

# HALF-YEARLY FINANCIAL REPORT H1/08



Best quarter so far for the K+S Group

At € 1.2 billion, quarterly revenues up by 52%

Operating earnings (EBIT I) at € 326.4 million (+370%)

Adjusted earnings per share reach € 1.40 (+439%)

Free cash flow of € 179.7 million (+263%)

Outlook 2008 improved again: € 6.00 to € 6.65 per share



Experience growth.

## Key Data Business Development

### KEY FIGURES (IFRSs)

€ million	Q2/08	Q2/07	%	H1/08	H1/07	%
Revenues	1,184.5	778.6	+ 52.1	2,397.5	1,723.3	+ 39.1
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	360.2	100.4	+ 258.8	619.0	234.7	+ 163.7
EBITDA margin in %	30.4	12.9		25.8	13.6	
Operating earnings (EBIT I)	326.4	69.4	+ 370.3	552.7	172.7	+ 220.0
Operating EBIT margin in %	27.6	8.9		23.1	10.0	
Earnings after market value changes (EBIT II)	319.6	78.4	+ 307.7	438.2	184.7	+ 137.2
Earnings before income taxes	307.7	72.1	+ 326.8	424.0	168.6	+ 151.5
Earnings before income taxes, adjusted <sup>1)</sup>	314.5	63.1	+ 398.4	538.5	156.6	+ 243.9
Group earnings after taxes	226.2	47.9	+ 372.2	311.0	112.4	+ 176.7
Group earnings after taxes, adjusted <sup>1)</sup>	231.1	42.2	+ 447.6	393.7	104.8	+ 275.7
Gross cash flow	281.5	67.1	+ 319.5	524.5	171.2	+ 206.4
Net debt as of 30 June <sup>2)</sup>	–	–	–	904.4	741.6	+ 22.0
Capital expenditure <sup>3)</sup>	60.5	25.6	+ 136.3	84.7	50.8	+ 66.7
Depreciation and amortisation <sup>3)</sup>	33.8	31.0	+ 9.0	66.3	62.0	+ 6.9
Working capital as of 30 June	–	–	–	791.5	687.0	+ 15.2
Earnings per share, adjusted <sup>1), 4)</sup> (€)	1.40	0.26	+ 438.5	2.39	0.64	+ 273.4
Gross cash flow per share <sup>4)</sup> (€)	1.71	0.41	+ 317.1	3.18	1.04	+ 205.8
Book value per share as of 30 June, adjusted <sup>1), 4)</sup> (€)	–	–	–	6.71	6.52	+ 2.9
Total number of shares as of 30 June (million) <sup>4)</sup>	–	–	–	165.00	165.00	–
Outstanding shares as of 30 June (million) <sup>5)</sup>	–	–	–	165.00	165.00	–
Average number of shares (million) <sup>6)</sup>	164.95	164.92	–	164.89	164.88	–
Employees as of 30 June (number) <sup>7)</sup>	–	–	–	12,145	11,912	+ 2.0
Average number of employees <sup>7)</sup>	–	–	–	12,136	11,942	+ 1.6
Personnel expenses	187.5	176.9	+ 6.0	367.5	348.4	+ 5.5
Closing price (XETRA) as of 30 June (€) <sup>4)</sup>	–	–	–	91.58	28.52	+ 221.1
Market capitalisation as of 30 June (€ billion)	–	–	–	15.1	4.7	+ 221.1
Enterprise value as of 30 June (€ billion)	–	–	–	16.0	5.4	+ 196.3

<sup>1)</sup> adjusted for the effect of market value changes in hedging transactions; in the case of adjusted Group earnings, the resulting tax effects were also eliminated

<sup>2)</sup> including provisions for pensions and mining obligations

<sup>3)</sup> for or in connection with intangible assets as well as property, plant and equipment

<sup>4)</sup> adjusted to share split in the ratio 1 to 4

(entry in Commercial Register: 24 June 2008; technical execution: 21 July 2008)

<sup>5)</sup> total number of shares less the own shares held by K+S on the reporting date

<sup>6)</sup> total number of shares less the average number of own shares held by K+S over the period

<sup>7)</sup> total workforce including temporary employees (without students and interns), measured on full-time equivalent basis (FTE)

## Management Report

### Macroeconomic environment

The forecasts included in the Financial Report 2007 regarding the macroeconomic environment in 2008 to a very large extent retain their validity following an examination of the first six months. During the second quarter of 2008, global economic growth continued to be adversely impacted by the effects of the real estate crisis, which has meanwhile resulted in declining demand not only in the United States. Moreover, the fact that inflation rose significantly, primarily as a result of the persistent strong global increase in commodity prices, proved to be problematic. In the emerging market countries, the economy continued to expand strongly, even though moderate signs of a slowdown could be observed in Asia, which resulted from declining exports as a consequence of the weak US economy and higher prices for basic foodstuffs.

The US currency displayed a sideways tendency during the second quarter. At the end of June, the exchange rate was once again just under 1.58 USD/EUR. Prices for industrial commodities were at a high level during the second quarter too, with the oil price at just under US\$ 140 per barrel at the end of June, which is even 40% higher than at the end of March 2008.

#### Impact on K+S

The macroeconomic environment had the following impact on the course of business for K+S in the second quarter.

- The economic upturn in the emerging market countries is making a positive contribution to the standard of living of the local population. This increases the global per capita consumption of food including meat, and during the second quarter too increased the pressure on agricultural systems to meet this challenge. The South American market for industrial salt and salt for chemical use, which is important for our Chilean subsidiary SPL, is also growing in line with local population and economic development.
- After the global energy price level rose sharply, our energy costs also increased substantially during the second quarter.
- At the end of 2007, we changed our US dollar hedging system. Options are now used, which establish a worst-case scenario for 2008 of about 1.51 USD/EUR incl. costs, but provide the opportunity to participate in a US dollar that may again become stronger. In comparison to the second quarter of 2007, this results in a significantly lower average hedging rate for the Potash and Magnesium Products business segment (Q2/2007: 1.00 USD/EUR).

## Industry-specific framework conditions

**i** The industry environment of the individual business segments can be found in the description of K+S Group business segments on page 15 et seqq.

### Fertilizer and Plant Care Sector

High demand for agricultural products has reduced global stocks and is leading to shortage on the international agricultural markets. Overall, prices for agricultural products were therefore at a high level during the second quarter too.

Increasing prosperity, particularly in the Asian emerging market countries, resulted in local populations having greater expectations of their diet and in changes in traditional eating habits, especially in the increasing consumption of meat. The production of one kilogramme of meat requires several times the amount of feed, e. g. corn and soybeans. The demand for agricultural products and thus also fertilizers has therefore been growing disproportionately in these regions of the world for years. In addition, economic success in these countries is boosting urbanisation, which tends to decrease the amount of land available for agriculture. This challenge can only be mastered by more intensive and professional farming. Against this backdrop and as a result of considerably higher prices for agricultural products, farmers around the world are encouraged to invest both by expanding the area available to them and by increasing the intensity of its cultivation, so that they can produce enough food and feed as well as fuel for a rising global population. Both these two developments result in a greater use of fertilizers.

Thus, during the second quarter of 2008, global demand for fertilizers continued to increase tangibly which against the backdrop of availability bottlenecks resulted in far higher prices for nitrogen, phosphate and potash fertilizers.

### Salt Business Sector

During the second quarter, high stocks held by customers on the Western European de-icing salt market and more intense competition put pressure on prices. In the North American de-icing salt market, the tenders for the coming winter season have just started. While the trend toward a low-salt diet slightly weakened demand in the food grade salt segment, demand on the industrial salt market increased further. The high demand for salt for chemical use continued; however, it was not possible to completely pass the higher energy costs of production onto customers.

## Products and services

For a comprehensive description of our products and services, please see the relevant passages in our Financial Report and Corporate Report for 2007. Since then, there have been no changes in the range of products and services that have had a significant influence on the business performance of the K+S Group.

## Revenues and Earnings position

Variance analysis in %	Q2/08	H1/08
<b>Change in revenues</b>	<b>+ 52.1</b>	<b>+ 39.1</b>
- volume/structure	(6.1)	(4.2)
- prices	+ 62.4	+ 47.1
- exchange rates	(4.2)	(4.0)
- consolidation	+ 0.1	+ 0.1

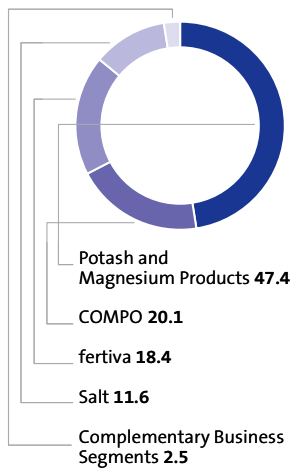
### Revenues rise 52 % in second quarter

At € 1,184.5 million, second quarter revenues exceeded the figure for the same period last year by € 405.9 million or 52 %. The increase was attributable to positive price effects that could more than offset moderate currency- and volume-related revenue declines. Strong revenue increases were achieved by the Potash and Magnesium Products, fertiva and COMPO business segments. During the first six months of 2008, revenues increased by 39% to € 2,397.5 million also as a result of price factors. About 70% of Group revenues were generated in Europe. The Potash and Magnesium Products business segment accounted for 47 % of Group revenues.

### At € 326.4 million, operating earnings more than quadrupled during second quarter

EBIT I is free of non-cash changes in the market value of the currency options that we use to hedge the US dollar exchange rate and only include the gains actually achieved as a result of exchange rate hedging for the period under review. The effects of the exercise, expiry and valuation of double-barrier options, which are no longer maintained for the purpose of foreign currency hedging, are not included in the operating earnings either.

REVENUES BY BUSINESS SEGMENT  
JAN. – JUNE 2008  
(IN %)



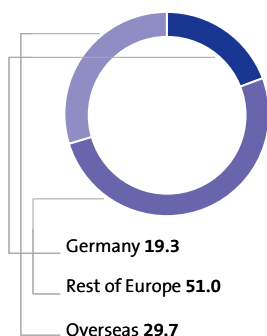
In the second quarter of 2008, EBIT I rose by € 257.0 million or 370% compared with a year ago to € 326.4 million; this was mainly attributable to strong earnings increases in the Potash and Magnesium Products business segment in addition to the positive business performance of COMPO and fertiva. It was thus possible to more than make up by far for the weaker earnings contribution of the Salt business segment and the Complementary Business segments. During the first six months, EBIT I of the K+S Group amounted to € 552.7 million and has thus already reached nearly double the total earnings for last year; the strong increase in earnings in the Potash and Magnesium Products business segment also made a significant contribution to this.

### EBIT II no longer impaired by US dollar double-barrier options

Under the IFRSs, changes in the market value of our foreign currency options used to hedge the US dollar exchange rate have to be reported in the income statement. While the cash gains from options already exercised are included in operating earnings EBIT I, we report non-cash changes in the market value of options that are still outstanding as well as losses from forfeited options with due dates in future periods as a reconciliation to EBIT II.

During the quarter under review, earnings after market value changes EBIT II amounted to € 319.6 million and thus rose by € 241.2 million or 308%. The second quarter was only impacted by changes in market value of the new hedging instruments, which are significantly less susceptible to fluctuation. Following the last negative effects that resulted from the old hedging system during the first quarter, EBIT II thus proved possible to again almost completely mirror the positive performance of EBIT I. During the first half of 2008, at € 438.2 million, earnings after market value changes EBIT II were 137% higher than during the same period last year.

REVENUES BY REGION  
JAN. – JUNE 2008  
(IN %)



### Second quarter financial result lower than that of last year

During the second quarter, the financial result was € (11.9) million and was thus € 5.6 million less than for the same period last year due to a weaker interest result. Under the IFRSs, in addition to the interest expense for pension provisions (H1/2008: € 1.4 million), the financial result includes the interest expense for other long-term provisions, mainly related to mining obligations (H1/2008: € 8.0 million); both are non-cash. During the first six months, the financial result improved by € 1.9 million to € (14.2) million; non-recurrent special income from the disposal of financial investments during the first quarter was able to more than compensate for a weaker interest result. Further details of the financial result can be found in the Notes.

### Second quarter adjusted earnings after taxes more than five times higher

Given their limited economic meaningfulness as well as the fluctuations to which the market values of our foreign currency options are subject, we report earnings before taxes as well as after taxes following adjustment for these effects. Thus, the latter also takes account of the impact of market value changes on deferred, non-cash taxes.

Adjusted earnings before taxes for the second quarter amounted to € 314.5 million, which represents an increase of € 251.4 million compared with a year ago. Under the IFRSs, deferred, that is, non-cash income taxes are reported. During the second quarter, of a total of € 81.4 million in income taxes, € 27.4 million were deferred (income tax expense Q2/2007: € 24,2 million, of which € 6.5 million were deferred). Further details of income tax expense can be found in the Notes. Adjusted earnings before taxes for the first half of the year rose by € 381.9 million to € 538.5 million.

Group earnings after taxes adjusted for the effect of market value changes amounted to € 231.1 million during the second quarter and were thus more than five times higher. During the first six months, adjusted Group earnings amounted to € 393.7 million and were thus € 288.9 million or 276% higher than for the same period last year.

### Adjusted earnings per share reach € 1.40 (Q2/2007: € 0.26 per share)

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

For the quarter under review, adjusted earnings per share amounted to € 1.40 and were thus up 439% on the same period last year (€ 0.26). For the current calculation, an average number of shares outstanding of 164.95 million shares was assumed; adjusted to the share split in the ratio 1 to 4 entered in the Commercial Register on 24 June 2008 and executed in terms of securities on 21 July 2008, this corresponds approximately to the average number of 164.92 million shares that provided the basis for last year's calculation.

As of 30 June 2008, we held no shares of our own; the total number of K+S Group shares outstanding at the end of June thus amounted to 165.0 million no-par value shares.

### Financial position and Capital expenditure

€ million	H1/08	H1/07
Cash flow from operating activities	370.8	113.7
Cash flow for investing activities	(85.5)	(49.2)
Free cash flow before acquisitions/divestments	285.3	65.0
Cash flow for financing activities	(376.6)	(113.2)

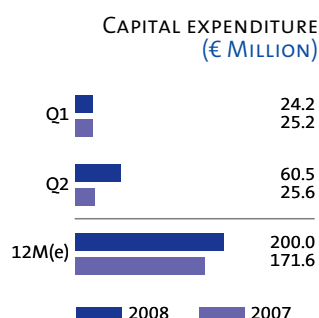
#### Free cash flow more than quadrupled during first six months

At € 524.5 million, gross cash flow for the first six months was up € 353.3 million or 206% on the figure for the same period last year. Substantially higher operating earnings far more than made up for higher interest and income tax payments.

H1 cash flow from operating activities amounted to € 370.8 million and thus improved by € 257.1 million or 226% on the same period last year. Working capital rose slightly more in comparison with the same period last year; this is mainly attributable to an increase in inventories that had to be evaluated at far higher input costs as well as to a higher price-related increase in receivables.

During the first six months, cash flow for investing activities amounted to € (85.5) million (Q2/2007: € (49.2) million) and thus reflects the increase in capital expenditure during the first six months.

During the months of January to June, free cash flow amounted to € 285.3 million in comparison to € 64.5 million during the same period last year. After taking into consideration the cash flow for financing activities of € (376.6) million, which primarily includes the settlement of financial liabilities in the amount of € 291.8 million, we are reporting net indebtedness including provisions of aggregate € 904.4 million as of 30 June 2008 (previous year: € 741.6 million).



#### Capital expenditure significantly higher than last year

At € 60.5 million, capital expenditure during the second quarter was significantly higher than during the same period last year (Q2/2007: € 25.6 million). The planned increase is chiefly attributable to the acquisition of a cargo ship for SPL. Overall, the lion's share of our capital expenditure is attributable to the Potash and Magnesium Products business segment; capital expenditure in the replacement and expansion of underground infrastructure and measures to expand the capacity for industrial products at the Zielitz site continued to be the focus here.

A further significant project during the second quarter was the increase in the reutilisation capacity for the receipt of waste in dust form. In the first six months, we invested € 84.7 million and thus € 33.9 million more than in the same period last year.

In the Financial Report for 2007 and the Quarterly Report Q1/08, we were forecasting a capital expenditure level in 2008 of € 240 million. We currently anticipate a capital expenditure volume of about € 200 million for 2008; this is mainly attributable to delays in the construction of the salt water pipeline from the Neuhof-Ellers site to the Werra site, for which the application was already made in July 2007. During the second half of the year, the main focus will be on projects to increase yields, optimise processes, make further energy savings and minimise the quantity of solid and liquid production residues in the Potash and Magnesium Products business segment as well as the further expansion of waste reutilisation at Zielitz. In 2008, we expect that 60% of total capital expenditure will relate to replacement and the safeguarding of production; this should be entirely financed through the anticipated depreciation charges totalling about € 140 million.

## Research and Development

There has been no significant change in the goals and focal points of research and development as described in the Financial Report 2007. During the quarter under review, research and development expenses totalled € 4.3 million and were thus up markedly on the same period last year (Q2/2007: € 3.5 million). The increase is attributable to constantly greater efforts to develop and optimise production processes in order to minimise the quantity of solid and liquid production residues from potash production and to the development of plant protection products in cooperation with Syngenta. During the first six months, at € 8.6 million, research costs were 15% higher than during the same period last year.

€ million	2008e	2007
Research costs	17.0	15.5
Capitalized development investment	5.0	2.7
Employees as of 31 December (number)	61	58

We expect research costs of around € 17 million for 2008 (2007: € 15.5 million). At € 5 million, development-related capital expenditure should also be higher than the figure for the same period last year (2007: € 2.7 million). Research into the impact of potash products on soil water efficiency, the further development of plant protection products as well as the cooperation in the Dutch public research project "Wetsus" on the possible use of renewable energy are among the most significant research projects. At the end of the year, as a result of intensified research activity, we expect 61 employees (2007: 58 employees) to be working on research in the K+S Group.

## Slight increase in headcount

As at 30 June 2008, a total of 12,145 people were employed by the K+S Group, which means that their number was 2% higher than a year ago. At the end of 2008, the number of employees should increase slightly and be a good 12,300. The number of trainees amounted to 452 as of 30 June 2008. This represents a temporary fall of 22 in the number of trainees.

Second quarter personnel expenses amounted to € 187.5 million and were thus up 6% on the same period last year. In the first six months too, at € 367.5 million, this figure was up just under 6%. The increase is attributable to the collective agreement pay rise that came into effect in the Potash and Magnesium Products and Salt business segments as of 1 January 2008 and to the slightly higher number of employees. For 2008 as a whole, we continue to anticipate an increase in personnel expenses of about € 40 million and thus an increase in the middle of the single-digit percentage range (2007: € 687.3 million).

## The K+S share

### Share split in the ratio 1 to 4

On 14 May 2008, the Annual General Meeting of K+S Aktiengesellschaft voted in favour of the proposal of the Board of Executive Directors and the Supervisory Board to undertake a share split in the ratio 1 to 4. Following a capital increase out of retained earnings to € 165 million, a share split in the ratio 1 to 4 was undertaken. Thus, the subscribed capital of the company is now divided into 165 million no-par value bearer shares, each of which represents a proportional amount of the subscribed capital of € 1.00.

Both measures were entered in the Commercial Register on 24 June 2008; the share split was technically implemented on 21 July. On that day, before the stock exchanges opened, each issued share was split into four shares of K+S Aktiengesellschaft; the opening price was € 76.13.

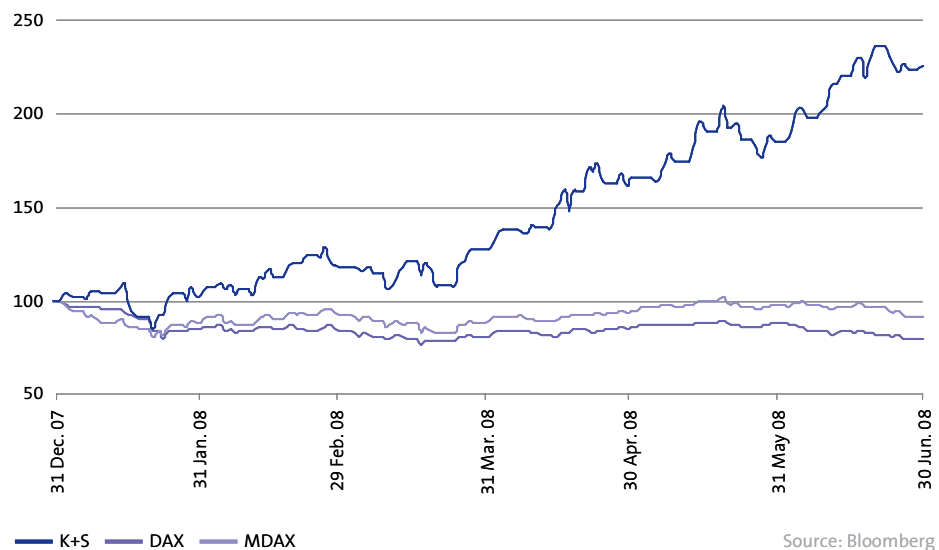
### Course of K+S share price in the second quarter

- From € 51.75 at the start of the quarter, the announcement of a further increase in the price of potash by Russian producers to US\$ 1,000 on 23 April 2008 resulted in a rise in the K+S share price to € 70.53.
- In some cases significant upgrading of some analysts' estimates followed this announcement. The quarterly report Q1/08 published on 14 May and the positive outlook it contained had a further positive impact on the share price performance, so that the K+S share price reached € 83.08 on 19 May.
- Following this impressive performance of over 100% since the start of the year, however, during the course of the general market turmoil to which the rapidly increasing oil price and consequently far higher inflation data had contributed, there was substantial profit taking, so that the price fell back to € 72.07 by the end of May.

**i** Price data is adjusted to the share split entered in the Commercial Register on 24 June 2008 and executed in terms of securities in the ratio 1 to 4 on 21 July.

- However, the share price recovered quickly from this price decline. The ad hoc notification published on 3 June 2008 concerning another increase in our earnings forecast to at least € 1.1 billion prompted the K+S share to reach a new all-time high of € 95.90 on 20 June 2008.
- On 30 June 2008, the price closed at € 91.58 and thus achieved a gain of 125% since the start of the year. It outperformed the DAX by about 218 percentage points and the MDAX by 133 percentage points. In the most recent of the regular surveys that we conduct, 18 banks gave us a “buy/accumulate” recommendation and one a “hold/neutral” recommendation. Two studies rated us “reduce/sell”.

PERFORMANCE OF THE K+S  
SHARE IN RELATION TO THE  
DAX AND MDAX IN  
THE FIRST HALF OF 2008  
(INDEXED; PERFORMANCE IN %)



### Shareholder structure

BASF SE holds about 10.3% of our shares. Moreover, as of 13 June 2008, MCC Holding Ltd. (Linea Ltd.) increased its stake in K+S Aktiengesellschaft from 7.3% to about 10.4%. MCC is a corporation, which manages the industrial holdings of Andrei Melnichenko and, among other things, has a majority stake in the Russian agrochemicals company EuroChem. Furthermore, Capital Group has notified us that its subsidiary Capital Research & Management with 4.871% of the shares has exceeded the reportable threshold of 3%. Janus Capital Group, The Bank of New York Mellon Corporation with its subsidiary Newton Management Ltd. and Fidelity (FMR LLC.) informed us in June/July that they have each fallen below the reportable threshold of 3%. Under the free float definition applied by Deutsche Börse AG, the free float now amounts to 79.3%.

## Subsequent events

Since the close of the quarter under review, no significant changes have occurred in the general economic environment or in the situation of our industry nor have any other events of material importance for the K+S Group occurred that would require disclosure.

## Risk report

For a comprehensive description of the risk and opportunity management system or possible risks, please refer to the relevant passages in our Financial Report 2007. Only changes that have occurred since then are described below. The statements about the other risks described in the Financial Report essentially remain without change. The risks to which the K+S Group is exposed, both in isolation or in conjunction with other risks, are limited and do not, according to current estimates, jeopardise the continued existence of the Company.

### Economic performance risks – Production and the environment

In the Potash and Magnesium Products business segment, liquid residues (saline water) among others arise from ongoing production and from tailings pile precipitation. They are disposed of by means of discharge, approved under water law, into surface water or sinking into underground layers of rock. This also requires compliance with thresholds and conditions imposed by government agencies in addition to legal requirements. The determination of a significant reduction in the sinking capacity hitherto forecast or the premature, full use of approved sinking space could result in the partial or even complete withdrawal of sinking permits for the disposal of liquid residues and in substantial additional costs or, in an extreme case, to a significant scaling back of production at the sites concerned. Thus, for example, the Neuhof-Ellers potash plant had to discontinue the sinking of saline water into the dolomite layer after fully utilising the sinking space. To ensure the proper disposal of tailings pile water arising there, saline water is transported, until the completion of the saline water pipeline already applied for in July 2007, by rail and lorry to the nearest site in accordance with valid permits.

From today's perspective, it is also uncertain whether an unchanged extension can be attained following the expiry of the current sinking and discharge permits. In such case too, a new disposal concept that would be eligible for approval and should ensure sustainable disposal security on the basis of new permits or knowledge would result in significant additional costs. Reducing solid and liquid production residues in potash production is one of the focal points of our R&D activity. All conceivable disposal concepts are checked with the participation of independent experts.

## Opportunity report

For a comprehensive description of possible opportunities, please see the relevant passages in our Financial Report 2007. The statements about the other opportunities described in the Financial Report essentially remain without change. There is no off-setting of opportunities and risks as well as positive and negative changes in them.

## Outlook

### Future macroeconomic situation

For the further course of 2008, we do not expect serious changes in the macroeconomic situation already described in the Quarterly Report Q1/08: The slowdown in the global economy will, as a consequence, probably continue in the industrialised countries in particular. In the developing and emerging market countries, however, we continue to anticipate persistent economic growth, which should have a sustainable positive effect on international demand for fertilizers and thus on the business success of the K+S Group.

Thus, the effects hitherto on the course of business of the K+S Group described on page 3 should therefore also persist under the macroeconomic conditions forecast.

### Future industry situation

The reasons for the future growth in demand for fertilizers described in the Financial Report 2007 continue to remain valid. Even after the price correction for important agricultural products from their historic highs, which could be observed during recent weeks, the current price level continues to guarantee an attractive yield potential to the agricultural sector. During the coming years, in the light of extremely low stocks of agricultural products, agriculture will continue to come under considerable pressure to be able to produce sufficient food and feed as well as fuel for a growing global population. This challenge is becoming even greater as a consequence of increasing urbanisation especially in the emerging market countries and of weather situations around the world that are expected to become more frequent and which may in many different ways constitute a considerable threat to crop yields.

In particular for potash fertilizers, it is to be expected that global demand will continue to grow tangibly at an annual rate averaging about 4%. It is also becoming ever clearer that the growth in capacity in the potash industry over the coming years will at best only be able to keep up with this growth in demand, so that potash will also remain in short supply in the future. As the fourth-largest single producer in the world, K+S should be able to participate in this to a noticeable extent.

The future industry situation in the Salt business segment described in the Financial Report 2007 remains valid. Additionally, in the fourth quarter, the salt business will again be influenced decisively by winter weather conditions. In this respect, we base our assumptions on average sales figures for a good many years in the case of both the European and North American markets which, however, will not be able to make up for the current shortfalls in sales of de-icing salt.

#### Future earnings position

In the financial year 2008, revenues of the K+S Group should increase considerably in comparison to the previous year. This assessment is borne out especially by higher revenues in the Potash and Magnesium Products, fertiva and COMPO business segments as a result of sharp price increases on the global markets for potash and nitrogen fertilizers. Countervailing currency and volume effects will only have a disproportionate impact. Revenues for 2008 as a whole should thus reach about € 5.3 billion to € 5.5 billion (previous year: € 3.3 billion).

For financial year 2008, we are also forecasting very much higher operating earnings EBIT I in comparison to last year. This is primarily due to the already described sharply increasing average prices in the Potash and Magnesium Products business segment, which are by far exceeding the rise in costs. Even a weaker US dollar exchange rate should not result in a change in this assessment: After we fundamentally reorganised the US dollar exchange rate hedging system in December of last year, the worst case scenario for 2008 is a hedging rate of about 1.51 USD/EUR. For this year, we thus expect operating earnings EBIT I for the K+S Group of between € 1.4 billion and € 1.6 billion (previous forecast: at least € 1.1 billion, previous year: € 285.7 million).

With an essentially unchanged financial result and a corporate tax rate of about 27% to 29% (2007: 29.9%), we expect adjusted Group earnings after taxes this year also to increase considerably in line with the development of operating earnings. Here we expect a value between € 1.0 billion and € 1.1 billion (previous year: € 175.3 million). This would result in adjusted earnings per share of about € 6.00 to € 6.65 per share (previous year: € 1.06 per share).

Essentially, our outlook for 2008 is based on the following premises:

- an average US dollar exchange rate of 1.53 USD/EUR during the year as a whole,
- strong global demand for potash fertilizers, persistent scarcity and thus a high utilisation of potash capacities,
- oil and gas prices remaining at their current levels as well as
- an average de-icing salt business in Europe and North America in the fourth quarter.

### Future dividend policy

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

### Future financial structure

With net indebtedness (including long-term provisions) of € 904.4 million, the K+S Group has a strong financial base as a result of expected high operating and free cash flow. This means that we are able to respond flexibly to investment and acquisition opportunities. In view of the expected significant increase in earnings and without taking into account possible acquisitions, share repurchase transactions or CTA allocations, the level of our indebtedness should fall substantially towards the end of the year; subject to these conditions, we expect an equity ratio of a good 50% and a level of indebtedness between 20% and 30% at the end of the year.

## Assurance from the legal representatives of K+S Aktiengesellschaft

To the best of our knowledge and in accordance with the applicable accounting principles for interim reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group 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 for the remaining months of the financial year.

The Board of Executive Directors, 6 August 2008

### Forward-looking statements

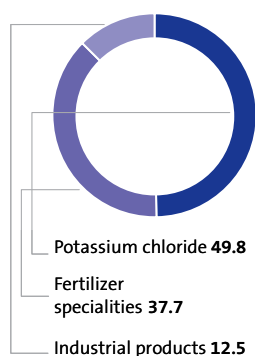
This report contains facts and forecasts that relate to the future development of the K+S Group and its companies. The forecasts are estimates that we have made on the basis of all the information available to us at this moment in time. Should the assumptions underlying these forecasts prove not to be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

## Business Segments of the K+S Group

### Potash and Magnesium Products Business Segment

Variance analysis in %	Q2/08	H1/08	€ million	Q2/08	Q2/07	%	H1/08	H1/07	%
<b>Change in revenues</b>	<b>+ 80.4</b>	<b>+ 60.3</b>	Revenues	612.8	339.7	+ 80.4	1,135.3	708.2	+ 60.3
- volume/structure	(11.4)	(12.3)	Earnings before interest, taxes, depreciation & amortisation (EBITDA)	311.2	74.0	+ 320.5	501.5	145.6	+ 244.4
- prices	+ 97.7	+ 78.0	Operating earnings (EBIT I)	291.4	55.9	+ 421.3	462.3	108.7	+ 325.3
- exchange rates	(5.9)	(5.4)	Capital expenditure	22.5	13.9	+ 61.9	35.9	25.0	+ 43.6
- consolidation	–	–	Employees as of 30 June (number)	–	–	–	7,615	7,509	+ 1.4
Potassium chloride	+ 83.9	+ 63.2	<b>Market environment</b>						
Fertilizer specialities	+ 75.1	+ 54.2	The good environment for the agricultural industry worldwide has meant that the constantly rising demand for potash fertilizers also continued during the second quarter. This met an already existing full utilisation of global potash capacities and resulted in availability bottlenecks for all potash fertilizer producers. As a consequence, the international potash price level continued to rise dramatically. In addition, further substantial price increases have been already agreed or announced for the coming months.						
Industrial products	+ 84.0	+ 68.4	<b>Revenues</b>						

REVENUES BY PRODUCT GROUP  
JAN. – JUNE 2008  
(IN %)



#### Revenues

Second quarter revenues rose by 80% to € 612.8 million. The increase is attributable to significant price increases and more than made up for negative volume effects as well as a weaker US dollar. In the potassium chloride segment, higher prices could substantially make up for what were mainly volume decreases; revenues rose by just under 84% to € 305.7 million. In the case of fertilizer specialities, revenues amounted to € 234.2 million and were thus 75% higher than in the same period last year due to price reasons. Revenues earned with industrial products increased by 84% to € 72.9 million due to positive price and volume effects. During the first six months, revenues of this business segment increased by 60% to € 1,135.3 million as a result of price factors.

#### Development of earnings

Operating earnings in the second quarter amounted to € 291.4 million and have thus increased by more than five times. Higher average prices for potash and magnesium products were able to clearly more than make up for price-related cost increases, especially in the case of material and energy, as well as a weaker currency result. In the first six months, at € 462.3 million, operating earnings more than quadrupled.

#### Outlook

The potash fertilizer prices currently achieved are clearly higher than the average prices of the past year. The resultant price effect on revenues should amount to at least 90% in 2008. For 2008, we expect a sales level of about 7.9 million tonnes of goods (2007: 8.22 million tonnes). Currency and volume effects will admittedly have a dampening effect, but the expected price effect should by far more than make up for these effects and for the increase in operating costs.

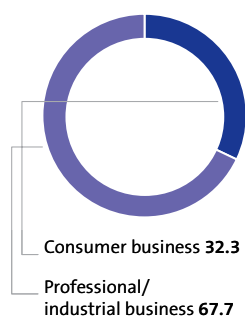
## COMPO Business Segment

Variance analysis in %	Q2/08	H1/08	€ million	Q2/08	Q2/07	%	H1/08	H1/07	%
<b>Change in revenues</b>	<b>+ 30.7</b>	<b>+ 28.6</b>	Revenues	205.0	156.9	+ 30.7	480.9	374.0	+ 28.6
- volume/structure	+ 8.3	+ 10.8	Earnings before interest, taxes, depreciation & amortisation (EBITDA)	31.6	11.5	+ 174.8	70.2	33.2	+ 111.4
- prices	+ 21.9	+ 17.1	Operating earnings (EBIT I)	29.1	9.0	+ 223.3	65.0	28.2	+ 130.5
- exchange rates	(0.3)	(0.2)	Capital expenditure	2.1	1.3	+ 61.5	3.4	3.8	(10.5)
- consolidation	+ 0.8	+ 0.9	Employees as of 30 June (number)	–	–	–	1,288	1,260	+ 2.2
Consumer business	(2.4)	+ 1.7							
Professional/ industrial business	+ 57.3	+ 47.1							

### Market environment

While the consumer business in Germany, Austria and Switzerland went relatively well in spite of changeable weather conditions, demand in other European states declined due to poor weather and rising inflation. The professional business, however, was once again characterised by high demand and significant price increases.

REVENUES BY SEGMENT  
JAN. – JUNE 2008  
(IN %)



### Revenues

In the second quarter, revenues rose by 31% to € 205.0 million, due both to price and volume factors. In the consumer sector, however, price-related declines resulted in a fall in revenues of 2.4% to € 68.1 million. Revenues earned with professional products increased by 57% to € 136.9 million due to price and volume effects. During the first six months, revenues of the business segment rose by just under 29% to € 480.9 million, due to price and volume factors.

### Development of earnings

In the second quarter, operating earnings amounted to € 29.1 million and have thus more than tripled. Significant price increases in the professional segment were able to more than make up for higher acquisition costs for the raw materials phosphate, ammonia and potash. During the first six months, operating earnings of this business segment amounted to € 65.0 million and were thus 131% higher than in the same period last year.

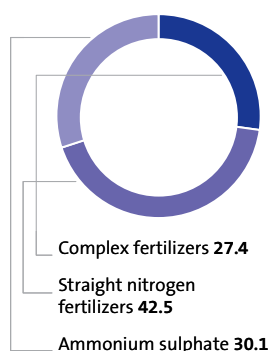
### Outlook

We expect a sharp increase in revenues in 2008. Primarily considerable increases in prices and sales in the professional segment should contribute to this. Against this backdrop, operating earnings should rise significantly in spite of the steep rise in raw material prices.

## fertiva Business Segment

Variance analysis in %	Q2/08	H1/08	€ million	Q2/08	Q2/07	%	H1/08	H1/07	%
<b>Change in revenues</b>	<b>+ 48.6</b>	<b>+ 44.9</b>	Revenues	228.8	154.0	+ 48.6	441.3	304.5	+ 44.9
- volume/structure	(22.1)	(11.2)	Earnings before interest, taxes, depreciation & amortisation (EBITDA)	15.2	5.5	+ 176.4	22.0	10.0	+ 120.0
- prices	+ 76.9	+ 61.6	Operating earnings (EBIT I)	14.9	5.5	+ 170.9	21.6	9.9	+ 118.2
- exchange rates	(6.3)	(5.6)	Capital expenditure	0.1	1.4	(92.9)	0.2	2.4	(91.7)
- consolidation	-	-	Employees as of 30 June (number)	-	-	-	74	58	+ 27.6
Complex fertilizers	+ 27.0	+ 20.5	<b>Market environment</b>						
Straight nitrogen fertilizers	+ 37.9	+ 40.3	The positive development of demand for nitrogenous fertilizers also continued during the second quarter both in Europe and overseas. Against the backdrop of availability bottlenecks as well as rising ammonia, potash and phosphate prices, further significant price increases were implemented.						
Ammonium sulphate	+ 98.4	+ 88.6	<b>Revenues</b>						

REVENUES BY PRODUCT GROUP  
JAN. – JUNE 2008  
(IN %)



### Revenues

In the second quarter, business segment revenues rose by almost 49% to € 228.8 million as a result of price factors. Revenues generated by complex fertilizers reached € 64.7 million and thus rose by 27% because of price factors. In the case of ammonium sulphate too, clearly higher prices resulted in an increase in revenues of 98% to € 72.5 million, and in the case of straight nitrogen fertilizers to an increase in revenues of 38% to € 91.6 million. During the first six months, total revenues of the business segment rose by 45% to € 441.3 million due to price factors.

### Development of earnings

In the second quarter, the fertiva business segment posted operating earnings of € 14.9 million, representing an increase of 171%. Substantially higher raw material acquisition costs could be more than offset by higher prices. Operating earnings thus increased by 118% to € 21.6 million during the first six months.

### Outlook

In 2008, we expect a strong increase in revenues, which is primarily attributable to higher average prices for nitrogenous fertilizers. Following the top result of the previous year, we are nevertheless, despite significantly higher than expected raw material costs as well as a probable increase in import pressure from countries with cheap supplies of gas, expecting operating earnings that should also clearly rise in comparison with last year.

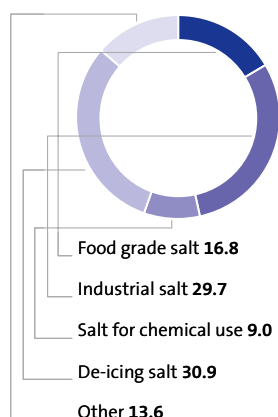
## Salt Business Segment

Variance analysis in %	Q2/08	H1/08	€ million	Q2/08	Q2/07	%	H1/08	H1/07	%
<b>Change in revenues</b>	<b>+ 9.5</b>	<b>+ 1.1</b>	Revenues	108.0	98.6	+ 9.5	278.3	275.2	+ 1.1
- volume/structure	+ 10.9	+ 2.8	Earnings before interest, taxes, depreciation & amortisation (EBITDA)	3.5	8.9	(60.7)	25.5	40.8	(37.5)
- prices	+ 1.3	+ 2.9	Operating earnings (EBIT I)	(4.2)	1.7	–	10.5	26.7	(60.7)
- exchange rates	(2.5)	(4.6)	Capital expenditure	29.8	4.9	508.2	35.3	10.4	+ 239.4
- consolidation	–	–	Employees as of 30 June (number)	–	–	–	2,347	2,282	+ 2.8
Food grade salt	(3.9)	+ 1.3							
Industrial salt	+ 7.6	+ 3.2							
Salt for chemical use	(5.8)	(6.4)							
De-icing salt	(19.2)	(10.9)							
Other	+ 82.6	+ 47.1							

### Market environment

During the second quarter, high stocks held by customers on the Western European de-icing salt market put pressure on prices. In the North American de-icing salt market, the tenders for the coming winter season have just started. While the trend toward a low-salt diet slightly weakened demand in the food grade salt segment, demand on the industrial salt market increased further. The high demand for salt for chemical use continued, however, it was not possible to completely pass the higher energy costs of production onto customers.

REVENUES BY PRODUCT GROUP  
JAN. – JUNE 2008  
(IN %)



### Revenues

During the second quarter, at € 108.0 million, revenues of this business segment were just under 10% lower than during the same period last year; negative currency effects were more than made up for by increases in revenues of the logistics company Empremar. The revenues for food grade salt fell by 4% to € 23.3 million due to volume and currency factors. In the industrial salt segment volume-related increases in revenues in Europe were able to more than make up for moderate currency-related declines in revenues overseas; at € 41.3 million, revenues were almost 8% higher than during the same period last year. While in the case of salts for chemical use revenues declined by € 0.8 million to € 13.1 million due to currency factors, revenues for de-icing salt fell by 19% due to volume and currency factors. The 83% increase in revenues in the “Other” segment to € 22.5 million was chiefly the result of increases in revenues at Empremar on account of volume factors. During the first six months, at € 278.3 million, total revenues of the business segment were unchanged compared with the same period last year.

### Development of earnings

At € (4.2) million, operating earnings in the second quarter were down € 5.9 million on the same period last year. While a slight increase in earnings was achieved at esco, the SPL result was impacted by a lower currency result. Moreover, higher costs, in particular for energy and freight, had a negative impact on earnings. During the first six months of 2008, EBIT I at € 10.5 million was significantly down on the same period last year.

### Outlook

Despite a slow start for de-icing salt due to weather conditions, we anticipate a moderate increase in revenues during the year as a whole. The cost side will be impacted this year by higher energy and freight costs as well as a lower currency result. Operating earnings should therefore be significantly lower.

## Complementary Business Segments

Variance analysis in %	Q2/08	H1/08	€ million	Q2/08	Q2/07	%	H1/08	H1/07	%
<b>Change in revenues</b>	<b>+ 1.0</b>	<b>+ 0.2</b>	Revenues	29.6	29.3	+ 1.0	61.3	61.2	+ 0.2
- volume/structure	+ 3.1	+ 1.6	Earnings before interest, taxes, depreciation & amortisation (EBITDA)	8.5	11.5	(26.1)	17.0	24.1	(29.5)
- prices	–	+ 0.5	Operating earnings (EBIT I)	7.1	8.0	(11.3)	14.2	18.0	(21.1)
- exchange rates	–	–	Capital expenditure	2.2	1.1	+ 100.0	6.0	6.0	–
- consolidation	(2.4)	(2.0)	Employees as of 30 June (number)	–	–	–	279	273	+ 2.2
Waste Management and Recycling	(1.3)	(1.9)							
Logistics	(15.4)	(9.1)							
Granulation	+ 33.9	+ 18.5							
Trading	(2.0)	+ 9.9							

Because of the low level of third-party revenues, our IT service activities are shown in the reconciliation since the beginning of the year; the previous year's figures have been adjusted accordingly. K+S Consulting GmbH has been deconsolidated with effect from 1 January 2008. After we sold biodata ANALYTIK GmbH in September 2007, this company is also no longer a consolidated part of the K+S Group.

REVENUES BY SEGMENT  
JAN. – JUNE 2008  
(IN %)



### Revenues

During the second quarter, at € 29.6 million, revenues of the Complementary Business Segments slightly exceeded those of the same period last year. Under the IFRSs, internal revenues deriving from services supplied to K+S Group companies are not included in these figures. Including internal revenues, total revenues amounted to € 41.1 million in the second quarter (Q2/2007: € 42.0 million). In the case of Waste Management and Recycling, revenues amounted to € 17.3 million and approximated those of the same period last year; volume- and price-related growth in the area of reuse were not quite able to make up for volume-related declines in revenues in the operating areas of waste disposal and recycling. While revenues for the Logistics (€ 3.7 million) and the Trading business (€ 1.5 million) were down somewhat, revenues for granulation rose by 34% to € 7.0 million due to volume factors. During the first six months, at € 61.3 million, business segment revenues were similar to those for the same period last year.

### Development of earnings

In the second quarter, operating earnings of the business segment amounted to € 7.1 million and were thus € 0.9 million down on the same period last year; this is chiefly attributable to lower earnings contributions of the Logistics and Trading segments. During the first six months, operating earnings declined by 21% to € 14.2 million.

### Outlook

During the financial year 2008 as a whole, revenues of the Complementary Business Segments should remain stable. Higher volumes of flue gas cleaning residues for Waste Management and Recycling face lower third-party revenues in the Logistics segment. In terms of operating earnings, we expect a significant decline due to an anticipated lower share in overseas deliveries in comparison to the same period last year, which had benefited from the good € 3 million profit arising from the sale of biodata ANALYTIK GmbH.

## Financial Section

### INCOME STATEMENT

€ million	Q2/08	Q2/07	H1/08	H1/07
<b>Revenues</b>	<b>1,184.5</b>	<b>778.6</b>	<b>2,397.5</b>	<b>1,723.3</b>
Cost of sales	635.4	533.1	1,346.9	1,157.7
<b>Gross profit</b>	<b>549.1</b>	<b>245.5</b>	<b>1,050.6</b>	<b>565.6</b>
Gross margin in %	46.4	31.5	43.8	32.8
Selling expenses	194.5	181.8	410.5	385.5
General and administrative expenses	28.0	25.4	51.1	45.5
Research and development costs	4.3	3.5	8.6	7.5
Other operating income/expenses	3.7	34.4	(28.3)	45.2
Income from investments, net	0.4	0.2	0.6	0.4
<b>Operating earnings (EBIT I)</b>	<b>326.4</b>	<b>69.4</b>	<b>552.7</b>	<b>172.7</b>
Operating EBIT margin in %	27.6	8.9	23.1	10.0
Market value changes from hedging transactions	(6.8)	9.0	(114.5)	12.0
<b>Earnings after market value changes (EBIT II)</b>	<b>319.6</b>	<b>78.4</b>	<b>438.2</b>	<b>184.7</b>
Interest income, net	(13.6)	(5.9)	(25.7)	(15.0)
Other financial result	1.7	(0.4)	11.5	(1.1)
<b>Financial result</b>	<b>(11.9)</b>	<b>(6.3)</b>	<b>(14.2)</b>	<b>(16.1)</b>
<b>Earnings before income taxes</b>	<b>307.7</b>	<b>72.1</b>	<b>424.0</b>	<b>168.6</b>
<b>Earnings before income taxes, adjusted<sup>1)</sup></b>	<b>314.5</b>	<b>63.1</b>	<b>538.5</b>	<b>156.6</b>
Taxes on income	81.4	24.2	112.9	56.1
- of which deferred taxes	27.2	6.5	40.1	11.1
<b>Earnings after taxes</b>	<b>226.3</b>	<b>47.9</b>	<b>311.1</b>	<b>112.5</b>
Minority interests in earnings	0.1	–	0.1	0.1
<b>Group earnings after taxes and minority interests</b>	<b>226.2</b>	<b>47.9</b>	<b>311.0</b>	<b>112.4</b>
Elimination of market value changes after taxes	4.9	(5.7)	82.7	(7.6)
<b>Group earnings after taxes, adjusted<sup>1)</sup></b>	<b>231.1</b>	<b>42.2</b>	<b>393.7</b>	<b>104.8</b>
Earnings per share in € (undiluted $\triangleq$ diluted) <sup>2)</sup>	1.37	0.29	1.89	0.68
<b>Earnings per share in €, adjusted<sup>1),2)</sup></b>	<b>1.40</b>	<b>0.26</b>	<b>2.39</b>	<b>0.64</b>
Average number of shares (million) <sup>2)</sup>	164.95	164.92	164.89	164.88

<sup>1)</sup> adjusted for the effect of market value changes in hedging transactions;  
for adjusted Group earnings, the resulting tax effects were also eliminated

<sup>2)</sup> adjusted to share split in the ratio 1 to 4 (entry in Commercial Register: 24 June 2008; technical execution: 21 July 2008)

### STATEMENT OF CHANGES IN EQUITY

€ million	Subscribed capital	Additional paid-in capital	Profit retained/ revenue reserves	Differences from foreign currency translation	Revaluation reserve	Minority interests	Equity
Balance as of 1 January 2008	108.8	7.6	829.8	(35.4)	20.2	0.8	931.8
Consolidation-related effects	–	–	0.6	–	–	–	0.6
Other neutral changes	–	–	(2.0)	(25.7)	(20.3)	–	(48.0)
<b>Total</b>	<b>–</b>	<b>–</b>	<b>(1.4)</b>	<b>(25.7)</b>	<b>(20.3)</b>	<b>–</b>	<b>(47.4)</b>
Capital increase out of retained earnings	56.2	–	(56.2)	–	–	–	–
Dividend for the previous year	–	–	(82.5)	–	–	–	(82.5)
Subscription of employee shares	–	(3.5)	–	–	–	–	(3.5)
Earnings after taxes for the period	–	–	311.0	–	–	0.1	311.1
<b>Balance as of 30 June 2008</b>	<b>165.0</b>	<b>4.1</b>	<b>1,000.7</b>	<b>(61.1)</b>	<b>(0.1)</b>	<b>0.9</b>	<b>1,109.5</b>
Balance as of 1 January 2007	108.8	7.9	997.5	(15.7)	25.3	0.6	1,124.4
Market valuation of securities	–	–	–	–	2.7	–	2.7
Other neutral changes	–	–	(0.3)	(7.4)	0.2	–	(7.5)
<b>Total</b>	<b>–</b>	<b>–</b>	<b>(0.3)</b>	<b>(7.4)</b>	<b>2.9</b>	<b>–</b>	<b>(4.8)</b>
Dividend for the previous year	–	–	(82.5)	–	–	–	(82.5)
Subscription of employee shares	–	(2.7)	–	–	–	–	(2.7)
Earnings after taxes for the period	–	–	112.4	–	–	0.1	112.5
<b>Balance as of 30 June 2007</b>	<b>108.8</b>	<b>5.2</b>	<b>1,027.1</b>	<b>(23.1)</b>	<b>28.2</b>	<b>0.7</b>	<b>1,146.9</b>

## BALANCE SHEET - ASSETS

€ million	30.06.2008	30.06.2007	31.12.2007
Intangible assets	162.6	177.7	172.5
- of which goodwill from acquisitions	94.3	101.9	99.7
Property, plant and equipment	1,127.0	1,066.9	1,124.8
Investment properties	7.8	8.1	7.9
Financial assets	20.2	19.0	17.8
Receivables and other assets	10.8	5.8	9.5
Securities	–	44.8	37.1
Deferred taxes	36.8	58.9	70.1
Recoverable income taxes	0.6	0.5	0.5
<b>Non-current assets</b>	<b>1,365.8</b>	<b>1,381.7</b>	<b>1,440.2</b>
Inventories	425.9	298.2	368.6
Accounts receivable – trade	996.6	725.9	757.2
Other receivables and assets	155.6	443.5	308.7
- of which derivative financial instruments	49.1	331.6	205.3
Recoverable income taxes	18.5	9.0	37.0
Securities	4.1	12.7	3.7
Cash on hand and balances with banks	61.9	51.5	49.4
<b>Current assets</b>	<b>1,662.6</b>	<b>1,540.8</b>	<b>1,524.6</b>
<b>ASSETS</b>	<b>3,028.4</b>	<b>2,922.5</b>	<b>2,964.8</b>

## BALANCE SHEET - EQUITY AND LIABILITIES

€ million	30.06.2008	30.06.2007	31.12.2007
Subscribed capital	165.0	108.8	108.8
Additional paid-in capital	4.1	5.2	7.7
Other reserves and profit retained	939.5	1,032.2	814.5
Minority interests	0.9	0.7	0.8
<b>Equity</b>	<b>1,109.5</b>	<b>1,146.9</b>	<b>931.8</b>
Bank loans and overdrafts	110.3	214.8	360.2
Other liabilities	13.7	14.0	15.1
Provisions for pensions and similar obligations	95.5	127.3	125.7
Provisions for mining obligations	362.6	341.8	357.6
Other provisions	114.9	116.0	123.9
Deferred taxes	28.4	97.1	21.7
<b>Non-current debt</b>	<b>725.4</b>	<b>911.0</b>	<b>1,004.2</b>
Bank loans and overdrafts	395.8	161.7	328.1
Accounts payable – trade	439.5	345.9	409.1
Other liabilities	70.8	121.9	85.4
- of which derivative financial instruments	19.3	37.1	16.9
Income tax liabilities	51.5	33.8	6.2
Provisions	235.9	201.3	200.0
<b>Current debt</b>	<b>1,193.5</b>	<b>864.6</b>	<b>1,028.8</b>
<b>EQUITY AND LIABILITIES</b>	<b>3,028.4</b>	<b>2,922.5</b>	<b>2,964.8</b>

## NET DEBT

€ million	H1/08	H1/07
Net debt as of 1 January	(1,086.5)	(718.2)
Cash on hand and balances with banks	61.9	51.5
Liabilities due to banks < 3 months	(305.3)	(79.2)
Cash received from affiliated companies*	(6.2)	(4.9)
<b>Net cash and cash equivalents as of 30 June</b>	<b>(249.6)</b>	<b>(32.6)</b>
Securities	4.1	57.5
Liabilities due to banks > 3 months	(200.8)	(297.4)
Provisions for pensions and similar obligations	(95.5)	(127.3)
Provisions for mining obligations	(362.6)	(341.8)
<b>Net debt as of 30 June</b>	<b>(904.4)</b>	<b>(741.6)</b>

\* companies not included in the scope of consolidation

## CASH FLOW STATEMENT

€ million	Q2/08	Q2/07	H1/08	H1/07
<b>Operating earnings (EBIT I)</b>	<b>326.4</b>	<b>69.4</b>	<b>552.7</b>	<b>172.7</b>
Depreciation on fixed assets*	33.8	31.0	66.3	62.0
Increase(+)/decrease(-) in non-current provisions (without interest rate effects)	(14.4)	(13.2)	(13.7)	(12.0)
Interest, dividends and similar income received	1.0	3.3	1.8	4.9
Realised gains(+)/losses(-) on the disposal of financial assets and securities	0.3	0.1	11.3	0.1
Interest paid	(10.3)	(5.1)	(18.1)	(10.3)
Other financing income(+)/expenses(-)	–	(0.2)	–	(0.7)
Income tax received(+)/paid(-)	(54.3)	(17.7)	(72.8)	(45.0)
Other non-cash expenses(+)/income(-)	(1.0)	(0.5)	(3.0)	(0.5)
<b>Gross cash flow</b>	<b>281.5</b>	<b>67.1</b>	<b>524.5</b>	<b>171.2</b>
Gain(-)/loss(+) on the disposal of fixed assets and securities	0.3	(0.2)	(10.6)	(1.3)
Increase(-)/decrease(+) in inventories	(66.7)	7.6	(55.9)	71.9
Increase(-)/decrease(+) in receivables and other assets from operating activities	(6.4)	49.4	(232.1)	(184.7)
- of which: premium volume for derivatives	(13.5)	(77.5)	(15.8)	(75.0)
Payments from the exercise and sale of options	8.9	–	55.5	–
Increase(+)/decrease(-) in liabilities from operating activities	39.7	(3.3)	55.3	44.9
- of which: premium volume for derivatives	–	(3.4)	–	(4.8)
Increase(+)/decrease(-) of current provisions	(15.8)	(44.0)	37.1	16.3
Out-financing of provisions	(1.0)	(2.1)	(3.0)	(4.6)
<b>Cash flow from operating activities</b>	<b>240.5</b>	<b>74.5</b>	<b>370.8</b>	<b>113.7</b>
Proceeds from disposals of fixed assets	0.7	0.7	1.3	2.7
Disbursements for intangible assets	(1.8)	(2.2)	(2.4)	(5.2)
Disbursements for property, plant and equipment	(58.7)	(23.5)	(82.3)	(46.1)
Disbursements for financial assets	(1.0)	–	(2.1)	(0.1)
Disbursements for the acquisition of consolidated companies	–	–	–	(0.5)
<b>Cash flow for investing activities</b>	<b>(60.8)</b>	<b>(25.0)</b>	<b>(85.5)</b>	<b>(49.2)</b>
<b>Free cash flow</b>	<b>179.7</b>	<b>49.5</b>	<b>285.3</b>	<b>64.5</b>
Dividends paid	(82.5)	(82.5)	(82.5)	(82.5)
Purchase of own shares	–	–	(6.1)	(5.2)
Sale of own shares	0.7	–	0.7	–
Payments from allocations to equity	3.2	2.7	3.2	2.7
Increase(+)/decrease(-) in liabilities from finance leases	–	–	(0.1)	–
Taking out(+)/repayment (-) of loans	(190.3)	(35.1)	(291.8)	(28.2)
<b>Cash for financing activities</b>	<b>(268.9)</b>	<b>(114.9)</b>	<b>(376.6)</b>	<b>(113.2)</b>
<b>Change in cash and cash equivalents affecting cash flow</b>	<b>(89.2)</b>	<b>(65.4)</b>	<b>(91.3)</b>	<b>(48.7)</b>
Change in value of cash and cash equivalents	(2.5)	(0.3)	(4.6)	(0.3)
Consolidation-related changes	–	–	(2.4)	–
<b>Change in cash and cash equivalents</b>	<b>(91.7)</b>	<b>(65.7)</b>	<b>(98.3)</b>	<b>(49.0)</b>

\* on intangible assets as well as on property, plant and equipment, including investments

## Notes

### Explanatory notes; changes in the legal Group and organisational structure

The interim report of 30 June 2008 is prepared in accordance with the International Financial Reporting Standards (IFRSs) as well as the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), insofar as those have been recognised by the European Union. The report is prepared as abridged financial statements with selected explanatory notes as stipulated by IAS 34. The accounting and valuation principles of this interim report correspond to those of the consolidated financial statements as at 31 December 2007. The legal Group and organisational structure presented in the Financial Report 2007 changed only slightly as of 30 June 2008: As was already explained in the Financial Report, the Waste Management and Recycling business segment was grouped together with the service activities bundled in the Services and Trading business segment and the new entity was given the name "Complementary Business Segments". In this context, K+S Consulting GmbH was deconsolidated. In addition, our IT subsidiary data process GmbH was renamed IT Services GmbH and since 1 January 2008 has been presented in the reconciliation due to the low level of third-party revenues. After we sold biodata ANALYTIK GmbH in September 2007, this company is also no longer a consolidated part of the K+S Group. The company K+S Argentina SRL was included in the scope of consolidation during the first quarter due to increased business activities.

There were no changes in the composition and the responsibilities of the Board of Executive Directors and the Supervisory Board as described in the Financial Report 2007.

€ million	LTM* 2008	2007
Revenues	4,018.3	3,344.1
EBIT I	665.7	285.7
Group earnings after taxes, adjusted	464.2	175.3

\* LTM = last twelve months  
(H2/07 + H1/08)

### Seasonal factors

There are seasonal differences over the course of the year that affect sales of fertilizers and salt products. In the case of fertilizers, we generally attain our highest sales in the first half of the year because of the use of fertilizers in Europe during the spring. This effect can either be enhanced or diminished by overseas sales. Sales of salt products – especially of de-icing salt – largely depend on winter weather conditions during the first and fourth quarters. In the aggregate, both these effects mean that revenues and earnings are generally greatest during the first half of the year. To improve the forecast quality by eliminating seasonal effects, the figures for the last twelve months (LTM) can be compared with the previous year's figures (see left table).

### Development of revenues, volumes and average prices by region

#### POTASH AND MAGNESIUM PRODUCTS BUSINESS SEGMENT

Region	Unit	Q1/07	Q2/07	H1/07	Q3/07	Q4/07	2007	Q1/08	Q2/08	H1/08
<b>Revenues*</b>	€ million	368.5	339.7	708.2	313.5	386.3	1,408.0	522.5	612.8	1,135.3
- Europe	€ million	231.6	194.7	426.3	191.0	237.2	854.5	349.3	387.5	736.8
- Overseas	US\$ million	179.4	195.4	374.8	169.1	215.1	759.0	259.2	351.0	610.2
<b>Volumes</b>	million tonnes	2.30	2.08	4.38	1.78	2.06	8.22	2.11	2.02	4.14
- Europe	million tonnes	1.41	1.21	2.61	1.11	1.30	5.03	1.43	1.33	2.76
- Overseas	million tonnes	0.89	0.88	1.76	0.67	0.76	3.19	0.68	0.69	1.38
<b>Average prices</b>	per tonne in €	160.6	163.1	161.8	175.9	187.7	171.3	247.2	303.1	274.6
- Europe	per tonne in €	164.4	161.6	163.1	171.8	182.1	170.0	244.4	291.4	267.0
- Overseas	per tonne in US\$	202.5	222.7	212.6	252.0	284.6	237.9	379.6	507.4	443.9

\* Revenues include prices both inclusive and exclusive of freight cost and are based on the respective USD/EUR spot exchange rates in the case of overseas revenues. Hedging transactions have been concluded for most of these revenues (see page 24). The information on prices is to be understood solely as providing a rough indication.

### Foreign currency result in EBIT I

At the turn of the year, we reorganised our US dollar exchange rate hedging system. We will now hedge the expected US dollar receipts in coming years purely from the point of view of risk limitation. Thus, the “worst case” for 2008 entails a hedged exchange rate of 1.51 USD/EUR incl. costs, but participating in a US dollar that may eventually become stronger again is also possible. For 2008, we hedged US\$ 932 million for the Potash and Magnesium Products business segment (2007: US\$ 475 million hedged using double-barrier options). Average hedged rates per quarter for the Potash and Magnesium Products business segment are as follows:

#### POTASH AND MAGNESIUM PRODUCTS BUSINESS SEGMENT

	Q1/07	Q2/07	Q3/07	Q4/07	2007	Q1/08	Q2/08	Q3/08	Q4/08	2008
USD/EUR hedged rate after premiums *	1.08	1.00	1.13	2.61	1.33	1.48	1.50	1.52	1.52	1.51
Average USD/EUR spot rate	1.31	1.35	1.37	1.45	1.37	1.50	1.56	–	–	–

\* The hedged exchange rates given for 2008 represent the relevant “worst case” for the respective quarter. An appreciating US dollar could result in the conversion rates actually attained being more favourable than those reported here.

#### OTHER OPERATING INCOME/EXPENSES

€ million	Q2/08	Q2/07	H1/08	H1/07
Foreign currency result (from measurement and hedging)	5.9	22.4	(11.0)	35.3
Change in provisions	5.6	13.2	(6.1)	7.4
Other	(7.8)	(1.2)	(11.2)	2.5
<b>Other operating income/expenses</b>	<b>3.7</b>	<b>34.4</b>	<b>(28.3)</b>	<b>45.2</b>

#### FINANCIAL RESULT

€ million	Q2/08	Q2/07	H1/08	H1/07
Interest income	1.0	3.3	1.8	4.9
Interest expense	(14.6)	(9.2)	(27.5)	(19.9)
- of which interest expense for pension provisions	(0.4)	(0.3)	(1.4)	(2.1)
- of which interest expense for provisions for mining obligations	(4.0)	(3.8)	(8.0)	(7.5)
<b>Interest income, net</b>	<b>(13.6)</b>	<b>(5.9)</b>	<b>(25.7)</b>	<b>(15.0)</b>
Other financing income/costs	–	(0.2)	–	(0.7)
Income from the disposal of financial investments, net	0.3	0.1	11.3	0.1
Income from the measuring of financial investments, net	1.4	(0.3)	0.2	(0.5)
<b>Other financial result</b>	<b>1.7</b>	<b>(0.4)</b>	<b>11.5</b>	<b>(1.1)</b>
<b>Financial result</b>	<b>(11.9)</b>	<b>(6.3)</b>	<b>(14.2)</b>	<b>(16.1)</b>

The actuarial valuation of pension provisions is performed using the projected unit credit method in accordance with IAS 19. The following parameters were applied in computing pension provisions:

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

The following parameters were taken into account in computing a large portion of the provisions for mining obligations:

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

#### TAXES ON INCOME

€ million	Q2/08	Q2/07	H1/08	H1/07
Corporate income tax	36.0	8.9	39.9	18.9
Trade tax on income	17.1	7.3	18.7	15.1
Foreign income taxes	1.1	1.5	14.2	11.0
Deferred taxes	27.2	6.5	40.1	11.1
<b>Taxes on income</b>	<b>81.4</b>	<b>24.2</b>	<b>112.9</b>	<b>56.1</b>

Non-cash deferred taxes result from tax loss carryforwards as well as other temporary tax-related measurement differences, especially changes in the market value of our options.

#### Material changes in individual balance sheet items

The balance sheet total as of 30 June 2008 increased by € 63.6 million compared with the annual financial statements for 2007. On the assets side, the decrease in non-current assets by € 74.4 million was more than made up for by an increase in current assets by € 138.0 million. The decline in non-current assets is primarily due to the transfer of securities to the Contractual Trust Arrangement (CTA) for securing pension obligations as well as the consumption of deferred tax assets; the rise in current assets is mainly attributable to an increase in accounts receivable trade as a result of higher revenues. On the liabilities side, equity rose by € 177.7 million; this is attributable primarily to the positive result for the period of the first six months. Debt fell by € 114.0 million; this is mainly attributable to loan repayments.

#### Material changes in equity

Equity is influenced by transactions and events whether recognised in profit or loss or not as well as by capital transactions with the shareholders. Compared with the annual financial statements for 2007, profit retained and other revenue reserves increased by € 170.9 million. The increase is mainly due to the positive result of € 311.1 million for the period of the first six months. The dividend distribution carried out in May 2008 reduced equity by € 82.5 million. Furthermore, it should be noted that in association with the share split in the ratio 1 to 4, a capital increase out of retained earnings was carried out. Consequently, the share capital increased by € 56.2 million to € 165.0 million, while the other revenue reserves declined to the same extent. Changes in equity that do not affect profit or loss arise, for example, from the currency translation of subsidiaries in functional foreign currencies.

Differences from currency translation are recorded in a separate currency translation reserve; this declined by € 25.7 million over the first six months of 2008 because of exchange rate fluctuations. Furthermore, due to the revaluation of securities of the category “available for sale” and to the subsequent inclusion of these securities in the Contractual Trust Arrangement, a revaluation reserve of € 20.3 million was derecognised.

#### Contingent liabilities

There have been no significant changes in contingent liabilities in comparison with the annual financial statements 2007 and they can be classified as immaterial overall.

#### Related parties

Within the K+S Group, deliveries are made and services rendered on customary market terms. Transactions and open items between K+S Group companies are eliminated from the consolidated financial statements insofar as the companies are consolidated. In addition, business relations are maintained with non-consolidated subsidiaries as well as companies over which the K+S Group can exercise a significant influence (associated companies). Such relationships do not have a material influence on the consolidated financial statements of the K+S Group. In the case of the K+S Group, related persons are mainly the Board of Executive Directors and the Supervisory Board. The remuneration received by this group of persons is disclosed annually in the remuneration report. There were no other material transactions with related parties.

#### Auditors' review

The quarterly financial statements and the interim management report were not reviewed by the auditors. (Section 37w, paragraph 5, sentence 1 of the German Securities Trading Act)

## Summary by Quarter

### REVENUES & OPERATING EARNINGS (IFRSs)

€ million	Q1/07	Q2/07	H1/07	Q3/07	Q4/07	2007	Q1/08	Q2/08	H1/08
Potash and Magnesium Products	368.5	339.7	708.2	313.5	386.3	1,408.0	522.5	612.8	1,135.3
COMPO	217.1	156.9	374.0	115.9	127.5	617.4	275.9	205.0	480.9
fertiva	150.5	154.0	304.5	164.0	179.5	648.0	212.5	228.8	441.3
Salt	176.6	98.6	275.2	101.0	168.9	545.1	170.3	108.0	278.3
Complementary Business Segments	31.9	29.3	61.2	32.5	31.4	125.1	31.7	29.6	61.3
Reconciliation	0.1	0.1	0.2	0.2	0.1	0.5	0.1	0.3	0.4
<b>K+S Group revenues</b>	<b>944.7</b>	<b>778.6</b>	<b>1,723.3</b>	<b>727.1</b>	<b>893.7</b>	<b>3,344.1</b>	<b>1,213.0</b>	<b>1,184.5</b>	<b>2,397.5</b>
Potash and Magnesium Products	52.8	55.9	108.7	65.0	4.2	177.9	170.9	291.4	462.3
COMPO	19.2	9.0	28.2	–	3.8	32.0	35.9	29.1	65.0
fertiva	4.4	5.5	9.9	5.2	10.2	25.3	6.7	14.9	21.6
Salt	25.0	1.7	26.7	3.2	17.9	47.8	14.7	(4.2)	10.5
Complementary Business Segments	10.0	8.0	18.0	11.9	7.8	37.7	7.1	7.1	14.2
Reconciliation	(8.1)	(10.7)	(18.8)	(5.9)	(10.3)	(35.0)	(9.0)	(11.9)	(20.9)
<b>K+S Group EBIT I</b>	<b>103.3</b>	<b>69.4</b>	<b>172.7</b>	<b>79.4</b>	<b>33.6</b>	<b>285.7</b>	<b>226.3</b>	<b>326.4</b>	<b>552.7</b>

### INCOME STATEMENTS (IFRSs)

€ million	Q1/07	Q2/07	H1/07	Q3/07	Q4/07	2007	Q1/08	Q2/08	H1/08
<b>Revenues</b>	<b>944.7</b>	<b>778.6</b>	<b>1,723.3</b>	<b>727.1</b>	<b>893.7</b>	<b>3,344.1</b>	<b>1,213.0</b>	<b>1,184.5</b>	<b>2,397.5</b>
Cost of sales	624.6	533.1	1,157.7	472.2	582.1	2,212.0	711.5	635.4	1,346.9
Gross profit	320.1	245.5	565.6	254.9	311.6	1,132.1	501.5	549.1	1,050.6
Selling expenses	203.7	181.8	385.5	162.7	204.1	752.3	216.0	194.5	410.5
General and administrative expenses	20.1	25.4	45.5	19.1	24.8	89.4	23.1	28.0	51.1
Research and development costs	4.0	3.5	7.5	3.9	4.1	15.5	4.3	4.3	8.6
Other operating income/expenses	10.8	34.4	45.2	6.3	(45.3)	6.2	(32.0)	3.7	(28.3)
Income from investments, net	0.2	0.2	0.4	3.9	0.3	4.6	0.2	0.4	0.6
<b>Operating earnings (EBIT I)</b>	<b>103.3</b>	<b>69.4</b>	<b>172.7</b>	<b>79.4</b>	<b>33.6</b>	<b>285.7</b>	<b>226.3</b>	<b>326.4</b>	<b>552.7</b>
Market value changes from hedging transactions	3.0	9.0	12.0	(233.5)	(171.1)	(392.6)	(107.7)	(6.8)	(114.5)
Earnings after market value changes (EBIT II)	106.3	78.4	184.7	(154.1)	(137.5)	(106.9)	118.6	319.6	438.2
Financial result	(9.8)	(6.3)	(16.1)	(8.4)	(11.2)	(35.7)	(2.3)	(11.9)	(14.2)
Earnings before income taxes	96.5	72.1	168.6	(162.5)	(148.7)	(142.6)	116.3	307.7	424.0
<b>Earnings before income taxes, adjusted <sup>1)</sup></b>	<b>93.5</b>	<b>63.1</b>	<b>156.6</b>	<b>71.0</b>	<b>22.4</b>	<b>250.0</b>	<b>224.0</b>	<b>314.5</b>	<b>538.5</b>
Taxes on income	31.9	24.2	56.1	(54.1)	(51.5)	(49.5)	31.5	81.4	112.9
- of which deferred taxes	4.6	6.5	11.1	(42.2)	(37.8)	(68.9)	12.9	27.2	40.1
Minority interests in earnings	0.1	–	0.1	–	0.1	0.2	0.0	0.1	0.1
Group earnings after taxes and minority interests	64.5	47.9	112.4	(108.4)	(97.3)	(93.3)	84.8	226.2	311.0
<b>Group earnings after taxes, adjusted <sup>1)</sup></b>	<b>62.6</b>	<b>42.2</b>	<b>104.8</b>	<b>47.6</b>	<b>22.9</b>	<b>175.3</b>	<b>162.6</b>	<b>231.1</b>	<b>393.7</b>

### OTHER KEY DATA (IFRSs)

	Q1/07	Q2/07	H1/07	Q3/07	Q4/07	2007	Q1/08	Q2/08	H1/08
Capital expenditure (€ million) <sup>2)</sup>	25.2	25.6	50.8	45.4	75.4	171.6	24.2	60.5	84.7
Depreciation and amortisation (€ million) <sup>2)</sup>	31.0	31.0	62.0	31.2	35.0	128.2	32.5	33.8	66.3
Gross cash flow (€ million)	104.1	67.1	171.2	116.5	84.4	372.1	243.0	281.5	524.5
Net debt (€ million)	713.1	–	741.6	830.3	–	1,086.5	1,002.8	–	904.4
Earnings per share, adjusted (€) <sup>1), 3)</sup>	0.38	0.26	0.6	0.29	0.14	1.06	0.99	1.40	2.39
Gross cash flow per share (€)	0.63	0.40	1.04	0.71	0.51	2.25	1.47	1.71	3.18
Book value per share, adjusted (€) <sup>1)</sup>	6.74	–	6.52	6.65	–	6.80	6.03	–	6.71
Total number of shares (million)	165.00	–	165.00	165.00	–	165.00	165.00	–	165.00
Number of shares outstanding (million) <sup>4)</sup>	164.76	–	165.00	165.00	–	165.00	164.84	–	165.00
Average number of shares (million) <sup>5)</sup>	164.84	–	164.92	165.00	165.00	164.96	164.95	164.95	164.89
Closing price (XETRA, €)	20.59	–	28.52	32.14	–	40.69	51.83	–	91.58
Employees as of the reporting date (number)	11,956	–	11,912	11,980	–	12,033	12,141	–	12,145

<sup>1)</sup> adjusted for the effect of market value changes in hedging transactions; in the case of adjusted Group earnings, the resulting tax effects were also eliminated

<sup>2)</sup> for or in connection with intangible assets as well as property, plant and equipment

<sup>3)</sup> adjusted to share split in the ratio 1 to 4 (entry in Commercial Register: 24 June 2008; technical execution: 21 July 2008)

<sup>4)</sup> total number of shares less the own shares held by K+S on the reporting date

<sup>5)</sup> total number of shares less the average number of own shares held by K+S over the period

## FINANCIAL CALENDAR

	2008/2009
Interim report 30 September 2008	12 November 2008
Report on business 2008	12 March 2009
Press and analyst conference, Frankfurt am Main	12 March 2009
Annual General Meeting, Kassel	13 May 2009
Interim report 31 March 2009	13 May 2009
Dividend payment	14 May 2009
Interim report 30 June 2009	13 August 2009

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