	280 <sup>4</sup>	300 <sup>5</sup>	294.1	188.6 55.9
Depreciation and amortisation <sup>3</sup>	€ million	250	250	230	230	242.0	238.5 1.5
Energy costs	€ million	tangible increase	tangible increase	tangible increase	tangible increase	277.2	259.6 6.8
Personnel expenses	€ million	tangible increase	tangible increase	moderate increase	moderate increase	976.1	944.4 3.4
Freight costs	€ million	stable	stable	stable	stable	813.7	838.5 (3.0)
<b>Potash and Magnesium business segment</b>							
Sales volume	t million	7.0	7.0	7.0	about 7	6.93	7.06 (1.8)
<b>Salt business segment</b>							
Sales volume crystallised salt	t million	22 to 23	22 to 23	about 23	a good 23	22.73	22.53 0.9
— of which de-icing salt	t million	13 to 14	13 to 14	about 14	about 14	13.31	13.49 (1.3)

<sup>1</sup> Forecast still included the discontinued operations of COMPO.

<sup>2</sup> Earnings from continued and discontinued operations.

<sup>3</sup> Capital expenditure in and depreciation on property, plant and equipment, intangible and financial assets and investment properties as well as depreciation on financial assets.

<sup>4</sup> Plus investments for the Legacy Project.

<sup>5</sup> Including investments for the Legacy Project of € 40 million in 2011.

As far as energy costs are concerned, our forecast was confirmed in view of an increase of 7% to € 277.2 million. At € 813.7 million, freight costs fell by almost 3% and were thus even slightly below our expectations. Depreciation and amortisation in 2011 amounted to € 242.0 million.

#### EARNINGS FORECAST

The earnings outlook formulated by the Board of Executive Directors on 1 March 2011 as part of the Financial Report 2010 assumed that operating earnings EBIT I could be significantly higher in the 2011 financial year than in the previous year. Then in the Quarterly Financial Report Q1/11, a strong increase in earnings was forecast on the basis of improved earnings prospects in the Potash and Magnesium Products and Nitrogen Fertilizers business segments. In the Half-yearly Financial Report H1/11, we specified this forecast to a range of from € 950 million to € 1,050 million and narrowed that down with the publication of the Quarterly Financial Report Q3/11 to between € 950 million and € 1,000 million. Ultimately, operating earnings in 2011 as a whole increased by about 37% to € 975.7 million in comparison to the figure for the previous year (€ 714.5 million) and were thus within the range forecast by us in the Quarterly Financial Report Q3/11.

#### CAPITAL EXPENDITURE FORECAST

In the 2010 Financial Report we had reckoned with capital expenditure of a good € 300 million for 2011, without taking into account the capital expenditure for the Legacy Project. In the Half-yearly Financial Report H1/11

we have initially revised this forecast downward by € 20 million, and then in the Quarterly Financial Report Q3/11 by a further € 20 million, but this time we took into account capital expenditure for the Legacy Project of € 40 million, so that once again capital expenditure of about € 300 million is expected. The reductions were attributable to the disposal of COMPO and to delays with investment projects. Ultimately, the volume of capital expenditure for the whole of 2011 was € 294.1 million. / TAB: 4.6.2

## 4.7 EARNINGS POSITION

The description of the earnings position in 2011 and 2010 relates, if not stated otherwise, to the continued operations of the K+S GROUP. In accordance with IFRS 5, due to its disposal, the COMPO business is stated as a "discontinued operation". The income statement of the previous year has been adjusted accordingly.

#### AT € 5.2 BILLION, REVENUES RISE 11%

In financial year 2011, we achieved revenues of € 5,150.9 million, which was 11% above the figure for the previous year. A certain seasonality can be recognised from the quarterly revenue figures posted during the course of the year; thus, the first and fourth quarters tend to be stronger, and the second and third somewhat weaker. In terms of volumes, in the Fertilizer business sector

the first quarter usually profits from the start of spring application in Europe. The de-icing salt business is normally focused on the first and fourth quarters of a year, while during the second and third quarters, customers stock up at prices that are usually more favourable.

/ TAB: 4.7.2

/ A DETAILED EXPLANATION OF THE REVENUES OF THE INDIVIDUAL BUSINESS SEGMENTS can be found on page 110.

The increase in revenues in 2011 is in particular attributable to positive price effects, which were able to more than make up for the slightly negative currency and volume effects. The Potash and Magnesium Products and Nitrogen Fertilizers business segments achieved significant revenue increases primarily due to higher prices. In the Salt business segment, revenues could be kept at about the high level of the previous year, after 2011 as a whole was characterised by an above-average sales volume of de-icing salt. / TAB: 4.7.1

/ DETAILED LISTS OF THE AVERAGE PRICES AND SALES VOLUMES can be found in tables 4.10.3 and 4.10.8.

#### VARIANCE ANALYSIS

TAB: 4.7.1

in %

<b>Change in revenues</b>	<b>+11.2</b>
– volume/structure	(0.8)
– prices/price-related	+13.6
– exchange rates	(1.6)
– consolidation	–

The Potash and Magnesium Products business segment again posted the highest revenues of all the K+S GROUP's business segments, accounting for 41 % of the total, and was followed by Salt and Nitrogen Fertilizers.

/ FIG: 4.7.1

In Europe, we achieved revenues of € 2.6 billion (+11%). Thus, this region accounted for half of total revenues. North America achieved a revenue share of 23 % and South America of 12 %. Of total revenues, 11 % was accounted for by Asia. / FIG: 4.7.2

#### CURRENT AND FUTURE DEVELOPMENT OF ORDERS

Most of the business of the K+S GROUP is not covered by long-term agreements concerning fixed volumes and prices.

The share of the backlog of orders in relation to revenues is, at less than 10 % at the end of the year, low in the Potash and Magnesium Products business segment. This is customary in the industry. The business is characterised by long-term customer relationships as well as revolving framework agreements with non-binding volume and price indications.

In the Salt business segment, de-icing salt contracts for the public sector in Europe, Canada and the United States are normally issued in the form of public tenders. We take part in these in the second and third

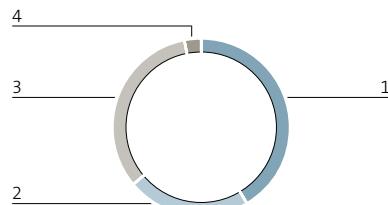
**REVENUES BY BUSINESS SEGMENT**

TAB: 4.7.2

	Q1/11	Q2/11	Q3/11	Q4/11	2011	2010	%
in € million							
Potash and Magnesium Products	578.0	502.4	508.8	542.7	2,131.9	1,867.0	+14.2
Nitrogen Fertilizers	328.1	228.5	320.8	279.4	1,156.8	902.4	+28.2
Salt	682.5	282.4	306.5	438.7	1,710.1	1,728.8	(1.1)
Complementary Business Segments	38.2	36.4	37.7	38.1	150.4	134.0	+12.2
Reconciliation	0.1	0.1	0.2	1.3	1.7	0.5	+240.0
<b>K+S Group</b>	<b>1,626.9</b>	<b>1,049.8</b>	<b>1,174.0</b>	<b>1,300.2</b>	<b>5,150.9</b>	<b>4,632.7</b>	<b>+11.2</b>
Share of total revenues (%)	31.6	20.4	22.8	25.2	100.0	—	—

**REVENUES BY BUSINESS SEGMENT**

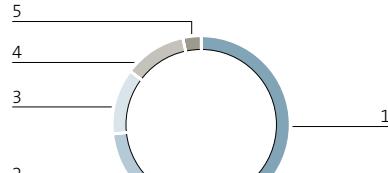
FIG: 4.7.1



	2011	2010
in %		
1 Potash and Magnesium Products	41.4	40.3
2 Nitrogen Fertilizers	22.5	19.5
3 Salt	33.2	37.3
4 Complementary Business Segments	2.9	2.9

**REVENUES BY REGION**

FIG: 4.7.2



	2011	2010
in %		
1 Europe	50.1	50.3
– of which Germany	15.7	17.3
2 North America	23.4	25.2
3 South America	12.0	11.4
4 Asia	11.3	10.7
5 Africa, Oceania	3.2	2.4

quarter for the upcoming winter season, but also, to a certain extent, for following winter seasons too. The contracts include both price and maximum volume agreements. However, as the actual volumes depend on the winter weather conditions and are therefore uncertain in advance, they cannot be classified as backlog of orders as such. This also applies to agreements with minimum purchasing obligations on the part of our customers, since they can normally be shifted to the following winter in the event of weak demand in a season.

For the reasons stated above, the disclosure of the backlog of orders of the K+S GROUP and its business segments is of no relevance for assessing the short- and medium-term earnings capacity.

#### DEVELOPMENT OF SELECTED COST TYPES

The most important cost types in detail: At € 976.1 million or about 20 % of revenues, the personnel expenses of the K+S GROUP increased by 3 % in comparison with the previous year. Without provision effects, the personnel costs rose by 4 % to € 987.0 million in comparison to 2010 due to pay settlements under collective bargaining agreements and a higher number of employees. Expenditure on raw materials and supplies and on purchased merchandise (material costs), about 25 % measured in terms of revenues, increased by about 23 % to € 1.36 billion particularly due to increased input prices in the Nitrogen Fertilizers business segment. Freight costs

EBITDA BY BUSINESS SEGMENT

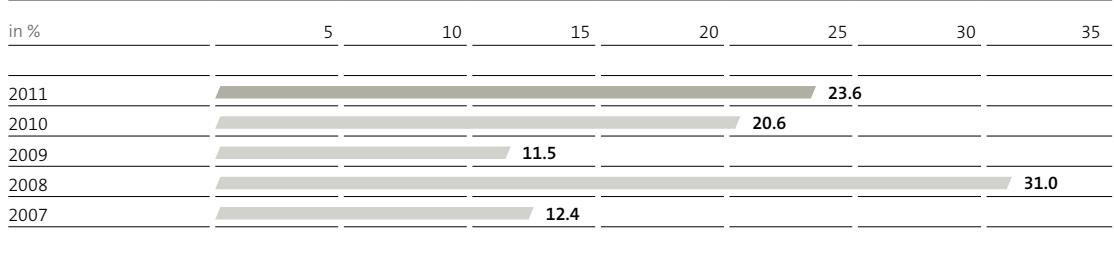
TAB: 4.7.3

	Q1/11	Q2/11	Q3/11	Q4/11	2011	2010	%
in € million							
Potash and Magnesium Products	224.2	205.9	192.8	210.9	833.8	567.1	+ 47.0
Nitrogen Fertilizers	34.2	10.4	17.5	9.5	71.6	45.2	+ 58.4
Salt	169.9	40.9	43.6	83.5	337.9	369.7	(8.6)
Complementary Business Segments	9.7	6.2	8.2	4.9	29.0	27.7	+ 4.7
Reconciliation <sup>1</sup>	(13.1)	(15.9)	(7.6)	(18.0)	(54.6)	(56.7)	+ 3.7
<b>K+S Group</b>	<b>424.9</b>	<b>247.5</b>	<b>254.5</b>	<b>290.8</b>	<b>1,217.7</b>	<b>953.0</b>	<b>+ 27.8</b>
Share of total EBITDA (%)	34.9	20.3	20.9	23.9	100.0	—	—

<sup>1</sup> Expenses and income that cannot be allocated to business segments are recorded separately and shown under 'Reconciliation'.

EBITDA MARGIN

FIG: 4.7.3



amounted to about 15 % of revenues and fell, in particular due to volume and exchange rate effects, by about 3 % to € 813.7 million. Energy costs, about 5 % of revenues, increased as expected by 7 % to € 277.2 million mainly for price reasons.

#### WELCOME EARNINGS DEVELOPMENT IN THE PAST FINANCIAL YEAR

##### EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTISATION (EBITDA) SIGNIFICANTLY HIGHER

Earnings before interest, taxes, depreciation and amortisation (EBITDA) rose in the year under review by 28 %

to € 1,217.7 million (2010: € 953.0 million). The increase was, in particular, due to the significant improvements in earnings in the Potash and Magnesium Products and Nitrogen Fertilizers business segments. At 23.6%, the EBITDA margin also reached a pleasing level. As the EBITDA is not affected by depreciation on valuations made within the framework of purchase price allocations and as these have increased significantly after the acquisition of MORTON SALT, the EBITDA will now be more important in assessing the operating earnings capacity. / TAB: 4.7.3 / FIG: 4.7.3

### OPERATING EARNINGS EBIT I SIGNIFICANTLY HIGHER

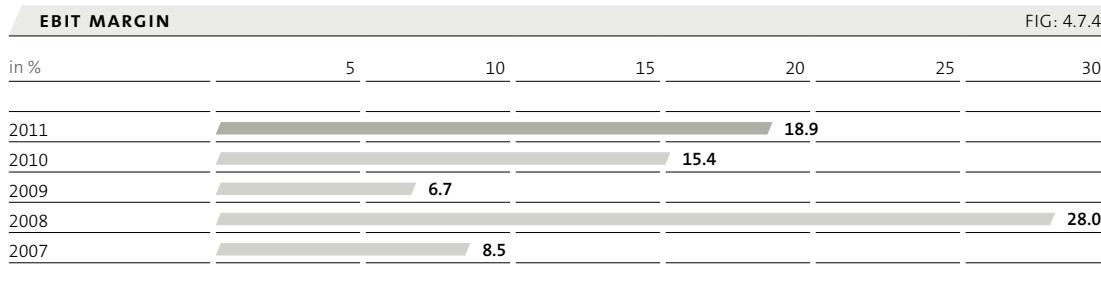
The key control variable of the K+S GROUP, operating earnings EBIT I, increased by € 261.2 million or 37% to € 975.7 million (2010: € 714.5 million). These include depreciation of € 242.0 million, which increased by € 3.5 million in comparison to the previous year. At 18.9%, the EBIT margin reached a very good level.

/ A DEFINITION OF EBIT I AND AN EXPLANATION OF THE TERM PURCHASE PRICE ALLOCATION can be found in the Glossary on page 218.

Operating earnings were especially influenced by the following effects: The Potash and Magnesium Products and Nitrogen Fertilizers business segments increased their earnings primarily by means of fertilizer prices which rose during the course of the year. The earnings of the Salt business segment were below the figure for the previous year, since although the de-icing salt busi-

EBIT I BY BUSINESS SEGMENT							TAB: 4.7.4
	Q1/11	Q2/11	Q3/11	Q4/11	2011	2010	%
in € million							
Potash and Magnesium Products	202.4	184.4	171.3	181.4	739.5	475.9	+55.4
Nitrogen Fertilizers	33.7	9.9	16.8	9.0	69.4	43.3	+60.3
Salt	139.1	11.0	13.3	48.0	211.4	238.1	(11.2)
Complementary Business Segments	8.1	4.6	6.6	(1.4)	17.9	21.2	(15.6)
Reconciliation <sup>1</sup>	(14.9)	(18.0)	(9.5)	(20.1)	(62.5)	(64.0)	+2.3
<b>K+S Group</b>	<b>368.4</b>	<b>191.9</b>	<b>198.5</b>	<b>216.9</b>	<b>975.7</b>	<b>714.5</b>	<b>+36.6</b>
Share of total EBIT (%)	37.8	19.7	20.3	22.2	100.0	—	—

<sup>1</sup> Expenses and income that cannot be allocated to business segments are recorded separately and shown under 'Reconciliation'.



ness was above average, due to a different regional mix it did not achieve the record level of the previous year. In the Complementary Business Segments there was a decrease in earnings due to non-scheduled depreciation. The balance of expenses and income, which cannot be allocated to the business segments (reconciliation), was largely stable and amounted to € (62.5) mil-

lion in the year under review (2010: € (64.0) million). The seasonality described for revenues is also reflected in earnings. / TAB: 4.7.4 / FIG: 4.7.4

/ A DETAILED EXPLANATION OF THE EARNINGS OF THE INDIVIDUAL BUSINESS SEGMENTS can be found on page 110.

### **EARNINGS AFTER OPERATING HEDGES EBIT II SIGNIFICANTLY HIGHER**

Earnings after operating hedges EBIT II achieved € 951.2 million during the year under review, having been € 719.1 million in the previous year. The difference between EBIT II and EBIT I was € (24.5) million (2010: € +4.6 million), of which € (26.2) million (2010: € (0.8) million) was accounted for by the valuation of the still outstanding operating forecast hedges and € +1.7 million (2010: € +5.4 million) by the neutralisation of the market fluctuations recorded in the preceding periods. The lower fair values of the still outstanding hedges can be attributed to a U.S. dollar that was stronger than on the reporting date of the previous year.

/ A DEFINITION OF EBIT II can be found in the Glossary on page 218.

### **DEVELOPMENT OF OTHER KEY ITEMS OF THE INCOME STATEMENT**

#### **AT 38%, GROSS MARGIN AT LEVEL OF PREVIOUS YEAR**

In 2011, revenues and cost of sales each rose by about 11%. This resulted in a constantly high gross margin of 38%. It was possible for us to compensate for the cost increases described on page 96 with higher prices.

#### **SELLING EXPENSES ON PREVIOUS YEAR'S LEVEL**

In the year under review, the selling expenses of the K+S GROUP stood at € 843.6 million (2010: € 836.5 million). At € 531.6 million, outgoing freight too, which makes up more than half of the selling expenses, was at about the level of the previous year. The other costs for sales personnel, marketing and supply chain management rose moderately and amounted to € 312.0 million in the year under review (2010: € 295.0 million). A low double-digit million euro amount spent on advertising in the form of press advertisements, brochures, TV and radio commercials, trade fairs, product launches etc. is included in this. The majority of these costs are incurred in the Salt and Potash and Magnesium Products business segments.

#### **GENERAL AND ADMINISTRATIVE COSTS SLIGHTLY HIGHER**

In 2011, general and administrative costs rose by € 9.9 million or 6% to € 182.1 million. A large part of this increase was accounted for by increased performance-related remuneration due to higher earnings and by expenditure within the framework of IT changes at MORTON SALT. The share of administrative costs in revenues was, at 3.5%, at the level of the previous year.

#### **OTHER OPERATING INCOME EXCEEDS EXPENSES**

In 2011, the balance for other operating income and expenses came to € +18.4 million after having been € (12.1) million in the previous year. The improvement chiefly results from lower allocations to provisions.

#### **INCOME FROM INVESTMENTS, NET AT € 9.6 MILLION**

In 2011, at € 9.6 million, net income from investments was above the level of the previous year (2010: € 4.1 million). This can be attributed to higher investment income from non-consolidated companies.

#### **FINANCIAL RESULT SHOWING CLEAR IMPROVEMENT**

The financial result consists of net interest income and other financial result. In 2011, the net interest income improved very clearly to € (64.9) million (2010: € (122.8) million). This was primarily impacted by the absence of one-time expenses resulting from the restructuring of financial liabilities in the previous year. Furthermore, the interest expenses of the previous year were impacted by the unplanned interest expenses for provisions for mining obligations (€ 23.0 million) due to the lowering of the average weighted discount rate. Against this backdrop, non-cash interest expenses for provisions for mining obligations declined to a total of € 21.9 million in comparison to € 44.4 million in 2010. Non-cash interest expenses for pension provisions came to € 4.0 million and were thus below the level of the previous year (2010: € 6.8 million). Overall, the financial result was € (63.9) million against € (120.0) million in the previous year.

#### **(ADJUSTED) EARNINGS BEFORE INCOME TAXES IMPROVE SHARPLY**

In the year under review, earnings before income taxes totalled € 887.3 million (2010: € 599.1 million). Adjusted

for the effects of market value fluctuations of the operating forecast hedges (€ 24.5 million), adjusted earnings before income taxes amount to € 911.8 million. This financial indicator thus increased by € 317.3 million or 53 % year on year.

#### (ADJUSTED) GROUP EARNINGS FROM CONTINUED OPERATIONS INCREASE SHARPLY

In the year under review, Group earnings after taxes from continued operations amounted to € 656.1 million (2010: € 457.1 million). The anticipated income tax expense was calculated based on a domestic Group income tax rate of 28.4 % (previous year: 28.2 %). In 2011, tax expense totalling € 230.7 million was incurred (2010: € 141.2 million); this amount comprised a deferred and thus non-cash tax income of € 4.9 million (2010: deferred tax income of € 33.7 million).

For reasons of comparison, we additionally report adjusted Group earnings from continued operations, which eliminates the effects from operating forecast hedges. Furthermore, the effects resulting from the adjustment on deferred and cash taxes are also eliminated. We compute adjusted Group earnings as shown in table 4.7.5. / TAB: 4.7.5

The adjusted Group earnings from continued operations at € 673.6 million were € 219.8 million or about 50 % above the previous year's level (2010: € 453.8 million). The main reason for this was the strongly increased operating earnings. The adjusted Group tax rate was thus

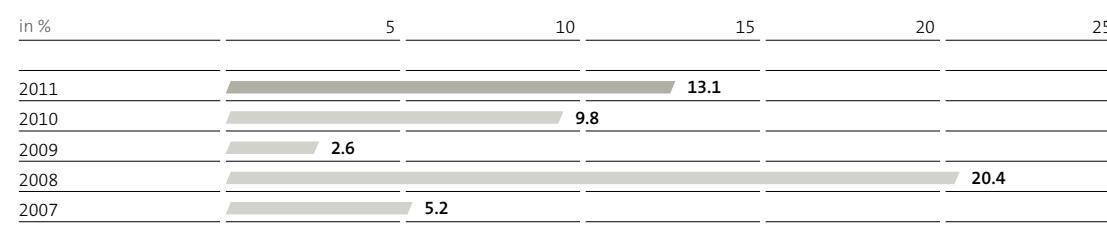
#### COMPUTATION OF THE ADJUSTED GROUP EARNINGS FROM CONTINUED OPERATIONS

TAB: 4.7.5

	2011	2010
in € million		
Group earnings from continued operations	656.1	457.1
Income (-)/expenses (+) from market value changes of operating forecast hedges still outstanding	+ 26.2	+ 0.8
Neutralising of market value changes recorded in previous periods of operating forecast hedges	(1.7)	(5.4)
Elimination of resulting deferred and cash taxes	(7.0)	+ 1.3
<b>Adjusted Group earnings from continued operations</b>	<b>673.6</b>	<b>453.8</b>

#### RETURN ON REVENUES

FIG: 4.7.5



26.1 % in the year under review, after having been 23.7 % in the previous year.

The return on revenues at 13.1 % is at an attractive level, also compared to previous years. / FIG: 4.7.5

#### ADJUSTED EARNINGS PER SHARE FROM CONTINUED OPERATIONS REACH € 3.52 (2010: € 2.37)

For the year under review, adjusted earnings per share from continued operations amounted to € 3.52 – an increase of about 50 % over the previous year's figure of € 2.37. The current computation was performed on the basis of 191.33 million no-par value shares, being the average number of shares outstanding (previous year: 191.34 million no-par value shares).

GROUP EARNINGS AND EARNINGS PER SHARE							TAB: 4.7.6
	Q1/11	Q2/11	Q3/11	Q4/11	2011	2010	%
in € million							
Group earnings from continued operations	283.3	126.2	101.1	145.5	656.1	457.1	+43.5
Group earnings after taxes <sup>1</sup>	293.6	28.6	91.0	151.1	564.3	448.6	+25.8
Earnings per share from continued operations (€)	1.48	0.66	0.53	0.76	3.43	2.39	+43.5
Earnings per share (€) <sup>1</sup>	1.54	0.15	0.48	0.79	2.95	2.34	+26.1
Average number of shares	191.20	191.32	191.40	191.40	191.33	191.34	—
Group earnings from continued operations, adjusted <sup>2</sup>	261.6	126.8	131.9	153.3	673.6	453.8	+48.4
Group earnings after taxes, adjusted <sup>1,2</sup>	271.9	29.2	121.8	158.9	581.8	445.3	+30.7
Earnings per share from continued operations, adjusted (€) <sup>2</sup>	1.37	0.66	0.69	0.80	3.52	2.37	+48.5
Earnings per share, adjusted (€) <sup>1,2</sup>	1.42	0.15	0.64	0.83	3.04	2.33	+30.5

<sup>1</sup> Earnings from continued and discontinued operations.

<sup>2</sup> The adjusted key figures only include the result from operating forecast hedges of the respective reporting period reported in EBIT I, which eliminates effects from changes in the market value of the hedges (see also 'Notes to the income statement and the statement of comprehensive income' on page 180). Related effects on deferred and cash taxes are also eliminated; tax rate for 2011: 28.4% (2010: 28.2%).

As of 31 December 2011, we held no shares of our own. At the year's end, the total number of shares outstanding of the K+S GROUP was 191.40 million no-par value shares.

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. / TAB: 4.7.6

#### ADJUSTED GROUP EARNINGS AND ADJUSTED EARNINGS PER SHARE

Adjusted Group earnings (including discontinued operations) reached € 581.8 million (2010: € 445.3 million). Included in this, € (91.8) million was attributable to the discontinued operations of COMPO, consisting of the necessary value adjustment of € 102.3 million and the net result of COMPO of € 10.5 million up to the closing in October.

Adjusted earnings per share (including discontinued operations) reached € 3.04 (2010: € 2.33). Of this, € (0.48) was attributable to the discontinued operations of COMPO.

/ DETAILED INFORMATION ABOUT THE DISPOSAL OF COMPO can be found in the Notes on page 169.

#### KEY FIGURES ON EARNINGS POSITION

##### MARGIN KEY FIGURES

The margin key figures were significantly better than those of the previous year. The earnings before interest, taxes, depreciation and amortisation (EBITDA) of € 1,217.7 million resulted in an EBITDA margin of 23.6% (2010: 20.6%), and the EBIT margin reached 18.9% after having been 15.4% in 2010. At 13.1%, the return on revenues was also significantly higher than the figure for the previous year of 9.8%.

/ DEFINITIONS OF THE KEY FIGURES EMPLOYED can be found in the 'Further Information' section on page 217.

##### YIELD KEY FIGURES

In the year under review, despite the also increased capital tied up, substantially higher contributions to earnings resulted in significantly higher yield figures: In the reporting year, our return on equity after taxes amounted to 20.2% (2010: 18.7%) with the return on total investment amounting to 16.4% (2010: 14.7%). The return on capital employed (ROCE), which we pay particular attention to, was 27.5% for the year under review compared with 22.0% in the previous year. It is thus far

above our cost of capital of 8.6 % before taxes, i.e. the K+S GROUP created added value of € 670.8 million during the past financial year. / TAB: 4.7.7

/ A DETAILED EXPLANATION OF THE FINANCIAL KEY PERFORMANCE INDICATORS can be found on page 74.

#### COMPUTATION OF THE COST OF CAPITAL

The weighted average cost of capital for the K+S GROUP is derived from the aggregate of the interest claim 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 share of interest-bearing debt in total capital. As this is considered from an after-tax perspective, the average interest on debt is reduced by the corporate tax rate.

The interest claim to which a contributor of equity would be entitled is derived from a risk-free interest rate plus a risk premium. The average of the yields of government bonds denominated in euros with a maturity of 1 to 30 years was assumed as the risk-free interest rate; at the end of 2011, this was 2.4% (previous year: 3.0%). The risk premium has been computed using the empirical mean for the market risk premium of 4.5% (previous year: 4.5%) and the longer-term-adjusted beta factor of 1.04 (previous year: 1.01) applicable to K+S in relation to the MSCI EUROPE benchmark index. This means that a contributor of equity would be entitled to a yield of 7.1% (previous year: 7.6%). The market value of the equity, as of 31 December 2011, the time of the impairment tests, amounted to around € 6.7 billion (previous year: € 10.8 billion) and is derived from the price of the K+S share on

#### MULTI PERIOD OVERVIEW OF MARGIN AND YIELD KEY FIGURES<sup>1</sup>

TAB: 4.7.7

Figures in %	2011	2010	2009	2008	2007
Gross margin	38.3	38.1	34.4	46.8	33.9
EBITDA margin	23.6	20.6	11.5	31.0	12.4
EBIT margin	18.9	15.4	6.7	28.0	8.5
Return on revenues <sup>2</sup>	13.1	9.8	2.6	20.4	5.2
Return on equity after taxes <sup>2,3</sup>	20.2	18.7	8.4	68.6	16.1
Return on total investment <sup>2,3</sup>	16.4	14.7	6.9	44.9	11.0
Return on Capital Employed (ROCE) <sup>4</sup>	27.5	22.0	9.3	64.0	15.5
Weighted average cost of capital before taxes	8.6	9.5	9.9	10.4	10.7
Value Added (€ million) <sup>4</sup>	670.8	406.1	(16.2)	1,124.5	88.3

<sup>1</sup> Information for the years 2011 and 2010 refers to the continued operations of the K+S Group.

<sup>2</sup> The adjusted key figures only include the result from operating forecast hedges of the respective reporting period reported in EBIT I, which eliminates effects from changes in the market value of the hedges (see also 'Notes to the income statement and the statement of comprehensive income' on page 180). Related effects on deferred and cash taxes are also eliminated; tax rate for 2011: 28.4% (2010: 28.2%).

<sup>3</sup> Information refers to the continued and discontinued operations of the K+S Group.

<sup>4</sup> Taking into account the discontinued operation of COMPO, ROCE in 2011 amounts to 24.1% (2010: 20.9%).

that reporting date (€ 34.92) multiplied by the number of shares issued (191.40 million shares).

The average interest on debt before taxes amounts to 4.0% (previous year: 4.0%) and is derived from the weighted average for the risk-free interest rate plus the credit risk supplement for the BBB+/Baa2 rating of the financial liabilities of K+S as well as the interest on pension and mining provisions. After taking into account the adjusted Group tax rate of 26.1%, this results in an average cost of debt after taxes of 3.0% (previous year: 2.9%).

As of 31 December 2011, interest-bearing debt amounted to approximately € 1.5 billion, which was the aggregate of the market value of the financial liabilities as well as the present values of the pension provisions and of the provisions for mining obligations. Total capital was accordingly about € 8.2 billion, of which about 82% was attributable to equity valued at market prices.

In total, this results in a weighted average cost of capital for the K+S GROUP of about 6.3% (previous year: 7.0%) after taxes and a corresponding cost of capital before taxes of 8.6% (previous year: 9.5%).

## 4.8 FINANCIAL POSITION

The description of the financial position in 2011 and 2010 relates, if not otherwise indicated, to the continued operations of the K+S GROUP. Due to its disposal, COMPO is stated as "discontinued operation" in accordance with IFRS 5. The income statement and the cash flow statement of the previous year were adjusted correspondingly. The balance sheet was not adjusted.

### PRINCIPLES AND GOALS OF FINANCIAL MANAGEMENT OF THE K+S GROUP

#### FINANCIAL MANAGEMENT IS CENTRALLY CONTROLLED

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

- + securing liquidity and controlling it efficiently across the Group,
- + maintaining and optimising the financial capacity of the Group as well as
- + reducing financial risks also by means of financial instruments.

In cash management we focus on the management of our liquidity as well as the optimisation of payment streams within the Group. In order to maintain and optimise the financial capacity of the Group, we aim to achieve a situation where the K+S GROUP has a capital structure in the long term, which is orientated to the

KEY FIGURES FOR THE MANAGEMENT OF THE CAPITAL STRUCTURE

TAB: 4.8.1

	Target corridor	2011	2010	2009	2008	2007
Net indebtedness/EBITDA	1.0 to 1.5	0.5	0.8	2.4	0.4	2.6
Net indebtedness/Equity (%)	50 to 100	19.8	27.6	64.5	33.2	116.4
Equity ratio (%)	40 to 50	50.9	47.6	40.1	49.5	31.4

usual criteria and indicators for an "investment grade" rating. Within the framework of the requirements provided by the aimed-for level of creditworthiness, we intend to optimise the cost of capital for borrowed capital and for equity. The management of the capital structure is undertaken on the basis of the key figures presented in table 4.8.1. / TAB: 4.8.1

Against the backdrop of the significant increase in earnings and the reduction in net indebtedness, it proved possible to even exceed the targets set for the key figures for the management of the capital structure as of 31 December 2011. In view of the upcoming investments in the expansion of our potash capacities in Canada (Legacy Project) as well as the Werra package of measures, the solid capital structure provides a good starting point for the further development of the K+S GROUP.

Group currency and interest rate management is performed centrally for all Group companies. Derivative financial instruments are only entered into with top-

rated banks and are spread across several banks so as to reduce the risk of default.

#### FOREIGN CURRENCY HEDGING SYSTEM

Exchange rate fluctuations can lead to the value of the service performed not matching the value of the consideration, because income and expenditure arise at different times in different currencies (transaction risks). Exchange rate fluctuations, especially in relation to the US dollar, play a particular role for the Potash and Magnesium Products business segment, in relation to the levels of its proceeds and receivables. Within the framework of transaction hedging, key net positions per currency are hedged through derivatives, normally options and futures. Furthermore, currency effects arise at subsidiaries whose functional currency is not the euro (translation risks), since on the one hand the earnings of these companies determined in a foreign currency are translated into euros at average rates and recognised in profit or loss, and on the other, its net assets are translated into euros at spot rates and can result in currency-related fluctuations in the equity of the K+S GROUP.

Currently, translation effects from the conversion of US dollars mainly appear in the Salt business segment. The planned earnings are hedged against translation risks, insofar as these are of material significance.

Options and futures are utilised to hedge the worst case, but at the same time the opportunity is created for part of the hedging transactions to participate in a better price performance.

As in the previous year, in 2011, the price realised by the Potash and Magnesium Products business segment was 1.35 USD/EUR including costs, and the realised price for the Salt business segment was 1.37 USD/EUR after 1.39 USD/EUR in the previous year. The hedging measures therefore led to a more favourable exchange rate in comparison to the average USD/EUR spot rate after premiums. / TAB: 4.8.2

For the construction of the new potash plant in Canada (Legacy Project), during the primary investment phase until 2016, payments will mainly be made in Canadian dollar (CAD) with a smaller portion being made in US dollar. The Canadian dollar investment is partly aided by a natural cash flow hedge arising from surplus in the salt business in Canada. With regard to the remaining CAD net position, it is intended to hedge this in accordance with the aforementioned general exchange rate hedging strategy. The US dollar investments are posted under the USD net position of the Potash and Magnesium Products business segment; during the investment

phase, this leads to a reduction of the total US dollar volume requiring hedging. In the subsequent operating phase, the hedge volume will increase given the anticipated additional USD revenues.

/ A DESCRIPTION OF THE LEGACY PROJECT AND ITS PHASES can be found in the Opportunity Report on page 147.

#### FINANCING ANALYSIS

The financing analysis for 2011 refers to the continued operations of the K+S GROUP. In accordance with IFRS 5, the previous year's balance sheet was not adjusted and

contains the assets and liabilities of the divested COMPO business.

The K+S GROUP has a strong financial basis as well as a high potential for operating earnings and cash flow. This means that we are able to respond flexibly to investment and acquisition opportunities if they make sense strategically and satisfy our profitability criteria.

Compared with the end of 2010, the financing structure of the K+S GROUP has displayed further improvement: As of 31 December 2011, a good 80 % of the financing of the K+S GROUP resulted from equity and non-current

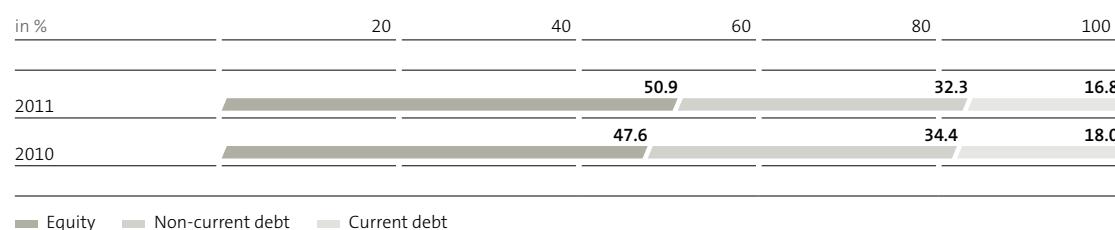
POTASH AND MAGNESIUM PRODUCTS BUSINESS SEGMENT

TAB: 4.8.2

	2010	Q1/11	Q2/11	Q3/11	Q4/11	2011
USD/EUR exchange rate after premiums	1.35	1.35	1.34	1.35	1.38	1.35
Average USD/EUR spot rate	1.33	1.37	1.44	1.41	1.35	1.39

EQUITY AND LIABILITIES

FIG: 4.8.1



debt, which itself consists of bond payables and non-current provisions. Furthermore, there are sufficient financing possibilities available at banks, which, if need be, offer us additional borrowing. / FIG: 4.8.1

#### **EQUITY SHOWING SIGNIFICANT GROWTH**

Equity increased from € 2,651.6 million to € 3,084.6 million mainly due to earnings-related factors and the equity ratio rose from 47.6 to 50.9 % of the balance sheet total.

/ A COMPUTATION OF THE COST OF EQUITY can be found on page 101.

#### **DISPROPORTIONATE RISE IN DEBT**

In 2011, the debt of the K+S GROUP increased from € 2,922.1 million to € 2,972.3 million. As of 31 December 2011, it consisted of approximately 37 % provisions, just under 26 % financial liabilities, around 21 % accounts payable trade, and 12 % tax liabilities from income taxes and deferred taxes.

As of 31 December 2011, non-current debt including non-current provisions totalled € 1,953.6 million; the slight increase compared to the previous year's figure (€ 1,919.1 million) is largely attributable to a higher balance sheet value for deferred tax liabilities. The proportion of non-current debt including non-current provisions has declined to 32.3 % of the balance sheet total (31 December 2010: 34.4 %).

Current debt increased slightly from € 1,003.0 million at the end of 2010 to € 1,018.7 million as at 31 December 2011; a reduction of the current financial liabilities, the tax liabilities from income taxes and the current provisions could not fully compensate for the increase in accounts payable trade. The proportion of current debt fell from 18.0 % in the previous year to 16.8 % as of 31 December 2011.

/ FURTHER DETAILS OF THE CHANGE IN INDIVIDUAL BALANCE SHEET ITEMS can be found in the Notes on page 186.

#### **FINANCIAL LIABILITIES**

As of 31 December 2011, financial liabilities amounted to € 770.6 million; of this, only € 0.8 million could be classified as current. The majority of non-current debt is attributable to the corporate bond issued by us in September 2009. It has a five-year term and an interest coupon payment of 5.0 % p.a.

/ A COMPUTATION OF THE COST OF DEBT can be found on page 101, AN OVERVIEW OF THE MATURITY PROFILE on page 133.

Financial liabilities in foreign currencies are predominantly denominated in US dollar. As of 31 December 2011, they amounted to just € 19.4 million.

#### **PROVISIONS**

The main non-current provisions of the K+S GROUP are provisions for mining obligations as well as for pensions and similar obligations.

The provisions for non-current mining obligations amounted to € 580.6 million after having been € 528.4 million in the previous year. The increase is largely attributable to the annual accumulation of provisions, the recognition of additional provisions for mining risks and the revaluation of existing provisions. The average weighted discount factor for provisions for mining obligations as of 31 December 2011 remained constant at 4.7 %. An increase in the discount factor of one percentage point for provisions for mining obligations would result in a reduction of the carrying amount by about € 90 million. Conversely, a reduction in the discount factor of one percentage point would cause provisions for mining obligations to rise by about € 149 million. It is important to note in this regard that the described changes in provisions resulting from a change in the discount rate do not result in a corresponding impact on earnings. For a material part of the provisions for mining obligations the adjustments on the basis of the change in valuation parameters must be carried out under the provisions of IFRIC 1. A balance sheet reduction or extension would therefore inevitably result for the corresponding items of the provisions. Furthermore, effects arising from the adjustment of other valuation parameters (e.g. the rate of inflation) can counteract the effect of a change in the discount rate.

The non-current provisions for pensions and similar obligations amounted to € 95.3 million after having been € 184.8 million in the previous year; the decline is mainly

attributable to a further out-financing of pension obligations. The actuarial measurement of pension provisions is performed applying the projected unit credit method in accordance with IAS 19. Due to a lower level of market interest rates, the average weighted discount factor for pensions and similar obligations fell to 4.8 % as of 31 December 2011 after having been 5.1 % in the previous year. A change in the level of market interest rates does indeed impact on the amount of pension obligations, but because of the use of the corridor method (IAS 19) up to and including 2012, it does not directly impact on their carrying amount. / TAB: 4.8.3

/ AN EXPLANATION OF THE EFFECTS OF THE NEW ACCOUNTING STANDARDS can be found in the Notes on page 178.

### SIGNIFICANCE OF OFF-BALANCE SHEET FINANCING INSTRUMENTS FOR THE FINANCIAL AND THE 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 primarily use operating leases in respect of, for example, company vehicles, storage capacities and IT equipment; their extent has no material bearing on the economic position of the Group.

	MULTI PERIOD OVERVIEW OF FINANCIAL POSITION					TAB: 4.8.3
	2011	2010	2009	2008	2007	
in € million						
Equity	3,084.6	2,651.6	2,094.6	1,718.3	931.8	
Equity ratio (%)	50.9	47.6	40.1	49.5	31.4	
Non-current debt	1,953.6	1,919.1	2,235.7	756.4	1,004.2	
– thereof provisions for pensions and similar obligations	95.3	184.8	194.3	93.1	125.8	
– thereof provisions for mining obligations	580.6	528.4	419.2	378.3	357.6	
Non-current provisions as share of balance sheet (%)	13.6	15.5	16.0	16.4	20.5	
Current debt	1,018.7	1,003.0	886.8	999.1	1,028.8	
– thereof accounts payable – trade	613.8	511.2	346.9	465.4	409.1	
Financial liabilities	770.6	786.6	1,266.9	266.4	688.3	
Net financial liabilities	(65.1)	19.3	737.8	98.6	600.8	
Net indebtedness	610.8	732.5	1,351.3	570.0	1,085.1	
Level of indebtedness I (%)	25.0	29.7	60.5	15.5	73.9	
Level of indebtedness II (%)	19.8	27.6	64.5	33.2	116.4	
Working Capital	840.9	959.4	970.5	962.3	570.6	
Cash flow from operating activities <sup>1,2,3</sup>	815.2	834.7	502.2	852.0	268.1	
Free cash flow before acquisitions/divestments <sup>1,2,3,4</sup>	562.4	657.0	333.2	681.8	115.3	
Cash flow for/from financing activities <sup>1</sup>	(261.7)	(439.7)	1,168.1	(318.0)	81.7	

<sup>1</sup> Information for the years 2011 and 2010 refers to the continued operations of the K+S Group.

<sup>2</sup> Adjusted for the change in the tie-up of funds for premium payments for hedging transactions.

<sup>3</sup> Without out-financing of pension obligations in the amount of: 2011: € (110.0) million, 2010: € (2.7) million, 2009: € (2.3) million, 2008: € (7.4) million, 2007: € (9.4) million.

<sup>4</sup> Without investments in securities and other financial investments in the amount of: 2011: € (372.4) million, 2008: € +0.0 million, 2007: € +9.4 million.

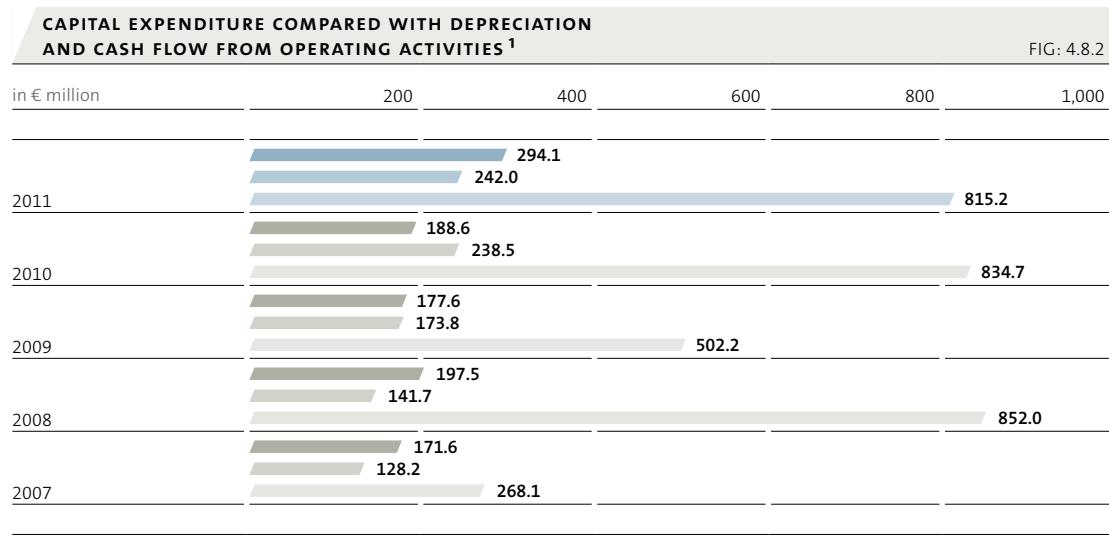
### CAPITAL EXPENDITURE ANALYSIS

In 2011, the K+S GROUP invested € 294.1 million; this represents an increase of € 105.5 million or 56 %. Of this, some € 33.0 million was accounted for by initial infrastructure investments and drilling operations for the Legacy Project in Canada. The increase is also attribut-

able to the capital expenditure for the package of measures for water protection in the Hesse-Thuringia potash district, to the replacement of a ship at the shipping company EMPREMAR as well as to efficiency enhancement measures in relation to MORTON SALT. A certain degree of seasonality is evident for capital expenditure; investment undertakings are largely implemented

CAPITAL EXPENDITURE BY BUSINESS SEGMENT <sup>1</sup>							TAB: 4.8.4
	Q1/11	Q2/11	Q3/11	Q4/11	2011	2010	%
in € million							
Potash and Magnesium Products	18.3	30.0	46.5	67.3	162.1	96.9	+67.3
Nitrogen Fertilizers	0.1	0.1	0.5	0.3	1.0	0.5	+100.0
Salt	7.0	13.2	43.3	48.8	112.3	79.0	+42.2
Complementary Business Segments	0.7	0.3	1.2	2.1	4.3	4.2	+2.4
Other capital expenditure	1.9	4.5	2.7	5.3	14.4	8.0	+80.0
<b>K+S Group</b>	<b>28.0</b>	<b>48.1</b>	<b>94.2</b>	<b>123.8</b>	<b>294.1</b>	<b>188.6</b>	<b>+55.9</b>
Share of capital expenditure (%)	9.5	16.4	32.0	42.1	100.0	—	—

<sup>1</sup> Capital expenditure of continued operations in property, plant and equipment, intangible assets and investment properties.



<sup>1</sup> Information for the years 2011 and 2010 refers to the continued operations of the K+S Group. Due to its disposal, the COMPO business is in accordance with IFRS disclosed as "discontinued operation".

<sup>2</sup> Investments in or depreciation on property, plant and equipment, intangible assets and investment properties as well as depreciation on financial assets.

<sup>3</sup> Adjusted for the change in the tie-up of funds for premium payments for hedging transactions as well as the out-financing of pension obligations.

predominantly in the third and fourth quarters, since we use the pauses in production that arise then to implement larger-scale investment projects. / TAB: 4.8.4

At the end of the year, there were capital expenditure obligations totalling € 94.7 million, which relate to as yet uncompleted investment undertakings from 2011.

Of the investments made, € 230.7 million or a good 78% was accounted for by measures relating to replacing and ensuring production. This was tangibly less than the depreciation of € 242.0 million. / FIG: 4.8.2

## POTASH AND MAGNESIUM PRODUCTS BUSINESS SEGMENT

Our capital expenditure in the Potash and Magnesium Products business segment totalled € 162.1 million, i.e. € 65.2 million or 67% more than in the previous year; of which € 33.0 million was accounted for by initial infrastructure investments and drilling operations for the Legacy Project in Canada and € 23.6 million for capital expenditure for the package of measures for water protection in the Hesse-Thuringia potash district. There was also a focus on projects for improving the exploitation of raw material. Measures relating to replacing and ensuring production account for almost three quarters of the capital expenditure.

## NITROGEN FERTILIZERS BUSINESS SEGMENT

In the year under review, we invested € 1.0 million in the Nitrogen Fertilizers business segment, about € 0.5

**CASH FLOW REVIEW<sup>1</sup>**

TAB: 4.8.5

	<b>Q1/11</b>	<b>Q2/11</b>	<b>Q3/11</b>	<b>Q4/11</b>	<b>2011</b>	<b>2010</b>	<b>%</b>
in € million							
Gross cash flow	332.4	201.7	161.4	215.1	910.6	812.7	+12.0
Cash flow from operating activities <sup>2</sup>	435.9	132.5	155.8	98.0	822.2	829.1	(0.8)
Cash flow for investing activities <sup>3</sup>	(272.1)	(48.9)	(84.7)	(89.9)	(495.6)	(177.7)	(178.9)
– of which acquisitions/divestments	(242.8)	–	–	–	(242.8)	–	–
Free cash flow <sup>2,3</sup>	163.8	83.6	71.1	8.1	326.6	651.4	(49.9)
<b>Free cash flow before acquisitions/divestments<sup>2,3</sup></b>	<b>406.6</b>	<b>83.6</b>	<b>71.1</b>	<b>8.1</b>	<b>569.4</b>	<b>651.4</b>	<b>(12.6)</b>
Share of total free cash flow (%)	71.4	14.7	12.5	1.4	100.0	–	–
Cash flow for/from financing activities	(80.2)	(177.1)	(2.0)	(2.4)	(261.7)	(439.7)	+40.5
Operational change in cash and cash equivalents <sup>2,3</sup>	+21.5	(43.1)	+95.5	+105.2	+179.1	+223.2	(19.8)

<sup>1</sup> Information refers to the continued operations of the K+S Group.<sup>2</sup> Without out-financing of pension obligations in the amount of: Q1/11: € (86.3) million, Q2/11: € (13.6) million, Q3/11: € (5.9) million, Q4/11: € (4.2) million, 2011: € (110.0) million, 2010: € (2.7) million.<sup>3</sup> Without investments in securities and other financial investments in the amount of: Q1/11: € 0.0 million, Q2/11: € (65.7) million, Q3/11: € 0.0 million, Q4/11: € (306.7) million, 2011: € (372.4) million, 2010: € 0.0 million.

million more than in 2010. The main focus here was the investment in a system for the colour-marking of products, meaning that the investments made mainly related to expansion investments.

**SALT BUSINESS SEGMENT**

In 2011, capital expenditure made in the Salt business segment totalled € 112.3 million representing an increase of € 33.3 million or 42 % compared to the previous year. The increase is primarily attributable to the replacement of a ship at our shipping company EMPREMAR. Other significant projects included the modernisation of

a shaft winding engine and the expansion of capacities for the production of pharmaceutical salts at the Borth site in Germany, the modernisation of a loading terminal at SPL in Chile as well as the expansion of storage capacity in Brazil. Measures relating to replacing and ensuring production accounted for about 90 % of the volume of capital expenditure.

**COMPLEMENTARY BUSINESS SEGMENTS**

The capital expenditure of the Complementary Business Segments was € 4.3 million in the year under review and thus € 0.1 million more than the level of the pre-

vious year. In the Waste Management and Recycling business segment, the development of a further field for underground reutilisation was commenced at the Bernburg site in Germany. Measures relating to replacing and ensuring production accounted for just about two thirds of the capital expenditure.

**LIQUIDITY ANALYSIS**

Gross cash flow reached € 910.6 million in the year under review and was therefore € 97.9 million or 12 % up on the previous year's figure (2010: € 812.7 million). The increase came in the wake of the positive earnings trend. The significantly higher operating earnings brought higher income tax payments with them. / TAB: 4.8.5

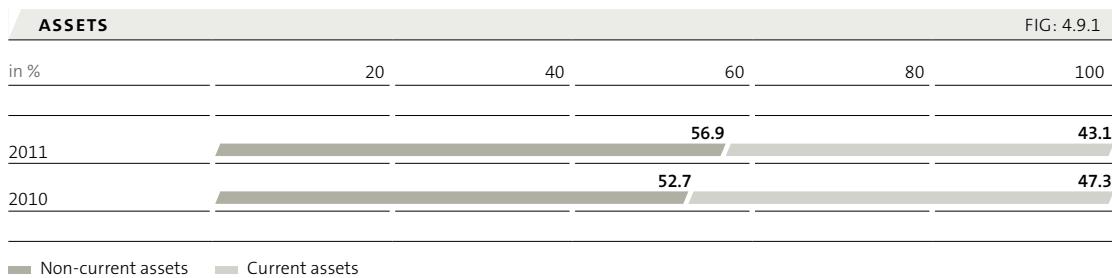
Cash flow provided by operating activities (excluding further out-financing of pension obligations) totalled € 822.2 million during the year under review therefore remaining more or less on a par with the previous year (2010: € 829.1 million). The very mild winter in the fourth quarter in particular resulted in a sharper increase in salt stocks compared to the previous year, therefore leading to more funds being tied up in working capital.

Cash flow for investment activities (excluding investments in securities) amounted to € (495.6) million in 2011 and was thus substantially above the level of the previous year (2010: € (177.7) million). The increase can

primarily be attributed to outgoing payments in connection with the acquisition of 81.6 % of the shares in and the associated assumption of control over the company POTASH ONE (€ (242.8) million). Free cash flow (excluding further out-financing of pension obligations and investments in securities) totalled € 326.6 million in 2011 (2010: € 651.4 million). Adjusted for acquisitions/divestitures, the free cash flow fell by € 82.0 million or 13 % to € 569.4 million in comparison to the same period in the previous year.

The cash flow for financing activities amounted to € (261.7) million (2010: € (439.7) million) and resulted almost exclusively from the dividend payment of € 191.4 million for financial year 2010 and the acquisition of the remaining 18.4 % of the shares in POTASH ONE (€ (59.3) million) and not, as in the previous year, from the repayment of financial liabilities. Following the further out-financing of pension obligations totalling € 110.0 million alongside the acquisition of securities and other financial investments worth € 372.4 million, the net cash and cash equivalents totalled € 437.3 million at the end of the previous year (31 December 2010: € 740.6 million).

Including the provisions for pensions and mining obligations, as of the closing date, the net indebtedness fell appreciably to € 610.8 million compared to the figure as of 31 December 2010 (€ 732.5 million), despite the acquisition of POTASH ONE.



## 4.9 ASSET POSITION

The description of the asset position for 2011 refers to the continued operations of the K+S GROUP. The previous year's balance sheet was not adjusted and contains the assets and liabilities of the divested COMPO business.

### ANALYSIS OF ASSET STRUCTURE

As of 31 December 2011, the balance sheet total of the K+S GROUP amounted to € 6,056.9 million. At 57:43, the ratio of non-current assets to current assets continued to be regarded as balanced with a slight shift towards non-current assets compared to the previous year. / FIG: 4.9.1 / TAB: 4.9.1

Property, plant and equipment increased mainly due to a rise in capitalised raw material deposits, which were acquired within the framework of the acquisition of POTASH ONE, to € 2,227.0 million (31 December 2010: € 1,803.6 million); the divestment of COMPO counteracted this. Financial assets as well as non-current securities and other financial investments increased to € 74.4 million (31 December 2010: € 24.1 million). Inventories fell slightly to € 730.0 million (31 December 2010: € 740.2 million); a build-up of stocks of finished products in the Potash and Magnesium Products business segment due to the cautious management of stocks by the trade sector in the fourth quarter and in the Salt business segment due to the very mild winter conditions was set off by a decrease in inventories resulting from the disposal of the COMPO business. Trade receivables likewise fell slightly due to the disposal of the COMPO business and amounted to € 928.8 million at the end of the year (31 December 2010: € 949.8 million). Current securities and other financial investments increased to € 315.0 million.

(31 December 2010: € 0.0 million); these concerned investments mainly relating to time deposits and money market instruments with terms of between three and twelve months, which continue to remain available as cash reserves. Including the cash inflow from the disposal of the COMPO business, cash and cash equivalents totalled € 442.8 million (31 December 2010: € 748.4 million) at the end of the year despite the acquisition of POTASH ONE for cash and the dividend payment. Adding to this the described investments in current securities totalling € 315.0 million, the cash and cash equivalents have remained largely unchanged.

Including cash and cash equivalents (€ 442.8 million), the non-current and current securities and other financial investments (€ 373.5 million), the provisions for mining obligations and pensions (€ 580.6 million and € 95.3 million, respectively) and the financial liabilities (€ 770.6 million), and after taking into account claims for reimbursement in connection with a bond at MORTON SALT (€ 19.4 million), as of 31 December 2011, this results in net indebtedness of the K+S GROUP of € 610.8 million (31 December 2010: € 732.5 million) at the end of the year.

**/ DEFINITIONS OF THE MARGIN AND YIELD KEY FIGURES USED** can be found in the 'Further Information' section on page 217.

#### EARMARKED PLAN ASSETS

In 2005, we started on the out-financing of obligations for pensions and semi-retirement of the domestic com-

MULTI PERIOD OVERVIEW OF NET ASSET POSITION

TAB: 4.9.1

	2011	2010	2009	2008	2007
in € million					
Property, plant and equipment, intangible assets	3,247.9	2,803.3	2,658.0	1,423.5	1,297.3
Financial assets, non-current securities and other financial investments	74.4	24.1	22.4	22.3	54.9
Inventories	730.0	740.2	680.4	684.6	368.6
Accounts receivable – trade	928.8	949.8	849.6	901.5	757.2
Cash and cash equivalents, current securities and other financial investments	757.8	748.4	529.1	167.8	53.1
Net financial liabilities	(65.1)	19.3	737.8	98.6	600.8
Net indebtedness	610.8	732.5	1,351.3	570.0	1,085.1
Equity/fixed assets ratio I (%)	94.5	93.8	78.2	119.9	85.6
Equity/fixed assets ratio II (%)	154.4	161.8	161.7	171.9	162.1
Liquidity ratio I (%)	74.4	74.6	59.7	16.7	4.8
Liquidity ratio II (%)	180.3	186.7	172.6	121.7	108.8
Liquidity ratio III (%)	256.1	262.9	252.7	192.8	148.2

panies 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. The same applies to plan assets, which are earmarked for financing the pension obligations of the MORTON Group. There are also pledged reinsurance arrangements which are also to be classed as plan assets according to IFRS. In accordance with IFRS, the obligations for pensions and semi-retirement and the associated plan assets are recorded on a net basis. The funds earmarked in connection with personnel obligations increased by € 85.3 million in 2011 to a total of € 357.4 million mainly as a result of further allocations to

the CTA. Details on the composition of these plan assets as well as the out-financing arrangements performed in 2011 can be found in the Consolidated Notes under note (21) 'Pension provisions and similar obligations' as well as under note (23) 'Non-current personnel obligations'.

## OFF-BALANCE SHEET ASSETS

Other financial obligations totalled € 197.4 million as of 31 December 2011 (2010: € 141.8 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, vehicles and storage capacities are leased. Due to the chosen contractual structures, these items are not to be carried under fixed assets on the balance sheet. Information about other intangible, unrecognised assets in the sense of customer and supplier relationships as well as organisational and procedural advantages can be found in our Company/Sustainability Report on pages 47, 75 and 110. Investors and capital market relationships are explained in the section 'K+S on the Capital Market' on page 23.

## COMMENTS ON ACQUISITION AND DISPOSAL OF COMPANIES

Having submitted a friendly take-over bid to the shareholders of POTASH ONE INC., Saskatchewan, Canada, in November 2010, in January and February 2011, K+S acquired a 90.9% stake in POTASH ONE. Because more than 90% of POTASH ONE shareholders accepted the bid, all remaining shares were purchased in March 2011 by way of a compulsory acquisition within the framework of the Canada Business Corporations Act.

/ A DESCRIPTION OF THE LEGACY PROJECT can be found in the Opportunity Report on page 147.

In addition, the sale of the COMPO business to the European private equity investor TRITON was announced on 20 June 2011. Following the approval issued by the EU competition authority on 26 September, the disposal was successfully completed on 18 October 2011.

/ FURTHER INFORMATION is available in the Notes on page 169.

The aforementioned transactions were performed within the two-pillar strategy of the K+S GROUP. This provides for growth in the Potash and Magnesium Products and the Salt business segments in particular and for focusing our management resources and financial means on this.

## 4.10 BUSINESS SEGMENT DEVELOPMENT

### POTASH AND MAGNESIUM PRODUCTS BUSINESS SEGMENT

/ A DESCRIPTION OF THE MARKET ENVIRONMENT IN THE FERTILIZER BUSINESS SECTOR can be found on page 91 in the 'Industry-specific framework conditions' section.

#### AT € 2,131.9 MILLION, REVENUES RISE 14% YEAR ON YEAR

In financial year 2011, revenues of the business segment increased by € 264.9 million or 14% to € 2,131.9 million; this is attributable to a significant increase in the average price of the product range. In 2011, the sales volume achieved 6.93 million tonnes, almost equal to the previous year's figure of 7.06 million tonnes. Thereby, at the end of the year, there was a more cautious management of early stocking-up by the trade sector, especially in Europe. / TAB: 4.10.1, 4.10.2, 4.10.3

The proportion of the revenues generated in Europe in the previous year amounted to 53%; this revenue share is largely free of any direct foreign exchange risk. A large part of the remaining revenues was generated by the overseas markets in Asia and South America.

/ FIG: 4.10.1

During the year under review, revenues for potassium chloride – our most significant product in terms of volume – rose by € 153.7 million or almost 18% to € 1,034.1 million. The significant increase in price was able to more than make up for the slightly negative currency

VARIANCE ANALYSIS		TAB: 4.10.1
		2011
in %		
<b>Change in revenues</b>		+14.2
– volume/structure		(0.2)
– prices/price-related		+16.1
– exchange rates		(1.7)
– consolidation		–
Potassium chloride		17.5
Fertilizer specialities		11.7
Industrial products		10.0

effects. In Europe, we sold 1.11 million tonnes of potassium chloride; this figure was about 2 % less than the previous year's. Overseas, 1.95 million tonnes were sold.

With fertilizer specialities, we achieved revenues of € 806.4 million during the past financial year, an increase of almost 12 % (2010: € 721.8 million). The decisive factor in this product group too were significant increases in prices, which were able to more than make up for negative currency effects. While the European sales volume reached 2.08 million tonnes ((6 %)), at 0.98 million tonnes, the sales volume overseas was 7 % higher than in the previous year.

In the industrial products area, revenues increased by 10 % to € 291.4 million (2010: € 264.8 million); positive price and volume effects were able to more than compensate for negative currency effects. Especially the European and Asian regions made significant contributions to the increase in revenues. Sales volumes amounted to 0.55 million tonnes ((15 %)) in Europe and to 0.26 million tonnes (+30 %) overseas. / FIG: 4.10.2

#### EBITDA AND OPERATING EARNINGS EBIT I UP SHARPLY

For the year under review, earnings before interest, taxes, depreciation and amortisation (EBITDA) of the business segment amounted to € 833.8 million and were up € 266.7 million, or 47 %, year on year (2010: € 567.1 million).

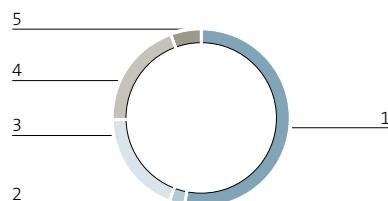
POTASH AND MAGNESIUM PRODUCTS BUSINESS SEGMENT

TAB: 4.10.2

	Q1/11	Q2/11	Q3/11	Q4/11	2011	2010	%
in € million							
Revenues	578.0	502.4	508.8	542.7	2,131.9	1,867.0	+14.2
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	224.2	205.9	192.8	210.9	833.8	567.1	+47.0
Operating earnings (EBIT I)	202.4	184.4	171.3	181.4	739.5	475.9	+55.4
Capital expenditure	18.3	30.0	46.5	67.3	162.1	96.9	+67.3
Employees as of reporting date (number)	7,948	8,008	8,166	—	8,188	7,900	+3.6

REVENUES BY REGION

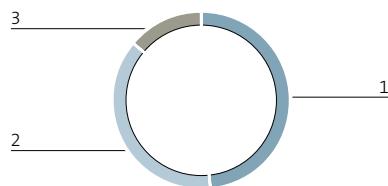
FIG: 4.10.1



	2011	2010
in %		
1 Europe	53.3	56.0
— of which Germany	14.5	16.5
2 North America	2.7	3.1
3 South America	18.9	17.6
4 Asia	19.7	19.4
5 Africa, Oceania	5.4	3.9

REVENUES BY PRODUCT GROUP

FIG: 4.10.2



	2011	2010
in %		
1 Potassium chloride	48.5	47.2
2 Fertilizer specialities	37.8	38.7
3 Industrial products	13.7	14.1

**DEVELOPMENT OF REVENUES, SALES VOLUMES AND AVERAGE PRICES BY REGION<sup>1</sup>**

TAB: 4.10.3

	Q1/11	Q2/11	Q3/11	Q4/11	2011	2010	%
<b>Revenues</b>	<b>€ million</b>	<b>578.0</b>	<b>502.4</b>	<b>508.8</b>	<b>542.7</b>	<b>2,131.9</b>	<b>1,867.0</b>
Europe	€ million	337.5	276.1	263.8	260.8	1,138.2	1,045.4
Overseas	US\$ million	329.0	325.6	346.1	380.1	1,380.8	1,086.4
<b>Volumes</b>	<b>t eff. million</b>	<b>2.01</b>	<b>1.66</b>	<b>1.61</b>	<b>1.65</b>	<b>6.93</b>	<b>7.06</b>
Europe	t eff. million	1.19	0.87	0.86	0.82	3.74	3.99
Overseas	t eff. million	0.82	0.79	0.75	0.83	3.19	3.07
<b>Average Prices</b>	<b>€/t eff.</b>	<b>287.6</b>	<b>302.3</b>	<b>316.8</b>	<b>327.8</b>	<b>307.5</b>	<b>264.4</b>
Europe	€/t eff.	284.4	314.7	309.3	315.9	304.1	261.8
Overseas	US\$/t eff.	399.7	414.9	459.6	457.9	432.8	354.1

<sup>1</sup> Revenues include prices both inclusive and exclusive of freight costs and, in the case of overseas revenues, are based on the respective USD/EUR spot rates. For most of these revenues, hedging transactions have been concluded. The price information is also affected by the respective product mix and is therefore to be understood as providing a rough indication only.

It proved possible to increase operating earnings EBIT I in the Potash and Magnesium Products business segment by € 263.6 million or 55% to € 739.5 million. This includes depreciation of € 94.3 million which increased by € 3.1 million in comparison to those of the previous year. The improvement in earnings is particularly attributable to the higher average proceeds across the overall product range; these were able to more than make up for price- and volume-related higher costs, especially in the case of personnel, energy and materials. The hedging instruments used by us resulted in a stable USD/EUR exchange rate and a positive currency result

(€ 24 million) for the business segment, despite the weaker US dollar in 2011.

/ STATEMENTS REGARDING THE FUTURE DEVELOPMENT OF REVENUES AND EARNINGS OF THE POTASH AND MAGNESIUM PRODUCTS BUSINESS SEGMENT can be found on page 143.

**NITROGEN FERTILIZERS BUSINESS SEGMENT**

The sale of COMPO to the European private equity investor TRITON was announced on 20 June 2011; the closing took place on 18 October 2011. Detailed information

about the disposal can be found in the Notes on page 169. In accordance with IFRS 5, COMPO is disclosed as a "discontinued operation".

Furthermore, at the end of September 2011, BASF SE announced the sale of considerable parts of its fertilizer production facilities to the Russian fertilizer producer EUROCHEM. The existing contracts between BASF and K+S to supply K+S NITROGEN with complex fertilizers and straight nitrogen fertilizers cannot be terminated before 31 December 2014.

/ A DESCRIPTION OF THE MARKET ENVIRONMENT IN THE FERTILIZER BUSINESS SECTOR can be found on page 91 in the 'Industry-specific framework conditions' section.

**VARIANCE ANALYSIS**

TAB: 4.10.4

	2011
in %	
<b>Change in revenues</b>	<b>+28.2</b>
– volume/structure	(4.6)
– prices/price-related	+33.8
– exchange rates	(1.0)
– consolidation	—
Complex fertilizers	14.9
Straight nitrogen fertilizers	36.9
Ammonium sulphate	38.6

## REVENUES UP BY 28% TO € 1,156.8 MILLION

As a consequence of pricing, revenues in the Nitrogen Fertilizers business segment rose by 28% to € 1,156.8 million in the year under review. The sales volume in 2011 at 4.44 million tonnes was 4% below the figure for the previous year (2010: 4.62 million tonnes).

/ TAB: 4.10.4, 4.10.5

The business segment generated about 72% of its revenues in Europe and was thus only influenced by currency fluctuations to a limited extent. The larger part of the remaining revenues was generated in Asia.

/ FIG: 4.10.3

Complex fertilizer revenues increased by about 15% or € 55.1 million to € 425.4 million in the year under review. Positive price effects were able to significantly make up for slightly negative volume effects. The total sales volumes of complex fertilizers in 2011 fell by 3% to 1.11 million tonnes.

In the case of straight nitrogen fertilizers, price increases – above all in Europe – resulted in an increase in revenues of 37% to € 486.6 million (2010: € 355.5 million). The sales volume of straight nitrogen fertilizers remained more or less stable at 1.83 million tonnes.

As a consequence of pricing, the ammonium sulphate revenues in 2011 rose by around 39% to € 244.8 million. It proved possible to achieve revenue growth in all regions. The sales volume of ammonium sulphate

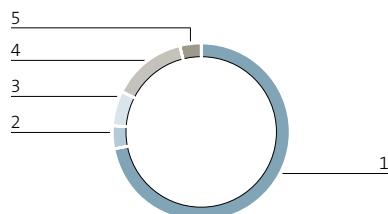
## NITROGEN FERTILIZERS BUSINESS SEGMENT

TAB: 4.10.5

	Q1/11	Q2/11	Q3/11	Q4/11	2011	2010	%
in € million							
Revenues	328.1	228.5	320.8	279.4	1,156.8	902.4	+28.2
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	34.2	10.4	17.5	9.5	71.6	45.2	+58.4
Operating earnings (EBIT I)	33.7	9.9	16.8	9.0	69.4	43.3	+60.3
Capital expenditure	0.1	0.1	0.5	0.3	1.0	0.5	+100.0
Employees as of reporting date (number)	157	160	158	—	158	171	(7.6)

## REVENUES BY REGION

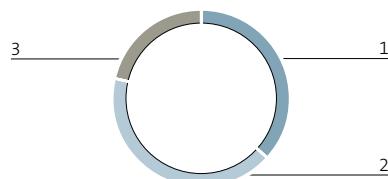
FIG: 4.10.3



	2011	2010
in %		
1 Europe	72.2	70.8
— of which Germany	15.4	15.4
2 North America	4.1	3.5
3 South America	6.2	7.1
4 Asia	13.7	14.7
5 Africa, Oceania	3.8	3.9

## REVENUES BY SEGMENT

FIG: 4.10.4



	2011	2010
in %		
1 Complex fertilizers	36.8	41.0
2 Straight nitrogen fertilizers	42.0	39.4
3 Ammonium sulphate	21.2	19.6

reached 1.50 million tonnes and thus fell by 8 % in comparison to the previous year. / FIG: 4.10.4

#### **EBITDA AND OPERATING EARNINGS EBIT I UP SIGNIFICANTLY COMPARED TO THE PREVIOUS YEAR**

During the year under review, earnings before interest, taxes, depreciation and amortisation (EBITDA) of the Nitrogen Fertilizers business segment reached € 71.6 million after € 45.2 million in 2010.

Operating earnings EBIT I for the Nitrogen Fertilizers business segment increased by 60 % to € 69.4 million (2010: € 43.3 million). This includes depreciation of € 2.2 million, which increased by € 0.3 million against the previous year. The growth in earnings was attributable to price increases for straight nitrogen fertilizers, complex fertilizers as well as for ammonium sulphate, which were able to more than make up for the increases in input costs for ammonia, rock phosphate and potash.

/ STATEMENTS REGARDING THE FUTURE DEVELOPMENT OF REVENUES AND EARNINGS OF THE NITROGEN FERTILIZERS BUSINESS SEGMENT can be found on page 143.

Actually, the earnings achieved with the products procured from BASF are split 50/50 between BASF and K+S in the plus/minus € 10.0 million corridor. We also receive a share of at least 25 % from the positive earnings exceeding € 10.0 million. In addition, K+S NITROGEN generates contributions to earnings by marketing goods from other reputable European producers, including

GRANAMMON® brand ammonium sulphate, which are not subject to the split.

#### **SALT BUSINESS SEGMENT**

/ A DESCRIPTION OF THE MARKET ENVIRONMENT IN THE SALT BUSINESS SECTOR can be found on page 91 in the 'Industry-specific framework conditions' section.

#### **REVENUES AT € 1.7 BILLION ALMOST ON A PAR WITH THE HIGH LEVEL OF THE PREVIOUS YEAR**

In the year under review, revenues generated by the Salt business segment amounted to € 1,710.1 million and were therefore only slightly down on the previous year's figure ((1.1 %)). The negative currency and volume effects were offset by positive price effects. Sales of crystallised salt during the year under review totalled 22.73 million tonnes and were thus almost on a par with the high level of the previous year (22.53 million tonnes).

/ TAB: 4.10.6, 4.10.7, 4.10.8

Last year, just under 27 % of our revenues were generated in Europe and are therefore largely free of any direct foreign exchange risk. The largest share of revenues was achieved in North America at 64 %; in South America, the share was around 9 %. / FIG: 4.10.5

At € 314.7 million, food grade salt revenues were down € 13.5 million or 4 % for the year under review. Slightly positive price effects in Europe and North America were unable to compensate for negative volume and cur-

#### **VARIANCE ANALYSIS**

TAB: 4.10.6

2011	
in %	
<b>Change in revenues</b>	(1.1)
– volume/structure	(0.7)
– prices/price-related	+1.5
– exchange rates	(1.9)
– consolidation	–
Food grade salt	(4.1)
Industrial salt	(0.2)
Salt for chemical use	15.1
De-icing salt	0.1
Other	(21.2)

rency effects. The sales volume amounted to 1.53 million tonnes and was down about 5 % year on year.

Revenues for industrial salts, e.g. fishery, feed and high-purity pharmaceutical salts, amounted to € 489.4 million for the past financial year and were thus on a par with the previous year's figure (€ 490.3 million). Higher sales volumes in North and South America more or less compensated for lower prices and negative currency effects. The sales volume amounted to 5.26 million tonnes and thus was up about 5 % year on year (5.02 million tonnes).

At € 99.6 million, revenues in the salt for chemical use business were up € 13.1 million or 15 % in comparison to the previous year. The increase in revenues is

attributable to positive volume and price effects. The sales volume amounted to 2.63 million tonnes and was up 9% year on year.

De-icing salt revenues reached € 739.7 million for the year under review, practically the same high figure achieved in the previous year (2010: € 739.2 million). The somewhat weaker winter business in Europe could be compensated for by positive price effects in Canada and Europe. The sales volume was, at 13.31 million tonnes, only slightly down on the previous year (2010: 13.49 million tonnes).

In addition to the business with other de-icing agents, such as magnesium chloride solution, "Other" also includes the third-party logistics business of the shipping company EMPREMAR belonging to the Chilean SPL Group. The revenues recorded under "Other" fell by € 17.9 million to € 66.7 million; this is largely attributable to EMPREMAR's lower transport volume. / FIG: 4.10.6

#### EBITDA AND OPERATING EARNINGS EBIT I LOWER THAN PREVIOUS YEAR'S STRONG RESULTS

During the year under review, earnings before interest, taxes, depreciation and amortisation (EBITDA) fell by around 9% to € 337.9 million (2010: € 369.7 million).

In the Salt business segment, operating earnings EBIT I fell in 2011 by € 26.7 million or 11% to € 211.4 million (2010: € 238.1 million). Operating earnings EBIT I include depreciation of € 126.5 million (2010: € 131.6 million). The fall in earnings is attributable to a different regional mix in

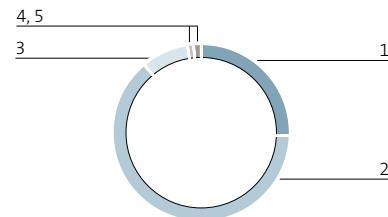
SALT BUSINESS SEGMENT

TAB: 4.10.7

	Q1/11	Q2/11	Q3/11	Q4/11	2011	2010	%
in € million							
Revenues	682.5	282.4	306.5	438.7	1,710.1	1,728.8	(1.1)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	169.9	40.9	43.6	83.5	337.9	369.7	(8.6)
Operating earnings (EBIT I)	139.1	11.0	13.3	48.0	211.4	238.1	(11.2)
Capital expenditure	7.0	13.2	43.3	48.8	112.3	79.0	+42.2
Employees as of reporting date (number)	5,185	5,226	5,209	—	5,230	5,235	(0.1)

REVENUES BY REGION

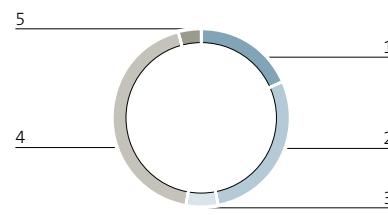
FIG: 4.10.5



	2011	2010
in %		
1 Europe	26.7	29.7
– of which Germany	11.6	14.3
2 North America	64.3	62.3
3 South America	8.5	7.8
4 Asia	0.2	0.1
5 Africa, Oceania	0.3	0.1

REVENUES BY PRODUCT GROUP

FIG: 4.10.6



	2011	2010
in %		
1 Food grade salt	18.4	19.0
2 Industrial salt	28.6	28.4
3 Salt for chemical use	5.8	4.9
4 De-icing salt	43.3	42.8
5 Other	3.9	4.9

<b>DEVELOPMENT OF REVENUES, SALES VOLUMES AND AVERAGE PRICES<sup>1</sup></b>								TAB: 4.10.8
		Q1/11	Q2/11	Q3/11	Q4/11	2011	2010	%
<b>De-icing salt</b>								
Revenues	€ million	435.0	45.3	74.1	185.3	739.7	739.2	+0.1
Sales volumes	t million	7.94	0.74	1.35	3.28	13.31	13.49	(1.3)
Average prices	€/t	54.8	61.0	55.0	56.6	55.6	54.8	+1.4
<b>Industrial salt, salt for chemical use and food grade salt</b>								
Revenues	€ million	226.9	223.2	218.5	235.1	903.7	905.0	(0.1)
Sales volumes	t million	2.24	2.47	2.17	2.54	9.42	9.04	+4.2
Average prices	€/t	101.2	90.3	100.7	92.6	95.9	100.1	(4.2)
<b>Other</b>								
Revenues	€ million	20.6	13.9	13.9	18.3	66.7	84.6	(21.1)
<b>Salt business segment</b>								
Revenues	€ million	682.5	282.4	306.5	438.7	1,710.1	1,728.8	(1.1)

<sup>1</sup> Revenues include prices both inclusive and exclusive freight costs. The price information is also affected by changes of the exchange rates and the respective product mix and is therefore to be understood as providing a rough indication only.

de-icing salt as well as to a somewhat lower price level on the east coast of the United States; higher sales volumes in North America were unable to compensate for this. We also temporarily incurred higher demurrage charges due to the maintenance work performed on our Patillos port terminal in Chile and weather-related production interruptions at the sea salt plant on the Bahamas. The profitability of our global salt business varies depending on the respective regional mix, the utilisation of capacity, the local margin as well as the exchange rates. Thus, for example, earnings for 2011 of between € 20 million and € 30 million were favourably affected by an above-average business with de-

icing salt in comparison to the long-term average figure (positive winter effect 2010: between € 60 million and € 70 million).

/ STATEMENTS REGARDING THE FUTURE DEVELOPMENT OF REVENUES AND EARNINGS OF THE SALT BUSINESS SEGMENT can be found on page 144.

## COMPLEMENTARY BUSINESS SEGMENTS

### REVENUES REACH € 150.4 MILLION (+12.2%)

At € 150.4 million, revenues of the Complementary Business Segments were a good 12% above the level of the previous year. According to IFRS, revenues deriving from services rendered to K+S GROUP companies are not included in these figures. Including these internal revenues, in the period under review, total revenues amounted to € 188.3 million (2010: € 175.4 million).

/ TAB: 4.10.9, 4.10.10 / FIG: 4.10.7

In the Waste Management and Recycling segment, revenues increased by almost 19% to € 87.7 million (2010: € 73.8 million); due not least to the amended regulations concerning above-ground disposal of particular waste,

## VARIANCE ANALYSIS

TAB: 4.10.9

2011

in %	
Change in revenues	+12.2
– volume/structure	+14.5
– prices/price-related	(2.3)
– exchange rates	—
– consolidation	—
Waste Management and Recycling	+18.8
Logistics	+7.4
Animal hygiene products	+3.2
Trading	+3.2

these revenue increases related to sales increases in the underground disposal and the reutilisation areas. Revenues in the Logistics segment (€ 14.6 million) increased mainly due to volume factors, while the increases in Animal Hygiene Products (€ 35.3 million) and the trading business (€ 12.8 million) largely resulted from price factors. / FIG: 4.10.8

/ YOU WILL FIND AN OVERVIEW OF THE INDIVIDUAL AREAS OF ACTIVITY on page 64.

#### EBITDA AND OPERATING EARNINGS EBIT I

The earnings before interest, taxes, depreciation and amortisation (EBITDA) of the Complementary Business Segments for the year under review amounted to € 29.0 million and were thus up € 1.3 million, or 5%, year on year. Operating earnings EBIT I reached € 17.9 million (2010: € 21.2 million). The depreciation included here amounted to € 11.1 million and, due to the unscheduled depreciation concerning ship investments in the Logistics segment (€ 4.6 million), were above the level of the previous year (2010: € 6.5 million). Higher contributions to earnings in the Waste Management and Recycling as well as Animal Hygiene Products segments were unable to compensate for the decline in earnings due to the slightly negative trading earnings and the unscheduled depreciation in the Logistics segment.

/ STATEMENTS REGARDING THE FUTURE DEVELOPMENT OF REVENUES AND EARNINGS OF THE COMPLEMENTARY BUSINESS SEGMENTS can be found on page 144.

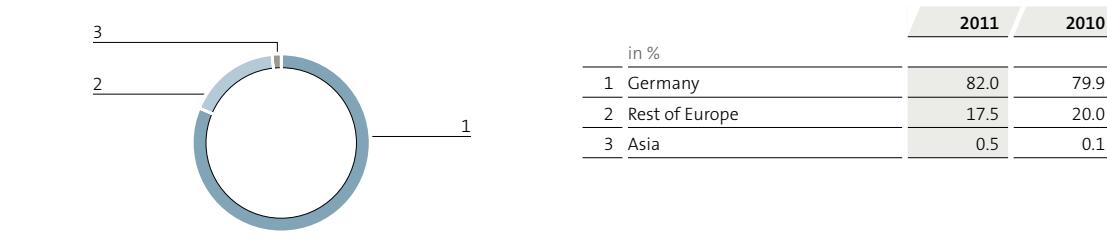
#### COMPLEMENTARY BUSINESS SEGMENTS

TAB: 4.10.10

	Q1/11	Q2/11	Q3/11	Q4/11	2011	2010	%
in € million							
Revenues	38.2	36.4	37.7	38.1	150.4	134.0	+12.2
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	9.7	6.2	8.2	4.9	29.0	27.7	4.7
Operating earnings (EBIT I)	8.1	4.6	6.6	(1.4)	17.9	21.2	(15.6)
Capital expenditure	0.7	0.3	1.2	2.1	4.3	4.2	+2.4
Employees as of reporting date (number)	282	281	288	—	290	280	+3.6

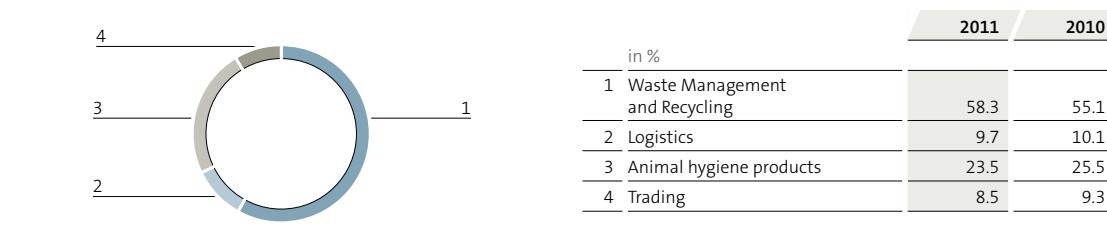
#### REVENUES BY REGION

FIG: 4.10.7



#### REVENUES BY SEGMENT

FIG: 4.10.8



## 4.11 RISK REPORT

### RISK POLICY

The business policy of the **K+S GROUP** is geared towards securing the existence of the Company, sustainably generating risk-adequate returns as well as systematically and continuously increasing enterprise value. To achieve this objective, our global business activities require a permanent, responsible consideration of opportunities and risks. The Board of Executive Directors bears overall responsibility for effective risk and opportunity management, which is an integral part of corporate management.

### OPPORTUNITY MANAGEMENT

Opportunity and risk management are closely inter-linked within the **K+S GROUP**. Chances are internal and external developments, which may have a positive impact on the Group. We essentially derive our opportunity management from the goals and strategies of our business segments and ensure a balanced relationship between opportunities and risks. Direct responsibility for the early and regular identification, analysis and utilisation of opportunities rests with the operational management of the business segments and/or the heads of the central holding units. Opportunity management is an integral part of the groupwide planning and controlling systems. We occupy ourselves intensively with market and competition analyses, relevant

cost elements and key success factors, including those in the political environment in which the Company operates. This serves as the basis for identifying concrete opportunity potentials that are specific to business segments and corresponding targets, which are discussed and then defined between the Board of Executive Directors and the managers responsible for the business segments. Selected opportunity potentials for the **K+S GROUP** are discussed in the 'Opportunities' section of the forecast report.

### RISK MANAGEMENT

We define risks as the possible occurrence of internal and external events, which may adversely affect the achievement of our short-term and strategic goals. The goal of the **K+S GROUP**'s risk management is to identify and assess risks as early as possible and to limit potential business losses by means of appropriate measures. This is intended to prevent the Company's continued existence from being jeopardised and, through corporate decision-making on this basis, to create long-term value. For this purpose, we use planning, management and control systems that are standardised across the Group.

### ORGANISATION AND TOOLS OF THE RISK MANAGEMENT SYSTEM

The Board of Executive Directors has defined groupwide principles and rules of behaviour as well as guidelines for systematic and effective risk management of the **K+S GROUP**. The groupwide risk management system

draws on existing organisational and reporting structures and consists of the following elements:

- + The guideline on risk management organisation in the **K+S GROUP**,
- + the risk management holding unit,
- + the persons responsible for risk management in the business segments and the holding company,
- + standardised risk profiles specific to business segments,
- + information about the complete, quantified risk situation in goal-setting talks held between the Board of Executive Directors and the managers responsible for the business segments and holding units,
- + regular, uniform risk reporting at Group and business segment level as well as
- + immediate reporting in urgent cases.

The guideline on the risk management organisation in the **K+S GROUP** includes principles of risk policy and processes of risk management. It governs the tasks and authorisations of those involved in the risk management process. Thus direct responsibility for the identification, assessment, control and communication of risks rests with the operating management of the business segments and the central holding units respectively. Equally, the requirements for risk reporting, which include the reportable thresholds for risks, are defined as mandatory. The risk management holding unit coordinates the risk management process and is supported by persons responsible for risk management in the business segments.

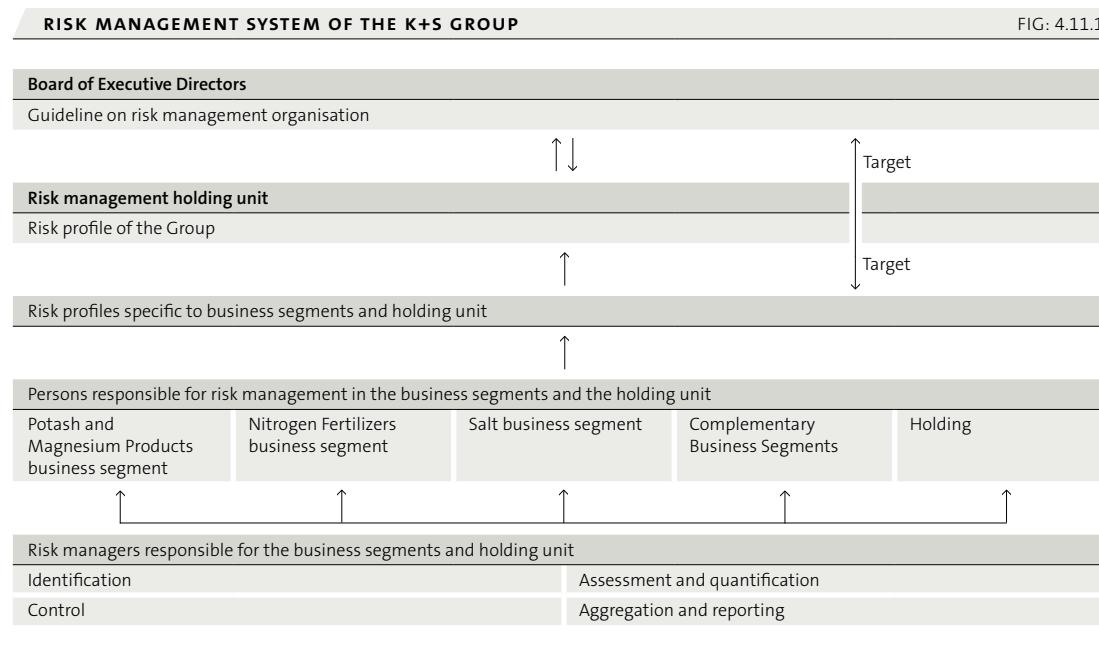
The proper functioning of the risk management system of the K+S GROUP is regularly reviewed by our internal audit department. Furthermore, the functionality and effectiveness of the early risk detection system of K+S AKTIENGESELLSCHAFT is regularly reviewed by our auditors. / FIG: 4.11.1

### RISK IDENTIFICATION

The regular identification of risks is decentralised and is carried out in the business segments and holding units through the use of various tools. The methods used for risk determination range from analyses of markets and competition through close contacts with customers, suppliers and institutions to observing risk indicators in an economic and socio-political environment.

### RISK ASSESSMENT AND QUANTIFICATION

Identified risks are assessed according to a uniform methodology. For each risk, we quantify its likelihood of materialisation and, in addition to the gross loss potential, the net loss potential. The latter includes effects from countermeasures. If a gross loss potential can be reliably reduced by effective and appropriate measures, the focus of consideration will be on the net loss potential. This approach makes it possible to understand which influence individual risk-reducing measures have. Additionally, a so-called expected value of the effect on earnings is determined by multiplying the net loss potential by the likelihood of materialisation. Risks are assessed in terms of time periods both for the current year and for a time horizon of three and ten



years. Expected risks with a likelihood of materialisation of over 50 % are taken into consideration in the medium-term planning and annual forecast with corresponding deductions from earnings.

### RISK CONTROL

A building block of risk management is the development of suitable countermeasures taking account of alternative risk scenarios. Measures for preventing or

diminishing risks have the goal of reducing the loss potential and the likelihood of materialisation. Risks can also be transferred to a third party (e.g. by taking out insurance). The decision regarding the implementation of corresponding measures also takes into consideration the costs related to the effectiveness of possible measures.

### RISK AGGREGATION AND REPORTING

Our risk management system is intended to ensure a transparent presentation of the risk situation. The risks from the business segments and the holding company are aggregated at Group level. The risk reporting is based on a threshold concept. This involves the business segments reporting risks independently of their likelihood of materialisation if defined thresholds for the gross or net loss potential are reached. At Group level, we observe risks starting from a likelihood of materialisation of at least 5 % and a net loss potential of simultaneously at least € 10 million.

Every quarter, the Board of Executive Directors receives an overview of the current risk situation via a standardised reporting system. Material risks that arise in the short term are, if urgent, immediately communicated directly to the Board of Executive Directors outside customary reporting channels. The Supervisory Board is briefed by the Board of Executive Directors in just as regular and timely a manner and, if urgent, immediately.

### RISK MANAGEMENT IN RELATION TO FINANCIAL INSTRUMENTS (IFRS 7)

The financial objective of the K+S GROUP is to limit financial risks (e.g. price change risk, interest change risk, risk of default and liquidity risk) through systematic financial management. To this end, centralised financing management has been established in K+S AKTIENGESELLSCHAFT. Furthermore, the K+S GROUP manages

its capital structure and, if necessary, makes adjustments, taking into consideration the expected economic framework conditions. The aim of the capital structure management is to sustainably secure the financing of the operating business and ability to invest of the Company.

*/ A MORE DETAILED EXPLANATION OF THE MANAGEMENT OF THE CAPITAL STRUCTURE can be found on page 102.*

Our international business activities can give rise to currency-related market price risks, which we counteract under our currency management system by hedging transactions. Internal procedure instructions and guidelines regulate the permitted hedging strategies as well as hedging instruments, responsibilities, processes and control mechanisms. Other market price risks may result from changes in raw material prices (e.g. energy) and transport costs (e.g. sea freight). To the extent that derivative financial instruments are used in a targeted way for this, analogous rules apply. The hedging instruments are used exclusively to secure the underlying transactions, but not for trading or speculation. Financial transactions are only concluded with appropriate banks. Through regular monitoring, the suitability of counterparties and compliance with position limits are constantly reviewed. Furthermore, in order to limit the risk of default, the guideline stipulates a balanced distribution of derivatives across various banking institutions. Hedging transactions are entered into, on the one hand, in the case of already existing underlying transactions. By means of this, we intend to largely avoid

exchange rate risks arising from underlying transactions on the balance sheet (normally receivables). On the other hand, we enter into hedging transactions for future transactions, which can be anticipated with a high level of probability on the basis of empirically reliable findings (forecast hedges). Forecast hedges are intended to reduce the exchange rate risks of future financial years.

*/ A MORE DETAILED EXPLANATION OF HEDGING TRANSACTIONS can be found in the presentation of risks arising from exchange rate fluctuations on page 131 and in the Notes on page 190.*

### DESCRIPTION OF THE KEY FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM WITH REGARD TO THE GROUP ACCOUNTING PROCESS (SEC. 315 PARA. 2 NO. 5 OF THE GERMAN COMMERCIAL CODE – HGB)

The internal control system in the K+S GROUP encompasses the principles, procedures and measures designed to ensure the effectiveness, economy and adequacy of accounting procedures as well as to secure compliance with the relevant regulations.

The guidelines for the accounting and reporting of the K+S GROUP in accordance with IFRS stipulate the uniform accounting and valuation principles for the German and foreign companies included in the consolidated financial statements. In addition, these provisions

include rules for the consolidated financial statements as well as detailed and formalised requirements for the reporting of the companies included.

New provisions and amendments to existing regulations for the accounting are analysed on a timely basis for their effects and are, if these are relevant to us, implemented into guidelines and accounting processes.

After the IT-integration of MORTON SALT scheduled to take place in the course of this year, we have a group-wide uniform IT platform, a uniform consolidated chart of accounts and automatically standardised accounting policy processes. As a result of this standardisation, proper and timely reporting of key business transactions is ensured. Binding regulations are in place for additional manual recording of business transactions. Valuations on the balance sheet, such as the review of the impairment of goodwill or the calculation of mining obligations, are carried out by internal experts. In individual cases, such as the evaluation of pension obligations, the evaluation is carried out by external experts.

To prepare the consolidated financial statements of the K+S GROUP, the financial statements of those companies whose accounting is done on the uniform IT platform of the K+S GROUP are imported directly into an IT consolidation system. In the case of the remaining companies included, the data of the financial statements are transferred through an internet-based interface. Through systematic technical controls, the valid-

ity of the transferred data of the financial statements is reviewed. In addition, the financial statements submitted by the companies included are reviewed centrally with due consideration being given to the reports prepared by the auditors. An adequate and complete elimination of internal Group transactions is ensured by the system-based deduction and formalised inquiry of consolidation-relevant information. All consolidation processes for the preparation of the consolidated financial statements are carried out and documented in the IT consolidation system. The components of the consolidated financial statements, including key information for the Notes, are developed from this.

Process-integrated and process-independent monitoring measures are building blocks of the internal control system. Automatic IT process controls are a key element of the process-integrated measures. Alongside manual process controls such as, for example, the “four-eye principle”, there is an organisational separation of administrative, executive, settlement and approval functions. Further monitoring tasks are performed through such Group units as the central tax department. The internal audit department is integrated into the internal control system with process-independent audit activities.

The annual financial statements of companies subject to mandatory audit and the consolidated financial statements are audited by independent auditors. This is the key process-independent monitoring measure with

regard to the Group accounting process. The annual financial statements of those domestic companies not subject to mandatory audits are audited by the internal audit department.

## OVERVIEW OF CORPORATE RISKS

Risks material to the K+S GROUP are described in the following sections, but no conclusions should be drawn from their order regarding their likelihood of materialisation or the potential extent of losses.

In doing so, the possible materialisation and effect of risks following countermeasures under the current framework conditions are appraised; this is based on a Group perspective and relates to the period of medium-term planning.

The assessment of the likelihood of a risk materialising is based on the criteria

- + unlikely (likelihood of materialisation: < 5 %)
- + possible (likelihood of materialisation: 5 – 50 %)
- + likely (likelihood of materialisation: > 50 %)

The assessment of the possible effect is based on the qualitative criteria

- + moderate
- + significant
- + jeopardising the continued existence of the Company

<b>OVERVIEW OF CORPORATE RISKS</b>			TAB: 4.11.1
	Likelihood of materialisation	Possible financial effects	
<b>External and sector-specific risks</b>			
Effects of macroeconomic trends	possible	significant	
Fluctuations in demand and price	possible	significant	
Seasonal fluctuations in demand	possible	moderate	
Effects of political and social changes	unlikely	significant	
<b>Changes in the legal environment</b>			
Risks arising from the change or refusal of official approvals	possible	significant	
Risks arising from the change in workplace limits	possible	moderate	
Risks arising from the reduction in anti-dumping protection	possible	moderate	
Tax law risks	possible	moderate	
<b>Operational and strategic risks</b>			
Risks arising from acquisitions and investments	unlikely	significant	
Risks arising from changes in strategic partnerships (new risk)	possible	moderate	
Risks arising from the price increase of ammonia and phosphates	possible	moderate	
Risks arising from a loss of suppliers and supply bottlenecks	unlikely	moderate	
Risks arising from energy costs and energy supply	possible	moderate	
Risks arising from freight costs and availability of transport capacity	possible	moderate	
Production risks	possible	moderate	
Risks arising from environmental damage due to rock bursts	unlikely	significant	
Risks arising from carbon dioxide pockets in deposits	possible	moderate	
Risks arising from water ingress	unlikely	significant	
Personnel risks	unlikely	moderate	
Compliance risks	unlikely	significant	
IT security risks	unlikely	moderate	
<b>Financial risks</b>			
Risks due to exchange rate fluctuations	possible	moderate	
Risks arising from the change in the general interest rate level	unlikely (prev.: possible)	moderate	
Risks arising from the default of payment by customers and the risk of financial institutions failing	unlikely	moderate	
Liquidity risks	unlikely	significant	
Risks arising from a change in the Company rating	unlikely	moderate	

A change in the framework conditions in comparison to our medium-term planning may result in a reassessment of our estimates in the course of time and is communicated correspondingly in our interim reporting.

Table 4.11.1 gives an overview of the risks material to the K+S GROUP, their likelihood of materialisation and possible financial effects. New risks and deviations in the likelihood of materialisation of existing risks in comparison to the previous year are stated in brackets. / TAB: 4.11.1

## EXTERNAL AND SECTOR-SPECIFIC RISKS

### EFFECTS OF MACROECONOMIC TRENDS

The behaviour of demand for fertilizers of the K+S GROUP is considerably influenced by general economic growth as well as economic trends and the associated improving living standards in relevant markets. Greater prosperity, mainly in the emerging market countries, results in changes in eating habits, which are particularly reflected in the greater consumption of meat. As the production of meat requires many times more cereals, soy beans and other products used as animal feed, this results in a greater need for agricultural raw materials, which in turn creates a higher demand for fertilizers.

The global economy will probably also in 2012 be influenced by the sovereign debt crisis in the eurozone, uncertainty about the state of the financial sector and

the discussion of financial policy in the United States. However, due to the persistent shortfall, the international prices for agricultural products should remain at a level that is lucrative for the agricultural sector. Against this backdrop, the demand for fertilizers should also develop positively. However, the risk exists that the sovereign debt crisis in the eurozone will deepen or that the financial system overall will suffer from a lasting crisis of confidence. In that case, a recession in the eurozone could not be ruled out. The prices for agricultural products too could then fall to a level that triggers uncertainty among farmers about their future income situation and thus negatively impacts their demand behaviour in relation to fertilizers. This possible scenario could, depending on its duration and intensity, have a material impact on the assets, financial and earnings position of the K+S GROUP.

By contrast, the impact of the general economic situation on the demand for de-icing, food grade and industrial salts is of minor importance, since the business is largely independent of economic conditions.

#### **FLUCTUATIONS IN DEMAND AND PRICE**

Primarily the products of our Fertilizers business sector may face significant fluctuations in demand and price. As a result of external influences, whose occurrence or non-occurrence we cannot normally influence, the demand for our products may decline sharply in the relevant sales markets and lead to pressure on price levels. These factors include, for example, global natural disas-

ters or regional swings in the economic cycle, decreasing global prices of important agricultural products, the market entry of new suppliers, a concentration on the demand side as well as deliberate buying restraint on the part of our customers.

These possible events may, depending on their duration and intensity, have a material impact on the assets, financial and earnings position of the K+S GROUP. As the demand for agricultural products and thus for fertilizers depends on megatrends such as the growing world population, a rising standard of living in the emerging market countries and the development of the bio-energy sector, and as fertilizers, which increase yields and enhance quality, thus play a key role in agricultural production, we, however, see potential for a positive development in the long term.

An entry of new competitors into the international potash market could result in a tangible shift in the structure of the sector. Mining groups with a strong capital base, such as BHP BILLITON and VALE, have announced that they will invest in new potash projects in the medium to long term. An aggressive expansion of new potash capacities by a producer that has, until now, operated outside the sector could possibly bring about an increase of competitive pressure if the market is not able to absorb these additional volumes completely or if the new competitor attempts to establish itself on the market by means of an aggressive pricing policy. However, as both the creation of new

potash capacities as well as the acquisition of a significant potash producer are very capital intensive, such a squeezing-out policy, due to the resultant high cost of capital, might only be short-lived, if it were adopted at all. Against this backdrop, we regard a long-term aggressive pricing policy among market participants, which would have a material impact on our expected results, as unlikely.

#### **SEASONAL FLUCTUATIONS IN DEMAND**

A significant sales risk for the Potash and Magnesium Products, Nitrogen Fertilizers and Salt business segments results in particular from the seasonality of demand, especially due to their dependence on weather conditions. Prolonged cold and wet weather conditions during the spring season, which is particularly important for Europe, can result in shifts or even declines in sales volumes of fertilizers. Likewise, mild winters may considerably reduce the sales volumes of de-icing salt in the main sales regions (Europe, North America) for this product group. We are responding to this susceptibility to fluctuation in the form of regional diversification, needs-based production management and flexible working hours. We have not yet used special derivatives to hedge this risk so far because of what we still consider to be unattractive market terms for these instruments. We consider corresponding adverse effects resulting from the influence of the weather to be possible; however, we assess the effect in relation to the expected results as moderate.

Furthermore, the building-up and destocking of inventories by our customers, depending on their expectations regarding future demand and market price trends, the weather or their liquidity management, result in fluctuations in demand. This can lead to an under-utilisation of production capacity and thus to rising unit costs. K+S offers the trade sector, for example, via a graduated price system, financial incentives in order to promote their readiness to stock up. Nevertheless, the possibility cannot be ruled out that the trade sector will choose not to stock up early in times of high market fluctuations. As a result of this, during the main fertilizer season, we might be faced with such high volume requirements that on the one hand the stocks in our depots might not be sufficient or, on the other hand, they might not be able to be fully covered due to logistical bottlenecks. The same is true for salt if towns and cities, communities and road maintenance depots – also in view of the public budgets – build up insufficient de-icing salt inventories in the low season. Such possible effects may have a moderate impact on the assets, financial and earnings position of the K+S GROUP as well as making it more difficult to compare the quarterly financial statements.

#### EFFECTS OF POLITICAL AND SOCIAL CHANGES

We carry out our business activities in numerous countries. Far-reaching changes in political, social and economic framework conditions in production countries and sales markets as well as in the countries where suppliers are based cannot be ruled out. In some of the

countries in which our products are exported or from which we obtain raw materials or supplies, the general economic, political and legal framework conditions are not always stable. Thus, we are dependent on a series of factors on which we have little or no influence at all. These factors include, for example, political instability, the expropriation of company assets without compensation, regulations on foreign currency control and other negative effects in relation to foreign exchange rates as well as restrictions on trade. Such negative factors could have a material effect on the growth prospects and on the assets, financial and earnings position of the K+S GROUP, but are currently unlikely in the countries relevant to the K+S GROUP in relation to production and sales volume.

#### CHANGES IN THE LEGAL ENVIRONMENT

##### RISKS ARISING FROM THE CHANGE OR REFUSAL OF OFFICIAL APPROVALS

###### DISPOSAL OF SALINE WASTE WATER

Public and political debate about future higher requirements of environmental friendliness of the production processes for the production of potash and magnesium products may impact on the issuing and retaining of operating licences and planning decisions approving public works, as well as on water permits. In the Potash and Magnesium Products business segment, among others, liquid residues (saline waste water) arise from both current production and through rain-

fall on the tailing piles. On the basis of existing permits, some of the saline waste water is discharged into rivers, while others are injected into underground layers of rock (plate dolomite). Establishing a significant reduction in the injection possibilities anticipated up to now, or the premature complete utilisation of approved injection areas, as well as finding that injection might have an impact on drinking water or usable ground water resources, could make an unchanged extension of existing injection permits appear unlikely and could entail a partial or even entire withdrawal of injection approvals for the disposal of liquid residues. Furthermore, currently approved thresholds for the discharge of the saline waste water into surface waters could be lowered for future discharge permits. Extensions of existing injection and discharge permits or their renewed granting may be accompanied by requirements leading to material additional costs for a pre-treatment of production waste or to considerable decreases in production at the sites affected. We consider it possible that expiring permits will not be extended or granted only to a limited extent; in the worst case, this could result in the cessation of production and possibly in the closure of the sites concerned, with considerable negative staffing consequences. This would result in a long-term and significant adverse effect on the assets, financial and earnings positions of the K+S GROUP.

For the Hattorf, Unterbreizbach and Wintershall sites located on the Werra, whose share of the total potash

production capacity of the K+S GROUP amounts to about 45%, a new injection permit was granted and is limited to November 2015. The discharge permit is limited to the end of November 2012. In October 2008, we presented a comprehensive package of measures which will, with an investment volume of up to € 360 million, considerably further reduce the injection and discharge of saline waste water by 2015. In addition, a public law agreement was concluded with the states of Hesse and Thuringia, in which the parties to the agreement jointly committed themselves to sustainable economic action, securing jobs and treating nature with the utmost respect for the next 30 years. There can be no assurance, though, that permits will be extended or newly granted on this basis. The possibility cannot therefore be ruled out that further investments in these sites might become necessary, that production costs might continue to rise, and that under certain circumstances even the closure of these production sites due to a sustainable inefficiency might be required. The reduction of solid and liquid production residues from potash production will continue to be among the focal points of our research and development activities.

As permanent local disposal is being called into question by some parties, a long-term approval of the present local concept is not regarded as certain. This is why K+S, parallel to the implementation of the local measures, has decided to also prepare applications for the approval of remote means of disposal, i.e. pipelines to the Oberweser river and to the North Sea. This is being

done regardless of the fact that the test criteria for pipelines are not currently being fulfilled in the view of the Company: There must be a shared political will at the state and federal level, the construction and operation of the pipeline and the discharge of saline solutions must be capable of being approved over the long term, the measure must be ecologically meaningful and the construction and operation of the pipeline must be economically viable and proportionate before a decision on the construction of a pipeline can be made. Such a decision is therefore not related to the preparation of the applications.

The Neuhof-Ellers potash plant stopped the injection of saline waste waters into the plate dolomite layer after the injection area was fully utilised. In order to continue to ensure the proper disposal of the tailing pile waters arising there, in accordance with the valid approvals, saline waste water is transported by rail and road to the nearest site, the Werra plant, until the salt waste water pipeline applied for has been completed. The date of the public hearing for the construction and operation of the saline waste water pipeline passed at the end of 2011. We expect the planning decision during the course of the first half of 2012.

#### DISPOSAL OF SOLID PRODUCTION RESIDUE

At the exploitation sites of the Potash and Magnesium business segment, solid residue is currently heaped up within the framework of existing approvals. If approvals for residues heaped up are revoked or necessary pro-

jects for the expansion of tailing piles are not approved, or only approved subject to unreasonably high requirements, there is no possibility for this residue to be disposed of. The alternative, transporting the residue to the existing caverns as prewetted backfill, is only possible to a limited extent. In the longer term, there are physical limits to how much backfill can be disposed of in this way, since only a far lower density is achieved than that of crude salt in the deposit. Furthermore, the high additional costs result in an economically unjustifiable relationship to the benefits. We assess possible effects on the assets, financial and earnings position of the K+S GROUP as significant.

#### TAILING PILES EXPANSION

On 18 November 2009, the Administrative Court of Hanover upheld the complaints of the BUND FÜR UMWELT UND NATURSCHUTZ DEUTSCHLAND E.V. (BUND) and the NATURSCHUTZBUND DEUTSCHLAND E.V. (NABU) and set aside the planning approval decision of the Landesamt für Bergbau, Energie und Geologie Lower Saxony (LBEG) of 10 August 2007 as well as the modification decision of 13 March 2009 on the expansion of the tailing pile of the Sigmundshall plant. In the planning approval decision, covering the pile was a prerequisite for the expansion of the piling of production residues. In response to the appeal brought by the LBEG and by K+S KALI GMBH, in judgements of 24 June 2011, the Higher Administrative Court of Lüneburg rejected the actions of BUND and NABU and did not allow an appeal against the judgements. BUND and NABU have

appealed against this decision and the Federal Administrative Court has not yet come to a decision on this. In the short term, no restrictions therefore arise for the operation of the Sigmundshall potash plant. We regard it as unlikely that the appeal will be permitted. In the medium term, the effects on the assets, financial and earnings position of the **K+S GROUP** would be moderate.

#### **COLLATERAL SECURITY**

The requirement for insolvency-proof securities for the "infinity costs" of maintaining tailing piles and for the Company's own landfill sites cannot be ruled out for the future. Currently, the necessary expenditure for the systematic maintenance of tailing piles is being provided for in the balance sheet via provisions. If, in addition to the creation of provisions, collateral securities would have to be deposited, funds would be tied up, and this could limit the financial leeway of the Company. For the medium term, we assess possible effects on the assets, financial and earnings position of the **K+S GROUP** as moderate.

#### **RISKS ARISING FROM THE CHANGE IN WORKPLACE LIMITS**

The EU initiative on setting indicative workplace limits for nitrogen monoxide (NO), nitrogen dioxide (NO<sub>2</sub>) and carbon monoxide (CO) could pose risks to our mining activities in Germany, if these do not sufficiently account for the underground production situation. If thresholds were lowered significantly, substantial

capital expenditure needed for us to comply with the thresholds could become necessary. Should the workplace limits become so stringent that production at the sites concerned in compliance with these limits were no longer possible at justifiable expense or overall technically, this might even compel us to close these sites in the long term. The effort is 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. In the medium term, adverse effects are possible, but we currently consider them to be moderate.

#### **RISKS ARISING FROM THE REDUCTION IN ANTI-DUMPING PROTECTION**

In the fertilizer business, the **K+S GROUP** also competes with producers from Russia and Belarus, which are either state-owned, receive considerable subsidies such as cheaper supplies of gas or subsidised rail transport, or otherwise, directly or indirectly, enjoy the benefits of state financial support. These competitors can therefore offer their products on better terms than those manufacturers that do not receive comparable state support. In July 2006, the existing trade policy measures regarding the importing of potassium chloride from Russia and Belarus had therefore been correctly prolonged with adjustments by five years until 13 July 2011.

In April 2011, the EUROPEAN POTASH PRODUCERS ASSOCIATION (APEP) submitted a timely application for the extension of these trade policy measures to the European Commission. Comprehensive consultations with the European Commission took place in the subsequent weeks on the basis of this application. The outcome of this was that the structurally competition-distorting practices are superimposed by the currently positive market conditions in such a way that the chances of an extension of the trade policy measures had to be regarded as being small. The APEP has therefore withdrawn its application for the time being and will remain in a constructive dialogue with the European Commission. The APEP, however, reserves the right to once again submit an application for the reintroduction of trade policy measures for the protection against competition-distorting practices to the European Commission if the market situation changes.

In the medium term, an increase in Russian and Belarusian delivery quantities above the level of previous deliveries in the EU is possible. Under the current market conditions, we assess the effects as moderate.

#### **TAX LAW RISKS**

In the area of energy taxes, the subsidiaries of the **K+S GROUP** in Germany that are classified as energy-intensive can currently make use of the so-called compensation for peak load. The relevant regulations were approved by the EU Commission until 2012 and grant companies in the manufacturing sector energy and

power tax relief for certain energy products and electricity, which they use for commercial purposes. Within the framework of the German law on budgetary consolidation, this peak load was lowered from the previous 95 to 90 % with effect from 2011. This resulted in our energy-intensive production in Germany becoming slightly more expensive. A follow-on regulation starting from 2013 is already being initially considered at the political level. We are taking an active part in this discussion in order to achieve the continued existence of this or a comparable follow-on regulation. A complete abandonment of the peak load is possible and would, in comparison to the still existing legal situation, result in additional energy tax burdens and competitive disadvantages for our energy-intensive German companies, a risk we assess as moderate.

## OPERATIONAL AND STRATEGIC RISKS

Corporate strategy risks may result chiefly from a misjudgement of future market developments and, derived from this, lead to a misalignment of corporate goals and of the associated M&A activities, equity interests, as well as investments and divestitures. Our vision and mission provide the framework for our business activities and for the strategic orientation of the business segments of the K+S GROUP and aim to explain to our employees, shareholders, lenders, customers, suppliers and the public the basis for our thinking and actions. To that end, the Board of Executive Directors, together

with the heads of the business segments, regularly discuss the strategic orientation with its opportunities and risks. No fundamental changes in strategy are to be expected.

### RISKS ARISING FROM ACQUISITIONS AND INVESTMENTS

K+S is monitoring the market environment in relation to appropriate acquisition projects or cooperations. When it appears advantageous from a strategic and economic perspective, we acquire or sell companies or parts of companies. Across the Group, we make the demand related to returns in every acquisition and expansion investment to earn a premium on our cost of capital. Further information can be found on page 102 under Financial Performance Indicators. Risks may arise from the integration of employees, processes, technologies and products and from changes in legal obligations and political restrictions. Unexpectedly high integration costs may jeopardise the achievement of planned goals and synergies. Moreover, acquisitions may negatively impact the level of indebtedness and the financing structure. Amortisation on goodwill that has arisen in connection with acquisitions may result in negative effects due to unforeseen business developments. Careful company valuations incorporating the findings of the due diligence and further analyses are of central importance in this respect. In the decision-making phase, external specialists support our economic feasibility calculations, which also include risk assessments with different scenarios. Once

made, acquisitions are intensively accompanied by integration teams. Here, we regard material adverse effects as unlikely.

In 2011, the K+S GROUP took over complete control of the Canadian company POTASH ONE and merged it into K+S POTASH CANADA. K+S POTASH CANADA holds several potash exploration licences in the Canadian province of Saskatchewan, including an already advanced greenfield project for the construction of a solution mine (Legacy Project). The first two expansion phases of the project result in a production capacity of 2.86 million tonnes of potassium chloride at a planned volume of capital expenditure of about CAD 3.25 billion. The possibility exists to expand the project in the long term to a production capacity of up to 4 million tonnes of potassium chloride per year. A construction phase of several years lies between the acquisition decision and the start of production. All assumptions and estimates made at the start of the project are subject to potential business, economic, political and social uncertainties over time. The risk consists in the fact that the initial expectations could not be fulfilled, although in advance of the takeover an intensive due diligence was carried out, the existing feasibility study was revised, and the geological, technical, legal and financial framework conditions were examined carefully. Factors which could result in serious effects during the construction phase would, for example, be unexpected geological faults, technical difficulties in developing the deposit, difficulties in procuring

qualified specialists and managers, cost increases for materials that are needed and changes in the local legislation, approvals and regulations. The above-mentioned factors could, under certain circumstances, result in a need to recognise an impairment charge in relation to the acquired assets and on the investments made in the start-up phase, and furthermore, the expected production volume would only be available at a later point in time. This would have a material effect on the assets, financial and earnings position, but this is currently unlikely.

**/ FURTHER INFORMATION ABOUT THE LEGACY PROJECT**  
can be found on page 147.

#### RISKS ARISING FROM CHANGES IN STRATEGIC PARTNERSHIPS

In the Nitrogen Fertilizers business segment, supply and contract manufacture agreements with BASF exist regarding the manufacture and delivery of nitrogen products in order to secure the supply of our business activities. The contractual arrangements include an obligation on the part of BASF to provide their production capacities for the manufacture of contractual products exclusively for the K+S GROUP or to manufacture the contractual products exclusively for the K+S GROUP. BASF intends to sell this fertilizer production to EURO-CHEM. The closing is expected at the end of the first quarter of 2012. The risk exists that the supply and contract manufacture agreements will be cancelled, which is possible for most of them no earlier than 31 December 2014. The assets, financial and earnings position could be

moderately adversely affected. We regard effects arising from this as possible.

#### RISKS ARISING FROM THE PRICE INCREASE OF AMMONIA AND PHOSPHATES

The production costs of the nitrogenous and phosphate-containing fertilizers produced for us by BASF are to a great extent determined by global market prices for ammonia and phosphate. If the competitive environment becomes more difficult, it may not always be possible in the case of nitrogen fertilizers to pass on increases in costs in their full scope via prices. However, the resulting possible risk for K+S is classified as moderate.

#### RISKS ARISING FROM LOSS OF SUPPLIERS AND SUPPLY BOTTLENECKS

The number of suppliers for raw materials and consumables such as ammonia (see above), phosphates, explosives, low-sulphur diesel fuel as well as the necessary technical equipment including spare parts is limited. Supply bottlenecks, non-delivery or delivery boycotts, on which we only have very little or no influence at all, could result in the limited availability of raw materials, consumables and supplies as well as of technical equipment and spare parts specific to mining, and thus to a considerable increase in costs or to adverse effects in production. We reduce such procurement risks with market analyses, the careful selection and appraisal of suppliers, long-term delivery agreements, clearly defined quality standards as well as up-to-date purchas-

ing methods. A remaining procurement risk could have moderate effects on the assets, financial and earnings position. However, we regard the occurrence of damage as unlikely.

#### RISKS ARISING FROM ENERGY COSTS AND ENERGY SUPPLY

The energy costs of the K+S GROUP (2011: € 277.2 million) are determined in particular by the consumption of natural gas. This applies in varying degrees to all business segments. Energy prices are frequently subject to sharp fluctuations. Significant energy price rises in comparison to the current price level cannot be ruled out in the future. To limit this risk, the need for natural gas for our potash and salt production in Europe is constantly being reduced through the use of steam from substitute fuel heating plants. The price risk for obtaining natural gas is furthermore diminished by the following instruments: In addition to the targeted use of fixed-price agreements (e.g. contractual securing of natural gas prices for up to two years in the case of MORTON SALT), we have also agreed energy supply contracts with time delay clauses with some suppliers. Hedging transactions can be used selectively in order to cover the remaining risk. There is no assurance that we will be able to completely hedge ourselves against price fluctuations for energy sources or to pass energy cost increases on to our customers. Furthermore, we depend on the reliability of the energy supplies, so that, if the supply of gas is interrupted briefly, there are risks for the security of supply. We regard risks arising from

energy costs and energy supply, which could have a moderate impact on the assets, financial and earnings positions, as possible.

#### RISKS ARISING FROM FREIGHT COSTS AND AVAILABILITY OF TRANSPORT CAPACITY

Our total costs are influenced by freight costs to a not inconsiderable degree (2011: € 813.7 million). While the products of our Potash and Magnesium Products business segment are extracted from our six mines in Germany, last year, we achieved 40 % of the corresponding revenues in Europe outside Germany and 45 % overseas. In the Salt business segment we have production sites in Europe, North and South America. A characteristic feature of this business activity is the, in some cases, large transportation distance that our products have to cover with simultaneously high transport volumes. A reduced availability of freight capacity could result in higher costs. Furthermore, considerable additional costs arise in the event of increases in mineral oil prices. There can be no assurance that higher transport costs can always be passed on to customers. By means of the long-term securing of freight capacity as well as the use of low-cost container transport, we counteract such developments; in addition, hedging transactions are also employed selectively to limit the effects of price fluctuations. Moreover, the high level of transport intensity of our business operations makes us considerably dependent on the respective infrastructure facilities such as ports, roads, railway lines and loading stations. A failure or a bottleneck could restrict the pro-

duction or sales possibilities. We consider corresponding adverse effects from rising freight costs or the limited availability of transport capacity to be possible, but we regard the effect in relation to the expected results as moderate.

#### PRODUCTION RISKS

The production facilities of the K+S GROUP, which are used, for example, for mining activities, the processing of raw materials and the storage of hazardous materials, are characterised by a high level of performance. As a result of operational and accident risks to which facilities, production plants, storage and loading facilities are exposed, business interruptions may occur and personal injury, damage to property and impacts on the environment may arise. By employing wide-ranging monitoring, probing and control systems, we intend to identify possible production risks early on and respond accordingly. These risks are reduced thanks to quality assurance measures, preventative maintenance and constant facility inspections. This is also assisted by the constant further development of our facilities and products. We have taken out corresponding insurance against fire damage and the resultant production stoppages as well as for other interruptions of operations. Given our preventative measures, we consider the remaining possible production technology risks to be moderate.

#### RISKS ARISING FROM ENVIRONMENTAL DAMAGE DUE TO ROCK BURSTS

Our mining activities involve the specific risk of a suddenly occurring subsidence of the earth's surface over a large area that is, under certain circumstances, powerful (rock burst). If this occurs, it could result, in addition to the partial or complete loss of the mine and damage to equipment, also in considerable damage to the property of third parties and in personal injury or death. Our professional dimensioning of the salt pillars in the mine works based on comprehensive research works contributes to securing the earth's surface, to a stability that is secure in the long term, and therefore to the prevention of such rock bursts. A constant monitoring of the mine works supplies, if necessary, timely indications of whether additional measures for the protection of the mine works and the prevention of damage resulting from mining are necessary. Such negative factors would have a significant impact on the assets, financial and earnings position of the K+S GROUP, but they are nevertheless unlikely.

#### RISKS ARISING FROM CARBON DIOXIDE POCKETS IN DEPOSITS

Carbon dioxide pockets in certain mines constitute a latent potential danger. If carbon dioxide from these pockets were to escape in an uncontrolled manner, the K+S GROUP could be held liable for damage or injuries associated with this, suffer damage to its own equipment and be exposed to cuts in or losses of production. 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 potential CO<sub>2</sub> leaks. We regard the possible damage potential as moderate.

#### RISKS ARISING FROM WATER INGRESS

Hydrogeological risks generally exist in underground mines, which, if uncontrollable, could cause significant damage. To secure mines, extensive exploration occurs by means of seismology, drilling and ground-penetrating radar. The preservation of protective layers and the adequate dimensioning of the safety pillars ensure the greatest possible safety in a mine. Constant scheduled maintenance activities on the shafts ensure that the risk of ground water flowing over a shaft extension can virtually be ruled out. Because the top of a shaft is in a high position, surface water is not expected to gain access to the mine complex even if flooding occurs. On the basis of our extensive precautionary measures, we consider the materialisation of that risk to be unlikely.

#### PERSONNEL RISKS

The competence and commitment of our employees are important factors in our successful development. Competition for qualified managers and specialists is intensive in all regions in which we operate. This currently also applies to the expansion of our business activities in Canada for the opening up of new production capacities. The loss of important employees in strategic

positions could constitute a risk particularly in newly acquired companies.

Our future success partly depends on the extent to which we succeed in the long term in engaging and integrating engineers and other specialist personnel and permanently binding them to the Company, and in adequately filling management positions. In future, moreover, we will be facing demographic challenges, especially in Europe and North America. This increases the risk that suitable applicants for vacancies will not be found or that it will take time to find them. We are also already finding it increasingly difficult to fill free training places. Thus in 2011, we began a differentiated age structure survey. With this we are analysing how the need for personnel will change as a result of demographic change. In this way, we want to counteract the risk of a loss of know-how due to retirement and unintended fluctuation.

Moreover, we are counteracting these risks with a number of personnel policy measures. These include the securing of a new generation of employees early on, forward-looking development of specialists and managers and the providing of intercultural competence. Further offers include performance-related remuneration systems and participation in the success of the Company, exemplary social benefits, attractive working hour regulations and models as well as offers relating to the harmonisation of career and family. Our managers have the opportunity to participate in a remuneration pro-

gramme oriented towards the long-term development of the Company. Depending on the forecast business success, the need to set aside provisions for this varies and results in a corresponding increase or decrease in personnel costs.

It is our objective to be perceived as an attractive employer in all regions relevant to us. With this strategy and increased cooperation with selected universities, we offer qualified employees promising career prospects with extensive advanced education and international development opportunities. Key positions are regularly analysed with respect to forward-looking succession planning and suitable candidates are prepared for such tasks. Furthermore, the K+S GROUP aims to maintain a good and constructive relationship with its employees and their unions, in which they, particularly in Germany and North America, are largely organised.

Overall, we consider even moderate effects on the assets, financial and earnings position from the personnel risks described as unlikely.

#### COMPLIANCE RISKS

Compliance with applicable laws, corporate guidelines and regulatory standards recognised by the Company is an integral part of our corporate culture and thus a responsibility and duty of every employee. In order to ensure behaviour that complies with these regulations, we have established a groupwide compliance

programme, which, for example, provides for employee training on the risk areas antitrust/competition law and anticorruption. We regard serious violations by individual employees, which could have a considerable impact on the assets, financial and earnings position, as unlikely.

**/ A DETAILED PRESENTATION OF OUR COMPLIANCE SYSTEM** can be found in the Corporate Governance chapter on page 35 of this Financial Report.

#### IT SECURITY RISKS

Our IT systems support almost all Company functions to a high degree. Their availability is regulated in service contracts. The risk of information security lies in the loss of the availability, integrity, confidentiality and authenticity of data due to external attacks (e.g. hackers, viruses) and internal risks (e.g. technical failure, sabotage).

Our management of IT security risks is based on the DIN ISO 31000 standard "Risk Management – Principles and Guidelines". With the establishment of an IT security management system based on the DIN ISO 27001 standard, a key prerequisite for the management of IT risks was created. In order to protect our business processes against such risks, we inform ourselves of the latest developments and adopt technical and organisational measures, to eliminate as much as possible the occurrence of risks. The redundant design of the IT systems and their infrastructure are of particular importance in this. Our computer centre is thus operated as a

two-location system, and the components of the infrastructure (power supply, data cables etc.) are also duplicated. We meet the increased security requirements faced by the IT organisation through the functions of IT compliance, the IT security officer and the data protection officer. Our operational concepts and organisational guidelines are process-oriented. The processes are based on the ITIL standard, e.g. in the areas of monitoring, data backup, access control, fault management and business continuity management. Independent experts permanently review the effectiveness of our measures on IT security.

A short-term failure of the IT systems of a few hours is possible. However, we regard a longer-term failure of up to seven days to be unlikely due to the described preventive measures; we regard the effects as moderate.

#### FINANCIAL RISKS

Due to the global nature of its business operations, the K+S GROUP is exposed to different financial risks. These include the price change risk (especially the currency risk), the interest rate risk, the default risk, the liquidity risk and the resultant fluctuations in payment flows. We regard market price risks from the change of energy prices and freight rates and from the price increase of ammonia as operating risks. These are described on page 127. If derivative financial instruments are used to hedge the respective risks, these are explained in more detail in the description of risk management in relation to financial instruments on page 120.

#### RISKS DUE TO EXCHANGE RATE FLUCTUATIONS

A currency risk results from transactions which are not effected in our functional currency (the euro). With this risk, we draw a further distinction between transaction and translation risks.

While a great part of the revenues of the K+S GROUP is settled in euros, in financial year 2011, the part of our revenues generated in US dollar accounted for almost 40% of Group revenues. In addition to this, revenues of a secondary magnitude were also generated in other national currencies (e.g. Canadian dollar, Chilean peso and pound sterling). Our earnings are therefore exposed to exchange rate fluctuations. This can lead to the value of the service performed not matching the value of the consideration received in transactions, because income

and expenditure arise at different times in different currencies (transaction risks). Exchange rate fluctuations, especially in relation to the US dollar, so far affect the Potash and Magnesium Products business segment, in particular in relation to the levels of proceeds and receivables. In future, as a result of investments of our subsidiary K+S POTASH CANADA in a new potash project, significant exchange rate risks also in relation to the Canadian dollar will arise.

Furthermore, currency effects arise at subsidiaries whose functional currency is not the euro (translation risks), since on the one hand the earnings of these companies determined in a foreign currency are translated at average rates and recognised in profit or loss, and on the other hand the net assets are translated into euros at spot rates and result in currency-related fluctuations in the equity of the K+S GROUP. Currently, these translation effects mainly appear in the Salt business segment. As the investments of K+S POTASH CANADA progress, this will also affect the Potash and Magnesium Products business segment.

Exchange rate fluctuations may have an adverse effect on the assets, financial and earnings position of the K+S GROUP. In order to counter these exchange rate risks, we use derivative financial instruments. Within the framework of transaction hedging, key net positions per currency are hedged through derivatives, normally options and futures. These ensure an absolute worst-case exchange rate. The net positions are 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. In addition, planned earnings are also hedged against translation risks, insofar as these are of material significance. More information and explanations about the foreign currency hedging system can be found on page 102 and within the framework of risk management in relation to financial instruments on page 120 and Note (18) 'Derivative Financial Instruments' in the Notes on page 190. In relation to the current framework conditions, we consider the possible risk arising from exchange rate fluctuations to be moderate.

#### RISKS ARISING FROM THE CHANGE IN THE GENERAL INTEREST RATE LEVEL

An interest rate change risk results from market-related fluctuations in the general level of interest rates. On the one hand, changes in market interest rates have an effect on future interest payments for variable-rate liabilities as well as on interest income for variable-rate investments; on the other hand, the market values of financial instruments are affected.

As of 31 December 2011, fixed-rate agreements exist for our financial liabilities. The investments predominantly have a short-term fixed interest rate, since they are reserved for upcoming investments. Interest rates are analysed regularly to manage this risk.

The risk of significant interest rate changes appears to be rather unlikely (previously: possible) in view of the current economic and political situation, while we assess potential effects as moderate.

/ INFORMATION REGARDING THE CHANGE IN GROUP EARNINGS depending on the change in interest rates can be found in the consolidated Notes on pages 203.

#### RISKS ARISING FROM THE DEFAULT OF PAYMENT BY CUSTOMERS AND THE RISK OF FINANCIAL INSTITUTIONS FAILING

The default risk should be understood as the partial or complete non-fulfilment of contractually assured obligations on the part of one or more contractual partners.

We maintain extensive business relationships with many customers. If one or more major customers are not in a position to fulfil their contractual obligations towards us or become insolvent, this could result in corresponding losses for us. The majority of risks arising from defaults of payment are covered across the Group by credit insurance. The waiving of insurance cover for receivables is only possible after the customer relationship has been reviewed critically and specific approval has been obtained, which, depending on the magnitude, has to be issued by the management of the business segment or the competent member of the Board of Executive Directors. The MORTON SALT Group has implemented its own hedging instruments to limit such risks effectively. Across the Group,

more than 80 % of all insurable receivables are hedged against a default.

**/ FURTHER INFORMATION ABOUT IMPAIRMENTS AND OVERDUE RECEIVABLES** can be found in the Notes under note (17) 'Receivables and Other Assets' on page 189.

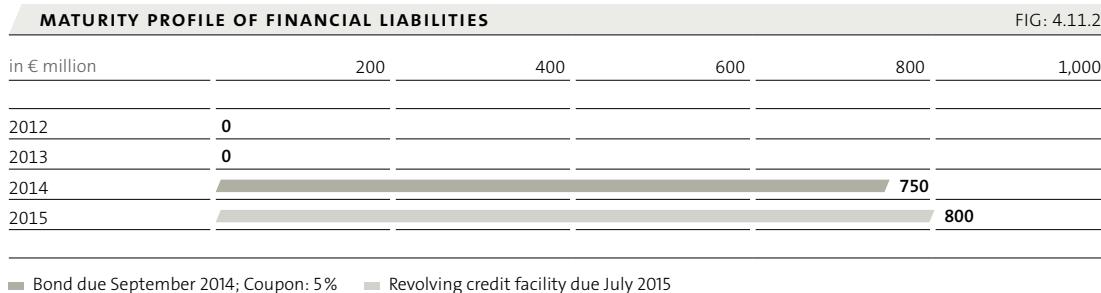
Default risks also exist with regard to financial institutions with which we have concluded hedging transactions, with respect to which credit lines exist or money was invested. This risk has increased recently due to the financial crisis and is limited by the fact that financial transactions are only concluded with institutions having suitable credit ratings according to our internal monitoring process. In addition to the rating, the rates for credit default insurance (credit default swaps), for example, are decisive.

Sureties and default guarantees only exist between companies within the K+S GROUP, not, however, for third parties.

A potential default on receivables or failure of a bank could have a moderate adverse effect on the financial position of the K+S GROUP. However, due to the measures adopted for hedging receivables and the selection of financial institutions as well as the diversification described above, we consider this as unlikely.

#### LIQUIDITY RISKS

A liquidity risk consists in the funds needed to meet payment obligations not being procured in time and



consequently higher refinancing costs being potentially incurred. For this reason, the main goal of our liquidity management consists in ensuring the ability to pay at any time. The need for liquidity is essentially determined via our liquidity planning and is covered via committed credit lines and liquid funds.

Liquidity is managed via a largely groupwide cash pool system by the central treasury department. As of 31 December 2011, the available liquidity reserve amounted to € 1,558 million, and consisted of short-term investments and liquid funds of € 758 million and the syndicated credit line of € 800 million running until 2015. Our objective of a liquidity reserve of at least € 500 million was thus significantly exceeded. With investments we pursue the goal of optimising the income earned from liquid funds at low risk. To secure this goal, the suitability of counterparts is monitored. There is no particular dependency on any individual

lenders. Within the framework of the existing credit lines, the K+S GROUP has entered into obligations (financial covenants) to maintain certain financial figures. If these obligations were violated, a premature termination of this financing through lenders would be possible. However, a violation of the currently valid financial covenants appears unlikely due to the significantly positive financial figures. The bond issued in September 2009 with a volume of € 750 million and a term of five years is not subject to the obligation to maintain certain key figures. With regard to the maturity profile of our liabilities, we regard a material liquidity or financing risk for the K+S GROUP as unlikely. More about the maturity profile of our financial liabilities can be found in the Notes on the consolidated financial statements under note (25) 'Financial Liabilities' on page 200. / FIG: 4.11.2

<b>DEVELOPMENT OF CREDIT RATINGS</b>			TAB: 4.11.2
Date	Rating	Outlook	
<b>Standard &amp; Poor's</b>			
8 September 2011	BBB+	stable	
17 January 2011	BBB	positive	
29 October 2010	BBB	stable	
30 November 2009	BBB	stable	
27 August 2009	BBB	negative	
18 June 2009	BBB+	negative	
23 April 2009	BBB+	stable	
<b>Moody's</b>			
29 November 2010	Baa2	stable	
31 March 2010	Baa2	stable	
4 September 2009	Baa2	negative	
23 April 2009	Baa2	stable	

fied as "stable" (STANDARD & POOR's issuer rating: BBB+ stable outlook, MOODY's issuer rating: Baa2 stable outlook). Rating downgrades, in particular the loss of the rating into the "investment grade" category, could have a negative impact on the possibilities and terms of financing. Downgrades can, for example, require the furnishing of creditors with collateral and decrease the readiness of business partners to do business with the K+S GROUP. In the case of existing credit lines, higher interest margins would have to be paid under certain circumstances. At the same time, new credit lines could become more expensive. We regard the risk of a downgrade of the credit rating into the "non-investment grade" segment as unlikely. We classify the effect as moderate. / TAB: 4.11.2

With regard to the risks discussed and on the basis of the findings of our medium-term planning, the Board of Executive Directors expects no serious risks to the future development at the present time which could, whether individually or in conjunction with other risks, have a lasting influence on the assets, financial and earnings position of the K+S GROUP that could jeopardise its existence. This assessment is confirmed by the assessment of the rating agencies. Future opportunities have not been considered in assessing the overall risk. In terms of organisation, we have fulfilled all the conditions for being able to recognise possible opportunities and risks early on and to act correspondingly.

## ASSESSMENT OF OVERALL RISK SITUATION

### RISKS ARISING FROM A CHANGE IN THE COMPANY RATING

Ratings are used to assess the creditworthiness of companies and are normally issued by external rating agencies. Particularly for credit institutions and institutional investors, the rating provides indications of the ability of companies to pay and has, for example, effects on the costs and availability of financing possibilities.

At present, the K+S GROUP is rated "investment grade" by the rating agencies STANDARD & POOR'S and MOODY'S INVESTORS SERVICE. The outlook given by both rating agencies in light of our strong financial figures is classi-

Overall risk is assessed on the basis of the risk management system in combination with the planning, management and control systems in place. The overall risk situation of the K+S GROUP is unchanged from last year. The development of the corporate risks can be found in the presentation on page 122. The main potential risks to the future development of the K+S GROUP are posed in particular by risks arising from fluctuations in supply and demand and risks stemming from a change of permits granted by public agencies, or their refusal to grant permits.

## 4.12 SUBSEQUENT EVENTS

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

## 4.13 GENERAL STATEMENT ON THE CURRENT ECONOMIC SITUATION<sup>1</sup>

### BOARD OF EXECUTIVE DIRECTORS' ASSESSMENT OF THE CURRENT ECONOMIC SITUATION

In the wake of the sovereign debt crisis, the trade sector has been more cautious in its early stocking-up of fertilizers since the fourth quarter of 2011. Moreover, the limited navigability of important inland waterways at the start of February resulted in delays in the delivery of potash and in the postponement of the European spring season. However, the current price level for agricultural raw materials continues to offer attractive income prospects for farmers and therefore an incentive to increase yields per hectare also through the optimal use of fertilizers. The global market price level for potassium chloride, which gradually rose during 2011, resulted in the currently realised prices being higher than those of the annual average for 2011.

In the Salt business segment, the start of the de-icing salt business was weaker than usual both in Europe and North America due to weather conditions. This leads us to assume not only a significantly lower business volume in 2012 despite the cold recorded in Europe at the start of February, in particular in comparison to the above-average first quarter of 2011, but also as compared to the long-term average volume of de-icing salt always used for our planning.

While a stronger US dollar in comparison to the start of last year is currently having a positive impact, the significant rise in the energy price level over 2011 results in an increase in our energy costs due to the delay in the agreed energy supply clauses. Also, as far as personnel costs are concerned, increases are to be reckoned with in particular due to the higher collective wage bargaining agreements.

The described start to 2012 and the assumptions underlying the Forecast Report on page 143 lead us to assume stable revenues and a moderate decrease in the operating earnings of the K+S GROUP during the year as a whole.

<sup>1</sup> As of 2 March 2012

### USE OF ALLOWED ALTERNATIVE ACCOUNTING TREATMENT

Off-balance sheet financing instruments in the sense of the sale of receivables, asset-backed securities, sale and lease back transactions, factoring or contingent liabilities in relation to special purpose entities not consolidated only exist to a negligible extent. Further information on the use of allowed alternative accounting treatment can be found in the Notes on page 172. The effects of a change in the level of market interest rates on the valuation of provisions are described on page 104.

## 4.14 FORECAST REPORT

### FUTURE GROUP DIRECTION

#### NO CHANGES IN BUSINESS POLICY INTENDED

We do not intend to introduce any fundamental change in our business policy over the coming years. We want to expand our market positions in our business segments, especially by increasing sales of speciality products, enhance our efficiency through the exploitation of further synergies, press ahead with the expansion of new potash capacities with the Legacy Project and grow both organically and externally in our core business sectors.

### COUNTRY PORTFOLIO CONTINUES TO BE BALANCED INTERNATIONALLY

Over the past year, demand for fertilizers and the market share situation in the regions important for the business segments remained largely stable. In the Salt business segment too, there was no significant shift in the regional distribution of revenues, so that the revenue split between Europe and overseas for the K+S GROUP continued to be almost balanced. The demand for fertilizers for 2012, expected to be close to that of the previous year, should, on the basis of the currently achieved price level, result in an increase in revenues in most regions. In light of the mild winter on both sides of the Atlantic at the start of the year, the expected moderate decrease in revenue in the Salt business segment should be evenly split between Europe and North America. Against this backdrop, we expect that at the Group level, revenues will again be split almost equally between Europe and overseas in 2012.

The growing global population as well as the tendency for the emerging market countries to consume more meat and the associated increase in the need for feed should further boost demand for large parts of our fertilizer product range both in Europe and on the overseas markets during the coming years. In the medium to long term, the growth rates of the South American and South East Asian markets should thereby gain momentum disproportionately. We assume that we will in future sell a good third of our fertilizer products in these regions. In the medium term, potash capacities built up within the

framework of the Legacy Project in Canada will facilitate access to these growth regions.

The European salt market is a mature market with largely stable salt consumption at a relatively high level. In comparison to the more rapidly growing overseas markets and apart from the weather-related effects on de-icing salt, it displays relatively low levels of susceptibility to fluctuations, thanks to developed structures and demand that is very differentiated. Since the acquisition of the Chilean salt producer SPL, we are, however, now also exploiting the potential offered by overseas markets that are more dynamic as a result of a growing and increasingly more prosperous population. The change in the lifestyle habits of South Americans is leading to a tangible increase in demand for food grade salt, industrial salt and salt for chemical use. Following the acquisition of MORTON SALT in North America, we have, moreover, gained access to regions of the North American de-icing salt market, which are characterised by a tendency to be less susceptible to fluctuation, and also tapped into the food grade salt and industrial salt segments in North America.

In order to be able to respond even more flexibly to weather-related regional fluctuations in demand for de-icing salt in the Salt business segment, the use of the network of production plants in Europe, North America and South America will be further intensified.

/ FURTHER INFORMATION ABOUT THE FUTURE DEVELOPMENT OF SALES MARKETS can be found in the description of the future industry situation on page 139.

### USE OF NEW PROCESSES PERMITS GREATER PROCESS EFFICIENCY IN FUTURE

We are continuing to work on process improvements to further increase the raw material exploitation and energy efficiency of our plants and factories and to further reduce solid and liquid production residues. In the Potash and Magnesium Products business segment in particular, very promising processes enhancing economic efficiency and raw material exploitation are being developed for both underground and above-ground applications. ESCO, SPL and MORTON SALT are working together to identify best practice processes and transfer suitable processes within the Salt business segment.

In 2011, the first investments were made in the Legacy Project in Saskatchewan, Canada. Here we are planning the construction of a new production site for potassium chloride products on the basis of solution mining technology; the first volumes should be available in 2015. The solution mining technology permits, to the extent that the deposit conditions allow for such a process, a faster commencement of production than do conventional mining techniques, a more flexible ramp-up curve of production and the mining of lower-lying deposits. Moreover, the ratio of crude salt to solid and liquid production residues is more favourable.

## RESEARCH AND DEVELOPMENT IS BEING FURTHER EXPANDED

In the future too, we want to pursue our research and development goals defined in close consultation with marketing and production. These can be found on page 84 of this report. Research and development costs in 2012 should be significantly above the level of 2011. The increase can be attributed in part to expenditure on bringing out from the first cavern of the Legacy Project in Saskatchewan, Canada. Research and development costs should decline in 2013 and be somewhat higher than the level of 2011.

The number of people employed in research should increase in 2012 in order to particularly meet the coming challenges in the area of the environment and to further drive on research in the field of solution mining. For 2013, we expect a stable number of employees working in research in comparison to this year.

Selected research projects in 2012 and 2013 are enumerated below. Some of the projects described were already begun in previous years. Detailed information can be found under Research and Development on page 84 of this report.

### CORE BUSINESS SECTOR FERTILIZERS

- + In the Potash and Magnesium Products business segment, we are pressing ahead with the improvement of extraction and production processes in order to achieve increases in efficiency and reductions in solid

and liquid production residues. Within this framework, the further development of processing technologies and improvements in preliminary deposit exploration in particular form important focal points. Furthermore, process control is to be still further improved through the increased use of online analytics.

- + At K+S NITROGEN, the main focuses are the development of fertilizers with new inhibitors, research into the sustainability of nutrient management in the soil when using complex fertilizers, research into the effect of specific fertilizers under tropical conditions in Asia and issues related to the environmental relevance of the fertilizers used.

### CORE BUSINESS SECTOR SALT

- + Research into processes to improve the quality of rock salt for industrial applications shall be advanced.
- + The main focuses of MORTON SALT continue to be research into innovative de-icing agents, the reduction of sodium in food and the further development of water-softening salts.
- + We will also pursue further cooperation with the Dutch research institute WETSUS on the generation of renewable energy from saline solutions.

### FUTURE PRODUCTS AND SERVICES

- + In the Potash and Magnesium Products business segment, we are not assuming that there will be a material change in the product portfolio. However, we will further intensify agricultural application con-

sulting in 2012 through research activities and teaching at the INSTITUTE FOR APPLIED PLANT NUTRITION in Göttingen, established jointly by ourselves and the University of Göttingen, by means of an effective transfer of knowledge from research to practical agriculture.

- + Within the framework of the research activities of K+S NITROGEN, an urease inhibitor was developed, which can considerably reduce ammonia losses during the application of urea and thus facilitates a more efficient supply of nitrogen. Its marketing overseas began in the second half of 2011. The market launch in the respective countries will be accompanied by corresponding application tests. In Europe, marketing is planned to start in summer 2012.
- + In 2012, the activities of ESCO will be focused on product optimisations in Europe for the brands BALANCE® SALZ, CÉRÉBOS® SEL ÉQUILIBRE and VATEL® SAL EQUILÍBRIO in order to be even better able to serve the rising demand for low-sodium mineral salts in the food industry and among consumers.
- + At SPL in South America, the supplementation of the product portfolio of the BIOSAL® brand as well as the sale and treatment of brine for the fishing industry is being further advanced.
- + In 2012, MORTON SALT will focus on expanding the offer of food specialities.

Apart from this, we assume no substantial changes in our range of products and services.

## FUTURE NUMBER OF EMPLOYEES, FUTURE PERSONNEL EXPENSES

K+S increasingly has to compete for qualified employees. We want to continue to bring younger people in particular into the Company in order to respond to the demographic change. However, we would also like to win older and experienced employees for our Company.

K+S regards vocational training as an important investment into the future and continues to strive for a training ratio of about 6% for the German companies. Advanced education will also 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.

As for the end of 2012, we are expecting the number of employees to be slightly higher than as of the previous year (31 December 2011: 14,496). The average number of employees should also increase slightly this year to reach about 14,800 (2011: 14,314). The reasons for the increase are in particular an increase in the number of personnel in order to maintain the volumes of crude salt mined, the implementation of the Legacy Project and increased activities in the area of environmental protection in the Potash and Magnesium Products business segment. With regard to personnel expenses (2011: € 976.1 million), we expect that the anticipated additional costs from pay settlements under collective bargaining agreements and the slightly higher number of employees will result in a slight increase. In 2013, the

## PERCENTAGE CHANGE IN GROSS DOMESTIC PRODUCT

TAB: 4.14.1

	2013e	2012e	2011	2010	2009
in %; real					
Germany	+1.6	+0.1	+3.0	+3.7	(4.7)
European Union (EU-27)	+1.2	(0.1)	+1.7	+1.9	(4.2)
World	+3.8	+3.1	+3.7	+5.1	(0.8)

Source: Deka Bank

number of employees should remain roughly stable and personnel expenses should rise moderately as a result of higher performance-related remuneration following the expected increase in earnings.

## FUTURE MACROECONOMIC SITUATION

The following discussion about the future macroeconomic situation is essentially based on the assessments of the KIEL INSTITUTE FOR THE WORLD ECONOMY (Kiel Discussion Papers: Weltkonjunktur und deutsche Konjunktur im Winter 2011, December 2011) and of DEKA BANK (Makro Research, Volkswirtschaft Prognosen of 10 February 2012). / TAB: 4.14.1

According to these forecasts, the global economy will be adversely affected in 2012 too by the sovereign debt crisis in the eurozone, uncertainties regarding the state of the financial sector, the discussion of financial policy in the United States and weaker momentum in the emerging market countries. The forecasts of DEKA BANK

for the global economy nonetheless assume growth in the gross domestic product of 3.1% for 2012 and 3.8% for 2013.

The forecast of the KIEL INSTITUTE FOR THE WORLD ECONOMY for the eurozone also assumes that the current situation of great uncertainty will persist for some time before politicians succeed in communicating a prospect for the further development of the eurozone and before the risk premiums and volatility on the financial markets again decline tangibly. However, the risk remains that further countries in the eurozone will near bankruptcy or that the financial system as a whole will be negatively impacted. In that case, there would also not only probably be a grave recession in the eurozone, but the whole global economy could enter a downward slide similar to the one it experienced in 2008. For 2012, DEKA BANK assumes a slightly declining gross domestic product in Europe, and in 2013 it is expected to increase by 1.2%.

The KIEL INSTITUTE FOR THE WORLD ECONOMY believes that in the United States, the repayment of debt among private households and the surplus supply of residential property will continue to inhibit economic expansion. Moreover, the expiry of stimulus programmes and additional cuts in expenditure intended to accelerate the repayment of the still very high budget deficit will have a dampening effect. Against this backdrop, DEKA BANK is assuming a growth rate for the gross domestic product of 2.1% for 2012 and 2.5% for 2013.

For the emerging market countries, the KIEL INSTITUTE FOR THE WORLD ECONOMY expects that economic activity will be further slowed by weak demand from the developed economies. An expansionist economic policy and stimulus programmes are intended to counteract this. If the economic framework conditions do not significantly deteriorate due to a considerable slowing down of the economy in the developed economies or global financial market turmoil, the emerging market countries should return to a path of more rapid expansion during the coming year.

According to the expectations of the KIEL INSTITUTE FOR THE WORLD ECONOMY, the central banks will continue to pursue their expansionist monetary policies and central bank interest rates will continue to remain low beyond 2012 and 2013. The USD/EUR exchange rate underlying our corporate planning is on average about 1.32 USD/EUR for 2012 and 2013. As for the oil price,

a level of US\$ 115 per barrel is assumed for 2012 and of US\$ 110 per barrel for 2013.

#### **IMPACT ON K+S**

- + The economic upturn in the emerging market countries will continue to persist and improve the prosperity level of the population of such countries. This will increase per capita consumption of food, including meat, as well as the pressure on the agricultural sector to meet this challenge.
- + The futures traded at exchanges for agricultural products indicate that in financial year 2012 too, the prices for agricultural products will remain at a level that is lucrative for the agricultural sector. In the regions relevant for our sales portfolio, we therefore assume demand at about the same level as the previous year (2011: 6.9 million tonnes).
- + Options and futures are used to hedge expected incoming US dollar payments, which for 2012 define a worst-case scenario of about 1.38 USD/EUR including costs for planned revenues of the Potash and Magnesium Products business segment. Within the framework of translation hedging in the Salt business segment, hedging transactions exist, which guarantee a "worst case" translation of the hedged net position at 1.37 USD/EUR. The selected instruments also provide the K+S GROUP with the opportunity to participate in part in a stronger US dollar.
- + The expected cooling of the global economy in 2012 should result in persistently lower sea freight rates.

This should continue to have a positive impact on the freight costs of the K+S GROUP.

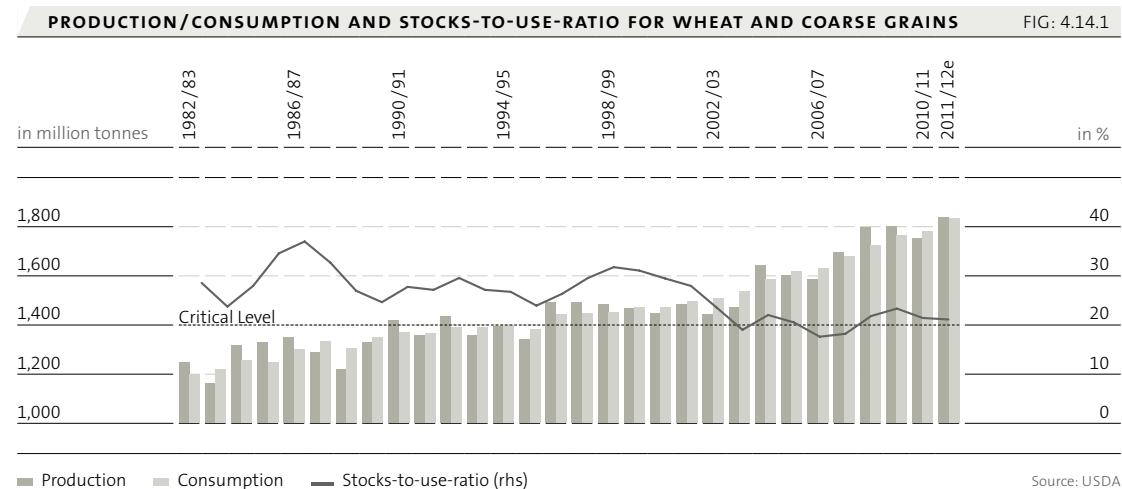
- + In the Potash and Magnesium Products business segment, our production costs are affected to a not inconsiderable extent by energy costs, in particular for the supply of natural gas. As a result of energy supply clauses agreed with our suppliers, changes in energy prices will partially be reflected in our energy costs only with a delay of six to nine months. The steady increase in energy costs observed in 2011 should only fully affect our energy costs in the current year.

#### **FUTURE INDUSTRY SITUATION**

The competitive positions of the individual business segments described in the section 'Group structure and business operations' on page 110 should essentially remain valid in 2012 and 2013.

#### **FERTILIZER BUSINESS SECTOR**

A global population that is growing by about 80 million people every year as well as changes in eating habits that are moving towards greater consumption of meat and, not least, the growing importance of renewable raw materials for the generation of bioenergy are all tending to increase demand for agricultural raw materials around the world. Especially against the backdrop of an at best unchanged availability of agricultural land per capita, this poses a great challenge for the agricultural sector. In the last 30 years, the amount of available



agricultural land in the world has remained roughly constant. As the global population has increased from about 4.5 to 7.0 billion people over the same period, this means a decrease per capita of 35 %.

The fact that cereal production was nonetheless able to keep up with the increased demand over that period is in part attributable to the higher and more balanced use of mineral fertilizers. This will remain a decisive factor also in the future in contributing to 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. / FIG: 4.14.1

Despite great efforts made on the production side, over the past few decades, more cereals have frequently been consumed than produced. For the current financial year 2011/12, the US Department of Agriculture (USDA) estimates that the historically largest production volume of cereals – thanks to globally relatively favourable weather conditions – will probably just be sufficient to meet the equally highest ever recorded demand for cereals. The ratio of cereal stocks to consumption ("stocks-to-use-ratio") is therefore at the critical level of 20 %, or in other words: the global population could cover its cereal needs from stocks for only about 75 days. Further decreases in the stocks-to-use-ratio in the coming years cannot be ruled out. Also against this backdrop, the

present price level of agricultural products is estimated as stable on the futures markets. The resultant income prospects in the agricultural sector should provide a sufficient incentive to raise yields per hectare through the increased use of fertilizers.

Nevertheless, in light of the sovereign debt crisis, the fertilizer trade sector has been acting more cautiously since the beginning of the fourth quarter of 2011, and the potash producers mainly involved in the contract negotiations with China and India do not expect contracts to be concluded soon. Overall, for 2012 as a whole, we are expecting global potash sales volumes of up to 58 million tonnes (2011 estimate: 58.7 million tonnes). As the contract volumes with China and India make up a relatively small proportion of our total sales volume, for the Potash and Magnesium Products business segment, we assume that we can keep our sales volume at about the level of the previous year (2011: 6.9 million tonnes) and, as the world's fifth-largest single producer, will achieve a market share of about 10 %. / FIG: 4.14.2

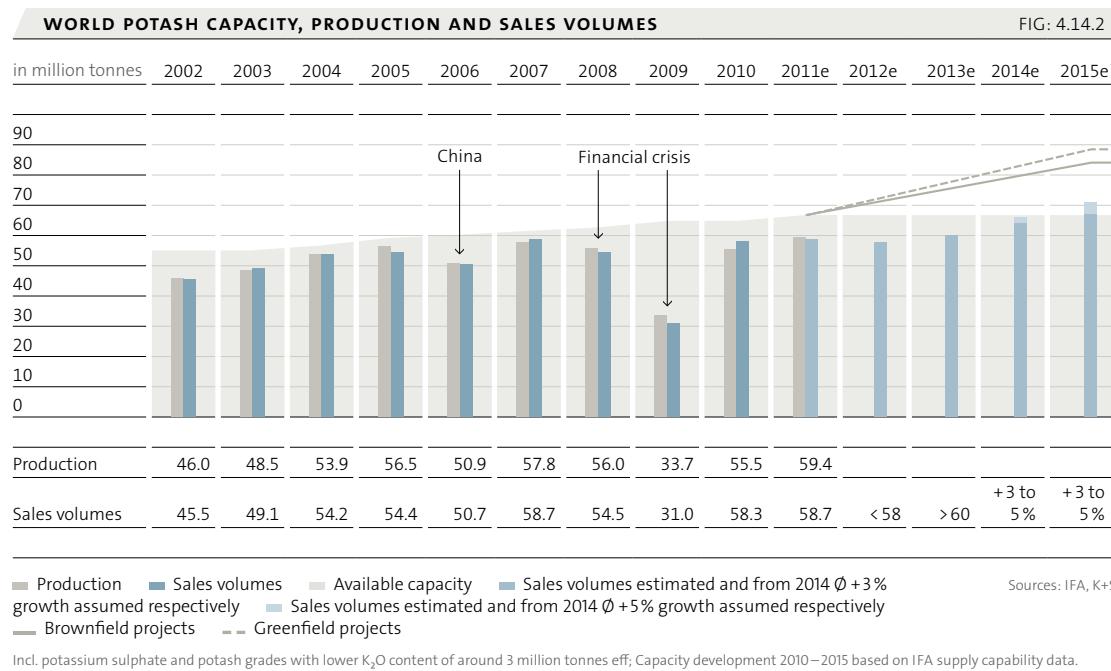
It is hardly possible to predict the medium-term potash price level since this is, amongst others, influenced by the competitive behaviour of the two large export organisations, CANPOTEX and BPC. However, the economic viability of time-consuming and very capital-intensive new projects (greenfield mines) depends on a reasonable potash price level. With few exceptions including our Legacy Project, new capacities cannot be economically realised to any great extent at the

currently applicable price level. The potash demand of a globalised world with constantly rising dietary expectations will, however, not be able to be served simply by the currently installed capacities.

The described framework conditions should have a similarly positive effect on global demand for nitrogenous fertilizers. Due to lower input costs for ammonia, the price level will probably remain below the high level of the second half of 2011, but, overall, be higher than the average of recent years.

#### SALT BUSINESS SECTOR

Over the coming years too, the situation of the industry and competition in Europe will be shaped by pressure to consolidate in the salt industry. A lower level of freight costs could exacerbate the intense competition on the market for European producers due to rising imports from non-EU countries. As Europe's largest salt producer, we are well prepared to meet the challenges arising in this market environment. As a result of the mild weather conditions at the start of the year and assuming average winter weather conditions for the coming season, the demand for de-icing salt in Europe in 2012 should decline accordingly after the above-average year 2011. While the demand in the food grade and industrial salt segments in Europe should remain stable in the coming year, the sales volume of salt for chemical use will probably decrease moderately due to the economic slowdown.



With the Chilean salt producer SPL, the largest salt producer in South America, we have a very good starting point for participating in the growth of the South and Central American markets. The South American market for food grade salt should grow further in line with the population development there. Demand on the part of the chemical industry for salt for chemical use and demand for industrial salt should remain stable. The

Chinese salt market is also displaying attractive growth rates. After the first deliveries to the chemical industry took place in 2011, further contract negotiations for future deliveries are currently underway.

With MORTON SALT, the largest salt producer in North America in terms of production capacity, in the de-icing salt sector, we have access to markets with winter

business in North America that is less susceptible to fluctuations. In the industrial salt and food grade salt segments too, North America is among the most important sales regions. With the brands UMBRELLA GIRL® and WINDSOR CASTLE®, MORTON SALT has brands in the United States and in Canada that are very well positioned in the consumer business, which enable us to achieve stronger sales volumes of higher-margin specialty products. Considering the exceptionally mild weather conditions in North America at the start of the year and assuming average winter weather conditions for the coming 2012/13 season, the demand for de-icing salt in North America should decrease significantly in 2012 after having been somewhat above the long-term average in the previous year. Early stocking-up over the summer months will probably be rather below average, considering the mild winter weather at the start of the year. The consumption of food grade and industrial salts should continue to be stable. The demand of the chemical industry for salt for chemical use will probably rise slightly.

#### **EXPECTED DEVELOPMENT OF REVENUES AND EARNINGS**

The following forecasts relate to the expected organic revenue and earnings development of continued operations. Increases resulting from possible acquisitions and cooperations are not taken into consideration.

**K+S** comments on the future revenue and earnings development in accordance with the forecast policy described below:

- + In the Financial Report, an outlook for two years is given. The outlook normally uses the qualitative expressions "slight", "moderate", "tangible", "significant" and "strong". The respective terms are based on the internally expected change in percentage terms in comparison to the corresponding figures for the previous year.
- + In the Quarterly Financial Report for the first quarter, the outlook for the current year is taken up and, if necessary, adjusted. The outlook uses the same qualitative classification as the Financial Report.
- + In the Half-yearly Financial Report, the outlook is quantified for the first time and ranges are specified for the expectations regarding revenues, EBITDA, operating earnings EBIT I, Group earnings and earnings per share.
- + In the Quarterly Financial Report for the third quarter, the ranges are, if necessary, adjusted and narrowed for the current year. Furthermore, the qualitative outlook of the Financial Report for the following year is taken up again and changed, if necessary.

#### **K+S GROUP WITH ATTRACTIVE PROSPECTS FOR 2012 AND 2013**

**IN 2012, REVENUES SHOULD REMAIN STABLE IN COMPARISON WITH THE PREVIOUS YEAR'S FIGURE**  
In the financial year 2012, revenues of the **K+S GROUP** should remain stable in comparison to the previous

year. While in the Potash and Magnesium Products business segment, on the basis of the currently achieved potash price level, we assume moderately and in the Nitrogen Fertilizers business segment slightly increasing revenues, in the Salt business segment we expect moderately lower revenues. The revenue forecast assumes an average US dollar exchange rate of 1.32 USD/EUR (2011: 1.39 USD/EUR).

#### **COSTS WILL PROBABLY RISE MODERATELY**

The following forecast of the development of costs is structured by cost type: The total costs of the **K+S GROUP** should rise moderately year on year. As regards personnel expenses, additional employees, effects from collective agreement pay increases and lower bonuses to our employees corresponding to the expected earnings development will result in a slight increase overall. Material costs too will probably increase slightly, while energy costs should rise significantly due to price factors. On the other hand, we expect moderately lower freight costs, while depreciation and amortisation should increase moderately. Moreover, a negative currency result is to be expected after last year benefited from a positive hedging result.

#### **OPERATING EARNINGS SHOULD DECREASE MODERATELY**

For the financial year 2012, operating earnings EBIT I should decrease moderately in comparison to last year's figure. In the Potash and Magnesium Products business segment, we assume operating earnings that should

again approach the good earnings achieved last year. The Nitrogen Fertilizers business segment should be able to achieve earnings at the level of the previous year. In comparison to last year, which benefited from above-average volumes of de-icing salt, the operating earnings of the Salt business segment will probably decline strongly.

#### MODERATELY LOWER GROUP EARNINGS EXPECTED

The adjusted Group earnings after taxes should also moderately decline in 2012 in line with the development of operating earnings. Our estimate is based not only on the effects described for revenues and operating earnings, but also on:

- + the expectation of consistently attractive agricultural prices,
- + our customary, purely technical forecast policy, which maintains the currently achieved potash price level unchanged for the whole of 2012,
- + a sales volume in the Potash and Magnesium Products business segment at about the same level as the previous year (2011: 6.9 million tonnes),
- + a sales volume of crystallised salt of a good 19 million tonnes (2011: 22.7 million tonnes), of which about 10 million tonnes de-icing salt (2011: 13.3 million tonnes). For the fourth quarter, this, as customarily, assumes the average of multi-year de-icing salt sales volumes.
- + a largely unchanged financial result,
- + a slightly higher adjusted Group tax rate of 27% to 28% (2011: 26.1%).

#### FORECAST FOR 2013 PROMISING

In 2013, revenues of the K+S GROUP should increase slightly in comparison to 2012. Moderately higher revenues in the Potash and Magnesium Products and Salt business segments will probably face a moderate decline in revenues in the Nitrogen Fertilizers business segment. Owing to the high profitability of the Potash and Magnesium Products business segment and on the basis of an again assumed normal winter business in line with the long-term average historical volumes of de-icing salt, we foresee realistic opportunities of a moderate increase in operating earnings in comparison to the year 2012. This should also positively impact the adjusted Group earnings after taxes.

#### EARNINGS FOR POTASH AND MAGNESIUM PRODUCTS EXPECTED TO BE AT ABOUT THE LEVEL OF THE PREVIOUS YEAR

The prospects for the development of demand for fertilizers containing potash and magnesium continue to be attractive particularly in the markets relevant to us, so that, from today's perspective, we regard a sales volume close to that of last year to be probable (2011: 6.9 million tonnes). In line with our purely technical forecast policy, described above, an average price level that is moderately higher than that of the previous year is to be expected. On this basis, revenues of the Potash and Magnesium Products business segment too should increase moderately in comparison to a year ago. On the costs side, both a strong increase in energy costs and a negative currency result are to

be expected, after last year had profited from a positive hedging result. Personnel costs will probably rise slightly. Against this backdrop, in the Potash and Magnesium Products business segment, we expect operating earnings that should again approach the good earnings achieved last year.

From the perspective of today, with a slightly higher sales volume, we assume a moderate improvement of our revenue and earnings figures for 2013.

#### STABLE EARNINGS WITH NITROGEN FERTILIZERS

In financial year 2012, we assume a slightly positive trend for the revenues of the Nitrogen Fertilizers business segment. However, this will probably face higher input costs, so that, in comparison to last year, stable operating earnings are expected.

In 2013, from today's perspective, revenues and operating earnings should decrease moderately.

#### LOWER SALES OF DE-ICING SALT IN SALT BUSINESS SEGMENT AFTER MILD WINTER

As a result of the extraordinarily weak start of the de-icing salt business due to weather conditions, we expect moderately lower revenues in 2012 for the Salt business segment in comparison to the previous year. This forecast assumes an average de-icing salt business in the fourth quarter as well as a largely stable overall development in revenues in the food grade and industrial salt segments as well as the salt for chemical use

segment. We currently assume a sales volume of crystallised salt of a good 19 million tonnes (2011: 22.7 million tonnes), of which about 10 million tonnes de-icing salt (2011: 13.3 million tonnes). Against this backdrop and in view of the higher share of fixed costs customary in the mining industry, from today's perspective, a strong decrease in earnings is to be expected. To cope with the weaker demand of de-icing salt, we are reacting with measures like extended production breaks, adjustment of working shifts and the usage of workforce flex accounts.

In comparison to the revenue level of 2012, on the basis of a normal winter business that follows the long-term average of historical de-icing salt volumes, we are anticipating moderately higher revenues and strongly higher operating earnings for 2013 (assumption for crystallised salt sales volume 2013: about 22 million tonnes, of which de-icing salt: just under 13 million tonnes).

#### MODERATE INCREASE IN EARNINGS EXPECTED FOR COMPLEMENTARY BUSINESS SEGMENTS

For 2012 and from today's perspective, we assume stable revenues and moderately higher earnings after last year had been adversely affected by impairments (€ 4.6 million).

In 2013, we expect a stable development for both revenues and earnings of the Complementary Business Segments.

#### ANTICIPATED FINANCIAL POSITION

##### EXPECTED FINANCING STRUCTURE CHARACTERISED BY HIGH EQUITY RATIO

With net indebtedness of € 610.8 million (including non-current provisions of € 675.9 million) and a level of indebtedness of only 19.8 %, the K+S GROUP has a strong financial base. This and a high operating cash flow mean that we are able to respond flexibly to investment and acquisition opportunities. Our currently very low level of net indebtedness should rise significantly in comparison to the previous year. This assumption takes into consideration the expected capital expenditure budget, including the Legacy Project, and the total dividend payment resulting from the dividend proposal by the Board of Executive Directors. For 2013, we expect, against the backdrop of rising capital expenditure in the Legacy Project, a significant increase in net indebtedness. Nonetheless, in 2012 and 2013, we should report an equity ratio of at least 50 % and a level of indebtedness of under 30 %.

##### DEVELOPMENT OF LIQUIDITY CHARACTERISED BY CAPITAL EXPENDITURE IN THE LEGACY PROJECT

The earnings development forecast for 2012 and 2013 should also have a positive impact on the cash flow from operating activities. For 2012, despite significantly higher capital expenditure, we expect a positive free cash flow; however, in 2013, it will probably be negative due to significantly higher capital expenditure.

#### PLANNED CAPITAL EXPENDITURE

##### K+S GROUP

Our aim is essentially that capital expenditure related to replacement and ensuring production will not exceed the level of depreciation. Also, cash flow from operating activities should offer sufficient scope for profitable capital expenditure in expansion and rationalisation projects.

For 2012, we expect a volume of capital expenditure of a good € 600 million for the K+S GROUP. Of this, about € 170 million should be accounted for by expenditure on the Legacy Project. Furthermore, the increase in the volume of capital expenditure in comparison to 2011 (€ 294.1 million) can be attributed to the execution of the package of measures on water protection in the Hesse-Thuringia potash district and the planned construction of the saline water pipeline from the Neuhof site to the Werra plant. Measures relating to replacement and ensuring production will account for a good half of the volume of capital expenditure. Depreciation is expected to total approximately € 240 million in 2012.

For 2013, we expect a volume of capital expenditure of about € 1,000 million for the K+S GROUP. Of this, a good € 600 million should be accounted for by expenditure on the Legacy Project. Furthermore, the volume of capital expenditure will continue to be influenced by expenditure on the package of measures on water

protection and the planned construction of the saline water pipeline from the Neuhof site to the Werra plant. Measures relating to replacement and ensuring production will account for about a third of this. Depreciation is expected to total approximately € 250 million in 2013. / TAB: 4.14.2

#### POTASH AND MAGNESIUM PRODUCTS BUSINESS SEGMENT

At about € 440 million, the level of capital expenditure in 2012 should significantly exceed the figure for 2011 (€ 162.1 million). Of this, CAD 230 million (about € 170 million) should be accounted for by the Legacy Project. With the allocation of the expenditure to the investment periods, however, there may still be considerable shifts in this. Over the coming months, further investments will be made in Canada in infrastructure, the water supply, engineering works and drilling. For this year, we expect a volume of capital expenditure of about € 100 million on the package of measures on water protection in the Hesse-Thuringia potash district. About € 40 million should be invested in the planned construction of the saline water pipeline from the Neuhof site to the Werra plant. In all, investments in replacement and ensuring production will account for a good half of the volume of capital expenditure.

For 2013, we expect a volume of capital expenditure of about € 850 million in the Potash and Magnesium Products business segment. Of this, CAD 830 million (a good € 600 million) should be accounted for by expenditure on the Legacy Project. Capital expenditure of about € 100

CAPITAL EXPENDITURE BY BUSINESS SEGMENT <sup>1</sup>		TAB: 4.14.2		
		2013e	2012e	2011
in € million				
Potash and Magnesium Products		850	440	162.1
Nitrogen Fertilizers		1	1	1.0
Salt		120	140	112.3
Complementary Business Segments		5	5	4.3
Reconciliation		24	14	14.4
<b>K+S Group</b>		<b>1,000</b>	<b>600</b>	<b>294.1</b>

<sup>1</sup> Capital expenditure of continued operations in property, plant and equipment, intangible assets, and financial assets.

million is again being set aside for the package of measures on water protection and expenditure of about € 20 million is scheduled for the planned construction of the saline water pipeline.

#### NITROGEN FERTILIZERS BUSINESS SEGMENT

The volume of capital expenditure in 2012 should amount to under € 1 million and thus be somewhat below the level of 2011.

A similar volume of capital expenditure is also expected for 2013.

#### SALT BUSINESS SEGMENT

At about € 140 million, the volume of capital expenditure in 2012 should significantly exceed the figure for the previous year (€ 112.3 million). The increase is primarily attributable to the renovation of an evaporated salt facility of MORTON SALT in Hutchinson, United States.

Furthermore, the continuation of the expansion of the sifting capacity at SPL, the replacement of a ship at our Chilean shipping company EMPREMAR, the expansion of a brine field at FRISIA in Harlingen in the Netherlands, the construction of a new logistics centre and measures to optimally use shaft capacity at the Borth salt site in Germany are among the most important projects. Just under 90 % will be invested in measures relating to replacement and ensuring production.

Capital expenditure of approximately € 120 million can be expected for 2013.

#### COMPLEMENTARY BUSINESS SEGMENTS

Capital expenditure in both 2012 and 2013 will be approximately € 5 million and therefore somewhat above the level for the year under review (€ 4.3 million) and will primarily concern investments relating to replacement and ensuring production. A good € 3 million of this will

<b>DEVELOPMENT OF DIVIDENDS</b>					TAB: 4.14.3
	2011 <sup>1</sup>	2010	2009	2008	2007
in €					
Dividend per share	1.30	1.00	0.20	2.40	0.50

<sup>1</sup> The figure for 2011 corresponds to the dividend proposal.

be accounted for by the Waste Management and Recycling business segment and € 1 million will be invested each in the Logistics and Animal Hygiene Products business segments. In the Waste Management and Recycling business segment, the development of a further field for underground reutilisation is being continued at the Bernburg site.

#### EXPECTED DEVELOPMENT OF DIVIDENDS

##### DIVIDEND PROPOSAL FOR FINANCIAL YEAR 2011 RAISED SIGNIFICANTLY

On 11 May 2011, the dividend of € 191.4 million for 2010 was paid out of the accumulated profit of K+S AKTIENGESELLSCHAFT of € 225.7 million available at the end of 2010. In financial year 2011, K+S AKTIENGESELLSCHAFT achieved net income of € 392.5 million (2010: € 217.8 million). Including a profit carried forward of € 34.3 million and a transfer from the net income to the revenue reserves of € 166.7 million, € 260.1 million is stated as accumulated profit. / TAB: 4.14.3

As a result of the significant increase in the adjusted earnings of the K+S GROUP and in line with our long-term dividend policy, the Board of Executive Directors intends to propose to the Annual General Meeting the payment of a dividend of € 1.30 per share (previous year: € 1.00 per share).

Assuming that we will not hold any own shares on the date of the Annual General Meeting, this would result in a total dividend payment of € 248.8 million; the dividend payout ratio of 43 % would be within the payout corridor of 40 to 50 % of the adjusted K+S GROUP earnings that we are basically seeking to achieve.

##### FUTURE DIVIDEND POLICY

We pursue an essentially earnings-based dividend policy. According to this, a dividend payout ratio of between 40 and 50 % of adjusted Group earnings after taxes (including discontinued operations) forms the basis for the amount of future dividend recommendations to be determined by the Board of Executive Directors and the Supervisory Board. For 2012, we see, on the basis of the described earnings expectations, good

opportunities for an at least stable dividend, since the Group earnings will not be adversely affected by the effects of the sale of the COMPO business. For 2013, an increase in the dividend is possible due to the expected earnings development.

#### OPPORTUNITIES

##### OPPORTUNITIES FROM THE DEVELOPMENT OF FRAMEWORK CONDITIONS

Information on our opportunity management can be found in the Risk Report on page 118.

The historically relatively low ratio of stocks of important agricultural products to annual consumption already described under the heading 'Future industry situation' on page 139 could be reflected in a relatively high price determination for agricultural products over the long term. Attractive price levels will in turn encourage farmers worldwide to both utilise any additional available uncultivated land and to increase the intensity of existing cultivation. Both these elements require greater use of fertilizers and could in future result in global demand for fertilizers rising at a faster pace than the 2 to 3 % per year hitherto forecast.

##### CORPORATE STRATEGY OPPORTUNITIES

###### EXPANSION OF POTASH CAPACITY

In view of the high level of utilisation of the technical capacity available to us in Germany as well as the

probably significant rise in future demand for fertilizers, the Potash and Magnesium Products business segment has been pursuing a strategy to expand its production capacities for potash. The Legacy Project gives us the opportunity to participate in global market growth, further improve revenues and earnings of the business segment, strengthen international competitiveness and extend the average useful lives of our mines.

Moreover, we are currently carrying out a feasibility study for our Siegfried-Giesen reserve mine near Hildesheim, Lower Saxony. A decision regarding how to proceed further will probably be reached in summer 2012. Assuming economic viability and the granting of the necessary mining and environmental-law permits, the reactivation of Siegfried-Giesen would offer us the opportunity to make up to a certain extent for the loss of production capability resulting from the closure of the Sigmundshall site that will probably become necessary after 2018.

#### USE OF SYNERGIES OF AN INTERNATIONAL PRODUCTION NETWORK

There is a particular focus on the optimisation of the international production network and the associated volume flows and logistics costs. Comparable mining processes make synergies possible between the Potash and Magnesium Products and Salt business segments in the exchange of technical, geological and logistics know-how as well as economies of scale in the procurement of machinery and auxiliary materials.

#### ECONOMIC PERFORMANCE OPPORTUNITIES

A decrease in the energy price level would specifically 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. Ongoing measures to boost energy efficiency and their effects are presented in the 'Important Non-financial Issues' section on page 75.

Within the framework of creating greater flexibility and lowering input costs, the gas supply contracts, which were previously largely linked to the oil price, are being renegotiated, so that future price opportunities on the gas spot markets can be exploited for part of the volumes obtained.

#### OTHER OPPORTUNITIES

For the K+S GROUP, the USD/EUR currency relationship is fundamentally of high importance, since particularly potash sales, with the exception of the European market and a few overseas regions, are invoiced in US dollars. Our corporate planning for the years 2012 and 2013 is based on a US dollar exchange rate of 1.32 USD/EUR.

#### GENERAL STATEMENT ON THE EXPECTED DEVELOPMENT OF THE K+S GROUP

Despite all macroeconomic uncertainties, 2012 should again be a good year for our K+S GROUP. The current price level for agricultural raw materials offers attrac-

#### THE LEGACY PROJECT: NEW POTASH DEPOSITS BOOST INTERNATIONAL COMPETITIVENESS

Legacy is a greenfield project for the construction of potash production on the basis of solution mining. K+S acquired the Canadian exploration and development company POTASH ONE, the owner of the Legacy Project, at the start of 2011, and thoroughly revised the existing feasibility study over the following months. A concept was developed, which is optimally consistent with the production and market forecasts of K+S and demonstrates attractive economic viability.

In the first two expansion phases of the new potash site, K+S will invest a total of 3.25 billion Canadian dollars. The first volumes should be available at the end of 2015 and the two-million-tonne mark be achieved in 2017. This will be followed by the gradual expansion of production capacity to 2.86 million tonnes a year in 2023. In the third expansion phase, about ten years later, total output of a maximum 4 million tonnes of potassium chloride a year would then be possible. The product portfolio will comprise potassium chloride standard, granulated potassium chloride and high-quality industrial products.

The first infrastructure works in the areas of water supply, electricity and road construction as well as first drilling activities were already undertaken in 2011. Forty-five employees from different countries are currently working at K+S POTASH CANADA in Saskatoon on the construction of the new site. By 2023, more than 300 jobs will be created for highly qualified employees. With this project, we are drawing on experience in solution mining gained by ESCO in Germany and the Netherlands, as well as the know-how of MORTON SALT, which operates ten plants on the basis of solution mining in the United States and in Canada. The Legacy Project will supplement the existing German production network of K+S with an important North American location.

OVERVIEW IN TABLE FORM OF REVENUE AND EARNINGS TRENDS DESCRIBED <sup>1</sup>					TAB: 4.14.4
in € million	Potash and Magnesium Products	Nitrogen Fertilizers	Salt	Complementary Business Segments	K+S Group
Revenues 2011	2,131.9	1,156.8	1,710.1	150.4	5,150.9
Revenues 2012	+	+	-	o	o
Revenues 2013	+	-	+	o	+
EBIT I 2011	739.5	69.4	211.4	17.9	975.7
EBIT I 2012	o	o	---	+	-
EBIT I 2013	+	-	+++	o	+

<sup>1</sup> Trend year on year; o: unchanged; +/-: slight to moderate; +/--: tangible; +---: significant to strong.

tive income prospects for farmers and should, in particular in the sales regions relevant to K+S, lead to a good development of fertilizer demand. However, for the Salt business segment, due to the weather-related extraordinarily weak start to the de-icing salt business, we are anticipating significantly lower volumes of business compared both to the above-average performance in 2011 and the multi-year average. In sum, we are anticipating K+S GROUP's total revenues to remain stable for 2012. As regards operating earnings and the adjusted earnings after taxes the figures will be moderately lower due primarily to the reduced demand for de-icing salt. / TAB: 4.14.4

In 2013, revenues should increase slightly in comparison to the previous year. As regards operating earnings, we see realistic chances of a moderate increase.

Our estimate for 2012 and 2013 is based, among other things, on a number of factors, including:

- + the expectation of consistently attractive agricultural prices,
- + our customary, purely technical forecast policy, which maintains the currently achieved potash price level unchanged,
- + a sales volume in 2012 at about the level of the previous year (2011: 6.9 million tonnes) in the Potash and Magnesium Products business segment and a slight increase in 2013,
- + a sales volume of crystallised salt of a good 19 million tonnes in 2012 (2011: 22.7 million tonnes), of which about 10 million tonnes will be de-icing salt (2011: 13.3 million tonnes). In 2013, we are again expecting

a sales volume of crystallised salt of about 22 million tonnes, of which de-icing salt will account for just under 13 million tonnes (normal year).

- + a US dollar exchange rate of 1.32 USD/EUR for both years and an oil price level of USD 115 per barrel in 2012 and USD 110 per barrel in 2013,
- + a largely unchanged financial result,
- + a slightly higher adjusted Group tax rate of 27% to 28% (2011: 26.1%).

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

#### GUARANTEE OF 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, 2 March 2012

K+S AKTIENGESELLSCHAFT  
THE BOARD OF EXECUTIVE DIRECTORS

#### **FORWARD-LOOKING STATEMENTS**

This financial 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 arise – examples of which are mentioned in the Risk Report – actual developments and events may deviate from current expectations. Outside statutory disclosure provisions, the Company does not assume any obligation to update the statements contained in this Management Report.





“BY 2050, THE WORLD POPULATION WILL PROBABLY GROW BY 40 % TO ABOUT TEN BILLION PEOPLE, AND THE CONSUMPTION OF PROTEIN BY EVEN MORE THAN 70 %.

# NUTRITION

IS ONE OF THE KEY ISSUES OF OUR FUTURE.”



PROF. DR. DR. H.C. HARALD VON WITZKE (62),  
HEAD OF THE DEPARTMENT FOR INTERNATIONAL  
AGRICULTURAL TRADE AND DEVELOPMENT,  
HUMBOLDT UNIVERSITY OF BERLIN

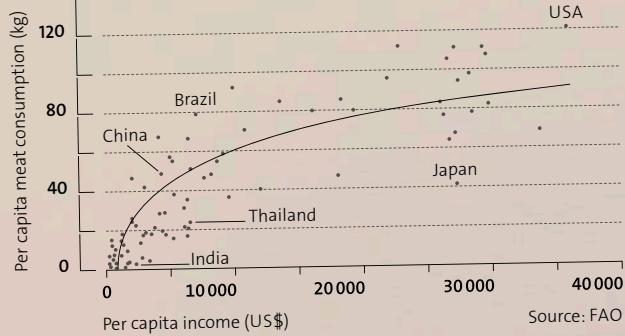


Top left: Terraced rice paddies in Asia

Top right: Prof. Dr. Dr. h.c. Harald von Witzke at a lecture at the Humboldt University

Bottom right: Albrecht Thaer Hall of the Faculty of Agriculture and Horticulture of the Humboldt University of Berlin

#### RELATIONSHIP BETWEEN MEAT CONSUMPTION AND PER CAPITA INCOME



The amount of land available for agriculture is limited. Without a balanced use of fertilizers, it will not be possible to increase crop yields per hectare in the future.

# CREATING FUNDAMENTALS

FOOD PRODUCTION HAS TO BE INCREASED SIGNIFICANTLY BECAUSE GROWING DEMAND MEETS A DECREASE IN CULTIVATED LAND PER CAPITA.

In future, agriculture will play a key role in the prosperity of mankind. With a limited availability of the resources water, energy and land available for cultivation, the agricultural sector has to supply more and more people. Additionally, many of the world's nations pursue the goal of reducing their dependence on fossil fuels by using plants for energy and biomass. At the same time, farmers the world over are asked to further decrease the impact they cause on the environment if only to prevent the destruction of their own ecological basis. This can be achieved if the agricultural industry is integrated into sustainable systems. Only then can all people be fed responsibly and healthily. However, this cannot succeed with exclusively ecological farming. It requires significantly more land per unit of yield than the whole of

humanity can afford. This luxury would clearly come at the expense of the poor. Especially in Africa, greater harvests per hectare are needed to make its countries independent of aid shipments. More and more people, in particular in large emerging market countries like China and India, are fortunately able to afford products such as meat, milk and other foodstuffs. This in turn leads to higher demand for animal feed. Up to eight kilogrammes of cereals are required, for example, to produce one kilogramme of beef.

The amount of land that can be used by farmers can only be expanded to a limited extent and is increasingly under threat from soil sealing, erosion or desertification. With the proper use of fertilizers, crop yields can

be increased significantly in many parts of the world. Particularly the use of mineral fertilizers is successful in this regard.

## CONSOLIDATED FINANCIAL STATEMENTS

# 5

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## 5.1 AUDITOR'S REPORT

We have audited the consolidated financial statements, consisting of the balance sheet, income statement as well as statement of comprehensive income, 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 2011. The preparation of the consolidated financial statements and the Group Management Report in accordance with INTERNATIONAL FINANCIAL REPORT STANDARDS (IFRS) as applied within the EU and the supplementary commercial law provisions as applied in accordance with Sec. 315a, Para. 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 of the Group Management Report on the basis of our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 of the German Commercial Code (HGB) 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 assets, financial and earnings position 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 IFRS as applied in the EU as well as the supplementary commercial law provisions as applied in accordance with Sec. 315a, Para. 1 of the German Commercial Code (HGB) and give a true and fair view of the assets, financial and earnings position 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, 2 March 2012

DELOITTE & TOUCHE GMBH  
Wirtschaftsprüfungsgesellschaft

(Prof. Dr. Beine)  
Auditor

(Römgens)  
Auditor

<b>INCOME STATEMENT</b>		TAB: 5.2.1	
	Notes	2011	2010
in € million			
<b>Revenues</b>	[1]	<b>5,150.9</b>	<b>4,632.7</b>
Cost of sales		3,176.0	2,865.5
<b>Gross profit</b>		<b>1,974.9</b>	<b>1,767.2</b>
Selling expenses		843.6	836.5
General and administrative expenses		182.1	172.2
Research and development costs		17.8	13.8
Other operating income	[2]	205.3	180.2
Other operating expenses	[3]	186.9	192.3
Income from investments, net		9.6	4.1
Result from operating forecast hedges	[4]	(8.2)	(17.6)
<b>Result after operating hedges (EBIT II)<sup>1</sup></b>		<b>951.2</b>	<b>719.1</b>
Interest income	[5]	13.1	8.5
Interest expenses	[5]	(78.0)	(131.3)
Other financial result	[6]	1.0	2.8
<b>Financial result</b>		<b>(63.9)</b>	<b>(120.0)</b>
<b>Earnings before income taxes</b>		<b>887.3</b>	<b>599.1</b>
Taxes on income	[7]	230.7	141.2
– of which deferred taxes		(4.9)	(33.7)
<b>Earnings after taxes from continued operations</b>		<b>656.6</b>	<b>457.9</b>
Earnings after taxes from discontinued operations		(91.8)	(8.5)
<b>Net income</b>		<b>564.8</b>	<b>449.4</b>
Minority interests in earnings		0.5	0.8
<b>Group earnings after taxes and minority interests</b>		<b>564.3</b>	<b>448.6</b>
– thereof continued operations		656.1	457.1
– thereof discontinued operations		(91.8)	(8.5)
Earnings per share in € (undiluted $\triangleq$ diluted)	[10]	2.95	2.34
– thereof continued operations		3.43	2.39
– thereof discontinued operations		(0.48)	(0.05)
Average number of shares in million		191.33	191.34

<b>INCOME STATEMENT (CONTINUED)</b>		TAB: 5.2.1	
	Notes	2011	2010
in € million			
<b>Operating earnings (EBIT I)<sup>1</sup></b>		<b>975.7</b>	<b>714.5</b>
Earnings before income taxes from continued operations, adjusted <sup>2</sup>		911.8	594.5
<b>Group earnings from continued operations, adjusted<sup>2</sup></b>	[10]	<b>673.6</b>	<b>453.8</b>
Earnings per share from continued operations in €, adjusted <sup>2,3</sup>	[10]	3.52	2.37
<b>Group earnings after taxes, adjusted<sup>2,3</sup></b>		<b>581.8</b>	<b>445.3</b>
Earnings per share in €, adjusted <sup>2,3</sup>		3.04	2.33

<b>STATEMENT OF COMPREHENSIVE INCOME</b>		TAB: 5.2.2	
	Notes	2011	2010
in € million			
<b>Net income</b>		<b>564.8</b>	<b>449.4</b>
Difference resulting from foreign currency translation		62.7	148.8
– thereof change in unrealised gains/losses		61.0	148.8
– thereof realised gains/losses		1.7	–
<b>Other earnings after taxes</b>		<b>62.7</b>	<b>148.8</b>
<b>Comprehensive income of the period</b>		<b>627.5</b>	<b>598.2</b>
Minority interests in comprehensive income		0.5	0.8
<b>Group comprehensive earnings after taxes and minority interests</b>		<b>627.0</b>	<b>597.4</b>

<b>OPERATING EARNINGS (EBIT I)<sup>4</sup></b>		TAB: 5.2.3	
	Notes	2011	2010
in € million			
<b>Result after operating hedges (EBIT II)<sup>1</sup></b>		<b>951.2</b>	<b>719.1</b>
Income (–)/expenses (+) from market value changes of operating forecast hedges still outstanding		26.2	0.8
Neutralising of market value changes of realised operating forecast hedges, recognised in earlier periods		(1.7)	(5.4)
<b>Operating earnings (EBIT I)<sup>1</sup></b>		<b>975.7</b>	<b>714.5</b>

<sup>1</sup> Management of the K+S Group is handled, amongst others, on the basis of operating earnings (EBIT I). Reconciliation of EBIT II to operating earnings (EBIT I) is recorded below the income statement (see also the 'Notes to the income statement and the statement of comprehensive income' on page 180).

<sup>2</sup> The adjusted key figures only include the result from operating forecast hedges of the respective reporting period reported in EBIT I, which eliminates effects from changes in the market value of the hedges (see also 'Notes to the income statement and the statement of comprehensive income' on page 180). Related effects on deferred and cash taxes are also eliminated; tax rate for 2011: 28.4 % (2010: 28.2 %).

<sup>3</sup> Earnings from continued and discontinued operations.

<sup>4</sup> Information on operating earnings refers to continued operations.

<b>CASH FLOW STATEMENT</b>		TAB: 5.3.1		<b>CASH FLOW STATEMENT (CONTINUED)</b>		TAB: 5.3.1	
	Notes	2011	2010		Notes	2011	2010
in € million							
<b>Result after operating hedges (EBIT II)</b>		<b>951.2</b>	<b>719.1</b>	<b>Cash flow from operating activities</b>		<b>739.5</b>	<b>857.5</b>
Income (-)/expenses (+) from market value changes of operating forecast hedges still outstanding		26.2	0.8	– thereof continued operations		<b>712.2</b>	<b>826.4</b>
Neutralising of market value changes of realised operating forecast hedges, recognised in earlier periods		(1.7)	(5.4)	– thereof discontinued operations		27.3	31.1
<b>Operating earnings (EBIT I)</b>		<b>975.7</b>	<b>714.5</b>	Proceeds from disposals of fixed assets		16.5	6.5
Depreciation (+)/write-ups (-) on intangible assets, property, plant and equipment and financial assets		242.0	238.5	Disbursements for intangible assets		(16.1)	(18.1)
Increase (+)/decrease (-) in non-current provisions (without interest rate effects)		27.2	32.9	Disbursements for property, plant and equipment		(255.4)	(176.2)
Interest, dividends received and similar income		10.9	5.3	Disbursements for financial assets		(3.2)	(2.4)
Gains (+)/losses (-) from the realisation of financial assets and liabilities		0.3	(1.3)	Proceeds from the disposal of consolidated companies	[38]	90.6	—
Interest paid (-)		(42.0)	(54.6)	Disbursements for the acquisition of consolidated companies	[39]	(242.8)	—
Income taxes paid (-)		(302.7)	(120.6)	Disbursements for the purchase of securities and other financial investments		(372.4)	—
Other non-cash expenses (+)/income (-)		(0.8)	(2.0)	<b>Cash flow for investing activities</b>		<b>(782.8)</b>	<b>(190.2)</b>
<b>Gross cash flow from continued operations</b>		<b>910.6</b>	<b>812.7</b>	– thereof continued operations		<b>(868.0)</b>	<b>(177.7)</b>
Gross cash flow from discontinued operations		17.5	17.5	– thereof discontinued operations		85.2	(12.5)
<b>Gross cash flow</b>		<b>928.1</b>	<b>830.2</b>	<b>Free cash flow</b>		<b>(43.3)</b>	<b>667.3</b>
Gain (–)/loss (+) on the disposal of fixed assets and securities		(3.8)	(0.6)	– thereof continued operations		<b>(155.8)</b>	<b>648.7</b>
Increase (–)/decrease (+) in inventories		(108.8)	(30.0)	– thereof discontinued operations		112.5	18.6
Increase (–)/decrease (+) in receivables and other assets from operating activities		(83.2)	(118.1)	Dividends paid		(191.4)	(38.3)
– of which premium volume for derivatives		2.2	(16.4)	Disbursements for the acquisition of non-controlling interests		(59.3)	—
Increase (+)/decrease (–) in liabilities from operating activities		118.5	172.4	Payments from other allocations to equity		4.8	6.1
– of which premium volume for derivatives		4.8	10.8	Purchase of own shares		(13.8)	(8.4)
Increase (+)/decrease (–) of current provisions		(1.3)	6.3	Sale of own shares		7.9	0.5
Out-financing of plan assets		(110.0)	(2.7)	Increase (+)/decrease (–) in liabilities from finance lease		(0.9)	(2.5)
<b>Cash flow from operating activities</b>		<b>739.5</b>	<b>857.5</b>	Taking out (+)/repayment of (–) loans		(11.7)	(411.6)
<b>Change in cash and cash equivalents affecting cash flow</b>							
Change in cash and cash equivalents resulting from exchange rates				<b>Cash flow for financing activities</b>		<b>(264.4)</b>	<b>(454.2)</b>
Change in cash and cash equivalents				– thereof continued operations		<b>(261.7)</b>	<b>(439.7)</b>
<b>Net cash and cash equivalents as of 1 January</b>				– thereof discontinued operations		(2.7)	(14.5)
Net cash and cash equivalents as of 31 December				<b>Change in cash and cash equivalents affecting cash flow</b>		<b>(307.7)</b>	<b>213.1</b>
– thereof cash on hand and balances with banks				Change in cash and cash equivalents		4.4	7.4
– thereof cash invested with affiliated companies				Net cash and cash equivalents as of 1 January		<b>740.6</b>	<b>520.1</b>
– thereof cash received from affiliated companies				Net cash and cash equivalents as of 31 December	[40]	<b>437.3</b>	<b>740.6</b>

<b>BALANCE SHEET</b>		TAB: 5.4.1		<b>BALANCE SHEET</b>		TAB: 5.4.1	
	Notes	2011	2010		Notes	2011	2010
in € million							
Intangible assets	[11]	1,020.9	999.7	Subscribed capital	[19]	191.4	191.4
– of which goodwill from acquisitions	[11]	651.4	615.3	Additional paid-in capital		648.1	647.5
Property, plant and equipment		2,227.0	1,803.6	Other reserves and accumulated profit	[19]	2,242.0	1,810.1
Investment properties	[12]	7.8	7.8	Minority interests		3.1	2.6
Financial assets	[13]	15.9	24.1	<b>Equity</b>		<b>3,084.6</b>	<b>2,651.6</b>
Receivables and other assets	[17, 18]	62.7	43.0	Bank loans and overdrafts	[25]	769.8	769.1
– of which derivative financial instruments		3.0	6.4	Other liabilities	[18, 25]	20.1	22.8
Securities and other financial investments	[14]	58.5	—	– of which derivative financial instruments		3.5	4.6
Deferred taxes	[15]	55.3	57.8	Provisions for pensions and similar obligations	[21]	95.3	184.8
Reimbursement claims of income taxes		0.4	0.4	Provisions for mining obligations	[22]	580.6	528.4
<b>Non-current assets</b>		<b>3,448.5</b>	<b>2,936.4</b>	Other provisions	[23]	145.5	152.4
Inventories	[16]	730.0	740.2	Deferred taxes	[15]	342.3	261.6
Accounts receivable – trade	[17]	928.8	949.8	<b>Non-current debt</b>		<b>1,953.6</b>	<b>1,919.1</b>
Other receivables and assets	[17, 18]	150.6	174.3	Bank loans and overdrafts	[25]	0.8	17.5
– of which derivative financial instruments		12.1	35.4	Accounts payable – trade	[25]	613.8	511.2
Reimbursement claims of income taxes		41.2	24.6	Other liabilities	[18, 25]	96.2	86.7
Securities and other financial investments	[14]	315.0	—	– of which derivative financial instruments		32.6	12.5
Cash on hand and balances with banks	[40]	442.8	748.4	Income tax liabilities		23.2	82.4
<b>Current assets</b>		<b>2,608.4</b>	<b>2,637.3</b>	Provisions	[22, 24]	284.7	305.2
<b>ASSETS</b>		<b>6,056.9</b>	<b>5,573.7</b>	<b>Current debt</b>		<b>1,018.7</b>	<b>1,003.0</b>
<b>EQUITY AND LIABILITIES</b>							
						<b>6,056.9</b>	<b>5,573.7</b>

## STATEMENT OF CHANGES IN EQUITY

TAB: 5.5.1

	Subscribed capital [19]	Additional paid-in capital	Other reserves and accumulated profit			Minority interests	Equity
in € million							
Balances as of 1 January 2011	191.4	647.5	1,671.7	138.4	2,649.0	2.6	2,651.6
Net income	—	—	564.3	—	564.3	0.5	564.8
Other comprehensive income (after taxes)	—	—	—	62.7	62.7	—	62.7
Comprehensive income of the period	—	—	564.3	62.7	627.0	0.5	627.5
Dividend for the previous year	—	—	(191.4)	—	(191.4)	—	(191.4)
Issuance of shares to employees	—	0.6	—	—	0.6	—	0.6
Addition of minority interests (Potash One)	—	—	—	—	—	55.7	55.7
Acquisition of minority interests (Potash One)	—	—	(3.6)	—	(3.6)	(55.7)	(59.3)
Other changes in equity	—	—	(0.1)	—	(0.1)	—	(0.1)
<b>Balances as of 31 December 2011</b>	<b>191.4</b>	<b>648.1</b>	<b>2,040.9</b>	<b>201.1</b>	<b>3,081.5</b>	<b>3.1</b>	<b>3,084.6</b>
 Balances as of 1 January 2010							
Balances as of 1 January 2010	191.4	648.8	1,263.0	(10.4)	2,092.8	1.8	2,094.6
Net income	—	—	448.6	—	448.6	0.8	449.4
Other comprehensive income (after taxes)	—	—	—	148.8	148.8	—	148.8
Comprehensive income of the period	—	—	448.6	148.8	597.4	0.8	598.2
Dividend for the previous year	—	—	(38.3)	—	(38.3)	—	(38.3)
Issuance of shares to employees	—	(1.3)	—	—	(1.3)	—	(1.3)
Other changes in equity	—	—	(1.6)	—	(1.6)	—	(1.6)
<b>Balances as of 31 December 2010</b>	<b>191.4</b>	<b>647.5</b>	<b>1,671.7</b>	<b>138.4</b>	<b>2,649.0</b>	<b>2.6</b>	<b>2,651.6</b>

**DEVELOPMENT OF FIXED ASSETS 2011**

	Balances as of 1.1.2011	Change in scope of consolidation	Additions	Disposals	Reclassifications	Currency differences	Gross carrying amounts Balances as of 31.12.2011
in € million							
Other acquired concessions, industrial property rights, similar rights and assets as well as licenses for such rights and assets	72.6	(5.4)	3.2	3.7	0.2	2.3	69.2
Customer relations	218.2	(0.1)	—	—	—	6.0	224.1
Brands	138.9	(24.2)	—	—	—	3.0	117.7
Port concessions	30.6	—	—	—	—	1.0	31.6
Goodwill from acquisitions	615.3	18.1	1.1	—	—	16.9	651.4
Internally generated intangible assets	9.6	(6.7)	0.9	—	—	—	3.8
Emission rights	9.6	—	5.4	—	—	—	15.0
Payments on account	5.2	(3.1)	6.4	0.1	(0.2)	—	8.2
<b>Intangible assets [11]</b>	<b>1,100.0</b>	<b>(21.4)</b>	<b>17.0</b>	<b>3.8</b>	<b>—</b>	<b>29.2</b>	<b>1,121.0</b>
Land, rights similar to land and buildings, including buildings on third-party land	764.2	(55.3)	31.0	11.9	9.2	4.5	741.7
Raw material deposits	345.5	367.1	0.8	—	—	16.9	730.3
Technical equipment and machinery	2,244.9	(70.4)	104.1	29.3	33.1	7.5	2,289.9
Ships	71.8	—	24.1	6.5	—	2.3	91.7
Other equipment, fixtures and fittings	269.5	(12.3)	26.9	8.7	4.2	0.6	280.2
Payments on account and construction in progress	57.3	18.3	114.7	1.6	(46.4)	1.2	143.5
Leasing and similar rights	10.1	(1.9)	0.6	1.1	—	0.2	7.9
<b>Property, plant and equipment</b>	<b>3,763.3</b>	<b>245.5</b>	<b>302.2</b>	<b>59.1</b>	<b>0.1</b>	<b>33.2</b>	<b>4,285.2</b>
<b>Investment properties [12]</b>	<b>16.8</b>	<b>(0.2)</b>	<b>—</b>	<b>0.1</b>	<b>—</b>	<b>—</b>	<b>16.5</b>
Investments in affiliated companies	13.6	(0.2)	3.0	—	—	—	16.4
Loans to affiliated companies	0.3	(0.1)	—	0.2	—	—	—
Investments	10.4	—	—	5.8	—	—	4.6
Loans to companies in which equity investments are held	0.4	—	—	0.1	—	—	0.3
Sundry loans and other financial assets	1.2	(0.1)	0.2	0.4	—	—	0.9
<b>Financial assets [13]</b>	<b>25.9</b>	<b>(0.4)</b>	<b>3.2</b>	<b>6.5</b>	<b>—</b>	<b>—</b>	<b>22.2</b>
<b>Fixed assets</b>	<b>4,906.0</b>	<b>223.5</b>	<b>322.4</b>	<b>69.5</b>	<b>0.1</b>	<b>62.4</b>	<b>5,444.9</b>

TAB: 5.6.1

Balances as of 1.1.2011	Change in scope of consolidation	Additions scheduled	Additions non-scheduled	Disposals	Reclassifications	Depreciation, amortisation and write-downs	Currency differences	Balances as of 31.12.2011	Net carrying amounts Balances as of 31.12.2011
43.9	(4.4)	7.3	1.2	3.7	—	0.2	44.5	24.7	
23.3	(0.1)	17.7	—	—	—	0.6	41.5	182.6	
29.5	(18.8)	1.2	—	—	—	—	11.9	105.8	
0.3	—	0.2	—	—	—	—	0.5	31.1	
—	—	—	—	—	—	—	—	651.4	
3.2	(2.1)	0.6	—	—	—	—	1.7	2.1	
—	—	—	—	—	—	—	—	15.0	
0.1	(0.1)	—	—	—	—	—	—	8.2	
<b>100.3</b>	<b>(25.5)</b>	<b>27.0</b>	<b>1.2</b>	<b>3.7</b>	<b>—</b>	<b>0.8</b>	<b>100.1</b>	<b>1,020.9</b>	
277.4	(19.6)	26.9	—	2.4	0.1	0.3	282.7	459.0	
10.9	—	4.5	—	—	—	0.2	15.6	714.7	
1,440.2	(42.3)	136.5	4.5	26.1	—	1.6	1,514.4	775.5	
21.1	—	10.0	—	4.1	—	0.6	27.6	64.1	
206.8	(9.1)	25.3	—	8.3	—	0.2	214.9	65.3	
0.1	(0.1)	—	—	—	—	—	—	143.5	
3.2	(0.8)	1.4	—	0.9	—	0.1	3.0	4.9	
<b>1,959.7</b>	<b>(71.9)</b>	<b>204.6</b>	<b>4.5</b>	<b>41.8</b>	<b>0.1</b>	<b>3.0</b>	<b>2,058.2</b>	<b>2,227.0</b>	
9.0	(0.2)	—	—	0.1	—	—	8.7	7.8	
1.5	(0.1)	—	1.1	—	—	—	2.5	13.9	
0.1	(0.1)	—	—	—	—	—	—	—	
0.2	—	—	3.6	—	—	—	3.8	0.8	
—	—	—	—	—	—	—	—	0.3	
—	—	—	—	—	—	—	—	0.9	
<b>1.8</b>	<b>(0.2)</b>	<b>—</b>	<b>4.7</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>6.3</b>	<b>15.9</b>	
<b>2,070.8</b>	<b>(97.8)</b>	<b>231.6</b>	<b>10.4</b>	<b>45.6</b>	<b>0.1</b>	<b>3.8</b>	<b>2,173.3</b>	<b>3,271.6</b>	

**DEVELOPMENT OF FIXED ASSETS 2010**

	Balances as of 1.1.2010	Change in scope of consolidation	Additions	Disposals	Reclassifications	Currency differences	Gross carrying amounts Balances as of 31.12.2010
in € million							
Other acquired concessions, industrial property rights, similar rights and assets as well as licenses for such rights and assets	69.7	—	5.5	5.3	0.3	2.4	72.6
Customer relations	200.3	—	—	—	—	17.9	218.2
Brands	129.7	—	—	—	—	9.2	138.9
Port concessions	28.4	—	—	—	—	2.2	30.6
Goodwill from acquisitions	563.5	—	—	—	—	51.8	615.3
Internally generated intangible assets	8.6	—	0.8	0.1	0.3	—	9.6
Emission rights	0.1	—	9.5	—	—	—	9.6
Payments on account	2.8	—	2.9	—	(0.5)	—	5.2
<b>Intangible assets [11]</b>	<b>1,003.1</b>	<b>—</b>	<b>18.7</b>	<b>5.4</b>	<b>0.1</b>	<b>83.5</b>	<b>1,100.0</b>
Land, rights similar to land and buildings, including buildings on third-party land	672.3	—	77.1	11.0	12.0	13.8	764.2
Raw material deposits	320.0	—	—	—	—	25.5	345.5
Technical equipment and machinery	2,116.1	—	97.1	34.3	41.0	25.0	2,244.9
Ships	62.3	—	4.6	—	—	4.9	71.8
Other equipment, fixtures and fittings	251.9	—	22.0	8.7	2.1	2.2	269.5
Payments on account and construction in progress	72.2	—	37.6	0.6	(55.2)	3.3	57.3
Leasing and similar rights	10.5	—	0.2	1.4	—	0.8	10.1
<b>Property, plant and equipment</b>	<b>3,505.3</b>	<b>—</b>	<b>238.6</b>	<b>56.0</b>	<b>(0.1)</b>	<b>75.5</b>	<b>3,763.3</b>
<b>Investment properties [12]</b>	<b>16.9</b>	<b>—</b>	<b>—</b>	<b>0.1</b>	<b>—</b>	<b>—</b>	<b>16.8</b>
Investments in affiliated companies	12.1	—	1.5	—	—	—	13.6
Loans to affiliated companies	0.3	—	—	—	—	—	0.3
Investments	11.6	—	0.7	1.9	—	—	10.4
Loans to companies in which equity investments are held	0.6	—	—	0.2	—	—	0.4
Sundry loans and other financial assets	1.5	—	0.2	0.5	—	—	1.2
<b>Financial assets [13]</b>	<b>26.1</b>	<b>—</b>	<b>2.4</b>	<b>2.6</b>	<b>—</b>	<b>—</b>	<b>25.9</b>
<b>Fixed assets</b>	<b>4,551.4</b>	<b>—</b>	<b>259.7</b>	<b>64.1</b>	<b>—</b>	<b>159.0</b>	<b>4,906.0</b>

TAB: 5.6.2

Balances as of 1.1.2010	Change in scope of consolidation	Additions scheduled	Additions non-scheduled	Disposals	Reclassifications	Depreciation, amortisation and write-downs	Balances as of 31.12.2010	Net carrying amounts Balances as of 31.12.2010
36.9	—	11.5	—	5.3	—	0.8	43.9	28.7
5.3	—	17.5	—	—	—	0.5	23.3	194.9
26.1	—	2.7	—	—	—	0.7	29.5	109.4
0.2	—	0.1	—	—	—	—	0.3	30.3
—	—	—	—	—	—	—	—	615.3
2.2	—	1.0	—	—	—	—	3.2	6.4
—	—	—	—	—	—	—	—	9.6
—	—	—	0.1	—	—	—	0.1	5.1
<b>70.7</b>	<b>—</b>	<b>32.8</b>	<b>0.1</b>	<b>5.3</b>	<b>—</b>	<b>2.0</b>	<b>100.3</b>	<b>999.7</b>
255.4	—	20.9	1.6	1.5	0.1	0.9	277.4	486.8
6.3	—	4.4	—	—	—	0.2	10.9	334.6
1,315.7	—	140.9	11.1	28.7	(0.1)	1.3	1,440.2	804.7
11.3	—	9.0	—	—	—	0.8	21.1	50.7
189.2	—	25.6	—	8.3	—	0.3	206.8	62.7
0.1	—	—	—	—	—	—	0.1	57.2
1.7	—	1.8	—	0.4	—	0.1	3.2	6.9
<b>1,779.7</b>	<b>—</b>	<b>202.6</b>	<b>12.7</b>	<b>38.9</b>	<b>—</b>	<b>3.6</b>	<b>1,959.7</b>	<b>1,803.6</b>
9.0	—	0.1	—	0.1	—	—	9.0	7.8
1.5	—	—	—	—	—	—	1.5	12.1
0.1	—	—	—	—	—	—	0.1	0.2
2.1	—	—	—	1.9	—	—	0.2	10.2
—	—	—	—	—	—	—	—	0.4
—	—	—	—	—	—	—	—	1.2
<b>3.7</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1.9</b>	<b>—</b>	<b>—</b>	<b>1.8</b>	<b>24.1</b>
<b>1,863.1</b>	<b>—</b>	<b>235.5</b>	<b>12.8</b>	<b>46.2</b>	<b>—</b>	<b>5.6</b>	<b>2,070.8</b>	<b>2,835.2</b>

**DEVELOPMENT OF PROVISIONS**

	Balances as of 1.1.2011	Currency differences	Change in scope of consolidation	Additions
in € million				
Backfilling of mines and shafts	254.6	0.3	—	25.1
Mining damage risks	49.3	—	—	0.6
Maintenance of stockpiles	165.7	—	—	18.2
Other mining obligations	58.8	0.2	—	2.0
<b>Provisions for mining obligations [22]</b>	<b>528.4</b>	<b>0.5</b>	<b>—</b>	<b>45.9</b>
Jubilee pay	24.0	—	(1.4)	0.8
Partial retirement	26.5	—	(0.1)	12.0
Long-term incentives/stock option	34.9	0.5	(2.6)	24.3
Other personnel obligations	10.9	0.1	(1.6)	0.7
<b>Personnel obligations [23]</b>	<b>96.3</b>	<b>0.6</b>	<b>(5.7)</b>	<b>37.8</b>
<b>Other provisions</b>	<b>56.1</b>	<b>0.3</b>	<b>(1.4)</b>	<b>2.7</b>
<b>Provisions (non-current debt)</b>	<b>680.8</b>	<b>1.4</b>	<b>(7.1)</b>	<b>86.4</b>
Other taxes	0.1	—	(0.1)	—
Provisions for mining obligations [22]	7.3	—	—	0.1
Personnel obligations [24]	143.4	1.2	(10.8)	145.4
Provisions for obligations from sale transactions [24]	64.5	0.2	(17.8)	51.7
Provisions for obligations from purchase contracts [24]	32.3	0.5	(4.4)	32.0
Other provisions	57.6	0.1	(2.7)	19.7
<b>Provisions (current debt)</b>	<b>305.2</b>	<b>2.0</b>	<b>(35.8)</b>	<b>248.9</b>
<b>Provisions</b>	<b>986.0</b>	<b>3.4</b>	<b>(42.9)</b>	<b>335.3</b>

TAB: 5.7.1

Interest component	Provisions used	Provisions reversed	Reclassifications	CTA reclassification	Balances as of 31.12.2011
8.5	4.2	7.4	—	—	276.9
2.1	0.7	1.2	—	—	50.1
8.4	1.8	0.4	—	—	190.1
2.9	—	0.4	—	—	63.5
<b>21.9</b>	<b>6.7</b>	<b>9.4</b>	—	—	<b>580.6</b>
1.1	1.8	0.1	—	—	22.6
3.5	19.1	—	—	1.7	21.1
0.6	2.0	2.6	0.1	—	53.2
—	6.0	0.4	(0.6)	—	3.1
<b>5.2</b>	<b>28.9</b>	<b>3.1</b>	<b>(0.5)</b>	<b>1.7</b>	<b>100.0</b>
<b>1.7</b>	<b>0.3</b>	<b>3.6</b>	<b>(10.0)</b>	—	<b>45.5</b>
<b>28.8</b>	<b>35.9</b>	<b>16.1</b>	<b>(10.5)</b>	<b>1.7</b>	<b>726.1</b>
—	—	—	—	—	0.0
—	0.6	—	—	—	6.8
—	125.9	4.3	(0.2)	—	148.8
—	30.0	16.1	—	—	52.5
—	20.6	5.9	0.3	—	34.2
—	28.3	13.1	9.1	—	42.4
—	<b>205.4</b>	<b>39.4</b>	<b>9.2</b>	—	<b>284.7</b>
<b>28.8</b>	<b>241.3</b>	<b>55.5</b>	<b>(1.3)</b>	<b>1.7</b>	<b>1,010.8</b>

**SEGMENT REPORTING**

	Total revenues		of which with third parties [35]	
	2011	2010 <sup>1</sup>	2011	2010 <sup>1</sup>
in € million				
Potash and Magnesium Products	2,193.7	1,930.1	2,131.9	1,867.0
Nitrogen Fertilizers	1,164.5	908.8	1,156.8	902.4
Salt	1,715.7	1,733.3	1,710.1	1,728.8
Complementary Business Segments	188.3	175.4	150.4	134.0
Reconciliation <sup>2</sup> [34]	(111.3)	(114.9)	1.7	0.5
<b>K+S Group (continued operations)</b>	<b>5,150.9</b>	<b>4,632.7</b>	<b>5,150.9</b>	<b>4,632.7</b>
Discontinued operations	362.1	393.8	362.1	393.8
<b>K+S total</b>	<b>5,513.0</b>	<b>5,026.5</b>	<b>5,513.0</b>	<b>5,026.5</b>
Assets				
	2011	2010 <sup>1</sup>	2011	2010 <sup>1</sup>
in € million				
Potash and Magnesium Products	2,639.2	1,848.4	836.4	777.6
Nitrogen Fertilizers	551.0	430.7	439.6	299.6
Salt	2,964.4	2,878.1	438.4	444.6
Complementary Business Segments	154.5	146.6	83.9	90.3
Reconciliation <sup>2</sup> [34]	(252.2)	(111.4)	1,174.1	1,106.2
<b>K+S Group (continued operations)</b>	<b>6,056.9</b>	<b>5,192.4</b>	<b>2,972.4</b>	<b>2,718.3</b>
Discontinued operations	—	381.3	—	203.8
<b>K+S total</b>	<b>6,056.9</b>	<b>5,573.7</b>	<b>2,972.4</b>	<b>2,922.1</b>

<sup>1</sup> The previous year's figures were adjusted on account of the disposal of COMPO. More explanations can be found in note [29].

<sup>2</sup> Figures for business segments are shown before intersegment 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.

TAB: 5.8.1

of which intersegment revenues		EBIT I		EBITDA		Gross cash flow	
2011	2010 <sup>1</sup>	2011	2010 <sup>1</sup>	2011	2010 <sup>1</sup>	2011	2010 <sup>1</sup>
61.8	63.1	739.5	475.9	833.8	567.1	852.6	596.8
7.7	6.4	69.4	43.3	71.6	45.2	71.3	46.7
5.6	4.5	211.4	238.1	337.9	369.7	340.2	372.2
37.9	41.4	17.9	21.2	29.0	27.7	29.4	27.3
(113.0)	(115.4)	(62.5)	(64.0)	(54.6)	(56.7)	(382.9)	(230.3)
—	—	<b>975.7</b>	<b>714.5</b>	<b>1,217.7</b>	<b>953.0</b>	<b>910.6</b>	<b>812.7</b>
—	—	17.1	12.4	21.7	22.2	17.5	17.5
—	—	<b>992.8</b>	<b>726.9</b>	<b>1,239.4</b>	<b>975.2</b>	<b>928.1</b>	<b>830.2</b>

Capital employed <sup>3</sup>		Capital expenditure <sup>4</sup> [37]		Depreciation <sup>5</sup>		Employees as of 31 Dec. <sup>6</sup>	
2011	2010 <sup>1</sup>	2011	2010 <sup>1</sup>	2011	2010 <sup>1</sup>	2011	2010 <sup>1</sup>
1,497.1	971.0	162.1	96.9	88.7	84.8	8,188	7,900
(72.5)	(23.0)	1.0	0.5	2.2	1.9	158	171
2,225.4	2,224.4	112.3	79.0	126.5	125.3	5,230	5,235
110.8	111.9	4.3	4.1	6.4	6.5	290	280
14.6	30.0	14.4	8.1	7.8	7.3	630	600
<b>3,775.4</b>	<b>3,314.3</b>	<b>294.1</b>	<b>188.6</b>	<b>231.6</b>	<b>225.8</b>	<b>14,496</b>	<b>14,186</b>
—	226.9	5.6	12.4	4.6	9.7	—	1,055
<b>3,775.4</b>	<b>3,541.2</b>	<b>299.7</b>	<b>201.0</b>	<b>236.2</b>	<b>235.5</b>	<b>14,496</b>	<b>15,241</b>

<sup>3</sup> Operating fixed assets and Working Capital.<sup>4</sup> Relates to investments in property, plant and equipment and intangible assets.<sup>5</sup> Concerns scheduled amortisation. Non-scheduled impairment charges are presented in the Notes [33].<sup>6</sup> Workforce as of 31 Dec. including temporary employees (without students and interns) measured on full-time equivalent basis.

## 5.9 NOTES

### GENERAL PRINCIPLES

The Group's parent company, K+S AKTIENGESELLSCHAFT with its registered office in Kassel, Germany, has prepared the consolidated financial statements of the K+S GROUP as of and for the period ended 31 December 2011 based on the INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) of the INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) as well as the interpretations of the INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE in effect 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 € millions (€ million).

After being considered by the audit committee, the consolidated financial statements were prepared by the Board of Executive Directors on 2 March 2012 and will be presented to the Supervisory Board for approval for its meeting on 14 March 2012.

### SCOPE OF CONSOLIDATION

The scope of consolidation changed as follows in 2011:

Within the framework of the takeover of POTASH ONE, the companies POTASH ONE INC. and K+S POTASH CANADA GENERAL PARTNERSHIP were consolidated for the first time.

The following business names were changed:

- + K+S FRANCE S.A.S. to COMPO FRANCE S.A.S.
- + K+S ARGENTINA S.R.L. to COMPO ARGENTINA S.R.L.
- + KALI TRANSPORT GESELLSCHAFT MBH to K+S TRANSPORT GMBH
- + K+S SALT OF THE AMERICAS HOLDING B.V. to K+S NETHERLANDS HOLDING B.V.
- + COMPO HORTICULTURE ET JARDIN S.A.S. to K+S HOLDING FRANCE S.A.S.
- + K PLUS S ESPAÑOLA S.L. to COMPO IBERIA S.L.

In connection with the disposal of the COMPO Group, K PLUS S IBERIA S.L. took over the business activity for the Nitrogen Fertilizers sector in Spain and was consolidated for the first time.

Within the framework of completing the disposal of the COMPO Group, the following consolidated companies no longer belong to the K+S GROUP with effect from 18 October 2011:

- + COMPO AGRO SPECIALITIES S.R.L.
- + COMPO ARGENTINA S.R.L.
- + COMPO AUSTRIA GMBH
- + COMPO BENELUX N.V.
- + COMPO DO BRASIL S.A.
- + COMPO FRANCE S.A.S.
- + COMPO GESELLSCHAFT MBH & CO. KG
- + COMPO HELLAS S.A. (first-time consolidation on 1 January 2011)
- + COMPO IBERIA S.L.
- + COMPO JARDIN AG
- + FERTILIZANTES COMPO AGRO CHILE LTDA.
- + PARK GMBH
- + TORF- UND HUMUSWERKE GNARRENBURG GMBH
- + TORF- UND HUMUSWERKE UCHTE GMBH

GLC TRUCKING CO. INC. was merged into MORTON SALT INC. and NAVIGATION SONAMAR INC. into THE CANADIAN SALT COMPANY LIMITED.

The company INVERSIONES Y PROSPECCIONES MINERAS TARAPACÁ LTDA. was liquidated.

17 (previous year: 21) domestic and 51 (previous year: 60) foreign companies were fully consolidated in the consolidated financial statements. 40 (previous year: 41) subsidiaries were not consolidated in the consolidated financial statements and were stated at acquisition cost, as they are of minor importance for the consolidated financial statements with regard to balance sheet total, revenues and earnings.

Joint ventures and companies over which companies of the K+S GROUP exercise significant influence (associated companies) are essentially measured using the equity method.

The potential impact on earnings of accounting for such equity interests using the equity method is, however, immaterial from a Group perspective. As a result of their overall immateriality, all interests in joint ventures and associated companies were therefore stated at acquisition cost in financial year 2011. On the balance sheet date, the carrying amount of these interests is € 1.0 million.

A complete overview of the interests of K+S AKTIENGESELLSCHAFT can be taken from the list of shareholdings on page 211.

#### **ACQUISITIONS AFTER THE BALANCE SHEET DATE**

On 3 January 2012, ESCO – EUROPEAN SALT COMPANY GMBH & CO. KG, a wholly owned subsidiary of K+S AKTIENGESELLSCHAFT, through its subsidiary ESCO INTERNATIONAL GMBH took over 100 % of the voting rights in the Czech salt processing company SOLNÉ MLÝNY, A.S. (SMO). ESCO is acquiring SMO from the Czech trading group EQUUS, which has been undergoing insolvency proceedings since mid-2010. SMO is a significant supplier of salt products in the Czech Republic and also operates in other European markets. The provisional purchase price is € 4.4 million. Because of the short period of time, at the time of preparing the consolidated financial statements of the K+S GROUP no fair values of assets acquired and liabilities taken over could be determined in accordance with IFRS 3.

SMO has been operating the salt processing business in the eastern Czech city of Olomouc since 1921 and currently employs about 70 people. Particularly in the table salt segment, the company has a brand that is well known throughout the Czech Republic and enjoys a high level of recognition, and is established in the market with a wide product range of food grade, industrial and de-icing salts. In a normal year, SMO sells around 100,000 tonnes of its various salt products and has until now been one of ESCO's customers in the Czech market.

#### **DISPOSAL OF THE COMPO GROUP**

The strategy of the K+S GROUP provides for growth in the Potash and Magnesium Products and Salt business segments in particular and for focusing management resources and financial means on this. Against this backdrop, K+S last year initiated the examination of a disposal of COMPO. COMPO, based in Münster/Westphalia, is one of Europe's leading suppliers of branded goods for home and garden, and employs more than 1,000 people worldwide.

On 20 June 2011, a sale agreement was signed with the European private equity investor TRITON. After the EU cartel authority had approved the transaction on 26 September, the disposal of COMPO was successfully completed on 18 October 2011. COMPO had until then been allocated to the Nitrogen Fertilizers business segment. The departing consolidated companies are shown in the section 'Scope of consolidation'.

With the concluded sale agreement, the criteria under IFRS 5 "Non-current assets held for sale and discontinued operations" were met and COMPO was therefore disclosed in the balance sheet as a disposal group held for sale and as a "discontinued operation".

All assets and liabilities of COMPO were therefore reclassified and, until it had been disposed of, respectively disclosed in the consolidated balance sheet as a separate item "Assets held for sale" and "Liabilities in connection with assets held for sale". Comparative information for the balance sheet of the preceding periods was not adjusted in accordance with IFRS 5.

All income and expenses of COMPO, classified as a discontinued operation, were reclassified and disclosed in a separate item "Earnings after taxes from a discontinued operation". Comparative periods were adjusted in accordance with IFRS 5.

The cash flows of the discontinued operations are stated separately in the cash flow statement pursuant to IFRS 5. The comparative figures of the preceding periods for the cash flow statement were adjusted correspondingly.

The composition of the earnings after taxes from discontinued operations is as presented in the following table.

<b>EARNINGS AFTER TAXES FROM DISCONTINUED OPERATIONS COMPO</b>		TAB: 5.9.1
	2011	2010
in € million		
<b>Revenues</b>	<b>362.1</b>	<b>393.8</b>
Other income and expenses	(345.0)	(381.4)
<b>EBIT</b>	<b>17.1</b>	<b>12.4</b>
Financial result	(1.5)	(3.5)
<b>Earnings before taxes</b>	<b>15.6</b>	<b>8.9</b>
Taxes on income	5.1	17.4
<b>Earnings after income taxes for the period</b>	<b>10.5</b>	<b>(8.5)</b>
Loss from the disposal (before income taxes)	(112.3)	—
Taxes on income	(10.0)	—
<b>Loss from the disposal (after income taxes)</b>	<b>(102.3)</b>	<b>—</b>
<b>Earnings after taxes from discontinued operations</b>	<b>(91.8)</b>	<b>(8.5)</b>

In earnings after taxes from discontinued operations amounting to € (91.8) million, € (1.7) million from the reclassification of currency translation differences hitherto recorded in "Other earnings" into the income statement are included.

The following table shows the assets and liabilities of COMPO disposed of on the basis of the deconsolidation carried out on 18 October 2011.

<b>DECONSOLIDATION OF DISPOSED COMPO'S ASSETS AND LIABILITIES</b>		TAB: 5.9.2
	2011	
in € million		
Financial assets and other non-current assets	4.1	
Inventories	100.9	
Accounts receivable – trade	83.9	
Other current assets	24.5	
Cash on hand and balances with banks	4.3	
<b>Assets held for sale</b>	<b>217.7</b>	
Provisions for pensions and similar obligations	17.5	
Other non-current provisions	6.0	
Bank loans and overdrafts	7.9	
Accounts payable – trade	27.6	
Other liabilities	82.9	
Current provisions	42.2	
<b>Liabilities in connection with assets held for sale</b>	<b>184.1</b>	
<b>Disposed net assets</b>	<b>33.6</b>	

## ACQUISITION POTASH ONE

K+S CANADA HOLDINGS INC., an indirect wholly owned subsidiary of K+S AKTIENGESELLSCHAFT, took over control of POTASH ONE INC. (Vancouver, Canada) by acquiring 81.6 % of its shares with effect from 21 January 2011 under a public takeover bid. The purchase price paid in cash was € 263.2 million (CAD 4.50 per share). Acquisition-related incidental costs of € 3.7 million were incurred up to the date of acquisition (21 January 2011), which were recognised as expenses (reported chiefly as other operating expenses), € 3.3 million of which were attributable to the fourth quarter of 2010 and € 0.4 million to the first quarter of 2011.

POTASH ONE holds several potash exploration licences in the Canadian province of Saskatchewan including the Legacy Project – an advanced greenfield project for the construction of a solution mine. The acquisition of POTASH ONE makes it possible to invest in low-cost deposits that are rich in raw materials, to increase own potash capacities and to participate in market growth over the medium to long term.

Ahead of the acquisition, on 24 November 2010, POTASH ONE had issued a convertible bond at a nominal value of CAD 30 million, which was fully subscribed for by K+S CANADA HOLDINGS INC. The proceeds from this convertible bond were used to finance water supply facilities for the Legacy Project. This financing measure enabled POTASH ONE to avoid delaying the development of its Legacy Project. The conversion right was disclosed as a derivative in the financial statements of the K+S GROUP as at 31 December 2010 and valued at € 2.8 million. The derivative existed with the same amount until the date of acquisition. POTASH ONE had disclosed this derivative on a mirror-image basis in equity.

The following companies were taken over or established as part of the acquisition:

- + POTASH ONE INC. (merged into K+S CANADA HOLDINGS INC. on 31 March 2011)
- + POTASH NORTH RESOURCE CORPORATION (merged into K+S CANADA HOLDINGS INC. on 31 March 2011)
- + 0799833 B.C. LTD (merged into K+S CANADA HOLDINGS INC. on 31 March 2011)
- + ISX OIL & GAS INC.
- + K+S LEGACY GP INC.
- + K+S POTASH CANADA GP

The operating business of POTASH ONE is fully reflected in K+S POTASH CANADA GP. From a Group perspective, ISX OIL & GAS INC. and K+S LEGACY GP INC. are of secondary importance and are being stated at their acquisition cost; the remaining companies are being consolidated as of the acquisition date.

The final fair values of the assets and liabilities taken over at the date of acquisition (21 January 2011) and the goodwill of POTASH ONE derived from them are presented in the following table.

<b>POTASH ONE</b>		TAB: 5.9.3
		Fair values as of the date of acquisition
in € million		
Property, plant and equipment		386.1
Deferred taxes		0.1
<b>Non-current assets</b>		<b>386.2</b>
Other receivables and assets		0.9
Securities		0.7
Cash on hand and balances with banks		20.4
<b>Current assets</b>		<b>22.0</b>
<b>Assets</b>		<b>408.2</b>
Deferred taxes		84.2
<b>Non-current debt</b>		<b>84.2</b>
Bank loans and overdrafts		19.5
Accounts payable – trade		0.8
Other liabilities		0.3
<b>Current debt</b>		<b>20.6</b>
<b>Equity and liabilities</b>		<b>104.8</b>
<b>Net assets</b>		<b>303.4</b>
<b>Net assets of non-controlling interest of 18.4%</b>		<b>55.7</b>
<b>Net assets of controlling interest of 81.6%</b>		<b>247.7</b>
Purchase price of 81.6% of shares		263.2
Conversion right arising from the convertible bond		2.8
<b>Purchase price of 81.6% of shares including conversion right arising from the convertible bond</b>		<b>266.0</b>
Goodwill		18.3

The main asset of POTASH ONE is the raw material deposit related to the Legacy Project; the existing resource basis for potassium chloride is a physical asset, which is disclosed under the item raw material deposits within property, plant and equipment. The fair value of the other receivables acquired corresponds to their nominal value.

A comparison of the acquisition costs and the revalued proportional net assets resulted in a goodwill of € 18.3 million. The goodwill represents those assets that were not individually identifiable when allocating the purchase price and for which a future economic benefit is expected. The amount of goodwill is largely shaped by the recognition of deferred taxes in connection with the re-measurement of assets and liabilities. The goodwill is assigned to the cash-generating unit Potash and Magnesium Products. A tax-deductible goodwill did not arise. Use was not made of the accounting option to identify goodwill in relation to the shares of other shareholders (full goodwill method).

At the start of February, a further 9.3 % of the shares were acquired for cash at a price of € 30.1 million (CAD 4.50 per share). The remaining 9.1 % of POTASH ONE shares outstanding were acquired for cash in March by means of a compulsory acquisition within the framework of the CANADA BUSINESS CORPORATIONS ACT at a price of € 29.2 million (CAD 4.50 per share). The purchases made in February and March were to be stated as equity transactions in accordance with the regulations of IAS 27.

The payments shown in the cash flow statement within the framework of the takeover of POTASH ONE are structured as follows. In the cash flow for investing activities the payment of € 242.8 million for taking over control of POTASH ONE is shown in the item "Disbursements for the acquisition of consolidated companies" (purchase price for 81.6 % of the shares in the amount of € 263.2 million less cash and cash equivalents acquired of € 20.4 million). The disbursements for the subsequent acquisition of the remaining, not yet controlling interest (18.4 %) in the amount of € 59.3 million are stated in the cash flow for financing activities in accordance with IFRS. The total purchase price for POTASH ONE thus amounted to € 322.5 million.

As a result of the inclusion in the financial statements of the K+S GROUP (21 January 2011), earnings before income taxes were affected by € (7.9) million and earnings after income taxes by € (6.3) million. Revenues were not achieved in the financial year due to a lack of marketing activities. Earnings based on the assumption that the acquisition of POTASH ONE would already have occurred at the beginning of the year only differ insignificantly from the aforementioned values.

## 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 fully eliminated. Similarly, receivables and liabilities between consolidated companies and inter-company profits resulting from deliveries and services between consolidated companies are eliminated, unless they are immaterial.

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 capital consolidation are released directly affecting profit or loss.

## ACCOUNTING AND VALUATION PRINCIPLES

### RECORDING OF INCOME AND EXPENSES

Revenues comprise sales of products and services net of sales deductions. 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 income, such as interest or dividends, is recorded for the relevant period as of the time when a respective contractual or legal claim arises.

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

### INCOME FROM INVESTMENTS, NET

This item contains earnings from non-consolidated subsidiaries stated at acquisition cost, joint ventures, associated companies and other interests. Distributions, profit transfers, impairments and profits and losses from the disposal of these companies are included in the earnings. In the financial year, income of € 14.2 million (previous year: € 4.1 million) was offset against expenses from impairments of € 4.6 million (previous year: € 0 million).

### INTANGIBLE ASSETS

Intangible assets acquired are stated at acquisition cost. Internally generated intangible assets are capitalised 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 an indefinite useful life is anticipated, no regular amortisation is applied. An indefinite useful life is also assumed in the case of goodwill. The following useful lives are applied in the case of straight-line amortisation:

**USEFUL LIVES FOR INTANGIBLE ASSETS WITH A FINITE USEFUL LIFE** TAB: 5.9.4

Years	
Port concessions	250
Brands	5–15
Customer relations	5–20
Other intangible assets	2–10

Non-scheduled amortisation is recorded in the event of impairment. If the reasons giving rise to the non-scheduled amortisation no longer exist, a corresponding write-up is recognised that may not exceed the amortised carrying amount. Impairment charges to goodwill are not reversed.

The value of goodwill is tested at regular intervals. Appropriate impairment charges are recognised when 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

flows that are expected for the cash-generating units to which the corresponding amounts of goodwill have been allocated.

CO<sub>2</sub> emission rights are measured for the first time at acquisition cost. Thus, rights granted without payment are capitalised with a value of zero and those acquired for payment are capitalised at acquisition cost. If the value on the reporting date falls below the acquisition cost, the carrying amount of the cash-generating unit holding the emission rights is compared with the value in use of that unit within the framework of an impairment test.

### 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 restoration expenses. 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 instead. Should the reasons giving rise to the non-scheduled depreciation charges cease to apply, appropriate write-ups are recognised.

The raw material deposits acquired are recognised as property, plant and equipment. The scheduled depreciation starts from the time of the first-time extraction of raw materials.

Gallery and excavation work are also shown as property, plant and equipment.

If property, plant and equipment are sold or shut down, the gain or loss represented by the difference between sales proceeds and the residual carrying amount is 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 lives. Scheduled depreciation is based on the following useful lives that apply across the Group:

<b>USEFUL LIVES FOR PROPERTY, PLANT AND EQUIPMENT</b>		TAB: 5.9.5
Years		
Raw material deposits		19–250
Gallery and excavation work		5–125
Buildings		14–33½
Technical equipment and machinery		4–25
Other equipment, factory and office equipment		3–10

#### CAPITALISATION OF BORROWING COSTS

Borrowing costs, which may be allocated directly to the acquisition, construction or manufacture of a qualifying asset, are to be capitalised as part of the acquisition or manufacturing costs of that asset. A qualifying asset exists if a period of at least one year is necessary to make it ready for its intended use or sale. If the qualifying asset is demonstrably not financed from outside funds, there are no borrowing costs to be capitalised.

#### 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 in exchange for a single payment or a series of payments. A finance lease arises if substantially all the risks 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.

#### INVESTMENT PROPERTIES

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

#### NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AS WELL AS DISCONTINUED OPERATIONS

A non-current asset (or a disposal group) is classified as held for sale if the related carrying amount is principally recovered through a sale transaction rather than through continuing use. This is the case if the asset (or the disposal group) is available for sale in its present condition and such sale is highly probable. Non-current assets (or disposal groups) which are classified as held for sale are stated at the lower of the carrying amount and the fair value less costs to sell. A scheduled depreciation of these assets no longer takes place.

An operation is disclosed as a discontinued operation if it was sold or is classified as held for sale and which

- + represents a separate major line of business or a geographical area of operations,
- + is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or
- + represents a subsidiary exclusively acquired with a view to resale.

#### 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, securities, financial investments as well as derivative financial instruments with a positive market value. Financial liabilities include, in particular, trade payables, financial liabilities as well as derivative financial instruments with a negative market value. Financial instruments are initially recognised 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 then taken into account in determining the carrying

amount when the financial instruments are not subsequently measured at fair value with recognition in profit or loss.

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

#### **LOANS AND RECEIVABLES**

This category comprises non-derivative financial instruments with fixed or determinable payments, which are not listed on an active market. This includes trade receivables, loans, fixed- or variable-rate securities (not on an active market) as well as bank deposits.

After being recognised for the first time, the 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. If there are objective indications, impairments are recognised in profit or loss through separate adjustment accounts. Objective indications pointing to an impairment are, for example, known payment difficulties or the insolvency of the debtor. 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 profit or loss. Securities are derecognised after disposal on the settlement date.

#### **FINANCIAL ASSETS AVAILABLE FOR SALE**

This category comprises non-derivative financial assets which have been determined to be available for sale or are not classified into any of the categories mentioned above. They are initially measured at fair value. This category includes, for example, equity instruments such as investments in (non-consolidated) affiliated companies.

Basically, financial instruments belonging to this category are subsequently measured at fair value. Changes in fair value arising on subsequent measurement are recorded in the revaluation reserve and not recognized in profit or loss. Only at the time of disposal are the realized gains or losses recorded in profit or loss. If there are objective indications of an impairment on the balance sheet date, a non-scheduled depreciation to the fair value is to be recognised. The amount recorded in the revaluation reserve is derecognised and recognised in profit or loss. Subsequent impairment reversals with equity instruments measured at fair value are not recognised in profit or loss.

In the case of financial instruments for which there are no active markets which provide 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. Impairments are accounted for by non-scheduled depreciation to lower values with recognition in profit or loss. Such a depreciation 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 LIABILITIES STATED AT FAIR VALUE THROUGH PROFIT OR LOSS**

This category comprises derivative financial instruments with negative market values 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**

Derivatives are stated at their market value. Changes in market value are recognised in profit or loss. Derivatives are derecognised on the settlement date.

## LIQUIDITY

This item includes cheques, cash on hand and balances with banks. It also includes financial investments with a maturity of generally not more than three months counting from the time of acquisition.

## 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 realisable value. 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. Borrowing costs are not included. The net realisable value corresponds to the estimated selling price less the costs that are yet to be incurred until completion and the necessary selling expenses.

## PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The provisions for pensions and similar obligations are computed in accordance with actuarial principles applying the defined benefit obligation method. The discount factor is computed on the basis of the yields obtainable on the reporting date for first-rank fixed-rate corporate bonds, with the maturity of the bonds corresponding to the anticipated timing of the pension obligations. Also, future expected salary and pension increases as well as cost increases regarding health care benefit commitments are taken into account. Insofar as plan assets exist, such assets are offset against the related provisions.

Actuarial gains and losses are treated according to the corridor method. In accordance with this method, they are only recorded in the income statement insofar as they exceed the 10 % corridor (the maximum of 10 % of obligations and 10 % of plan assets). The excess amount is in subsequent years spread over the average remaining working lives of active employees and recognised in profit or loss.

## MINING AND OTHER PROVISIONS

Provisions are recognised in an amount corresponding to the extent to which they are expected to be used for discharging present obligations in relation to third parties arising from a past event. Such utilisation 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 into account 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 commonly accepted internationally. This results in the recognition of deferred tax items for all temporary differences between the tax values and the values in the consolidated balance sheet as well as for tax loss carryforwards. However, deferred tax assets are only recognised to the extent that it is probable that they will be realised. Deferred taxes are measured applying the tax rates that, under current laws, 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 in such period in which the material conditions causing such amendment to enter into force arise. 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 according to timing.

## ACQUISITIONS

Business combinations are accounted for using the purchase method. In connection with the revaluation of a company that has been acquired, all the hidden reserves and hidden liabilities of the company that has been acquired are identified and assets, liabilities and contingent liabilities are stated at their fair value (taking into account the exceptions regulated in IFRS 3). Any resulting positive difference in relation to the cost of acquiring the company is then capitalised as goodwill.

## DISCRETIONARY ASSUMPTIONS AND ESTIMATES

### DISCRETIONARY ASSUMPTIONS CONCERNING THE APPLICATION OF ACCOUNTING AND VALUATION METHODS

Non-current intangible assets, property, plant and equipment and investment properties are stated in the balance sheet at amortised cost. Under certain circumstances also allowed alternative treatment of reporting them at fair value is not utilised.

### ESTIMATES AND PREMISES CONCERNING THE APPLICATION OF ACCOUNTING AND VALUATION METHODS

In terms of reason and amount, the values stated in the IFRS financial statements are in part based on estimates as well as on the determination of certain premises. This is particularly necessary in the case of

- + determining the useful lives of depreciable non-current fixed assets,
- + determining measurement premises and future earnings in connection with impairment tests, especially for capitalised goodwill,
- + determining the net realisable value of inventories,
- + determining the premises necessary for the valuation of pension provisions (discount factor, future development of wages/salaries and pensions, anticipated yield of plan assets),
- + determining amounts, performance due dates and discount factors for the valuation of provisions for mining obligations,
- + selecting parameters in connection with the model-based valuation of derivatives (e.g. assumptions regarding volatility and interest rate),
- + determining the usability of tax loss carryforwards as well as
- + determining the fair value of intangible assets, property, plant and equipment as well as liabilities acquired in connection with a business combination, and determining the useful lives of the intangible assets and property, plant and equipment acquired.

Despite taking great care in producing such estimates, actual developments may differ 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.

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. Assets and liabilities are translated at the exchange rate prevailing on the balance sheet date. Income and expenses are translated at quarterly average exchange rates. The resulting currency translation differences are recorded in equity without recognition in profit or loss. If Group companies are no longer consolidated, the currency translation difference concerned is released and recognised in profit or loss.

In the case of 13 companies, the US dollar, in deviation from the local currency, is used as the functional currency, as these companies generate the majority of their cash inflows and cash outflows in this currency. The US dollar is used in the case of the following companies: COMPAÑIA MINERA PUNTA DE LOBOS LTDA., EMPRESA DE SERVICIOS S.A., EMPRESA MARITIMA S.A., INAGUA GENERAL STORE LTD., INAGUA TRANSPORTS INC., INVERSIONES COLUMBUS LTDA., INVERSIONES EMPREMAR LTDA., K+S FINANCE BELGIUM BVBA, MORTON BAHAMAS LTD., SERVICIOS MARITIMOS PATILLOS S.A., SERVICIOS PORTUARIOS PATILLOS S.A., SOCIEDAD PUNTA DE LOBOS S.A. and TRANSPORTE POR CONTAINERS S.A.

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

EXCHANGE RATES								TAB: 5.9.6	
	2011				2010				
	Rate on reporting date 31.12.	Average rate for Q1	Average rate for Q2	Average rate for Q3	Average rate for Q4	Average rate for the year	Rate on reporting date 31.12.	Average rate for the year	
Exchange rate in relation to € 1									
US dollar (USD)	1.294	1.368	1.439	1.413	1.348	1.392	1.336	1.326	
Canadian dollar (CAD)	1.322	1.348	1.393	1.384	1.379	1.376	1.332	1.365	
Swiss franc (CHF)	1.212	1.287	1.251	1.165	1.229	1.233	1.250	1.380	
Brazilian real (BRL)	2.416	2.280	2.296	2.306	2.424	2.327	2.218	2.331	
Chilean peso (CLP)	672.246	658.828	675.347	666.317	689.533	672.515	625.342	675.288	
Mexican peso (MXN)	18.051	16.501	16.875	17.391	18.374	17.288	16.548	16.737	
Great Britain Pound (GBP)	0.835	0.854	0.883	0.878	0.857	0.868	0.861	0.858	

In the year under review, translation differences of € 0.7 million on balance (previous year: € 30.6 million) were recorded in the income statement (e.g. measurement/realisation of receivables and liabilities in a foreign currency), which were chiefly shown in other operating income or expenses.

## EFFECTS OF NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS				TAB: 5.9.7
		To be applied <sup>1</sup>	Endorsement <sup>2</sup> (until 31.12.2011)	
Standard/Interpretation				
Amendment	IAS 24	Related party disclosures	1.1.2011	yes
Amendment	IAS 32	Presentation: Classification of rights issues	1.2.2010	yes
Amendment	IFRS 1	Limited exemption from comparative IFRS 7 disclosures for first-time adopters	1.7.2010	yes
Amendment	IFRIC 14	Prepayments of a minimum funding requirement	1.1.2011	yes
New	IFRIC 19	Extinguishing financial liabilities with equity instruments	1.7.2010	yes
	Improvements			
Amendment	2010	Improvements to IFRSs	1.7.2010	yes

<sup>1</sup> To be applied in the first reporting period of a financial year beginning on or after this date.

<sup>2</sup> Adoption of the IFRS standards and interpretations by the EU Commission.

## IMPROVEMENTS 2010

The standard entitled "Improvements to IFRSs" brings together numerous smaller changes to existing standards and interpretations and has an insignificant influence on the 2011 consolidated financial statements of the K+S GROUP.

The other new accounting standards and interpretations are of no relevance to the 2011 consolidated financial statements of the K+S GROUP.

## NEW ACCOUNTING STANDARDS AND INTERPRETATIONS 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.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS YET TO BE APPLIED			TAB: 5.9.8
		To be applied <sup>1</sup>	Endorsement <sup>2</sup> (until 31.12.2011)
<b>Standard/Interpretation</b>			
Amendment	IAS 1	Presentation of financial statements	1.7.2012 no
Amendment	IAS 12	Recovery of underlying assets	1.1.2012 no
Amendment	IAS 19	Employee benefits	1.1.2013 no
Amendment	IAS 27	Separate financial statements	1.1.2013 no
Amendment	IAS 28	Investments in associates	1.1.2013 no
Amendment	IAS 32	Offsetting financial assets and financial liabilities	1.1.2014 no
Amendment	IFRS 1	Removal of fixed dates for first-time adopters	1.7.2011 no
Amendment	IFRS 1	Severe hyperinflation	1.7.2011 no
Amendment	IFRS 7	Information on the transfer of financial assets	1.7.2011 yes
Amendment	IFRS 7	Disclosures – Transfers of financial assets	1.1.2013 no
New	IFRS 9	Financial instruments	1.1.2015 no
Amendment	IFRS 9	Financial instruments	1.1.2015 no
New	IFRS 10	Consolidated financial statements	1.1.2013 no
New	IFRS 11	Joint arrangements	1.1.2013 no
New	IFRS 12	Disclosures of interests in other entities	1.1.2013 no
New	IFRS 13	Fair value measurement	1.1.2013 no
New	IFRIC 20	Stripping costs in the production phase of a surface mine	1.1.2013 no

<sup>1</sup> To be applied in the first reporting period of a financial year beginning on or after this date.

<sup>2</sup> Adoption of the IFRS standards and interpretations by the EU Commission.

## IAS 1 "PRESENTATION OF FINANCIAL STATEMENTS"

The amendment basically involves a formal restructuring of the statement of comprehensive income as well as a separation of other earnings not recognised in profit or loss into elements which will be or will not be in future reclassified into the income statement. The effects of the amendments to IAS 1 have no significant influence on the consolidated financial statements of the K+S GROUP.

## IAS 19 "EMPLOYEE BENEFITS"

The amendment basically involves the abolition of the corridor method and the immediate recognition of actuarial gains and losses in other earnings, a planned interest calculation on plan assets at the discount rate of the provision obligation, as well as expanded notes. The definition of termination benefits was also adjusted. The amendments will impact the amount of provisions for pensions and similar obligations, equity and net interest expenses from pension commitments. The further impact on the consolidated financial statements of the K+S GROUP is currently being examined.

## IAS 27, IAS 28, IFRS 10, IFRS 11, IFRS 12 – "CONSOLIDATION"

As part of the revision of the relevant provisions on consolidation, three new standards were published: IFRS 10 "Consolidated financial statements", IFRS 11 "Joint arrangements" and IFRS 12 "Disclosure of interests in other entities". At the same time, follow-up amendments to IAS 27 "Separate financial statements" and IAS 28 "Investments in associates" were made.

IFRS 10 contains a new definition of the concept of "control", which is to be taken into account in determining the companies to be included in the consolidated financial statements. In IFRS 11, the accounting of arrangements under joint control is regulated. In IFRS 12, the disclosure obligations for investments in subsidiaries, joint arrangements, associated companies and non-consolidated structured companies are summarised in a single standard. The impact of the amendments on the consolidated financial statements of the K+S GROUP is currently being examined.

## IFRS 9 "FINANCIAL INSTRUMENTS"

IFRS 9 has the objective of completely replacing the current standard for the accounting of financial instruments, IAS 39 "Financial instruments: Recognition and Measurement". The project is split into three phases. Phase 1 deals with the classification and measurement of

financial assets and liabilities and has already been completed. Phase 2 is concerned with the impairment of financial assets and liabilities as well as amortised cost. In Phase 3 the accounting treatment of hedging relationships is being revised. A standard amendment published in December 2011 is aimed at postponing the initial adoption until 1 January 2015. The impact of IFRS 9 on the consolidated financial statements of the K+S GROUP is currently being examined.

#### **IFRIC 20 "STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE"**

IFRIC 20 presents the conditions under which stripping costs of a surface mine are an asset and how the asset is to be measured for the first time and subsequently. The interpretation has no significant influence on the consolidated financial statements of the K+S GROUP from today's perspective.

The other accounting standards and interpretations do not, from today's perspective, have any impact on the consolidated financial statements of the K+S GROUP.

#### **NOTES TO THE INCOME STATEMENT AND THE STATEMENT OF COMPREHENSIVE INCOME**

The income statement and the statement of comprehensive income are presented on page 156.

Unless stated otherwise, the notes to the income statement refer to the continued operations of the K+S GROUP. In accordance with IFRS 5, due to its disposal, the COMPO business is stated as a "discontinued operation". The income statement of the previous year has been adjusted accordingly.

The K+S GROUP hedges exchange rate risks arising from receipts in foreign currencies (chiefly the US dollar) as well as risks arising from future increases in freight rates through the use of various derivatives. In addition, risks are hedged which arise from the translation of future earnings of foreign currency companies into the Group currency, the euro (translation risks). The hedging strategy is described in greater detail in note (18). No hedging relationship in

accordance with IAS 39 is established between the derivatives and the underlying transactions described, with the result that market value fluctuations of outstanding derivatives have to be recognised in profit or loss on each balance sheet date. Effects on earnings also derive from the exercise/settlement, sale or expiry of derivatives used for hedging purposes.

In the income statement, the effects from hedging transactions are shown, depending on the purpose of the hedging, in the following items:

##### **A) EARNINGS FROM OPERATING FORECAST HEDGES**

All effects on earnings arising from the forecast hedging of transactions which will be recognised in profit or loss in future periods or arising from the hedging of future translation risks are combined in this earnings line item. "Forecast" relates to underlying transactions which are expected with high probability, but have not yet been recognised in the balance sheet or income statement. The word "operating" relates to underlying transactions which will have effects on EBIT at the time they materialise. Significant cases of application are

- + the hedging of expected USD revenues
- + the hedging of expected payments for freight
- + the hedging of the earnings effects from the translation of earnings in a functional foreign currency into euros (translation risks)

##### **B) OTHER OPERATING INCOME/EXPENSES**

In these items the effects on earnings arising from the hedging of already existing foreign currency receivables are reported (e.g. the hedging of USD receivables against foreign currency fluctuations by means of a USD/EUR forward transaction).

##### **C) FINANCIAL RESULT**

Effects on earnings from the hedging of underlying transactions relating to financing, whose effects do not influence EBIT either in the current financial year or in future financial years, are shown in the financial result.

The K+S GROUP is managed internally, among other things, based on operating earnings EBIT I. This differs from EBIT II shown in the income statement in that no account is taken of market value fluctuations from operating forecast hedges which arise during the life of the hedging

instrument on the basis of the market valuation prescribed in accordance with IAS 39. Consequently, the following effects are to be eliminated from the "Earnings from operating forecast hedges" shown in the income statement:

#### INCOME/EXPENSE FROM MARKET VALUE CHANGES OF OPERATING FORECAST HEDGES STILL OUTSTANDING

Until maturity, hedges are valued at market value as of every balance sheet date. A deviation from the carrying amount is recognised as income or expense.

#### NEUTRALISING OF MARKET VALUE FLUCTUATIONS OF REALISED OPERATING FORECAST HEDGES, RECOGNISED IN EARLIER PERIODS

At the time of realisation, the carrying amount of the hedge is to be derecognised. Realisation occurs through the exercise/settlement, expiry or sale of the hedging instrument. The difference between the realised amount and the carrying amount results in the income or expense of the current period. Since EBIT I is to show earnings free of influences from market valuation in accordance with IAS 39, market value fluctuations from earlier periods included in the carrying amount are to be eliminated.

<b>RECONCILIATION FROM RESULT FROM OPERATING FORECAST HEDGES TO EBIT I</b>			TAB: 5.9.9
	Notes	2011	2010
in € million			
<b>Result from operating forecast hedges</b>	[4]	(8.2)	(17.6)
Income (-)/expenses (+) from market value changes of operating forecast hedges still outstanding		26.2	0.8
Neutralising of market value changes of realised operating forecast hedges recognised in earlier periods		(1.7)	(5.4)
<b>Result from operating forecast hedges included in EBIT I</b>		<b>16.3</b>	<b>(22.2)</b>

Earnings from operating forecast hedges included in EBIT I correspond – due to the elimination of all market value fluctuations during the term – to the value of the hedge at the time of realisation (the difference between the spot rate and hedging rate), and, in the case of option transactions, less the premiums paid or plus the premiums received.

The reconciliation of EBIT II to operating earnings EBIT I by eliminating the aforementioned effects is presented in a separate calculation below the income statement.

#### (1) REVENUES

Revenues generated by the K+S GROUP amounted to € 5,150.9 million (previous year: € 4,632.7 million), with € 4,994.3 million (previous year: € 4,470.1 million) resulting from the sale of goods and € 156.6 million (previous year: € 162.6 million) 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 166. The regional breakdown of the revenues is disclosed in the Notes to the segment reporting under note (35).

#### (2) OTHER OPERATING INCOME

Other operating income includes the following material items:

<b>OTHER OPERATING INCOME</b>		TAB: 5.9.10	
		2011	2010
in € million			
Gains from exchange rate differences/hedging transactions		98.0	69.3
Release of provisions		53.2	56.3
Compensation and refunds received		18.3	8.7
Income from disposal of property, plant and equipment and intangible assets		2.7	0.7
Income from rental and leasing		2.4	1.9
– of which investment properties		1.3	1.3
Reversals of allowances for receivables		1.8	3.2
Sundry income		28.9	40.1
<b>Other operating income</b>		<b>205.3</b>	<b>180.2</b>

**(3) OTHER OPERATING EXPENSES**

Other operating expenses include the following material items:

<b>OTHER OPERATING EXPENSES</b>	TAB: 5.9.11	
	2011	2010
in € million		
Losses from exchange rate differences/hedging transactions	96.6	64.0
Expenses/refunds for disused plants and maintenance of Merkers	13.5	4.2
Write-downs on trade receivables	12.4	3.6
Partial retirement expenses	9.8	10.7
Depreciation	8.4	15.3
Expenses unrelated to the period	6.2	13.2
Ancillary capital expenditure costs	5.5	3.5
Losses on disposal of fixed assets	4.1	6.4
Consultancy, expert opinion and legal fees	3.5	11.2
Damages	1.8	9.0
Expenses related to leased investment properties	1.8	2.0
Allocations/utilisation of other provisions	(7.7)	21.0
Sundry expenses	31.0	28.2
<b>Other operating expenses</b>	<b>186.9</b>	<b>192.3</b>

**(4) RESULT FROM OPERATING FORECAST HEDGES**

<b>RESULT FROM OPERATING FORECAST HEDGES</b>	TAB: 5.9.12	
	2011	2010
in € million		
Result from the realisation of currency hedging transactions	18.4	(15.5)
– of which positive earnings contributions	47.7	2.4
– of which negative earnings contributions	(29.3)	(17.9)
Result from the realisation of freight rate hedging transactions	(0.4)	(1.3)
<b>Result from realised hedging transactions</b>	<b>18.0</b>	<b>(16.8)</b>
Market value changes from hedging transactions yet to reach maturity	(25.2)	(1.8)
– of which positive market value changes	4.5	8.4
– of which negative market value changes	(29.7)	(10.2)
Market value changes for freight rate hedging transactions yet to reach maturity	(1.0)	1.0
<b>Result from market value changes for hedging transactions yet to reach maturity</b>	<b>(26.2)</b>	<b>(0.8)</b>
<b>Result from operating forecast hedges</b>	<b>(8.2)</b>	<b>(17.6)</b>

More information on “Result from operating forecast hedges” can be found in the ‘Notes to the income statement and the statement of comprehensive income’ on page 180.

## (5) NET INTEREST INCOME

INTEREST INCOME, NET		TAB: 5.9.13	
		2011	2010
in € million			
Interest from credit institutions		7.1	3.7
Interest income pension provisions		1.3	—
Interest and similar income		4.7	4.8
<b>Interest income</b>		<b>13.1</b>	<b>8.5</b>
Interest expenses bond		(38.7)	(38.7)
Interest component from measurement of provisions for mining obligations		(21.9)	(44.4)
Interest expenses pension provisions		(5.3)	(6.8)
Interest expenses partial retirement/provisions for jubilee benefits		(4.6)	(3.7)
Sundry interest and similar expenses		(7.5)	(37.7)
<b>Interest expenses</b>		<b>(78.0)</b>	<b>(131.3)</b>
<b>Interest income, net</b>		<b>(64.9)</b>	<b>(122.8)</b>

The “Pension provision interest expenses/income” comprises interest expenses (“accumulation”), plan income as well as the amortisation of actuarial gains or losses.

The “Interest component from measurement of provisions for mining obligations” consists of the balance of the following items:

INTEREST COMPONENT FROM MEASUREMENT OF PROVISIONS FOR MINING OBLIGATIONS		TAB: 5.9.14	
		2011	2010
in € million			
Interest effect from the change in the discount factor for mining provisions		—	(23.0)
Increase in mining provisions due to expiry (“accumulation”)		(25.0)	(21.9)
Interest effect from the reversal of mining provisions		3.1	0.5
<b>Interest component from measurement of provisions for mining obligations</b>		<b>(21.9)</b>	<b>(44.4)</b>

## (6) OTHER FINANCIAL RESULT

OTHER FINANCIAL RESULT		TAB: 5.9.15	
		2011	2010
in € million			
Result from realisation of financial assets/liabilities		0.3	(1.3)
Result from market valuation of financial assets/liabilities		0.7	4.1
<b>Other financial result</b>		<b>1.0</b>	<b>2.8</b>

## (7) TAXES ON INCOME

TAXES ON INCOME		TAB: 5.9.16	
		2011	2010
in € million			
Current taxes		235.6	174.9
– Germany		200.6	134.1
– outside Germany		35.0	40.8
Deferred taxes		(4.9)	(33.7)
– Germany		11.3	(12.3)
– outside Germany		(16.2)	(21.4)
– of which from loss carryforwards		(2.2)	(3.7)
<b>Taxes on income</b>		<b>230.7</b>	<b>141.2</b>

Deferred taxes in Germany were calculated using a tax rate of 28.4 % (previous year: 28.2 %). In addition to the corporate income tax rate of 15.0 % and the solidarity surcharge of 5.5 %, an average trade tax rate of 12.6 % (previous year: 12.4 %) was taken into account. Deferred taxes in other countries are computed applying the respective national profit retention income tax rates.

The following table reconciles the anticipated to the actual tax expense. The anticipated income tax expense was calculated based on a domestic Group income tax rate of 28.4 % (previous year: 28.2 %).

**RECONCILIATION OF TAXES ON INCOME**

TAB: 5.9.17

	2011	2010
in € million		
Earnings before income taxes	887.3	599.1
<b>Anticipated income tax expense (Group tax rate: 28.4%; previous year: 28.2%)</b>	<b>252.0</b>	<b>169.0</b>
Changes in anticipated tax expense:		
Reduction in tax resulting from tax-exempt income and other items		
– Tax-exempt income from investments and profits on disposals	(1.9)	(1.2)
– Other tax-exempt income	(23.6)	(20.6)
Trade tax additions/reductions	1.5	1.8
Increase in tax resulting from non-tax-deductible expenses and other items	7.9	4.8
Allowances on/non-recognition of deferred tax assets	3.2	0.4
Effects from tax rate differences	(8.6)	(10.9)
Taxes for preceding years	(0.7)	(0.4)
Other effects	0.9	(1.7)
<b>Actual tax expense</b>	<b>230.7</b>	<b>141.2</b>
<b>Tax rate</b>	<b>26.0%</b>	<b>23.6%</b>

**(8) COST OF MATERIALS****COST OF MATERIALS**

TAB: 5.9.18

	2011	2010
in € million		
Raw materials, supplies and purchase merchandise	1,357.7	1,103.5
Purchased services	515.9	474.2
Energy costs	277.2	259.6
<b>Cost of materials</b>	<b>2,150.8</b>	<b>1,837.3</b>

**(9) PERSONNEL EXPENSES/EMPLOYEES****PERSONNEL EXPENSES**

TAB: 5.9.19

	2011	2010
in € million		
Wages and salaries	787.0	767.5
Social securities	155.7	152.6
Pension expenses	33.4	24.3
<b>Personnel expenses</b>	<b>976.1</b>	<b>944.4</b>

In 2010, the K+S GROUP introduced a 'Long-term Incentive (LTI) Programme' based on key figures. It is based on a multi-annual assessment in accordance with the value contributions achieved. For the gaps in inflows arising in 2012 and 2013 as a result of switching the variable remuneration components with a long-term incentive effect from a two-year to a four-year term, the new LTI Programme was already started virtually in 2008 and 2009 with one tranche in each particular case. In 2011, personnel expenses totalling € 24.3 million were recorded for the LTI Programme 2008 – 2011 as an allocation to provisions (2010: € 27.3 million for the LTI Programme 2008 – 2010).

/ **MORE INFORMATION ON PERSONNEL EXPENSES** can be found in the 'Employees' section in the Management Report. Information on the "Long-term Incentive Programme" can be found in the Remuneration Report on page 45.

Under the expired stock option programme, the Board of Executive Directors and certain managerial personnel could use part of their performance-related remuneration for a basic investment in K+S shares. By acquiring such basic shares, the participants received virtual 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 benchmark index (MDAX until 19 September 2008, DAX from 22 September 2008 onwards) 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. Provisions exist for stock options that had not been exercised as of the balance sheet date (see note (23)).

Under the employee share ownership programme, K+S GROUP employees have the possibility of acquiring K+S shares at a discount. A one-year vesting period applies to employee shares. They are stated at fair value. Expenses totalling € 2.1 million were incurred in connection with the employee share ownership programme enacted in 2011. Expenses of € 1.3 million were incurred in connection with the employee share ownership programme enacted in 2010.

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

Personnel expenses include sums totalling € 1.3 million that are unrelated to the reporting period.

<b>EMPLOYEES INCLUDING TEMPORARY EMPLOYEES</b>		TAB: 5.9.20	
		2011	2010
Average number (FTE)			
Germany		9,930	9,619
Outside Germany		4,384	4,472
<b>Total</b>		<b>14,314</b>	<b>14,091</b>
– of which trainees		550	538

## (10) EARNINGS PER SHARE

<b>EARNINGS PER SHARE</b>		TAB: 5.9.21	
		2011	2010
in € million			
<b>Group earnings after taxes and minority interests</b>		<b>564.3</b>	<b>448.6</b>
– thereof continued operations		<b>656.1</b>	<b>457.1</b>
– thereof discontinued operations		(91.8)	(8.5)
Average number of shares (million)		191.33	191.34
<b>Earnings per share in € (undiluted ▲ diluted)</b>		<b>2.95</b>	<b>2.34</b>
– thereof continued operations (€)		<b>3.43</b>	<b>2.39</b>
– thereof discontinued operations (€)		(0.48)	(0.05)
<b>Group earnings after taxes and minority interests</b>		<b>564.3</b>	<b>448.6</b>
Income (–)/Expense (+) from market value changes of operating forecast hedges still outstanding		26.2	0.8
Neutralising of market value changes of realised operating forecast hedges recognised in earlier periods		(1.7)	(5.4)
Elimination of resulting deferred or cash taxes		(7.0)	1.3
<b>Group earnings, adjusted<sup>1</sup></b>		<b>581.8</b>	<b>445.3</b>
<b>Earnings per share in €, adjusted (undiluted ▲ diluted)<sup>1</sup></b>		<b>3.04</b>	<b>2.33</b>
<b>Group earnings from continued operations, adjusted</b>		<b>673.6</b>	<b>453.8</b>
<b>Earnings per share from continued operations in €, adjusted</b>		<b>3.52</b>	<b>2.37</b>

<sup>1</sup> The adjusted key figures only include the result from operating forecast hedges of the respective reporting period reported in EBIT I, which eliminates effects from changes in the market value of the hedges (see also 'Notes to the income statement and the statement of comprehensive income' on page 180). Related effects on deferred and cash taxes are also eliminated; tax rate for 2011: 28.4% (2010: 28.2%).

In accordance with IAS 33, earnings per share are to be determined on the basis of Group earnings. Given the limited economic meaningfulness of unadjusted Group earnings, we additionally report adjusted Group earnings, which only contain the result from operating forecast hedges of the respective reporting period included in EBIT I. Effects from market value fluctuations of hedges are eliminated here (see also 'Notes to the income statement and the statement of comprehensive income' on page 180). Furthermore, the effects on deferred and cash taxes resulting from the adjustment are also eliminated.

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. All income and expenses of COMPO, which is classified as a discontinued operation, were restructured and taken into account in earnings per share from discontinued operations. Comparative periods were adjusted in accordance with IFRS 5.

#### NOTES TO THE BALANCE SHEET

The balance sheet is shown on page 158. The development of the gross carrying amounts and depreciation/amortisation of individual items of the fixed assets is described separately on page 160.

#### (11) INTANGIBLE ASSETS

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

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

The goodwill from acquisitions disclosed in the consolidated balance sheet is allocated to the following cash-generating units (CGUs):

<b>BREAKDOWN OF GOODWILL BY CASH-GENERATING UNIT</b>		<b>TAB: 5.9.22</b>
	<b>2011</b>	<b>2010</b>
in € million		
CGU Salt America	619.0	601.4
CGU Potash and Magnesium Products	18.6	—
CGU Salt Europe	13.3	13.3
CGU Nitrogen Fertilizers	0.5	0.6
<b>Total goodwill</b>	<b>651.4</b>	<b>615.3</b>

The Salt business segment is divided into the cash-generating units Salt America and Salt Europe. The goodwill resulting from the acquisition of POTASH ONE was allocated to the Potash and Magnesium Products CGU. The increase of the goodwills allocated to the Salt America CGU is based predominantly on effects of the currency translation on the balance sheet date.

In connection with the testing of goodwill for impairment, the residual carrying amounts for the respective cash-generating units were compared with their value in use. The determination of the values 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 or the respective business segments. The key premises underlying the medium-term plans are largely based on own experience figures. The forecast period covers the years 2012 to 2014. Moreover, a growth rate of 2.0% (previous year: 2.0%) for nominal cash flows from the year 2015 was assumed to compensate for inflation with respect to costs and revenues after the end of the detailed planning period.

The following discount factors were applied as at the end of the financial year:

DISCOUNT FACTORS IMPAIRMENT TEST		TAB: 5.9.23			
		2011		2010	
		before taxes	after taxes	before taxes	after taxes
Interest rates in %					
CGU Salt America		8.6	6.3	9.5	7.0
CGU Potash and Magnesium Products		8.6	6.3	9.5	7.0
CGU Salt Europe		8.6	6.3	9.5	7.0
CGU Nitrogen Fertilizers		8.6	6.3	9.5	7.0

The rates of interest for the cash-generating units correspond to the weighted cost of capital for the K+S GROUP before and after taxes.

/ A COMPUTATION OF THE COST OF CAPITAL can be found in the Management Report on page 101.

The impairment tests conducted at the end of financial year 2011 confirmed that the good-wills were not impaired. According to our estimate, realistic changes in the fundamental assumptions on which determining the values in use is based would not result in the carrying amount of the particular cash-generating unit exceeding its value in use.

In connection with the event-related testing for impairment of the intangible assets with a finite useful life, the residual carrying amounts for the respective assets were compared with their value in use as of the balance sheet date. The impairment tests conducted at the end of financial year 2011 required recognition of a write-down totalling € 1.2 million (previous year: € 0.1 million) which was recorded under other operating expenses.

Brand rights totalling € 101.3 million (previous year: € 100.2 million) are, in view of their level of awareness in the relevant sales markets as well as their strategic relevance, classified as assets with indefinite useful lives. These brand rights are fully allocated to the Salt America CGU.

The impairment test of the brand rights with indefinite useful lives, which must be conducted on an annual basis, was carried out by comparing the values in use of the brands with the carrying amounts. The value in use was determined using the relief-from-royalty method,

which derives the brand value from the licence costs saved. The brand-specific revenues for the years 2012 – 2015 were determined on the basis of the corporate planning, and an annual growth rate of 2.0 % (previous year: 2.0 %) was assumed for the period from 2016. The applicable licence prices for the brands were derived from third-party comparisons. The value in use was then determined by discounting the licence costs saved with a risk-adjusted after-tax interest rate of 9.3 % (previous year: 10.0 %). The impairment test on the brands carried out on this basis at the end of the 2011 financial year did not result in any impairment charges.

## (12) INVESTMENT PROPERTIES

As of 31 December 2011, the fair values of investment properties amounted to € 25.4 million (previous year: € 26.8 million). 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, of external valuation reports.

## (13) FINANCIAL ASSETS

An amount of € 14.7 million (previous year: € 22.5 million) included in financial assets is accounted for by investments in affiliated companies, loans to affiliated companies as well as other equity investments. Of this, € 1.2 million (previous year: € 1.6 million) relates to other loans (mainly to employees) and other financial assets. The effective annual rates of interest range between 0 and 6.25 % and the remaining fixed interest period ranges between 1 year and 20 years.

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.

## (14) SECURITIES AND OTHER FINANCIAL INVESTMENTS

SECURITIES AND OTHER FINANCIAL INVESTMENTS		TAB: 5.9.24	
		2011	2010
in € million			
Securities and other financial investments (non-current)		58.5	–
Securities and other financial investments (current)		315.0	–
<b>Securities and other financial investments</b>		<b>373.5</b>	<b>–</b>

This item comprises various investments (e.g. commercial papers, bonds, term deposits with credit institutions) with a term of more than three months from the time of acquisition, which are stated at amortised cost.

### (15) DEFERRED TAXES

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

	TAB: 5.9.25			
	Deferred tax assets		Deferred tax liabilities	
	2011	2010	2011	2010
in € million				
Intangible assets	6.4	7.8	116.3	121.7
Property, plant and equipment	18.5	1.5	341.0	234.0
Financial assets	—	8.8	0.4	1.3
Inventories	2.2	3.1	12.8	14.7
Receivables and other assets	3.7	3.9	28.1	23.5
– of which derivative financial instruments	—	2.1	1.3	1.3
Provisions	108.4	111.5	0.9	5.6
Liabilities	16.7	19.3	2.6	0.8
<b>Gross amount</b>	<b>155.9</b>	<b>155.9</b>	<b>502.1</b>	<b>401.6</b>
– of which non-current	132.8	133.3	480.2	374.3
Tax loss carryforwards	38.7	33.5	—	—
Impairments	(0.1)	(4.0)	—	—
Consolidation	12.6	17.7	(8.0)	5.3
Balances	(151.8)	(145.3)	(151.8)	(145.3)
<b>Balance sheet carrying amount (net)</b>	<b>55.3</b>	<b>57.8</b>	<b>342.3</b>	<b>261.6</b>

Deferred taxes totalling € 13.7 million (previous year: € 20.4 million) were not capitalised because the utilisation of the underlying loss carryforwards or the realisation of taxable income appears unlikely. The underlying loss carryforwards amount to € 103.6 million (previous year: € 151.4 million).

In the year under review, deferred taxes of € (0.3) million (previous year: € (2.7) million) allocable to foreign currency translation were recorded in other earnings.

The deferred taxes reported in the balance sheet as of 31 December 2010 and as of 31 December 2011 differed by € 83.2 million (decrease of deferred tax assets: € 2.5 million, increase of deferred tax liabilities: € 80.7 million). This includes the recognition, without effect on profit or loss, of deferred taxes totalling € (84.1) million deriving from the first-time consolidation of POTASH ONE; they mainly account for temporary differences of property, plant and equipment. Taking into account the deferred taxes (€ (0.3) million) offset directly against equity without recognition in profit or loss in the year under review, currency-related effects (€ (8.4) million) and the derecognition of deferred taxes (€ 4.7 million) recognised in profit or loss and reported in the discontinued area due to the disposal of the COMPO Group, this gives rise to the deferred tax income of € (4.9) million disclosed in the income statement.

Temporary differences of € 282.6 million (previous year: € 204.0 million) are related to shares in subsidiaries for which no deferred tax liabilities are accrued in accordance with IAS 12.39.

### (16) INVENTORIES

	INVENTORIES		TAB: 5.9.26
	2011	2010	
in € million			
Raw materials and supplies	157.1	172.9	
Work in progress	18.2	25.7	
Finished products and merchandise	554.7	530.1	
Payments on account	—	11.5	
<b>Inventories</b>	<b>730.0</b>	<b>740.2</b>	

Inventories of € 28.2 million (previous year: € 39.9 million) were stated at net realisable value. The reporting of net realisable value resulted in write-downs of € 1.6 million (previous year: € 9.8 million) during the period under review.

## (17) RECEIVABLES AND OTHER ASSETS

## RECEIVABLES AND OTHER ASSETS

TAB: 5.9.27

	2011	of which residual term >1 year	2010	of which residual term >1 year
in € million				
Accounts receivable – trade	928.8	—	949.8	—
Receivables from associated companies	14.5	—	17.0	—
Other assets	198.8	62.7	200.3	43.0
– of which claim for reimbursement bond Morton Salt	19.4	19.4	18.9	18.9
– of which derivative financial instruments	15.1	3.0	41.8	6.4
– of which Potash One convertible bond	—	—	20.2	—
<b>Receivables and other assets</b>	<b>1,142.1</b>	<b>62.7</b>	<b>1,167.1</b>	<b>43.0</b>

The allowances for trade receivables, other receivables and other assets have developed as follows:

## ALLOWANCES

TAB: 5.9.28

	2011	2010
in € million		
Balance as of 1 January	36.0	36.1
Change in scope of consolidation	(5.9)	—
Addition	12.5	8.0
Reversal	2.1	3.8
Utilisation	12.3	4.3
<b>Balance as of 31 December</b>	<b>28.2</b>	<b>36.0</b>

Allowances of € 27.1 million (previous year: € 24.9 million) were disclosed for the trade receivables portfolio as at 31 December 2011. € 1.1 million (previous year: € 11.1 million) 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 applying money market rates as of the balance sheet date.

As at 31 December 2011, receivables bearing no interest or interest below market rates were written down by € 0.6 million (previous year: € 0.2 million).

The following table provides information about the extent of the risks of default contained in the items "Trade accounts receivable" as well as "Other receivables and non-derivative financial instruments".

## DEFAULT RISKS

TAB: 5.9.29

	Carrying amount	Of which neither overdue nor adjusted as of the reporting date	Of which unadjusted but overdue as of the reporting date since		
			< 30 days	> 31 and < 90 days	> 91 and < 180 days
in € million					
<b>2011</b>					
Accounts receivable – trade	928.8	631.6	45.1	7.3	4.1
Other receivables and non-derivative financial instruments	90.8	78.2	0.7	0.2	0.1
<b>2010</b>					
Accounts receivable – trade	949.8	760.3	44.7	10.7	0.1
Other receivables and non-derivative financial instruments	109.2	103.2	3.6	0.4	0.1

The risk of default is the risk of a contractual partner failing to discharge its contractual payment obligations. Customer receivables are to a large extent secured against a default risk by means of appropriate insurance coverage and other hedging instruments. Across the Group, more than 80 % of all insurable receivables are hedged against a default. This ensures that only a low partial loss is incurred in the event of default. An internal credit check is conducted in the case of customers for whom such cover cannot be obtained. There is no significant concentration of risk with respect to receivables.

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 ongoing basis with system support and in line with the payment terms agreed with the customers. Payment terms generally range from 10 to 180 days, with longer terms being customary in some markets. In the case of late payment, reminders are issued at regular two-week intervals.

The maximum risk of default with respect to receivables and other assets is reflected in the carrying amount disclosed in the balance sheet. As at 31 December 2011, the maximum risk of default in the very unlikely event of a simultaneous default on all unsecured receivables was € 183.1 million (previous year: € 210.9 million).

#### (18) DERIVATIVE FINANCIAL INVESTMENTS

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 guidelines and procedure instructions. A strict segregation of functions is ensured between trading, settlement and control. Derivative financial instruments are only traded with banks that have a good credit standing, which is monitored continually by means of appropriate instruments. In principle, 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 the amount of the derivatives capitalised on the balance sheet.

The goal of interest rate management is to curb the risks arising from increasing interest rates as a result of changes in the general level of interest rates. No counter-measures are currently necessary in this regard, as the financial liabilities existing on the balance sheet date carry a fixed interest rate.

Derivatives are used to hedge exchange rate risks in order to limit the risks to which operating business activities can be exposed as a result of changes in exchange rates. Exchange rate risks exist mainly with respect to the US dollar and, to a minor extent, the Canadian dollar, the British pound sterling and the Chilean peso. Hedging transactions are executed in rela-

tion to billed receivables and anticipated net positions on the basis of projected revenues. In this regard, the net positions are 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. In the case of translation hedging for projected earnings, net positions are determined in a similar fashion on the basis of EBIT I.

The hedging transactions used can have terms of up to three years for the hedging of anticipated positions as well as for translation hedging. The aim is to hedge a "worst-case" scenario while simultaneously allowing possible opportunities arising from market developments to be taken. Here, mainly plain vanilla options are used, which generally limits participation in a favourable market development by the sale of simple options. Like the selective use of forward transactions, this also serves to reduce premium expenses. Basically, it is also possible to use compound options consisting of an option on a simple option, that can be acquired at a later date for a fixed amount.

The terms of hedging transactions in respect of billed receivables are, in keeping with the agreed payment terms, less than one year.

The hedging transactions in respect of anticipated net positions as described above are used in the Potash and Magnesium Products business segment for US dollar positions. Hedging transactions for translation risks arising from planned earnings are concluded for the Salt business segment. Hedging transactions in respect of billed receivables are concluded in the Potash and Magnesium Products, Nitrogen Fertilizers as well as Salt business segments.

To hedge freight rates for the years 2010 to 2013, swaps have been selectively concluded that provide for the settlement of any difference between agreed fixed prices and market prices on their respective maturity. They are based on the "Baltic Panamax Index".

Depending on assessments of the market, derivatives are also used selectively to restrict increases in energy costs. In this case, options and swaps based on the oil price (fuel oil) are generally used. There were no hedging transactions as of 31 December 2011.

Trade in all the aforementioned derivatives is solely OTC. Because of market transparency, forward exchange transactions are concluded directly with a bank after a comparison with interbank terms has been made by means of a reference system. There is no such transparent market for trading in options. That is why quotations are obtained from several banks for all substantial option transactions, so that a transaction can then be executed with the bank providing the best quotation.

In the case of forward exchange transactions, there is a market value risk on the respective reporting date. However, there are countervailing effects stemming from the currency-based measurement of receivables when derivatives are used in order to hedge foreign currency receivables.

The market values computed correspond to the value upon premature hypothetical transfer 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 and forward exchange rates of the currencies concerned,
- + the agreed hedging rates or exercise prices,
- + the traded volatilities, i.e. the anticipated range of fluctuation for the exchange rates concerned, and
- + the interest rates applicable to the currencies concerned.

IAS 39 permits hedging relationships to be established between underlying business transactions and derivative financial instruments. However, this is principally not applied (see 'Notes to the income statement and the statement of comprehensive income' on page 180).

The following derivative foreign exchange transactions existed as at 31 December 2011:

		DERIVATIVE FOREIGN EXCHANGE FINANCIAL TRANSACTIONS		TAB: 5.9.30	
				2011	2010
		Notional amounts <sup>1</sup>	Fair values	Notional amounts <sup>1</sup>	Fair values
in € million					
GBP forward exchange transactions					
– of which maturing in 2011		—	—	8.6	0.1
– of which maturing in 2012		24.7	(0.4)	—	—
CAD forward exchange transactions					
– of which maturing in 2011		—	—	—	—
– of which maturing in 2012		60.8	0.8	—	—
USD forward exchange transactions					
– of which maturing in 2011		—	—	243.8	2.1
– of which maturing in 2012		622.6	(16.3)	—	—
USD/CLP forward exchange transactions					
– of which maturing in 2011		—	—	14.4	0.2
– of which maturing in 2012		31.8	(0.4)	—	—
Purchased simple USD currency options					
– of which maturing in 2011		—	—	629.7	27.3
– of which maturing in 2012		794.1	11.4	131.2	6.4
– of which maturing in 2013		46.2	3.0	—	—
Sold simple USD currency options					
– of which maturing in 2011		—	—	485.5	(4.4)
– of which maturing in 2012		869.1	(13.1)	147.3	(4.6)
– of which maturing in 2013		52.2	(1.4)	—	—
<b>Foreign currency transactions in total</b>		<b>2,501.5</b>	<b>(16.4)</b>	<b>1,660.5</b>	<b>27.1</b>

<sup>1</sup> Translated into euros using weighted hedging rates.

Information on how the aforementioned market values would have developed, assuming a change of spot rates on the balance sheet date of  $\pm 10\%$ , is presented below:

<b>SENSITIVITY OF DERIVATIVE FOREIGN EXCHANGE FINANCIAL TRANSACTIONS 2011</b>						TAB: 5.9.31
	Base value	Base value +10 %	Base value (10 %)	Market value change at +10 %	Market value change at (10 %)	
USD/EUR	1.294	1.423	1.165	77.4	(92.3)	
CAD/EUR	1.322	1.454	1.189	(5.6)	6.8	
GBP/EUR	0.835	0.919	0.752	2.3	(2.8)	
CLP/USD	519.6	571.5	467.6	(2.8)	3.4	
<b>Total</b>				<b>71.3</b>	<b>(84.9)</b>	

The following values arose on the balance sheet date of the previous year:

<b>SENSITIVITY DERIVATIVE OF FOREIGN EXCHANGE FINANCIAL TRANSACTIONS 2010</b>						TAB: 5.9.32
	Base value	Base value +10 %	Base value (10 %)	Market value change at +10 %	Market value change at (10 %)	
USD/EUR	1.336	1.470	1.203	75.3	(67.0)	
GBP/EUR	0.861	0.947	0.775	0.7	(1.0)	
CLP/USD	468.0	514.8	421.2	(0.2)	0.2	
<b>Total</b>				<b>75.8</b>	<b>(67.8)</b>	

As of the balance sheet date, the swaps used to hedge freight costs had a notional amount of 360 (previous year: 540) charter days on the "Baltic Panamax Index" and a fair value of € (4.5) million (previous year: € (5.2) million). A change in price on the freight hedging benchmark index of  $\pm 10\%$  would have increased or reduced the market value by € 0.3 million (previous year: €  $\pm 0.6$  million).

The aforementioned market value changes would have resulted in a corresponding increase or reduction in unadjusted Group earnings before taxes and in equity.

## (19) EQUITY

The development of individual equity items is shown separately on page 159.

### SUBSCRIBED CAPITAL

The subscribed capital of K+S AKTIENGESELLSCHAFT amounts to € 191.4 million and is divided into 191.4 million no-par value bearer shares. In financial year 2011, there was an average of 191.33 million (previous year: 191.34 million) shares in circulation. In August of financial year 2011, the existing bearer shares were converted to registered shares.

On the basis of the resolution passed by the Annual General Meeting on 11 May 2010, the Board of Executive Directors was authorised to acquire own shares up to 10 % of the share capital by 10 May 2015. Purchases may be made on a stock exchange or by means of a public purchase offer directed to all shareholders. In the case of a purchase effected on a stock exchange, the purchase price per share (exclusive of ancillary purchase costs) paid by the Company may not exceed or undercut the relevant exchange price by more than 10 %. In the case of a public purchase offer addressed to all shareholders, the offered purchase price per share (exclusive of ancillary purchase costs) may not exceed or undercut the relevant exchange price by more than 10 %. In financial year 2011, K+S AKTIENGESELLSCHAFT did not make use of the authorisation.

The authorisation of the Board of Executive Directors to increase the share capital, with the consent of the Supervisory Board, by up to € 56.1 million through issuing up to 56.1 million new no-par value bearer shares against cash or in-kind contribution by 9 May 2011, expired during the financial year.

### SUBSCRIBED CAPITAL

	Shares outstanding	Subscribed capital	TAB: 5.9.33
in € million			
31.12.2009		191.4	191.4
31.12.2010		191.4	191.4
<b>31.12.2011</b>		<b>191.4</b>	<b>191.4</b>

**CAPITAL RESERVE**

The capital reserve mainly consists of the share premium paid as part of share issues of K+S AKTIENGESELLSCHAFT.

**OTHER RESERVES AND ACCUMULATED PROFIT**

This item summarises the revenue reserves, accumulated profit and the differences from currency translation in the consolidated balance sheet.

The revenue reserves mainly consist of earnings the consolidated companies achieved in the past, less dividends paid to shareholders. The item "Differences arising from foreign currency translation" comprises mainly differences from the translation of the functional currency of foreign business units into the reporting currency of the Group (the euro).

**ACCUMULATED PROFIT OF THE INDIVIDUAL FINANCIAL STATEMENTS OF K+S AKTIENGESELLSCHAFT (GERMAN COMMERCIAL CODE "HGB")**

For dividend distribution the annual financial statements of K+S AKTIENGESELLSCHAFT as prepared in accordance with the German Commercial Code (HGB) are decisive. It is intended to propose to the Annual General Meeting that a dividend of € 1.30 per share (previous year: € 1.00), i.e. € 248.8 million in total (previous year: € 191.4 million), be distributed to the shareholders. As of the balance sheet date, the accumulated profit of K+S AKTIENGESELLSCHAFT was as follows:

**ACCUMULATED PROFIT OF K+S AKTIENGESELLSCHAFT (HGB)**

TAB: 5.9.34

	2011	2010
in € million		
Accumulated profit of K+S Aktiengesellschaft as of 1 January	225.7	46.2
Dividend payment for previous year	(191.4)	(38.3)
Net income of K+S Aktiengesellschaft	392.5	217.8
Transfer from net income to other revenue reserves	(166.7)	—
<b>Accumulated profit of K+S Aktiengesellschaft as of 31 December</b>	<b>260.1</b>	<b>225.7</b>

**(20) INFORMATION ABOUT CAPITAL MANAGEMENT****CAPITAL MANAGEMENT**

TAB: 5.9.35

	2011	2010
in € million		
Equity	3,084.6	2,651.6
Non-current debt	1,953.6	1,919.1
Current debt	1,018.7	1,003.0
<b>Balance sheet total</b>	<b>6,056.9</b>	<b>5,573.7</b>
Equity ratio	50.9%	47.6%
Borrowed capital ratio	49.1%	52.4%

Equity rose by € 433.0 million compared with the previous year. The increase in equity is based mainly on the positive Group earnings of financial year 2011 (after taxes and minority interests) amounting to € 564.3 million; in contrast to this is the dividend distribution of € 191.4 million effected in May 2011. Changes in equity without recognition in profit or loss also had to be accounted for, resulting from foreign currency translation of subsidiaries in the functional foreign currency (mainly the US dollar and the Canadian dollar).

Potential measures to influence the capital structure can affect both equity (e.g. through capital increase, share repurchase, payment of dividend) and debt (e.g. through taking out / repaying loans). The equity ratio as at 31 December 2011 exceeded our target corridor of about 40 to 50 %.

## (21) PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Provisions for pensions and similar obligations are composed of the following items:

<b>PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS</b>		TAB: 5.9.36	
		2011	2010
in € million			
Provisions for pension commitments		20.5	114.7
Provisions for other benefit commitments similar to pensions		74.8	70.1
<b>Provisions for pensions and similar obligations</b>		<b>95.3</b>	<b>184.8</b>

Provisions for pension commitments, amounting to € 3.5 million (previous year: € 78.0 million), refer to retirement pension plans in Germany. They mainly relate to direct commitments under pension plans that have been discontinued in the meantime. Most of the domestic obligations apply to pensioners. The decrease of the provision for pension commitments in Germany is mainly attributable to a further out-financing of pension obligations. In Europe outside Germany, further provisions for pension commitments amounted to € 2.4 million (previous year: € 3.2 million) as of the balance sheet date.

There are also pension commitments or benefit commitments similar to pensions in the United States, in Canada and on the Bahamas. The amount of the pension commitments depends, among other things, on remuneration and length of employment. As of 31 December 2011, provisions amounting to € 14.6 million (previous year: € 33.5 million) were established for this purpose. Benefit commitments similar to pensions mainly encompass benefits for medical costs and life insurances. As at 31 December 2011, the provisions for these commitments amounted to € 74.8 million (previous year: € 70.1 million).

The amount of the provisions for pensions and similar obligations is calculated as the actuarial present value of pension claims earned (defined benefit obligation). The majority of the pension claims in Germany is financed through external plan assets under a contractual trust arrangement (CTA). Pension commitments in Canada are also partially out-financed by plan assets. The following assumptions have been made in calculating provisions for pensions and similar obligations on the balance sheet date:

### ACTUARIAL ASSUMPTIONS MEASUREMENT PENSION COMMITMENTS

TAB: 5.9.37

	2011		2010	
	Germany	Outside Germany	Germany	Outside Germany
in %, weighted average				
<b>Pension commitments</b>				
Discount factor	4.9	4.7	4.9	5.2
Anticipated annual increase in salaries and wages	1.8	3.5	1.8	3.6
Anticipated annual pension increase	1.5	1.3	1.5	1.2
<b>Other benefit commitments similar to pensions</b>				
Discount factor	—	4.7	—	5.3

To determine the pension expenses of the current financial year, the following actuarial assumptions were used – stipulated at the end of the previous financial year:

### ACTUARIAL ASSUMPTIONS EXPENSES PENSION COMMITMENTS

TAB: 5.9.38

	2011		2010	
	Germany	Outside Germany	Germany	Outside Germany
in %, weighted average				
<b>Pension commitments</b>				
Discount factor	4.9	5.2	5.3	6.1
Anticipated annual increase in salaries and wages	1.8	3.6	1.8	4.0
Anticipated annual pension increase	1.5	1.2	1.5	1.0
Anticipated yield on plan assets	5.5	6.5	6.0	8.0
<b>Other benefit commitments similar to pensions</b>				
Discount factor	—	5.3	—	6.0

In the case of commitments similar to pensions for health care benefits, the following annual cost increases – declining over time – were assumed:

- + Canada: 7.7% / 5.0% as from 2015 (previous year: 8.3% / 5.0% as from 2015)
- + USA: 8.0% / 5.0% as from 2023 (previous year: 6.0% / 5.0% as from 2012)
- + Bahamas: 4.5% (previous year: 4.5%)

The anticipated yield of plan assets is based on the anticipated long-term income from the securities held as plan assets at the beginning of the financial year and with any new additions or reimbursements taken into account. The allocation of plan assets to individual asset classes, the anticipated interest and dividends and the current economic framework conditions are also taken into account. At the end of financial year 2011, plan assets comprised the following:

BREAKDOWN OF PLAN ASSETS BY ASSET CATEGORY						TAB: 5.9.39
in € million	2011			2010		
	Total	Germany	Outside Germany	Total	Germany	Outside Germany
Bonds	127.7	68.4	59.3	100.6	60.6	40.0
Shares	163.1	81.1	82.0	127.8	34.1	93.7
Cash on hand and balances with banks and other	34.7	34.7	—	11.8	11.6	0.2
<b>Plan assets as of 31 December</b>	<b>325.5</b>	<b>184.2</b>	<b>141.3</b>	<b>240.2</b>	<b>106.3</b>	<b>133.9</b>

The item "Cash on hand and balances with banks and other" also comprises pledged reinsurance.

Actuarial gains and losses are only recorded in the income statement insofar as they exceed the 10 % corridor (the maximum of 10 % of obligations and 10 % of plan assets). In the following years, 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 defined benefit obligation and the plan assets:

#### DEVELOPMENT DEFINED BENEFIT OBLIGATION

TAB: 5.9.40

in € million	2011			2010		
	Total	Germany	Outside Germany	Total	Germany	Outside Germany
Defined benefit obligation as of 1 January	452.7	195.4	257.3	406.7	188.5	218.2
Changes in scope of consolidation	(17.4)	(16.5)	(0.9)	—	—	—
Service costs	10.7	3.7	7.0	9.5	2.4	7.1
Past service costs	8.6	8.6	—	—	—	—
Interest expenses	21.1	8.7	12.4	23.3	9.6	13.7
Actuarial gains (–)/losses (+)	19.7	1.7	18.0	24.6	8.3	16.3
Pension payments	(23.5)	(14.5)	(9.0)	(23.1)	(15.0)	(8.1)
Plan adjustments/plan settlements	(12.3)	—	(12.3)	(16.0)	1.6	(17.6)
Exchange rate fluctuations	2.0	—	2.0	27.7	—	27.7
<b>Defined benefit obligation as of 31 December</b>	<b>461.6</b>	<b>187.1</b>	<b>274.5</b>	<b>452.7</b>	<b>195.4</b>	<b>257.3</b>

The actuarial losses of the period under review, amounting to € 19.7 million, result mainly from the decrease in the discount rate abroad.

#### DEVELOPMENT PLAN ASSETS

TAB: 5.9.41

in € million	2011			2010		
	Total	Germany	Outside Germany	Total	Germany	Outside Germany
Plan assets as of 1 January	240.2	106.3	133.9	209.6	97.6	112.0
Anticipated income from plan assets	17.8	9.0	8.8	15.7	5.9	9.8
Employer contributions	108.4	89.4	19.0	4.4	—	4.4
Differences between anticipated and actual income	(16.8)	(9.9)	(6.9)	(1.2)	(0.6)	(0.6)
Pension payments	(18.7)	(12.0)	(6.7)	(9.8)	(3.1)	(6.7)
Reclassifications	1.4	1.4	—	6.5	6.5	—
Plan adjustments/plan settlements	(7.4)	—	(7.4)	—	—	—
Exchange rate fluctuations	0.6	—	0.6	15.0	—	15.0
<b>Plan assets as of 31 December</b>	<b>325.5</b>	<b>184.2</b>	<b>141.3</b>	<b>240.2</b>	<b>106.3</b>	<b>133.9</b>

The actual income from plan assets amounts to € 1.0 million (previous year: € 14.5 million).

For reconciliation to the balance sheet carrying amounts, the defined benefit obligation has to be offset against the plan assets and to be adjusted for actuarial gains or losses not yet recorded.

<b>RECONCILIATION BALANCE SHEET CARRYING AMOUNTS PENSIONS</b>						TAB: 5.9.42
	2011			2010		
	Total	Germany	Outside Germany	Total	Germany	Outside Germany
in € million						
Defined benefit obligation as of 31 December	461.6	187.1	274.5	452.7	195.4	257.3
– of which fully covered by plan assets	72.4	72.4	–	29.1	29.1	–
– of which partially covered by plan assets	297.9	110.8	187.1	288.5	105.2	183.3
Plan assets as of 31 December	325.5	184.2	141.3	240.2	106.3	133.9
<b>Funded status</b>	<b>136.1</b>	<b>2.9</b>	<b>133.2</b>	<b>212.5</b>	<b>89.1</b>	<b>123.4</b>
Unrecognised actuarial gains (+)/losses (-)	(70.0)	(28.6)	(41.4)	(34.0)	(17.4)	(16.6)
<b>Carrying amounts as of 31 December</b>	<b>66.1</b>	<b>(25.7)</b>	<b>91.8</b>	<b>178.5</b>	<b>71.7</b>	<b>106.8</b>
– of which pension provisions (+)	95.3	3.5	91.8	184.8	78.0	106.8
– of which assets (-)	(29.2)	(29.2)	–	(6.3)	(6.3)	–

Pension expenses for defined benefit pension obligations comprise the following:

**PENSION EXPENSES FOR DEFINED BENEFIT OBLIGATIONS** TAB: 5.9.43

	2011			2010		
	Total	Germany	Outside Germany	Total	Germany	Outside Germany
in € million						
Service costs	10.7	3.7	7.0	9.3	2.2	7.1
Past service costs	8.6	8.6	–	–	–	–
Interest expenses	21.1	8.7	12.4	22.5	8.8	13.7
Plan adjustments/plan settlements	(4.9)	–	(4.9)	(16.3)	1.3	(17.6)
Redemption of actuarial gains/losses	0.7	0.6	0.1	–	–	–
Anticipated income from plan assets	(17.8)	(9.0)	(8.8)	(15.7)	(5.9)	(9.8)
<b>Pension expenses</b>	<b>18.4</b>	<b>12.6</b>	<b>5.8</b>	<b>(0.2)</b>	<b>6.4</b>	<b>(6.6)</b>

The (past) service costs are reported in accordance with the allocation of employees in the income statement under the following items:

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

Interest expenses, anticipated income arising from plan assets as well as the amortisation of unrecognised actuarial gains and losses are recorded under interest income, net. Reversals of provisions from plan adjustments/plan settlements are disclosed under other operating income.

The pension expenses of the previous year were, due to the derecognition of the COMPO Group in accordance with the requirements of IFRS 5, corrected by the amount attributable to these companies.

The development of pension obligations and plan assets over time is as follows:

<b>DEVELOPMENT DEFINED BENEFIT OBLIGATION AND PLAN ASSETS</b>					TAB: 5.9.44
	2011	2010	2009	2008	2007
in € million					
Defined benefit obligation as of 31 December	461.6	452.7	406.7	196.2	208.5
Plan assets as of 31 December	325.5	240.2	209.6	81.1	80.4
<b>Short (+)/surplus coverage (-)</b>	<b>136.1</b>	<b>212.5</b>	<b>197.1</b>	<b>115.1</b>	<b>128.1</b>
Experience-based gains (+)/losses (-) from obligations	1.1	0.3	0.9	(6.7)	(3.7)
Other gains (+)/losses (-) from obligations	(20.8)	(24.9)	—	13.8	(4.1)
Experience-based gains (+)/losses (-) from plan assets	(16.8)	(1.2)	15.7	(27.7)	(3.2)

A change of the assumed cost trend of commitments similar to pensions for health care benefits would result in the following effects:

<b>SENSITIVITY HEALTH CARE BENEFIT COMMITMENTS</b>			TAB: 5.9.45
	<b>Change by 1 % point</b>		
	Increase	Decrease	
in € million			
Effect on service costs and interest expenses	1.2	(0.9)	
Effect on the defined benefit obligation	15.6	(12.3)	

In financial year 2012, an outflow of funds of € 14.0 million from pension commitments and commitments similar to pensions is expected. It also encompasses additions to plan assets and pension payments which are not covered by corresponding reimbursements from plan assets.

In addition, there are further retirement pension plans for which no pension provisions have to be recognised, as there are no further obligations apart from the payment of contributions (defined contribution plans). These comprise both solely employer-financed benefits and premiums for converting employees' remuneration into pensions.

Employers and employees made contributions under the supplementary pension plan that has been closed in the meantime and is operated through the BASF pension fund. As at 31 March 2011, the regular membership in the BASF pension scheme was terminated by BASF for the vast majority of K+S GROUP companies. At the time of termination, the formerly regular memberships of the employees concerned were transformed into extraordinary memberships and are continued as vested pension rights. The provision of such pensions through the BASF pension fund 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.

Overall for the period under review, expenses for retirement provisions are as follows (the previous year's figures are corrected by the amounts attributable to the COMPO Group):

<b>PENSION EXPENSES</b>							TAB: 5.9.46
	<b>2011</b>			<b>2010</b>			
	Total	Germany	Outside Germany	Total	Germany	Outside Germany	
in € million							
Expenses defined contribution plans	14.1	2.8	11.3	15.0	3.8	11.2	
(Past) Service costs defined benefit commitments	19.3	12.3	7.0	9.3	2.2	7.1	
<b>Pension expenses</b>	<b>33.4</b>	<b>15.1</b>	<b>18.3</b>	<b>24.3</b>	<b>6.0</b>	<b>18.3</b>	

In addition, contributions of € 82.1 million (previous year: € 76.2 million) were paid to state pension insurance funds.

## (22) PROVISIONS FOR MINING OBLIGATIONS

PROVISIONS FOR MINING OBLIGATIONS				TAB: 5.9.47	
	Total	2011	2010		
		Total	of which current	Total	of which current
in € million					
Mine and shaft backfilling	283.7	6.8	261.9	7.3	
Maintenance of stockpiles	190.1	—	165.7	—	
Mine damages	50.1	—	49.3	—	
Restoration	52.3	—	48.8	—	
Other	11.2	—	10.0	—	
<b>Provisions for mining obligations</b>	<b>587.4</b>	<b>6.8</b>	<b>535.7</b>	<b>7.3</b>	

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 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 been taken into account.

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 amount required to settle the obligation as of the balance sheet date. In this connection, a future price

increase of 1.5 % is assumed for the K+S GROUP. The interest rate as a discount factor for mining obligations in the EU states amounts to 4.7 % (previous year: 4.7 %). As a discount factor for mining obligations of the MORTON GROUP companies consolidated for the first time in 2009, an interest rate of 5.1 % (USA, previous year: 5.1 %) and 5.3 % (Canada, previous year: 5.3 %) is used. The anticipated timing of the settlement of such obligations largely depends on the remaining economic useful life of the sites. The obligations in part extend well beyond 2050.

The allocation to mining provisions for the year under review is € 67.9 million (previous year: € 121.0 million) and mainly consists in the annual accumulation of provisions, the recognition of additional provisions for mining risks and the revaluation of existing provisions.

Mining provisions in the amount of € 6.7 million (previous year: € 6.7 million) were used to discharge the obligation to maintain disused sites. Further sums were spent on expenditure connected with mining damage risks.

Reversals of provisions amounting to € 9.4 million (previous year: € 7.3 million) mainly result from a reduction in anticipated individual obligations.

## (23) NON-CURRENT OBLIGATIONS TO EMPLOYEES

NON-CURRENT OBLIGATIONS TO EMPLOYEES		TAB: 5.9.48
	2011	2010
in € million		
Provisions for long-term incentives	50.6	29.2
Provisions for anniversary bonuses	22.6	24.0
Provisions for semi-retirement	21.1	26.5
Provisions for stock options	2.6	5.7
Other non-current obligations to employees	3.1	10.9
<b>Total non-current obligations to employees</b>	<b>100.0</b>	<b>96.3</b>

The accounting treatment of the provision for the indicator-based 'Long-term Incentive Programme' is performed applying the defined benefit obligation method. Actuarial gains and

losses are recorded in profit or loss. In determining them, a discount factor of 2.7% (previous year: 2.1%) is applied. For the gaps in inflow arising as a result of switching the variable remuneration components with a long-term incentive effect from a two-year to a four-year term in 2012 and 2013, the LTI Programme was already started virtually in 2008 and 2009 with a tranche in each particular case.

/ MORE INFORMATION ON THE ‘LONG-TERM INCENTIVE PROGRAMME’ can be found in the Remuneration Report on page 45.

The provisions for semi-retirement take into account obligations arising from semi-retirement agreements that have been concluded. 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 2.7% (previous year: 4.9%) with an anticipated annual increase in salaries and wages of 1.8% (previous year: 1.8%). The semi-retirement obligations of € 53.0 million (previous year: € 58.4 million) as of the balance sheet date were offset against plan assets of € 31.9 million (previous year: € 31.9 million). The plan assets take the form of a contractual trust arrangement (CTA) and serve to secure the benefits due to employees under semi-retirement agreements.

Provisions for anniversary bonuses are recognised for future payments in connection with 25-, 40- and 50-year length of service anniversaries. They are valued applying the defined benefit obligation method. They are stated at present value applying a discount factor of 4.9% (previous year: 4.9%) with an anticipated annual increase in salaries and wages of 1.8% (previous year: 1.8%).

The provisions for the stock option programme relate to virtual stock options to be settled in cash. The options existing at the beginning of the reporting period were as follows:

**COMPOSITION OF VIRTUAL STOCK OPTIONS  
AT THE BEGINNING OF THE REPORTING PERIOD**

TAB: 5.9.49

Number of options	Exercisable for the first time	Expiry	Fair value in € million	Provision in € million
7,200	May 2009	May 2012	—	—
4,800	May 2010	May 2013	0.1	0.1
2,440,660	May 2011	May 2014	6.7	5.6
<b>2,452,660</b>			<b>6.8</b>	<b>5.7</b>

In financial year 2011, 7,200 options which became exercisable for the first time in May 2009, and 4,800 options which became exercisable for the first time in May 2010, were exercised by eligible employees; 208,620 options expired prematurely.

For the existing options, income from the release of provisions of € 2.6 million was recorded in financial year 2011. The related payment in the financial year in the amount of € 0.1 million resulted in provision utilisation of € 0.1 million.

In financial year 2010, the stock option programme was replaced by a long-term incentive system based on key figures.

As of 31 December 2011, the composition of virtual stock options was as follows:

**COMPOSITION OF VIRTUAL STOCK OPTIONS 31 DECEMBER 2011**

TAB: 5.9.50

Number of options	Exercisable for the first time	Expiry	Fair value in € million	Provision in € million
2,232,040	May 2011	May 2014	2.6	2.6
<b>2,232,040</b>			<b>2.6</b>	<b>2.6</b>

The fair value of the exercisable options was € 2.6 million as at 31 December 2011. The fair value of the options was calculated on the basis of a multi-period binomial model. It relies on the price of the K+S share and the level of the DAX on the valuation date as well as the historical volatility of the K+S share compared with the DAX. The historic volatility of

overperformance 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 determined in this way amounted to 20.74 % (previous year: 20.86 %) for the option programme expiring in May 2014. These calculations were performed using a base price for the K+S share of € 37.79. A risk-free interest rate of 0.15 % 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 performance of the K+S share relevant for the advantage to be gained from exercising the option. The provisions are distributed proportionately over the two-year vesting period. For a general description of the stock option programme, see note (9).

#### (24) CURRENT PROVISIONS

The obligations under sales transactions relate in particular to rebates and price concessions; the provisions for outstanding invoices result from purchase contracts. Current obligations for personnel mainly include provisions for the performance-related remuneration of employees as well as provisions for outstanding vacation leave and suspended shifts.

#### (25) FINANCIAL LIABILITIES

The following table shows the liquidity analysis of the financial liabilities in the form of contractually agreed undiscounted cash flows.

**LIQUIDITY ANALYSIS OF NON-DERIVATIVE FINANCIAL LIABILITIES 2011** TAB: 5.9.51

	2011 Carrying amount	2011 total	Residual term < 1 year	Residual term > 1 year and < 5 years	Cash flows Residual term > 5 years
in € million					
Bank loans and overdrafts	770.6	890.0	40.2	828.0	21.8
– of which bonds	765.8	884.5	39.2	823.5	21.8
– of which liabilities towards banks	4.8	5.5	1.0	4.5	—
Accounts payable – trade	613.8	613.8	613.3	0.5	—
Liabilities to affiliated companies	14.0	14.0	14.0	—	—
Other financial liabilities	34.7	34.7	23.7	10.0	1.0
<b>Non-derivative financial liabilities</b>	<b>1,433.1</b>	<b>1,552.5</b>	<b>691.2</b>	<b>838.5</b>	<b>22.8</b>

**LIQUIDITY ANALYSIS OF NON-DERIVATIVE FINANCIAL LIABILITIES 2010** TAB: 5.9.52

	2010 Carrying amount	2010 total	Residual term < 1 year	Residual term > 1 year and < 5 years	Cash flows Residual term > 5 years
in € million					
Bank loans and overdrafts	786.6	946.8	57.8	865.4	23.6
– of which bonds	764.1	922.8	39.2	860.8	22.8
– of which liabilities towards banks	22.5	24.0	18.6	4.6	0.8
Accounts payable – trade	511.2	511.2	510.8	0.4	—
Liabilities to affiliated companies	12.6	12.6	12.6	—	—
Other financial liabilities	51.7	51.7	33.9	16.6	1.2
<b>Non-derivative financial liabilities</b>	<b>1,362.1</b>	<b>1,522.3</b>	<b>615.1</b>	<b>882.4</b>	<b>24.8</b>

The financial liabilities as at the reporting date mainly concern K+S AKTIENGESELLSCHAFT and result from the bond issued in September 2009 with a volume of € 750 million, which carries a fixed interest rate of 5.0 % and has a maturity of five years.

/ **MORE INFORMATION ON THE BOND** can be found in the section 'K+S on the capital market' of the Management Report.

In addition, the USD bond taken over in 2009 as part of the acquisition of MORTON SALT with an outstanding sum of USD 145.2 million was partially repurchased by ROHM & HAAS in 2010. This leaves a remainder of USD 22.6 million maturing in 2020. Interest and repayment contributions resulting from this will be paid by ROHM & HAAS and are contractually covered by a bank guarantee. The reimbursement claims for interest and repayment amounts resulting from this contractual construction are shown under the item "Receivables and other assets" in the non-current and current areas.

The period of time over which fixed rates of interest apply is, with the exception of the bond issued, essentially short term and extends to a maximum of twelve months. To this extent, interest-related cash flow risks resulting from possible interest rate adjustments exist. The effective rates of interest are based on the interest rates for the currencies concerned (euro, us dollar, Canadian dollar, Brazilian real, Chilean peso) plus the customary market margins. On the balance sheet date, there were no financial liabilities with variable interest.

Liquidity is managed by means of a groupwide cash pool system by the central treasury unit. The liquidity requirement is basically determined by liquidity planning and is covered by cash on hand and balances with banks and credit facilities pledged. Apart from an € 800 million syndicated loan running until July 2015, there are also bilateral credit lines which have not as yet been taken up.

/ **FURTHER INFORMATION ON LIQUIDITY RISKS** can be found in the Risk Report on page 133.

The following table shows the Group's liquidity analysis for derivative financial instruments. The table is based on undiscounted net cash flows for derivative financial instruments which are offset net, and undiscounted gross cash flows for derivative financial instruments which are offset gross.

#### LIQUIDITY ANALYSIS OF DERIVATIVE FINANCIAL INSTRUMENTS 2011

TAB: 5.9.53

	2011 Carrying amount	2011 total	Residual term < 1 year	Residual term > 1 year and < 5 years	Residual term > 5 years
in € million					
<b>Net fulfilment</b>					
Freight derivatives	(4.5)	(4.5)	(2.4)	(2.1)	—
<b>Gross fulfilment</b>					
Foreign currency derivatives <sup>1</sup>	(16.2)	(17.1)	(17.1)	—	—
– of which payment obligation		(757.8)	(757.8)	—	—
– of which payment claim		740.7	740.7	—	—

<sup>1</sup> On the reporting date, the simple currency options sold have no intrinsic value and cause no cash flow on this basis.

#### LIQUIDITY ANALYSIS OF DERIVATIVE FINANCIAL INSTRUMENTS 2010

TAB: 5.9.54

	2010 Carrying amount	2010 total	Residual term < 1 year	Residual term > 1 year and < 5 years	Residual term > 5 years
in € million					
<b>Net fulfilment</b>					
Freight derivatives	(5.2)	(5.3)	(1.9)	(3.4)	—
<b>Gross fulfilment</b>					
Foreign currency derivatives <sup>1</sup>	2.4	2.4	2.4	—	—
– of which payment obligation		(284.9)	(284.9)	—	—
– of which payment claim		287.3	287.3	—	—

<sup>1</sup> On the reporting date, the simple currency options sold have no intrinsic value and cause no cash flow on this basis.

## (26) FURTHER INFORMATION ON FINANCIAL INSTRUMENTS

The following table shows the carrying amounts and fair values of Group financial instruments:

FURTHER INFORMATION ON FINANCIAL INSTRUMENTS			TAB: 5.9.55	
	Measurement category under IAS 39		2011	2010
			Carrying amount	Fair value
in € million				
Investments in associated companies and equity interests	Available for sale	14.7	14.7	22.3
Loans	Loans and receivables	1.2	1.2	1.8
<b>Financial assets</b>	<b>Loans and receivables</b>	<b>15.9</b>	<b>15.9</b>	<b>24.1</b>
Accounts receivable – trade	Loans and receivables	928.8	928.8	949.8
Remaining receivables and non-derivative financial assets	Loans and receivables	90.8	90.8	109.2
Derivatives	Held for trade	15.1	15.1	41.8
Other assets	not IFRS 7	107.4	107.4	66.4
<b>Other receivables and assets</b>	<b>Loans and receivables</b>	<b>213.3</b>	<b>213.3</b>	<b>217.3</b>
Securities and other financial investments	Loans and receivables	373.5	372.9	—
Cash on hand and balances with banks	Loans and receivables	442.8	442.8	748.4
<b>Financial liabilities</b>	<b>Financial liabilities at amortised cost</b>	<b>770.6</b>	<b>826.7</b>	<b>786.6</b>
Accounts payable – trade	Financial liabilities at amortised cost	613.8	613.8	511.2
Other non-derivative financial liabilities	Financial liabilities at amortised cost	48.7	48.7	49.5
Derivatives	Held for trade	36.1	36.1	17.1
Liabilities from finance leases	IFRS 7	5.8	5.8	7.0
Other liabilities	not IFRS 7	25.7	25.7	35.9
<b>Remaining and other liabilities</b>	<b>116.3</b>	<b>116.3</b>	<b>109.5</b>	<b>109.5</b>

The carrying amounts of the financial instruments, aggregated according to the evaluation categories of IAS 39, are as follows:

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS AGGREGATED ACCORDING TO MEASUREMENT CATEGORIES			TAB: 5.9.56	
			2011	2010
in € million				
Financial assets available for sale			14.7	22.3
Loans and receivables			1,837.1	1,809.2
Financial assets held for trade			15.1	41.8
Financial liabilities at amortised cost			1,433.1	1,347.3
Financial liabilities held for trade			36.1	17.1

The fair values of the financial instruments were mainly determined on the basis of the market information available on the balance sheet date and are to be allocated to one of the three levels of the fair value hierarchy in accordance with IFRS 7.

Level 1 financial instruments are calculated on the basis of prices quoted on active markets for identical assets and liabilities. In Level 2, financial instruments are calculated on the basis of input factors which are derivable from observable market data or on the basis of market prices for similar instruments. Level 3 financial instruments are calculated on the basis of input factors which are not derivable from observable market data. As of 31 December 2011, financial assets held for trading amounting to € 15.1 million (previous year: € 41.8 million) and financial liabilities held for trading amounting to € 36.1 million (previous year: € 17.1 million) are to be allocated to Level 2 of the fair value hierarchy. There are no financial instruments at Levels 1 and 3 of the fair value hierarchy.

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) subsidiaries, joint ventures, affiliated companies and to equity interests. It is assumed that the carrying amounts correspond to the fair values as at the balance sheet date.

In the case of trade accounts receivable, 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 term.

In the case of financial liabilities, trade accounts payable 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 term. For non-current financial liabilities, the fair value has been determined as the present value of the future cash flows or from market prices. Market interest rates, based on the corresponding maturity, are used for discounting purposes.

For borrowings and financial lease liabilities, it is assumed that the carrying amounts correspond to the fair values because of insignificant deviations in market and computational interest rates.

The net results from financial instruments are shown in the following table:

<b>NET RESULT FROM FINANCIAL INSTRUMENTS</b>		TAB: 5.9.57	
	2011	2010	
in € million			
Financial assets available for sale	9.6	5.0	
Loans and receivables	4.0	31.1	
Financial assets and liabilities held for trade	(2.1)	(16.5)	
Financial liabilities at amortised cost	(11.9)	(1.5)	

The net result from financial assets available for sale mainly comprises gains or losses on equity investments.

The net result from loans and receivables mainly includes the effects of currency translation and changes in allowances.

The net result from financial assets and liabilities held for trading predominantly comprises changes in the market value of derivative financial instruments as well as interest income from and interest expenses for these financial instruments.

The net result from 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 measured at fair value without recognition in profit or loss were as follows:

<b>NET INTEREST INCOME FROM FINANCIAL INSTRUMENTS</b>		TAB: 5.9.58	
		2011	2010
in € million			
Interest income		12.0	8.4
Interest expenses		(43.9)	(75.0)

Interest risks arise from a change of market interest rates, which may have an impact on interest to be received or paid and the market value of the financial instrument. This can cause corresponding effects on earnings or equity. In accordance with IFRS 7, risks of change in interest rates must be described in a sensitivity analysis. It is based on the following assumptions:

The effect on earnings or equity established by means of the sensitivity analysis refers to the total on the balance sheet date and shows the hypothetical effect of one year.

Changes in market interest rates of primary financial instruments with variable interest rates have an impact on net interest income and are taken into account in the earnings-orientated sensitivity analysis.

Changes in market interest rates of primary financial instruments with fixed interest rates, stated at amortised cost, do not have an impact on earnings or equity, and are therefore not taken into account in the sensitivity analysis. On the balance sheet date, all primary financial

instruments with fixed interest rates are stated at amortised cost. In the event of reinvestment, they are subject to interest risk, which, however, is not to be taken into account in the sensitivity analysis on the balance sheet date.

Furthermore, on the balance sheet date, there were no interest rate derivatives which possibly might have to be included in a sensitivity analysis.

Consequently, the increase (decrease) of the interest rate level by one percentage point on the balance sheet date would lead to an improvement (a deterioration) of the net interest income by € 2.4 million (previous year: € 2.8 million). There would be no impact on other earnings.

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 foreign currencies (mainly the US dollar) by 10 %, the change in the fair value recognised in profit or loss of the net balance of foreign currency receivables and liabilities would have amounted to ± € 28.6 million (previous year: ± € 19.8 million).

Among other things, K+S holds investments for which the contracting parties – usually banks – provide collateral. These are so-called triparty repo transactions which are secured investments in nature are cleared in a clearing house. This clearing house is responsible for the deposit/delivery of the collaterals to/from the K+S depot there and the daily market evaluation of the particular agreed collateral. The collaterals which cannot be used otherwise are agreed with the contracting party through a basket, which is defined mainly according to investment classes, ratings, countries and currencies. The above-mentioned criteria determine up to what mortgage lending value the respective collateral is taken into account. In other words, when the rating decreases or the transferability of the respective collateral is reduced, the mortgage lending value is reduced and additional collateral must be provided. The given framework of the potential collateral depends on our internal monitoring, which essentially takes the rating and the amount of the particular credit default swaps into account.

Additionally, there are also fixed-term deposits on repurchase agreements, for which we hold CO<sub>2</sub> certificates (more precisely, EUA certificates) as collateral. These CO<sub>2</sub> certificates are principally transferable without any restrictions. As of 31 December 2011, the fair value of these certificates amounted to € 8.3 million.

### (27) CONTINGENT LIABILITIES

In the K+S GROUP, general business is bound up with various risks for which provisions have been recognised, provided that the conditions are fulfilled. Furthermore, there are no further risks which would lead to the disclosure of contingent liabilities.

### (28) OTHER FINANCIAL OBLIGATIONS

OTHER FINANCIAL OBLIGATIONS	TAB: 5.9.59	
	2011	2010
in € million		
Commitments from uncompleted capital expenditure projects	94.7	59.8
Obligations from operating leases		
– due in following year	23.8	20.6
– due in 2 to 5 years	53.7	43.9
– due after 5 years	25.2	17.5
<b>Other financial obligations</b>	<b>197.4</b>	<b>141.8</b>

Operating lease contracts exist which relate, for example, to factory and office equipment and vehicles. Given the relevant contractual arrangements, these assets are not to be carried under fixed assets. Expenditure arising from operating leasing in 2011 came to € 44.6 million (previous year: € 45.0 million). Liabilities and other financial lease obligations existing as of 31 December 2011 are considered immaterial from a Group perspective.

## NOTES TO THE SEGMENT REPORTING

The segment reporting is shown on pages 166.

### (29) DEFINITION OF SEGMENTS

Segments are defined according to products. This corresponds to the internal organisation and reporting structure of the K+S GROUP.

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

Until now, the Nitrogen Fertilizers business segment has consisted of the NITROGEN and COMPO sub-segments. On 20 June 2011, the sale of COMPO to the European private equity investor TRITON was announced; the closing took place on 18 October 2011. Detailed information on the disposal is available on page 169. In accordance with IFRS, COMPO is stated as a "discontinued operation". According to the internal reporting for the financial year 2011, the COMPO business is no longer stated as part of the Nitrogen Fertilizers business segment. The segment reporting of the previous year has been adjusted accordingly. K+S NITROGEN focuses on marketing and trading in nitrogenous fertilizers for bulk customers in agriculture and for special crops.

The Salt business segment encompasses the production and marketing of food grade salt, industrial salt and salt for chemical use, de-icing salt and sodium chloride brine.

Complementary Business Segments bundle together not only recycling activities and waste disposal or reutilisation in potash and rock salt mines as well as CATSAN® granulation, but also other activities important for the K+S GROUP. With K+S TRANSPORT GMBH and its subsidiaries, the K+S GROUP possesses its own logistics service provider. CHEMISCHE FABRIK KALK GMBH trades in different basic chemicals.

The accounting and valuation procedures applied in determining segment information are essentially in compliance with the accounting and valuation principles of the K+S GROUP.

### (30) PRINCIPLES OF SEGMENT ASSET AND DEBT ALLOCATION

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 equity interests) and non-current financial liabilities are not allocated to the segments.

### (31) PRINCIPLES OF SEGMENT EARNINGS ALLOCATION

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.

In its function as the final decision-making instance, the Board of Executive Directors of the K+S GROUP has determined the operating earnings (EBIT I) to be the most important internal earnings figure and as an indicator of earnings capacity. In addition to disregarding net interest income and the tax expense, other income and expenses affecting the financial result are also excluded. Additionally, effects of market value fluctuations of operating forecast hedges are eliminated (see 'Notes to the income statement and the statement of comprehensive income' on page 180).

The earnings of the business segments are presented on a consolidated basis. Intra-segment deliveries and services are consolidated.

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

### (33) ADDITIONAL SEGMENT INFORMATION

#### POTASH AND MAGNESIUM PRODUCTS BUSINESS SEGMENT

Provisions amounting to € 24.1 million (previous year: € 22.1 million) in the Potash and Magnesium Products business segment were released for obligations from 2010 not claimed. The Potash and Magnesium Products business segment posted non-scheduled depreciation charges of € 5.5 million (previous year: € 6.4 million) on property, plant and equipment as well as intangible assets, which were disclosed in other operating expenses.

#### THE NITROGEN FERTILIZERS BUSINESS SEGMENT

Provisions amounting to € 12.7 million (previous year: € 11.4 million) were released for obligations from 2010 not claimed. Credit items from suppliers for financial year 2010 resulted in income unrelated to the reporting period totalling € 5.2 million (previous year: € 4.1 million).

#### SALT BUSINESS SEGMENT

In the Salt business segment, in the period under review, provisions amounting to € 11.7 million (previous year: € 21.8 million) were released for obligations not claimed. In the previous year, non-scheduled depreciations totalling € 6.3 million were recognised, which were disclosed in other operating expenses.

#### COMPLEMENTARY BUSINESS SEGMENTS

In the year under review, non-scheduled depreciations on investments in ships were recognised amounting to € 4.7 million, which were disclosed in income from investments.

### (34) NOTES TO THE RECONCILIATION ITEMS

The reconciliation from the segment figures to the corresponding items in the consolidated financial statements of the K+S GROUP comprises items allocated to central functions as well as consolidation-related effects. The main items are:

RECONCILIATION SEGMENT FIGURES		TAB: 5.9.60	
		2011	2010
<i>in € million</i>			
<b>Reconciliation of segment results</b>			
Consolidation-related effects		0.2	(0.3)
Result for the central functions		(62.7)	(63.7)
		<b>(62.5)</b>	<b>(64.0)</b>
<b>Reconciliation of segment assets</b>			
Fixed assets		55.7	51.3
Deferred tax assets		55.3	57.8
Market values of derivatives		(23.9)	0.1
Tax refund claims from income taxes		41.6	25.0
Other receivables		81.9	69.2
Cash and cash equivalents		675.6	671.2
Consolidation-related effects		(1,138.4)	(986.0)
		<b>(252.2)</b>	<b>(111.4)</b>
<b>Reconciliation of segment liabilities</b>			
Provisions for pensions and similar obligations		0.1	21.1
Other provisions		60.7	55.8
Deferred tax liabilities		342.3	261.6
Market values of derivatives		8.8	2.7
Financial liabilities		770.6	786.6
Other liabilities		22.6	20.0
Income tax liabilities		23.2	82.4
Consolidation-related effects		(54.2)	(124.0)
		<b>1,174.1</b>	<b>1,106.2</b>

**(35) REVENUES BY REGION**

The breakdown of revenues of the K+S GROUP by geographical region is as follows:

REVENUES BY REGION		TAB: 5.9.61	
		2011	2010
in € million			
Europe		2,580.6	2,331.1
– of which Germany		810.3	802.0
North America		1,203.7	1,166.7
– of which USA		910.5	932.7
South America		620.7	527.6
Asia		582.6	496.8
Africa, Oceania		163.3	110.5
<b>Total revenues</b>		<b>5,150.9</b>	<b>4,632.7</b>

The allocation is performed according to the registered seats of the customers. In financial years 2010 and 2011, no single customer accounted for more than 10 % of total revenues.

**(36) NON-CURRENT ASSETS BY REGION**

The non-current assets of the K+S GROUP comprise intangible assets, property, plant and equipment as well as investment properties and break down into geographical regions as follows:

ASSETS BY REGION		TAB: 5.9.62	
		2011	2010
in € million			
Europe		996.4	931.4
– of which Germany		948.7	880.0
North America		1,772.0	1,336.6
– of which USA		1,089.2	1,079.7
– of which Canada		661.5	234.2
South America		487.3	462.0
– of which Chile		480.1	451.5
<b>Total assets</b>		<b>3,255.7</b>	<b>2,730.0</b>

The allocation is performed according to the location of the assets concerned.

**(37) CAPITAL EXPENDITURE BY REGION**

The breakdown of capital expenditure of the K+S GROUP on intangible assets and property, plant and equipment by geographical region is as follows:

CAPITAL EXPENDITURE BY REGION		TAB: 5.9.63	
		2011	2010
in € million			
Europe		177.9	123.8
– of which Germany		172.8	119.0
North America		81.9	51.0
– of which USA		36.2	30.8
– of which Canada		44.0	10.8
South America		34.3	13.8
– of which Chile		31.0	7.2
<b>Total capital expenditure</b>		<b>294.1</b>	<b>188.6</b>

The allocation is performed according to the location of the assets concerned.

**NOTES TO THE CASH FLOW STATEMENT**

The cash flow statement is presented on page 157.

**(38) PROCEEDS FROM THE SALE OF CONSOLIDATED COMPANIES**

PROCEEDS FROM THE SALE OF CONSOLIDATED COMPANIES		TAB: 5.9.64	
		2011	2010
in € million			
Sale price		50.6	—
Of which to non-consolidated companies of the K+S Group		(2.0)	—
Disposed cash on hand and balances with banks		(4.3)	—
Repayment of cash pool credit balance		46.3	—
<b>Proceeds from the sale of consolidated companies</b>		<b>90.6</b>	<b>—</b>

The cash flow generated from investing activities from discontinued operations amounting to € 85.2 million and stated in the cash flow statement is the sum total of the proceeds from the disposal of the COMPO Group of € 90.6 million and capital expenditure of the COMPO business in the current financial year of € (5.4) million.

#### (39) DISBURSEMENTS FOR THE ACQUISITION OF CONSOLIDATED COMPANIES

<b>DISBURSEMENTS FOR THE ACQUISITION OF CONSOLIDATED COMPANIES</b>		TAB: 5.9.65
	2011	2010
in € million		
Acquisition price	263.2	—
Acquired cash on hand and balances with banks	(20.4)	—
<b>Disbursements for the acquisition of consolidated companies</b>	<b>242.8</b>	<b>—</b>

#### (40) NET CASH AND CASH EQUIVALENTS

<b>NET CASH AND CASH EQUIVALENTS</b>		TAB: 5.9.66
	2011	2010
in € million		
Cash on hand and balances with banks (according to balance sheet)	442.8	748.4
Cash invested with affiliated companies	1.0	—
Cash received from affiliated companies	(6.5)	(7.8)
<b>Net cash and cash equivalents</b>	<b>437.3</b>	<b>740.6</b>

Cash and cash equivalents include checks, cash on hand and balances with banks, as well as financial investments with a term normally not exceeding three months from the time of acquisition. They mainly include fixed-term deposits at credit institutions and other cash-equivalent investments.

Cash invested with affiliated companies is stated in the item "Other receivables and assets", and cash received from affiliated companies in the item "Other liabilities".

#### OTHER INFORMATION

##### AUDITOR'S FEES

<b>AUDITOR'S FEES</b>		TAB: 5.9.67	
		2011	2010
in € million			
Audit fees		0.9	1.0
Other confirmation fees		—	—
Tax advisory fees		—	—
Other performances		0.1	0.1
<b>Auditor's fees</b>		<b>1.0</b>	<b>1.1</b>

Auditing performances encompass the auditing of the consolidated financial statements and the annual financial statements of the included domestic companies. Consultancy costs for individual projects are included in "Other performances".

##### GOVERNMENT ASSISTANCE

<b>GOVERNMENT ASSISTANCE</b>		TAB: 5.9.68	
		2011	2010
in € million			
Investment grants		—	0.6
Investment premiums		—	1.8
Performance-related assistance		2.9	4.7
<b>Government assistance</b>		<b>2.9</b>	<b>7.1</b>

The investment grants recorded relate to sums extended under the German Investment Grant Law for Investments in the Development Area of the Federal Republic of Germany (Investitionszulagengesetz für Investitionen im Fördergebiet der Bundesrepublik Deutschland). Investment premiums were granted as part of the support for the regional economic structure and for particular infrastructure projects within the Federal Republic of Germany.

Investment grants and premiums are deducted from the carrying amounts of the assets to which they relate.

Performance-related assistance concerns support that is provided by the Federal Labour Office (Bundesagentur für Arbeit) in accordance with the German Law on Semi-retirement (Altersteilzeitgesetz) as well as reimbursements of the employer's share of social security contributions in connection with a short-time allowance.

#### RELATED PARTIES

In addition to the subsidiaries included in the consolidated financial statements, the K+S GROUP has relationships to further related party companies; these include non-consolidated subsidiaries, joint ventures 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 shareholdings on page 211.

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.

TRANSACTION WITH NON-CONSOLIDATED SUBSIDIARIES		TAB: 5.9.69	
		2011	2010
<i>in € million</i>			
Trade revenues		70.0	67.1
Deliveries and services received		31.6	25.8
Income from dividend payments and profit distributions		9.2	4.0
Other income		1.0	1.1
Other expenses		2.5	1.5

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.

On 31 December 2011, the following outstanding balances with non-consolidated subsidiaries were disclosed:

BALANCES WITH NON-CONSOLIDATED SUBSIDIARIES		TAB: 5.9.70	
		2011	2010
<i>in € million</i>			
Receivables from affiliated companies		14.5	17.0
– of which from bank transactions		1.0	–
Liabilities to affiliated companies		14.0	12.6
– of which from bank transactions		6.5	7.8

On the balance sheet date, there were no allowances on receivables from affiliated companies (previous year: € 0 million). 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 at K+S AKTIENGESELLSCHAFT (cash pooling). In the previous year, loans to non-consolidated subsidiaries totalling had been € 0.3 million, of which € 0.1 million were allowances.

Transactions of the K+S GROUP with joint ventures and associated companies are immaterial from a Group perspective.

Related party persons are defined as persons, who are responsible for the planning, management and monitoring of a company. They include the Board of Executive Directors and the Supervisory Board. The remuneration of related party persons is presented in the following section as well as in the Remuneration Report. Further material transactions with related party persons did not occur.

## TOTAL REMUNERATION OF THE SUPERVISORY BOARD AND THE BOARD OF EXECUTIVE DIRECTORS

TOTAL REMUNERATION OF THE SUPERVISORY BOARD AND THE BOARD OF EXECUTIVE DIRECTORS	TAB: 5.9.71	
	2011	2010
in € million		
<b>Total remuneration of the Supervisory Board</b>	<b>1.5</b>	<b>1.4</b>
– of which fixed	1.1	1.1
– of which performance-related	0.4	0.3
<b>Total remuneration of the Board of Executive Directors</b>	<b>11.8</b>	<b>5.8</b>
– of which fixed	2.4	2.2
– of which performance-related	4.3	3.6
– of which LTI programme	5.1	–
<b>Total remuneration of former members of the Board of Executive Directors and their surviving dependents</b>	<b>1.1</b>	<b>1.0</b>
<b>Pension provisions for former members of the Board of Executive Directors and their surviving dependents</b>	<b>12.4</b>	<b>11.9</b>

In the year under review and in the previous year, the total remuneration of the Board of Executive Directors concerned five board members, all of whom were in 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 an individual performance-related component and paid in the following financial year;
- + the long-term incentive (LTI) programme.

The emoluments received by the individual members of the Board of Executive Directors for financial year 2011 are set forth in the Remuneration Report included in the Corporate Governance Report on page 45; the Remuneration Report also constitutes an integral part of the Management Report.

## SHAREHOLDINGS IN K+S AKTIENGESELLSCHAFT

MERITUS TRUST COMPANY LIMITED, Bermuda, owns just under 10 % of the shares via EURO-CHEM GROUP SE and its attributable subsidiaries. MERITUS manages the industrial shareholdings of Andrey Melnichenko on a fiduciary basis. On 16 March 2011, BASF SE, Ludwigshafen, announced that the share of voting rights undercut the threshold of 3 % and that it did not hold any K+S shares. On 15 March 2011, BLACKROCK INC., New York (USA) exceeded the threshold of 5 % and published a shareholding of 5.46 %. The shareholding of PRUDENTIAL PLC. is 3 % and is held through M&G INVESTMENT MANAGEMENT LIMITED, London (UK). PRUDENTIAL PLC. made the announcement on 2 November 2011.

## DECLARATION OF CONFORMITY CONCERNING THE GERMAN CORPORATE GOVERNANCE CODE

The declaration on conformity pursuant to Sec. 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 of K+S AKTIENGESELLSCHAFT for 2010/2011 and is available to shareholders in the 2010 Financial Report and can also be accessed on the K+S GROUP Internet homepage ([www.k-plus-s.com](http://www.k-plus-s.com)). The declaration of conformity in respect of 2011/2012 is also permanently published on the K+S homepage and on page 35 of this 2011 Financial Report.

**LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SEC. 313 OF THE GERMAN COMMERCIAL CODE (HGB)**
**LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SEC. 313  
OF THE GERMAN COMMERCIAL CODE (HGB)**

TAB: 5.9.72

	Company's registered office		Interests in capital	Share of voting rights
in %; as of 31 December 2011				
<b>Fully consolidated German subsidiaries (17 companies)</b>				
K+S Aktiengesellschaft	Kassel	Germany	—	—
Chemische Fabrik Kalk GmbH	Cologne	Germany	100.00	100.00
Deutscher Straßen-Dienst GmbH	Hanover	Germany	100.00	100.00
esco – european salt company GmbH & Co. KG <sup>1</sup>	Hanover	Germany	100.00	100.00
esco international GmbH	Hanover	Germany	100.00	100.00
fertiva GmbH <sup>2</sup>	Mannheim	Germany	100.00	100.00
German Bulk Chartering GmbH <sup>2</sup>	Hamburg	Germany	100.00	100.00
K+S Baustoffrecycling GmbH <sup>2</sup>	Sehnde	Germany	100.00	100.00
K+S Beteiligungs GmbH <sup>2</sup>	Kassel	Germany	100.00	100.00
K+S Entsorgung GmbH <sup>2</sup>	Kassel	Germany	100.00	100.00
K+S IT-Services GmbH <sup>2</sup>	Kassel	Germany	100.00	100.00
K+S KALI GmbH <sup>2</sup>	Kassel	Germany	100.00	100.00
K+S Nitrogen GmbH <sup>2</sup>	Mannheim	Germany	100.00	100.00
K+S Salz GmbH <sup>2</sup>	Hanover	Germany	100.00	100.00
K+S Transport GmbH <sup>2</sup>	Hamburg	Germany	100.00	100.00
Kali-Union Verwaltungsgesellschaft mbH <sup>2</sup>	Kassel	Germany	100.00	100.00
UBT See- und Hafen-Spedition GmbH Rostock <sup>2</sup>	Rostock	Germany	100.00	100.00
<b>Fully consolidated foreign subsidiaries (51 companies)</b>				
Canadian Brine Ltd.	Pointe Claire, Québec	Canada	100.00	100.00
Canadian Salt Finance Company	Halifax, Nova Scotia	Canada	100.00	100.00
Canadian Salt Holding Company	Halifax, Nova Scotia	Canada	100.00	100.00
Compania Minera Punta de Lobos Ltda.	Santiago de Chile	Chile	99.64	100.00
Empresa de Servicios Ltda.	Santiago de Chile	Chile	99.64	100.00
Empresa Maritima S.A.	Santiago de Chile	Chile	48.67	99.59
esco benelux N.V.	Diegem	Belgium	100.00	100.00
esco france S.A.S.	Levallois-Perret	France	100.00	100.00

**LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SEC. 313  
OF THE GERMAN COMMERCIAL CODE (HGB) (CONTINUED)**

TAB: 5.9.72

	Company's registered office		Interests in capital	Share of voting rights
in %; as of 31 December 2011				
esco Holding France S.A.S.	Dombasle sur Meurthe	France	100.00	100.00
esco Spain S.L.	Barcelona	Spain	100.00	100.00
Frisia Zout B.V.	Harlingen	Netherlands	100.00	100.00
Glendale Salt Development LLC	Chicago	USA	100.00	100.00
Inagua General Store Ltd.	Nassau	Bahamas	100.00	100.00
Inagua Transports Inc.	Monrovia	Liberia	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	48.87	100.00
Inversiones K+S Sal de Chile Ltda.	Santiago de Chile	Chile	100.00	100.00
K plus S Iberia S.L.	Barcelona	Spain	100.00	100.00
K+S Agricoltura S.p.A.	Cesano Maderno	Italy	100.00	100.00
K+S Agro México S.A. de C.V.	Mexico-City	Mexico	100.00	100.00
K+S Canada Holdings Inc.	Vancouver	Canada	100.00	100.00
K+S Finance Belgium BVBA	Diegem	Belgium	100.00	100.00
K+S Finance Ltd.	St. Julians	Malta	100.00	100.00
K+S Hellas S.A.	Athens	Greece	100.00	100.00
K+S Holding France S.A.S.	Reims	France	100.00	100.00
K+S Investments Ltd.	St. Julians	Malta	100.00	100.00
K+S KALI Atlantique S.A.S.	Pré en Pail	France	100.00	100.00
K+S KALI du Roure S.A.S.	Le Teil	France	100.00	100.00
K+S KALI France S.A.S.	Reims	France	100.00	100.00
K+S KALI Rodez S.A.S.	Sainte Radegonde	France	97.45	97.45
K+S KALI Wittenheim S.A.S.	Wittenheim	France	100.00	100.00
K+S Mining Argentina S.A.	Buenos Aires	Argentina	100.00	100.00
K+S Montana Holdings LLC	Chicago	USA	100.00	100.00
K+S Netherlands Holding B.V.	Harlingen	Netherlands	100.00	100.00
K+S North America Corporation	New York	USA	100.00	100.00

**LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SEC. 313  
OF THE GERMAN COMMERCIAL CODE (HGB) (CONTINUED)**

TAB: 5.9.72

in %; as of 31 December 2011

	Company's registered office		Interests in capital	Share of voting rights
K+S North America Salt Holdings LLC	Chicago	USA	100.00	100.00
K+S Potash Canada General Partnership	Vancouver	Canada	100.00	100.00
Montana US Parent Inc.	Chicago	USA	100.00	100.00
Morton Bahamas Ltd.	Nassau	Bahamas	100.00	100.00
Morton Salt Inc.	Chicago	USA	100.00	100.00
SPL-USA LLC	Clarks Summit	USA	100.00	100.00
Salina Diamante Branco Ltda.	Rio de Janeiro	Brazil	100.00	100.00
Salines Cérébos et de Bayonne S.A.S.	Levallois-Perret	France	100.00	100.00
Servicios Marítimos Patillos S.A. <sup>3</sup>	Santiago de Chile	Chile	49.82	50.00
Servicios Portuarios Patillos S.A.	Santiago de Chile	Chile	99.53	99.89
Sociedad Punta de Lobos S.A.	Santiago de Chile	Chile	99.64	99.64
The Canadian Salt Company Limited	Pointe Claire, Québec	Canada	100.00	100.00
Transporte por Containers S.A.	Santiago de Chile	Chile	48.04	98.71
VATEL Companhia de Produtos Alimentares S.A.	Alverca	Portugal	100.00	100.00
Weeks Island Landowner LLC	Chicago	USA	100.00	100.00

**Non-consolidated German subsidiaries (15 companies)<sup>4</sup>**

1. K+S Verwaltungs GmbH	Kassel	Germany	100.00	100.00
1. K+S Verwaltungs GmbH & Co. Erwerbs KG	Kassel	Germany	100.00	100.00
3. K+S Verwaltungs GmbH & Co. Erwerbs KG	Kassel	Germany	100.00	100.00
Algoflash GmbH Düngemittel	Kassel	Germany	100.00	100.00
Beienrode Bergwerks-GmbH	Kassel	Germany	89.80	89.80
esco Verwaltungs GmbH	Hanover	Germany	100.00	100.00
Ickenroth GmbH	Staudt	Germany	100.00	100.00
K+S AN-Instituts Verwaltungsgesellschaft mbH	Kassel	Germany	100.00	100.00
K+S Consulting GmbH	Kassel	Germany	100.00	100.00
K+S Versicherungsvermittlungs GmbH	Kassel	Germany	100.00	100.00
MS "Butes" Schiffahrts GmbH & Co. KG	Haren	Germany	82.35	82.35
MS "Echion" Schiffahrts GmbH & Co. KG	Haren	Germany	82.35	82.35
MSW-Chemie GmbH	Langelsheim	Germany	68.50	68.50

**LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SEC. 313  
OF THE GERMAN COMMERCIAL CODE (HGB) (CONTINUED)**

TAB: 5.9.72

in %; as of 31 December 2011

	Company's registered office		Interests in capital	Share of voting rights
Verlagsgesellschaft für Ackerbau mbH	Kassel	Germany	100.00	100.00
Wohnbau Salzdetfurth GmbH	Bad Salzdetfurth	Germany	100.00	100.00
<b>Non-consolidated foreign subsidiaries (25 companies)<sup>4</sup></b>				
esco Nordic AB	Göteborg	Sweden	100.00	100.00
Imperial Thermal Products Inc.	Chicago	USA	100.00	100.00
ISX Oil & Gas Inc.	Calgary	Canada	100.00	100.00
K+S Asia Pacific Pte. Ltd.	Singapore	Singapore	100.00	100.00
K+S Benelux B.V.	Breda	Netherlands	100.00	100.00
K+S Brasileira Fertilizantes e Produtos Industriais Ltda.	São Paulo	Brazil	100.00	100.00
K+S CZ a.s.	Praha	Czech Republic	100.00	100.00
K+S Denmark Holding ApS	Hellerup	Denmark	100.00	100.00
K+S Entsorgung (Schweiz) AG	Delémont	Switzerland	100.00	100.00
K+S Fertilizers (India) Private Limited	New Delhi	India	100.00	100.00
K+S Gübre ve Endüstri Ürünleri San. ve Tic. Ltd. Sti.	Istanbul	Turkey	100.00	100.00
K+S Interservicios S.A. de C.V.	Tlalpan, DF	Mexico	100.00	100.00
K+S Italia S.r.l.	Verona	Italy	100.00	100.00
K+S Legacy GP Inc.	Vancouver	Canada	100.00	100.00
K+S Nitrogen France S.A.S.	Levallois-Perret	France	100.00	100.00
K+S Polska Sp. z o.o.	Poznan	Poland	100.00	100.00
K+S UK & Eire Ltd.	Hertford	Great Britain	100.00	100.00
Kali (U.K.) Ltd.	Hertford	Great Britain	100.00	100.00
Kali AG	Frauenkappeln	Switzerland	100.00	100.00
Kali-Importen A/S	Copenhagen	Denmark	100.00	100.00
OOO K+S Rus	Moscow	Russian Federation	100.00	100.00
Potash Company of Canada (1998) Ltd.	Toronto	Canada	100.00	100.00
Potash S.A. (Pty) Ltd.	Johannesburg	South Africa	100.00	100.00
Shenzhen K+S Trading Co. Ltd.	Shenzhen	China	100.00	100.00
SPL Perù S.A.C.	Lima	Peru	100.00	100.00

**LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SEC. 313  
OF THE GERMAN COMMERCIAL CODE (HGB) (CONTINUED)**

TAB: 5.9.72

in %; as of 31 December 2011

**Associated companies and joint ventures (6 companies)<sup>5</sup>**

	Company's registered office		Interests in capital	Share of voting rights
Börde Container Feeder GmbH	Haldensleben	Germany	33.30	33.30
Morton China National Salt (Shanghai) Salt Co. Ltd.	Shanghai	China	45.00	45.00
MS "Melas" Schiffahrts GmbH & Co. KG	Haren	Germany	38.90	38.90
MS "Peleus" Schiffahrts GmbH & Co. KG	Haren	Germany	30.20	30.20
Société des Engrais de Berry au Bac S.A.	Reims	France	34.00	34.00
Werra Kombi Terminal Betriebsgesellschaft mbH	Philippsthal	Germany	50.00	50.00

**Other interests (16 companies)<sup>6</sup>**

Fachschule f. Wirtschaft und Technik Gem. GmbH	Clausthal	Germany	9.40	9.40
Hubwoo.com S.A.	Paris	France	0.04	0.04
Lehrter Wohnungsbau GmbH	Lehrte	Germany	6.70	6.70
MS "Basalt" Schiffahrts GmbH & Co. KG	Haren	Germany	12.00	12.00
MS "Dolomit" Schiffahrts GmbH & Co. KG	Haren	Germany	11.90	11.90
MS "Granit" Schiffahrts GmbH & Co. KG	Haren	Germany	12.00	12.00
MS "Lava" Schiffahrts GmbH & Co. KG	Haren	Germany	11.50	11.50
MS "Magma" Schiffahrts GmbH & Co. KG	Haren	Germany	11.90	11.90
MS "Marmor" Schiffahrts GmbH & Co. KG	Haren	Germany	11.40	11.40
MS "Paganini" Schiffahrts GmbH & Co. KG	Haren	Germany	12.10	12.10
MS "Telamon" Schiffahrts GmbH & Co. KG	Haren	Germany	10.70	10.70
MS "Theseus" Schiffahrts GmbH & Co. KG	Haren	Germany	10.70	10.70
Nieders. Gesellschaft zur Endablagerung von Sonderabfall mbH	Hanover	Germany	0.10	0.10
PHH Personen Dienstleistung GmbH	Hamburg	Germany	2.60	2.60
Poldergemeinschaft Hohe Schaar	Hamburg	Germany	8.66	8.66
Zoll Pool Hafen Hamburg AG	Hamburg	Germany	1.96	1.96

<sup>1</sup> Exemption rule according to Sec. 264b of the German Commercial Code (HGB) employed.

<sup>2</sup> Exemption rule according to Sec. 264b Para. 3 HGB employed.

<sup>3</sup> Fully consolidated due to dominant influence (e.g. majority of the members of the management body).

<sup>4</sup> No consolidation due to minor importance.

<sup>5</sup> Equity method dispensed with due to minor importance.

<sup>6</sup> Stating of amount of equity and earnings of the last financial year dispensed with due to minor importance.

**MEMBERS OF THE SUPERVISORY BOARD**

A list of the members of the Supervisory Board and its committees can be found in the 'Corporate Governance' section on page 42; this list is also a component of the Notes.

**MEMBERS OF THE BOARD OF EXECUTIVE DIRECTORS**

A list of the members of the Board of Executive Directors and its responsibilities can be found in the 'Corporate Governance' section on page 41; this list is also a component of the Notes.

Kassel, 2 March 2012

**K+S AKTIENGESELLSCHAFT**

**THE BOARD OF EXECUTIVE DIRECTORS**

## FURTHER INFORMATION

### INFORMATION ABOUT RAW MATERIAL DEPOSITS

This section contains an overview of the raw material deposits, reserves and resources of the K+S GROUP, divided into the Potash and Magnesium Products business segment and the Salt business segment. The deposits used are owned by us or we possess corresponding exploration and extraction rights or permissions, which legally secure the mining or solution mining of the specified reserves of raw materials.

### POTASH AND MAGNESIUM PRODUCTS BUSINESS SEGMENT

#### RESERVES

The specified extractable reserves were last determined on 1 January 2012 and are comparable with the international terms "proven" and "probable reserves". The following table shows the reserves of potassium chloride (KCl) and magnesium sulphate/kieserite ( $MgSO_4 \times H_2O$ ), the volume extracted in 2011 and the theoretical lifetime of the individual mines in Germany. Rounded figures are reported. On the basis of this data, a theoretical lifetime of the mines of about 37 years on average is calculated for the Potash and Magnesium Products business segment. Volumes actually mined in future that differ from these volumes would result in a change of the theoretical lifetime.

#### RESERVES POTASH AND MAGNESIUM PRODUCTS BUSINESS SEGMENT

TAB: 6.0.1

	Reserves						Extraction 2011		Theoretical life-time in years <sup>3</sup> ; Basis K <sub>2</sub> O 2011
	Crude salt in t eff. million	t million K <sub>2</sub> O <sup>1</sup>	t million KCl <sup>1</sup>	t million Kieserite <sup>2</sup>	t eff. million	t million K <sub>2</sub> O <sup>1</sup>			
<b>Rock salt mine</b>									
Neuhof-Ellers	85.0	8.9	14.0	18.5	3.83	0.41			22
Sigmundshall	28.7	3.2	5.0	4.4	2.25	0.26			7 <sup>4</sup>
<b>Verbundwerk</b>									
Hattorf-Wintershall	587.5	50.0	79.0	80.1	13.45 <sup>5</sup>	1.12 <sup>5</sup>			44
Unterbreizbach	86.5	18.3	28.9	7.1	4.59 <sup>6</sup>	0.71 <sup>6</sup>			26
Zielitz	455.2	56.2	75.7	—	11.08	1.33			42

<sup>1</sup> Potassium oxide (K<sub>2</sub>O) is a customary chemical unit of conversion for potassium compounds, 100% potassium chloride (KCl) corresponds to 63.17% K<sub>2</sub>O.

<sup>2</sup> Kieserite ( $MgSO_4 \times H_2O$ ) is a usable magnesium mineral in potash deposits. Other minerals containing magnesium sulphate are only utilised secondarily for process-related factors.

<sup>3</sup> The calculation assumes the granting of approvals, the economic exploitability of reserves and an annual extraction remaining constant over the lifetime.

<sup>4</sup> The theoretical lifetime of the Sigmundshall mine is determined by the volume of reserves of sylvinitic and the current method of residue disposal.

<sup>5</sup> Without supplies from Unterbreizbach to Wintershall.

<sup>6</sup> Including supplies from Unterbreizbach to Wintershall.

#### RESOURCES

Additional resources exist for the Potash and Magnesium Products business segment. These include possible reserves (category c2) and reserves for which it has not yet been proven that they can be exploited economically (off-balance sheet reserves). Both are roughly comparable with what is termed "mineral resources" in the international standard. These are not yet used potash seams or fields to which rights are held in which resources can be shown to exist on the basis of geophysical investigations and surface drilling as well as by means of geological analogical inference. These potential extraction fields are predominantly adjacent to existing ones and belong to the K+S GROUP or the K+S GROUP has a pre-emptive right.

In Germany, the Potash and Magnesium Products business segment has around 1,350 million tonnes of crude salt as exploitable resources. This figure too already takes into consideration losses in extraction and impoverishment. This could result in a prolongation of the lifetime of individual plants.

## K+S POTASH CANADA

K+s holds several potash exploration licences in the Canadian province of Saskatchewan and, with its Legacy Project in the mining lease area KLSA 009, has an advanced greenfield project in which potassium chloride can be extracted by means of solution mining on the basis of an existing feasibility study. The reserves and resources are specified in million tonnes of potassium chloride as a saleable end product, and the corresponding deductions for losses during mining and processing have already been taken into consideration. On the basis of the available reserves and at an annual production capacity of 2.86 million tonnes, a theoretical lifetime of about 56 years can be assumed.

RESERVES AND RESOURCES K+S POTASH CANADA <sup>1</sup>			TAB: 6.0.2
	t million KCl	% KCl	% K <sub>2</sub> O
Mineral Reserves (Proven and Probable Reserves)	Legacy Project area and KLSA 009	160.3	29.1
Resources (Indicated and Inferred Resources)	Legacy Project area and KLSA 009	981.1	27.0

<sup>1</sup> The reserves figures were determined in accordance with the requirements of the Canadian standard NI 43-101 of the "Canadian Securities Regulators".

Apart from the mine lease area KLSA 009, K+S POTASH CANADA holds six more potash exploration permits in Southern Saskatchewan. Due to the limitation of geological data available on these deposits they cannot yet be classified as resources or reserves. However, as they are located close to known and economically valued potash deposits, they should offer significant potentials for the future.

## SALT BUSINESS SEGMENT

### RESERVES

The specified extractable reserves were last determined on 1 January 2012 and are comparable with the international terms "proven" and "probable reserves". The following tables show the salt reserves, the average extraction of the mines, open-cast mining operations and brine fields in the period from 2002 to 2011 as well as the theoretical lifetime of the individual sites. Rounded figures are reported. On the basis of this data, a theoretical lifetime of the sites of about 47 years on average is calculated (without extraction of solar evaporation salt).

Volumes actually mined in future that differ from these volumes would result in a change of the theoretical lifetime.

RESERVES SALT BUSINESS SEGMENT

TAB: 6.0.3

Site	Company	Production method	Reserves in t million	Ø Extraction 2002–2011 in t million	Theoretical lifetime in years <sup>1</sup>
Bernburg, Germany	esco	Rock salt mine	35.7	1.89	19
Borth, Germany	esco	Rock salt mine	40.0	1.59	25
Braunschweig-Lüneburg, Germany	esco	Rock salt mine	21.3	0.69	31
Bernburg-Gnetsch, Germany	esco	Solution mine	21.1	0.25	84
Harlingen, The Netherlands	esco	Solution mine	7.0	1.00	7
Fairport, USA	Morton Salt	Rock salt mine	55.6	1.16	48
Grand Saline, USA	Morton Salt	Rock salt mine	59.9	0.31	195
Mines Seleine, Canada	Morton Salt	Rock salt mine	38.3	1.54	25
Ojibway, Canada	Morton Salt	Rock salt mine	45.8	2.66	17
Pugwash, Canada	Morton Salt	Rock salt mine	32.6	1.15	28
Weeks Island, USA	Morton Salt	Rock salt mine	70.9	1.43	49
Glendale, USA	Morton Salt	Solution mine	9.3	0.12	78
Grand Saline, USA	Morton Salt	Solution mine	4.4	0.06	76
Hutchinson, USA	Morton Salt	Solution mine	18.7	0.33	57
Lindbergh, Canada	Morton Salt	Solution mine	17.4	0.13	133
Manistee, USA	Morton Salt	Solution mine	6.7	0.28	24
Rittman, USA	Morton Salt	Solution mine	8.6	0.51	17
Silver Springs, USA	Morton Salt	Solution mine	16.8	0.34	49
Windsor, Canada	Morton Salt	Solution mine	5.1	0.23	22
Grantsville, USA	Morton Salt	Solar evaporation salt (Great Salt Lakes)	∞	0.58	∞
Inagua, Bahamas	Morton Salt	Solar evaporation salt (Ocean)	∞	0.89	∞
Tarapacá, Chile	SPL	Open cast mining	562.0	7.00	80
Rio Grande do Norte, Brazil	SPL	Solar evaporation salt (Ocean)	∞	0.50	∞

<sup>1</sup> The calculation assumes the granting of approvals, the economic exploitability of reserves and an annual extraction remaining constant over the lifetime.

## RESOURCES

Additional resources exist for the Salt business segment. These include possible reserves (category c2) and reserves for which it has not yet been proven that they can be exploited economically (off-balance sheet reserves). Both are roughly comparable with what is termed "mineral resources" in the international standard. These are fields to which rights are held in which resources can be shown to exist on the basis of geophysical investigations and surface drilling as well as by means of geological analogical inference. These potential extraction fields are in part adjacent to existing ones and belong to the K+S GROUP or we possess a permission for extraction.

For the Salt business segment, about 1,300 million tonnes of rock salt in Europe and in North and South America can be disclosed as exploitable resources, taking into consideration losses in extraction and impoverishment. This could result in a prolongation of the lifetime of individual plants.

## DEFINITIONS OF KEY FINANCIAL INDICATORS

BOOK VALUE PER SHARE	= $\frac{\text{Equity}}{\text{Total number of shares as of 31 Dec.}}$	RETURN ON REVENUES	= $\frac{\text{Adjusted Group earnings}^3}{\text{Revenues}}$
ENTERPRISE VALUE	= Market capitalisation + net indebtedness	RETURN ON TOTAL INVESTMENT	= $\frac{\text{Adjusted earnings before taxes}^{3,4} + \text{interest expenses}}{\text{Adjusted balance sheet total}^{1,2,3}}$
EQUITY/ASSETS RATIO I	= $\frac{\text{Equity}}{\text{Operating assets}}$	VALUE ADDED	= $(\text{ROCE} - \text{weighted average cost of capital before taxes}) \times (\text{operating assets}^1) + \text{working capital}^1$
EQUITY/ASSETS RATIO II	= $\frac{\text{Equity} + \text{non-current debt}}{\text{Operating assets}}$	WORKING CAPITAL	= Inventories + receivables and other assets <sup>5</sup> – current provisions – accounts payable trade – other payables <sup>5</sup>
INDEBTEDNESS I	= $\frac{\text{Bank loans and overdrafts}}{\text{Equity}}$		
INDEBTEDNESS II	= $\frac{\text{Net indebtedness}}{\text{Equity}}$		
LIQUIDITY RATIO I	Cash on hand and balances with banks + current securities and other financial investments = $\frac{\text{Cash on hand and balances with banks} + \text{current securities and other financial investments}}{\text{Current debt}}$		
LIQUIDITY RATIO II	Cash on hand and balances with banks + current securities and other financial investments + current receivables = $\frac{\text{Cash on hand and balances with banks} + \text{current securities and other financial investments} + \text{current receivables}}{\text{Current debt}}$		
LIQUIDITY RATIO III	= $\frac{\text{Current assets}}{\text{Current debt}}$		
NET FINANCIAL LIABILITIES	= Financial liabilities – cash on hand and balances with banks – securities and other financial investments		
NET INDEBTEDNESS	Financial liabilities + provisions for pensions and similar obligations = + non-current provisions for mining obligations – cash on hand and balances with banks – securities and other financial investments		
OPERATING ASSETS	= Intangible assets + property, plant and equipment + shares in associated companies + participating interests		
RETURN ON CAPITAL EMPLOYED (ROCE)	= $\frac{\text{Operating earnings (EBIT I)}}{\text{Operating assets}^1 + \text{working capital}^{1,2}}$		
RETURN ON EQUITY	= $\frac{\text{Adjusted Group earnings after taxes}^3}{\text{Adjusted equity}^{1,3}}$		

<sup>1</sup> Annual average.<sup>2</sup> Adjusted for reimbursement claims and corresponding obligations.<sup>3</sup> Adjusted for the effects of market value changes of operating forecast hedges still outstanding; for adjusted Group earnings, the resulting tax effects were also eliminated.<sup>4</sup> Including earnings before taxes of discontinued operations.<sup>5</sup> Without the market values of operating forecast hedges still outstanding as well as derivatives no longer in operation, but including premiums paid for derivatives used for operating purposes; without receivables and liabilities from financial investments; adjusted for reimbursement claims as well as the surplus of the CTA plan assets.

**GLOSSARY****AMMONIUM SULPHATE**

is a sulphur-containing nitrogen fertilizer which is a by-product formed in the production of caprolactam in the chemical industry. Ammonium sulphate is used in agriculture and as a raw material for the complex fertilizer industry.

**BRINE**

Aqueous rock salt solution. Natural brine is obtained through drilling underground deposits of brine or through the controlled drill-hole solution mining procedure and also produced through the dissolution of mined rock salt.

**BULK BLENDERS**

Operators of bulk fertilizer equipment, in which various nutrients are combined.

**CASH FLOW**

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

**CHLORINE-ALKALINE ELECTROLYSIS**

In chlorine-alkaline electrolysis, chlorine, caustic soda solution and hydrogen are produced as a result of the decomposition of the basic substance sodium chloride with the aid of electricity. Alternatively, potassium hydroxide solution is produced by the application of potassium chloride. The important basic chemicals of chlorine, caustic soda solution, hydrogen and potassium hydroxide solution form the basis of numerous chemical products.

**COMPLEX FERTILIZERS**

contain more than one nutrient, as a rule nitrogen, phosphorus and potassium as well as – depending on need and application – magnesium, sulphur or trace elements. As a result of the combination of raw materials in the production process and subsequent granulation, every single grain of the fertilizer contains precisely the same combination of nutrients; this allows for even spreading of the nutrients on the field.

**COMPLIANCE**

(conforming with regulations) denotes adherence to laws, internal corporate regulations and guidelines as well as regulatory standards recognised by the Company. A compliance system is intended to avoid risks of liability, penalties and fines as well as other financial disadvantages for the Company and to ensure a positive reputation in the public.

**CONTINUED/ DISCONTINUED OPERATIONS**

On 18 October 2011, K+S sold the COMPO business to the European private equity investor TRITON. Thus, the criteria under IFRS 5 for "Non-current assets held for sale and discontinued operations" were met and COMPO was therefore disclosed in the balance sheet as a "discontinued operation". The income statement and the cash flow statement of the year 2010 were adjusted accordingly, while the balance sheet and therefore the key figures working capital, net indebtedness and book value per share of 2010 were not adjusted and also include the discontinued operations.

**COST OF CAPITAL**

also WACC (weighted average cost of capital); denotes the opportunity costs arising for equity providers and/or lenders through capital made available to the Company. The weighted average cost of capital rate is derived from the aggregate of the interest claim 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 share of interest-bearing debt in total capital. As this is considered from an after-tax perspective, the average interest on debt is reduced by the corporate tax rate.

**DOLOMITE LAYER**

Porous, receptive limestone layer a good 500 metres deep, formed in the Zechstein.

DUE DILIGENCE	denotes the "necessary care" engaged in ahead of an acquisition and encompasses the performance of a detailed analysis of an acquisition target, particularly its geological, technical, (environmental) legal, fiscal and financial framework conditions. In the process, analysis results from the corporate data made available by the target company are employed. The aim is to expose or limit risks related to the acquisition.	ENTEC® FERTILIZERS	are nitrogenous mineral fertilizers containing a stabiliser which delays the transformation of ammonium nitrogen into nitrate. The release of nitrogen is thus adapted to the plant's needs and the efficiency of the fertilizer functions is increased by avoiding nitrate losses.
EBIT I	The internal control of the K+S GROUP is carried out partly on the basis of the operating earnings EBIT I. The result from operating forecast hedges included in EBIT I corresponds, due to the elimination of all fluctuations in market value during the term, to the value of the hedge at the time of realisation (difference between spot rate and hedged rate), less the premiums paid or plus the premiums received in the case of option transactions.	ENTERPRISE VALUE	is an indicator of the value of a company frequently used by financial analysts. Enterprise value is often related to other key figures (e.g. revenues, EBITDA, EBIT), so that so-called enterprise value multiples are produced.
EBIT II	Under IFRS, fluctuations in market value from hedging transactions are reported in the income statement. EBIT II includes all earnings arising from operating hedging transactions, i.e. both valuation effects as at the reporting date and earnings from realised operating hedging derivatives. Earnings effects arising from the hedging of basic transactions with a financing character, whose earnings effects impact on EBIT I neither in the current financial year nor in future financial years, are stated in the financial result.	EVAPORATED SALT	is produced by evaporating saturated brine, whereby sodium chloride crystallises.
ELECTROSTATIC PREPARATION PROCESS (ESTA®)	is a dry preparation process in which the individual elements of crude salt are charged diversely and then separated with the aid of an electric field into sodium chloride on the one hand and potassium chloride and kieserite on the other. Compared with the classical wet preparation processes, it is clearly more advantageous in terms of energy consumption and there is far less liquid production residue.	FINANCIAL COVENANTS	are figures and agreements contractually agreed between a lender and a borrower for the duration of a credit facility. Non-compliance can result in sanctions and the right of extraordinary termination.
		FIX COST DEGRESSION	denotes the reduction of unit costs in the case of an increasing production volume, because the fixed costs are distributed across a higher production volume.
		FLOTATION	is a production process separating rock salt and potash or kieserite from crude salt without heat supply. The process is based on the fundamental principle that air is blown into a crude salt mixture in a saturated saline solution, enabling the usable substances to float up and be skimmed off.
		FREE FLOAT	The number of shares not held by major shareholders owning more than 5% of the shares of a company (with the exception of shares held by investment companies and asset managers).

<b>GREENFIELD PROJECT</b>	denotes the creation of new production capacities, including infrastructure investments, on “greenfield sites”. In contrast to this, there are also brownfield projects in mining, where the capacity of an existing mine is expanded.	<b>POTASSIUM CHLORIDE</b>	groundwater and water by 2015 will result in the volume of saline waste water being halved. The capital expenditure bound up with the package of measures totals up to € 360 million.
<b>K<sub>2</sub>O</b>	(potassium oxide) is a chemical unit of calculation used to quickly compare the potassium content of fertilizers in which potassium is present in various bonding forms, for example as potassium chloride, potassium sulphate or potassium nitrate.	<b>PRODUCTION OF GRANULATES</b>	is natural potassium salt found in seawater, salt lakes and salt deposits.
<b>KIESERITE</b>	is a mineral component of crude salt with the water soluble minerals magnesium and sulphur.	<b>PURCHASE PRICE ALLOCATION</b>	denotes the production of dispersible fertilizer grains which can be spread with an agricultural fertilizer spreader.
<b>LIQUIDITY RATIOS</b>	provide information about the extent to which current payment obligations are covered by cash and cash equivalents, current receivables and current assets.	<b>RAMP-UP CURVE</b>	Allocation of the costs incurred in connection with a corporate acquisition to the assets, liabilities and contingent liabilities acquired.
<b>NITRIFICATION INHIBITOR</b>	Ammonium stabiliser, which delays the transformation of ammonium nitrogen into nitrate nitrogen which is at risk of being washed out.	<b>RATING</b>	describes the volumes available over time until the maximum planned production capacity is achieved during the construction of a mine as well as the production facility above ground.
<b>OPERATING FORECAST HEDGES</b>	To hedge future currency positions (mainly in US dollars) or future translation risks, we use operating derivatives in the form of options and futures (see also transaction and translation risks).	<b>SODIUM CHLORIDE</b>	describes the assessment of a company's ability to meet its interest and repayment obligations in a timely manner in the future. It is given by a rating agency, e.g. MOODY'S or STANDARD & POOR'S, in the form of standardised categories.
<b>PACKAGE OF MEASURES ON WATER PROTECTION</b>	also “€ 360 million package of measures” or “Werra package of measures”; was presented in October 2008 by K+S in order to further reduce environmental effects and secure K+S's production sites in the Hesse and Thuringia potash district over the long term. It forms the essential technical basis for the Integrated Package of Measures presented in 2009, which emerged from the public law agreement of K+S GROUP with the states of Hesse and Thuringia. The planned implementation of individual measures for the protection of	<b>SOLUTION MINING</b>	Rock salt, common salt (NaCl)
			denotes the extraction of soluble (salt) rocks (e.g. sylvinit or rock salt) by discharging water or (salt) solutions in drillings, as a result of which caverns arise. The solution mining technology permits, to the extent that the deposit conditions allow for such a process, a faster commencement of production than do conventional mining techniques, a more flexible starting curve of production and the mining of deeper-lying deposits. Moreover, the ratio of crude salt to solid and liquid production residues is more favourable.

<b>STRAIGHT NITROGEN FERTILIZER</b>	is a fertilizer which contains only nitrogen as the main element. K+S NITROGEN offers the straight nitrogen fertilizers calcium ammonium nitrate (CAN), ammonium sulphate nitrate and ammonium sulphate nitrate with boron.
<b>SUPPLY CHAIN MANAGEMENT</b>	denotes groupwide planning, management and coordination of the entire value chain (procurement, production and logistics).
<b>TRANSACTION RISK</b>	arises from a transaction in a foreign currency which is to be converted into the Group currency and is therefore a cash risk.
<b>TRANSLATION RISK</b>	arises from converting income, cash flow or balance sheet items at different periods or reporting dates, which occur in a different currency than the Group currency. This is thus a non-cash risk.
<b>VALUE ADDED</b>	This key 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 and working capital) to give the company's added value for the year under review.
<b>WATER-SOFTENING SALTS</b>	remove hardeners such as calcium and magnesium from the water through an ion exchange process. Soft water is necessary or advantageous for numerous industrial processes, but also in private households.

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Annual General Meeting, Kassel	9 May 2012
Quarterly Financial Report, 31 March 2012	9 May 2012
Dividend payment	10 May 2012
Half-yearly Financial Report, 30 June 2012	14 August 2012
Quarterly Financial Report, 30 September 2012	13 November 2012
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