

Annual Financial Statements  
2008

K+S Aktiengesellschaft,  
Kassel



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# MANAGEMENT REPORT OF K+S AKTIENGESELLSCHAFT

## Business segments and organisational structure

### Group legal structure

K+S AG acts as the holding company for the K+S Group. The economic development of the K+S Group and therefore also of K+S Aktiengesellschaft is influenced to a substantial degree by direct and indirect subsidiaries located in Germany and abroad. In its capacity as a holding company, K+S Aktiengesellschaft provides a wide variety of services for its subsidiaries. Additionally, the business activities of K+S Aktiengesellschaft include the granulation of the animal hygiene product CATSAN® for the partner Mars. The activities of the K+S Group are divided into five business segments that are closely interlinked in terms of strategic, technical and economic aspects. The managers of the business segments are identical to the managers of the important operationally active subsidiaries.

### Business Segments of the K+S Group

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

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

ucts business segment is one of the world's most important providers of potash and magnesium products and the largest such provider in Europe. In addition to multiple-application speciality and standard fertilizers for agricultural needs, it offers a product range that meets needs for industrial, technical and pharmaceutical applications.

The COMPO business segment is represented by COMPO GmbH & Co. KG and its domestic subsidiaries as well as through an interim holding company with its numerous foreign companies. In addition to the head office of the COMPO management in Münster, in Germany, the business segment among other things also has a production location in Krefeld and Gnarrenburg. The COMPO business segment is the leading European provider of premium products in the field of potting soils, speciality fertilizers and plant care products. In addition to engaging in production at its own sites, COMPO has some of its products produced by our partner BASF. COMPO, together with fertiva, makes use of the capacity for innovation of BASF through research and development agreements. Moreover, COMPO collaborates with the Swiss agricultural business company Syngenta in the area of plant protection agents and pesticides for private users.

The fertiva business segment comprises fertiva GmbH in Mannheim as well as two distribution companies in France and in Argentina. In addition, fertiva shares overseas sales distribution platforms with the Potash and Magnesium Products as well as COMPO business segments. fertiva markets nitrogenous fertilizers that are produced exclusively for it by BASF and also distributes goods purchased from other well-known European manufacturers.

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

industry as well as industrial salts for use in many areas of industry (from dyeing works through the production of foodstuffs for animals to use in the exploration of oil and natural gas) as well as in the pharmaceutical industry. While salt for chemical use is one of the most important raw materials in the chemical industry, for road safety, de-icing salt is an indispensable product for winter road clearance services.

In addition to recycling activities and the disposal respectively reutilisation of waste at potash and rock salt mines, as well as the granulation of CATSAN<sup>®</sup>, further activities of importance to the K+S Group are bundled under the term “Complementary Business Segments”. With Kali-Transport Gesellschaft mbH (KTG), Hamburg, the K+S Group possesses its own logistics service provider. Chemische Fabrik Kalk GmbH (CFK) trades in different basic chemicals. The range of services offered by the Waste Management and Recycling business segment extends from the underground reutilisation and disposal of waste to the distribution of smelting salts to companies in the secondary aluminium industry, including the collection and processing of aluminium salt slag. Furthermore, the other Complementary Business segments’ range extends from the granulation of CATSAN<sup>®</sup> cat litter, through the Group’s own logistics service provider, to trading activities involving basic chemicals such as calcium chloride for pre-wetted de-icing agents used by winter road clearance services.

### **Legal and economic influencing factors**

As a consequence of the broad portfolio of the K+S Group and the large amount of influence of the course of business of its subsidiaries on its commercial development, we in K+S Aktiengesellschaft are dependent on numerous influencing factors. The K+S Aktiengesellschaft must observe numerous laws and legal directives: Alongside common law, mining and environmental law (e. g. water law, emissions law, pollution law, soil protection law etc.) as well as work and health safety law are of particular relevance to us.

Transport, energy and raw material costs as well as the development in the US dollar exchange rate also have a great impact on the success of the K+S Aktiengesellschaft.

## **Research and Development**

A key focus of our activities is research into and the development of new and improved products. Providing nutrition to plants that meets needs over the entire vegetation cycle is a priority. Of no less importance is the constant reviewing of our production processes with respect to the sustainable use of the resources available to us as well as the reviewing of the deployment of capital, energy and personnel in terms of efficiency. This also includes the further reduction of solid and liquid product residues in potash production. We continually develop our processes and constantly review new technologies and materials for their potential to improve processes. We operate a research institute of our own focussing on treatment, process technology and analytics. Finally, our agricultural advisory service provides worldwide support to customers on using our products and thus promotes customer benefits and thus sales of our fertilizers by means of specific application recommendations. To ensure the effective transfer of knowledge gained from research within the K+S Group and to optimise the leveraging of potentials for synergy, all research activities are controlled centrally and the results of research are made available across the Group by means of a central database.

## **Information under Section 289 Para. 4 German Commercial Code (HGB)**

### *Item 1: Composition of subscribed capital*

Following a capital increase from corporate funds of € 56.2 million entered in the Commercial Register on 24 June 2008 and the execution of the share split in the ratio of 1:4, the share capital amounts to € 165.0 million and is divided into 165,000,000 shares. The shares of the Company are no-par value bearer shares. No other class of shares exists.

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

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

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

The Bank of N.T. Butterfield and Son Limited, Bermuda, through MCC Holding Limited, Cyprus, and the OJSC MCC “EuroChem”, Moscow, to be attributed to MCC Holding Limited, hold 15.001 % of K+S shares. MCC manages the industrial shareholdings of Andrei Melnichenko on a fiduciary basis. Furthermore, with a 10.3 % share in the capital of K+S Aktiengesellschaft, BASF SE, Ludwigshafen, exceeds the 10 % threshold. Furthermore, The Bank of New York Mellon Corporation informed us that on 9 February 2009 they exceeded the threshold of 3 % through its subsidiary MBC Investments Corporation and at that point in time held 3.03 % of our shares.

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

There are no special rights conferring control powers.

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

No voting right controls apply.

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

The appointment and removal of the Board of Executive Directors are governed by Section 84 German Joint Stock Corporation Act (AktG). Accordingly, the members of the Board of Executive Directors are appointed by the Supervisory Board for a maximum term of five years.

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

With the exception of a resolution regarding a change of the purpose of the company, which require a three-quarters majority of the capital represented, amendments to the Articles of Association can be resolved by the Annual General Meeting by a simple majority of the capital represented (Section 179 Para. 2 AktG cf. Article 17 Para. 2 of the Articles of Association).

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

Authorised capital: The Board of Executive Directors is authorised, with the approval of the Supervisory Board, to increase the share capital of K+S Aktiengesellschaft on one or more occasions until 9 May 2011 against cash or in-kind contributions and by up to no more than € 82,500,000.00 in the aggregate through the issuance of no more than 82,500,000 new no-par value bearer shares (Authorised Capital). Existing shareholders essentially hold subscription rights in respect of such increases. The Board of Executive Directors may, with the approval of the Supervisory Board, exclude statutory subscription rights in the case of capital increases against cash contributions, if the capital increase does not exceed 10 % of the share capital and the issue price of the newly created shares is not significantly lower than relevant exchange price. In the case of capital increases against in-kind contributions, if the new shares are to be used for the acquisition of a company or an equity interest in a company, the Board of Executive Directors can exclude the statutory subscription rights of shareholders by a total of up to 25 % of the share capital. Furthermore, the Board of Executive Directors may, with the approval of the Supervisory Board, exclude the statutory subscription right of shareholders with respect to fractional amounts arising from subscription right.

Purchase, sale and cancellation of own 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 31 October 2009. At no time may the Company hold more than 10 % of the total number of no-par value shares comprising its share capital. Purchases may be made on a stock exchange or by means of a public purchase offer directed to all shareholders. In the event of a purchase effected on a stock exchange, the purchase price per share may not exceed or undercut the relevant exchange price by more than five percent, being the weighted average exchange price of the K+S share in the XETRA computerized trading system on the last ten trading days preceding the purchase of the shares. In the event of a purchase effected by means of a public purchase offer directed to all shareholders, the offer price per share may not exceed or undercut the relevant exchange price by more than 10 %.

Until 13 May 2013, the Board of Executive Directors is furthermore authorised, subject to the approval of the Supervisory Board, to dispose of shares in the Company, which were acquired on the basis of an authorisation under Section 71 Para. 1 No. 8 AktG, on a stock exchange or by means of a public offer directed to all shareholders. In both the following cases, the shares may be disposed of by other means and thus with the subscription rights of the shareholders excluded:

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

Finally, until 13 May 2013, the Board of Executive Directors is authorised, subject to the approval of the Supervisory Board, to cancel shares of the Company, which were acquired on the basis of an authorisation under Section 71 Para. 1 No. 8 AktG and with no additional resolution of the Annual General Meeting being required to effect such cancellation. The shares have to be cancelled in accordance with Section 237 Para. 3 No. 3 AktG without any capital decrease in such a way that as a result of the cancellation the proportion of the remaining no-par value shares in the share capital is increased pursuant to Section 8 Para. 3 AktG. The authorisations to purchase own shares as well as to

dispose of and cancel them may be exercised in whole or in part each time and several times in the latter case.

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

In 2006 and in 2008, K+S concluded loan agreements with syndicates of banks. If one or more persons, whether acting alone or in concert, acquire control over K+S Aktiengesellschaft, all bank advances will become due and payable with immediate effect and all other obligations will cease to apply.

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

Agreements of this type exist with the members of the Board of Executive Directors of the K+S Aktiengesellschaft and are explained in detail in the Remuneration Report. Additionally, the rules governing the virtual stock option programme for the Board of Executive Directors and the senior management provide for a special 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.

## **Explanatory Report of the Board of Executive Directors in accordance with Section 175 Para. 2 Sent. 1 AktG in conjunction with Section 289 Para. 4 HGB**

As the information to be disclosed in respect of items 1 to 9 of Sections 289 Para. 4 of the (HGB) speak for themselves, we limit ourselves to providing the following explanations in accordance with Section 175 Para. 2 Sent. 1 of the (AktG):

- The Annual General Meeting has granted the Board of Executive Directors the possibility, subject to the approval of the Supervisory Board, of implementing a capital increase with the limited exclusion of subscription rights (authorised capital). This provides the Company with a widely used instrument with the aid of which it can act rapidly and flexibly when opportunities arise for the effecting of acquisitions. The Board of Executive Directors will only make use of this possibility if the value of the new shares is proportionate to the value of the corresponding consideration.
- The other authorisation granted by the Annual General Meeting to the Board of Executive Directors to purchase shares of the Company to a limited extent, is also a common instrument available in many companies. By being able to resell own shares, the Company is in a position to, for example, gain long-term investors in Germany and abroad or to finance acquisitions flexibly. The other possibility of cancelling own shares is also a common alternative course of action that lies in the interest of the Company and its shareholders.
- The provisions that the agreements 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.
- The existing arrangements with the members of the Board of Executive Directors as well as the special window of exercise governed by the virtual share option programme for the Board of Executive Directors and senior management that would apply in the event of a takeover bid take appropriate consideration of both the legitimate interests of those concerned as well as of the Company and its shareholders.

## Basic features of the remuneration system

The information to be disclosed in accordance with Section 289 Para. 2 No. 5 HGB are contained in the Remuneration Report included in the Corporate Governance Report; the Remuneration Report also constitutes an integral part of the Management Report.

## Earnings, financial and asset position

At €59.4 million, the revenues of K+S Aktiengesellschaft were €4.4 million (+8 %) above previous year's figure. This is a result, on the one hand, of higher volume requirements by our partner Mars in the granulation of CATSAN<sup>®</sup> and, on the other hand, of revenues from the services provided for subsidiaries exceeding last year's level.

At €875.9 million, earnings before taxes were significantly above the previous year's amount of €84.9 million (€+791.0 million). This was due to a significantly higher income from investments, which was almost eight times higher (€ 1,154.7 million) than that of the previous year (€152.8 million). The income from investments was particularly influenced by a profit transfer of €1,094.4 million under the profit and loss transfer agreement with K+S KALI GmbH. In comparison, the previous year's expenses from the transfer of losses of K+S KALI GmbH was €(60.8) million. In addition, earnings contributions were made by Kali-Transport Gesellschaft mbH with €12.8 million (previous year: €22.0 million), fertiva GmbH with €42.5 million (previous year: €21.0 million) and K+S Entsorgung GmbH with €7.0 million (previous year: €5.8 million). The profit and loss transfer of K+S Salz GmbH was down (€0.5 million; previous year: €69.1 million), having been influenced by the transfer from revenue reserves at esco GmbH & Co. KG in the previous year (€75.2 million). Our Company's earnings after taxes increased to €629.4 million and are therefore €546.9 million above the figure for the previous year (€82.5 million). Thus, the return on equity was 185 % (previous year: 24 %).

The decrease in net interest income from €(31.7) million to €(41.5) million is primarily due to increased interest expenses at associated companies and credit institutions.

At €1,152 million, fixed assets are 10 % above the previous year's level and have a share of 44 % in the balance sheet total, which increased by €1,035 million (previous year: 65 %).

As at 31 December 2008, we report liabilities due to banks totalling €113.7 million. This corresponds to a decrease of €(454.8) million (previous year: €568.5 million) and is primarily due to the partial repayment of a syndicated loan and less utilisation of overnight money. Of these liabilities, €37.1 million have a term of less than one year and €76.6 million of more than one year. The equity ratio is now 33 % (previous year: 21 %). Other provisions are mainly of a long-term character. Our Company is therefore to a considerable degree financed long term.

## **Important Events**

- The economic upturn in the emerging market countries continued and improved the standard of living of the population of such countries. This is increasing per capita consumption of food, including meat, as well as the pressure on the world's agricultural system to meet this challenge. Also the South American market for industrial salt and salt for chemical use, important for our Chilean subsidiary SPL, grew in line with the local economic development.
- In the wake of the financial crisis, the strong decline in cereal prices in the agricultural sector is leading to uncertainty about the future revenue situation. K+S is responding to the consequently lower volume of orders from the agricultural sector that became apparent during the fourth quarter, especially in Europe, by curtailing the production of potash fertilizers. At all German potash sites, a total of about 400,000 tonnes of potassium chloride less than planned was produced during the fourth quarter. The production of specialised and industrial products was maintained.
- Our production costs are affected to a not inconsiderable extent by energy costs, in particular for gas. After energy prices had risen sharply during the first six months of the year, which is reflected with a delay of six to nine months in our costs, our energy costs for 2008 as a whole have increased significantly. Due to the energy supply clauses agreed upon with our suppliers, the clear fall in energy prices observed in the second half of the year did not exert an impact on the K+S Group's energy costs last year.
- At the end of 2007/beginning of 2008, we had reorganised our US dollar hedging system. Since then, options are used for this, which hedged a worst-case sce-

nario for 2008 of about 1.51 USD/EUR including costs. During the second half of the year, however, we were able to participate in a strengthening US dollar. Following the trend on the foreign currency markets, in comparison to 2007, this resulted overall in a far weaker average exchange rate for the Potash and Magnesium Products business segment of about 1.46 USD/EUR (2007: 1.33 USD/EUR).

- In addition to the absolute relationship between the exchange rates, also a relative comparison of the euro and the currencies of our competitors each in relation to the US dollar is of particular importance for us. A weak US dollar has a negative impact on the revenues of most of the world's potash producers in their respective 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.

## **Employees**

As of 31 December 2008, K+S Aktiengesellschaft employed 545 employees (previous year: 491 employees). Of this, 16 were trainees (previous year: 13 trainees).

## **Risk Report**

### **Risk policy**

The business policy of the K+S Group is geared towards generating reasonable returns that are as sustainable as possible and towards continually increasing enterprise value. To achieve this objective, our global activities require a permanent, responsible consideration of opportunities and risks. Taking opportunities and being able to recognise risks, analyse them and reduce them with appropriate strategies are important factors in our business activities. We define risks as possible negative deviations from a planned result. Systematic risk management is an ongoing task for the Board of Executive Directors and the management of each field of responsibility. The organisation of the K+S Group guarantees clear responsibilities and unambiguous decision-making structures. They are described in the organisational principles of the K+S Group, which regulate in particular the interaction between holding units and the business segments within a matrix organisational structure and form the basis for respective responsibilities within the monitoring system. In addition, we have established a compliance system with a preventative character.

### **Opportunity management**

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

## **Risk Management**

### ***Overall risk management***

Our business segments have different opportunities and risks and to identify these in good time as well as to assess and limit these, we use uniform planning, management and control systems. The methods used extend from analyses of markets and competition, through close contacts with customers, suppliers and institutions, and to observing risk indicators in an economic and socio-political context. Risks are assessed particularly with regard to the likelihood of materialisation and loss levels. The possible non-recurring or recurring impact on Company objectives is then processed in preparation for the adoption of decisions. A further building block of risk management is the development of countermeasures that take account of alternative risk scenarios. We are thus able to counteract risks in a systematic and methodical manner and to exploit opportunities consistently. Within the framework of its overall responsibility for risk management, the Board of Executive Directors has laid down principles and rules of behaviour throughout the Group, as well as guidelines for a systematic and efficient risk management. The risk management system consists of the following elements:

- a company-specific handbook on risk management,
- a central risk management representative,
- 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, as well as
- regular uniform risk reporting at Group and business segment level.

Risk management measures are backed up by risk control and a management information system. Risk management is structured in such a way that direct responsibility for early detection, analysis, control and communication of risks rests with the operating management of the business segments and the central holding company units respectively. The risks of the individual business segments are identified on a quarterly basis, and potential risks are analysed, quantitatively assessed and reported to the Board of Executive Directors. If a risk can be reliably held in check by

effective and appropriate measures, the focus of consideration will be on the residual risk. We are particularly monitoring risks whose likelihood of materialisation is 5 % or more and which can at the same time exceed business-segment-related loss limits. The risk profiles relate both to the current year and to medium-term planning for a total period of three years. Expected risks with a likelihood of materialisation of 50 % and more are taken account of in planning and projections in the form of a deduction from earnings. Risks that arise in the short term are, if urgent, communicated directly to the Board of Executive Directors outside normal reporting channels. At Group level, the synopsis of individual risks is generally made on a quarterly basis. The Supervisory Board is briefed by the Board of Executive Directors in just as regular and timely a manner. In accordance with a Group-wide rule, transactions and measures of particular importance and scope require the approval of the Board of Executive Directors and, in special cases, of the Supervisory Board too.

The proper functioning of our risk management system is regularly reviewed by a business-segment-wide working group as well as by the internal auditors. Their findings are used to further improve risk early detection and control. Furthermore, the functionality and the effectiveness of our risk management system is regularly reviewed by our auditor. The existing system is suitable for the early detection of such developments that could jeopardise the continued existence of the Company.

The following sections contain estimates of the possible materialisation and effect of risks following countermeasures under the current framework conditions; this is based on a Group perspective and relates to the medium term. The assessment of the materialisation of a risk is based on the criteria "unlikely, possible, likely", and the assessment of the possible effect is based on the qualitative criteria "moderate, significant, threatening to the continued existence of the Company". A change in the framework conditions may result in a reassessment of our estimates in the course of time.

### ***Risk management in relation to financial instruments***

Central tasks in risk management include the limitation of risks arising from financing and evaluation. Our international activities can give rise to currency-related risks, which are counteracted by hedging transactions under our currency management system. The Board of Executive Directors has specified the permitted hedging instruments in a currency guideline which also regulates hedging strategies, responsibilities, processes and control mechanisms. The hedging instruments are used exclusively to secure hedged items, and not for trading or speculation. Financial transactions are only concluded with banks that have a high credit rating.

The hedging instruments employed should above all limit negative fluctuations of the underlying, but should at the same time make it possible to participate in positive developments. In this connection, the guideline stipulates that derivatives should be distributed across various institutions. We enter into hedging transactions either in the case of a hedged item or if we have certainty regarding a future hedged item on the basis of empirically reliable findings ("anticipative" hedging transactions).

### **Business environment and industry risk**

Since the K+S Group is subject to the effects of economic and legal factors, the following business environment and industry risks exist:

#### ***Fluctuations in supply and demand***

Markets are subject to fluctuations in supply and demand. The demand for agricultural products and therefore for fertilizers is driven by megatrends such as the world's increasing population, a higher standard of living in emerging markets and the development of the bioenergy sector. Fertilizers with its yield- and quality-enhancing effects therefore play a central role in agricultural production. Depending on the global level of supply of agricultural raw materials, fertilizers can also be affected by price swings.

We continue to take a positive view of the basic environment for fertilizers and plant care products in the long term. Over the next few years too, we essentially expect worldwide demand to keep rising. In particular in the potash industry, additional production capacities should just be sufficient to cover anticipated increased demand in

the future. However, as a result of exogenous influences such as a worldwide financial crisis combined with a downturn, sliding global prices of important agricultural products, or deliberate buying restraint, the demand may temporarily ease off strongly in big sales markets and may lead to pressure on global prices. Such negative influences are currently the reason for the muted fertilizer demand, which is clearly below the hitherto level. In the short term, we see a significant under-utilisation of our fertilizer capacity. This possible scenario can, depending on its duration and intensity, have an important influence on the financial condition and results of operations. These types of adverse effects are also possible in the other business areas, but should be considered moderate under current market conditions.

### ***Impact of country risks***

Farreaching changes in the political, social and economic environment can never be ruled out in producing and buying countries. Such developments can result in the loss of major customers, transfer difficulties with capital services and the expropriation of business assets. Such negative factors would have a considerable impact on the net assets, financial position and results of operations, but they are nevertheless improbable at the moment.

### ***Energy costs***

Our production costs are affected to a not inconsiderable extent by energy prices, in particular by that of gas. Rising crude oil prices normally result in gas becoming more expensive. Project-related cooperation with energy companies should, in future, reduce the energy risk since we will obtain steam from substitute fuel heating plants at two sites; moreover, hedging transactions are also used to limit the effects of price fluctuations. Furthermore, a weakening US dollar exchange rate against the euro has the effect of slowing down the rise in energy costs. We consider corresponding adverse effects to be possible because of highly volatile oil prices, but we assess the effect in relation to the expected results as moderate.

## **Corporate strategy risk**

At K+S, corporate strategy risks may arise mainly through the erroneous assessment of future market developments, though on account of our product portfolio to a lesser extent through technological negative developments.

### ***Economic environment and strategy***

We try to predict future market developments with intensive observations of the market and competition as well as through regular discussions on strategy with customers and suppliers. We indeed face strong competitors but we are nevertheless striving to secure our market position and to expand it globally. By means of entry into new markets as well as acquisitions and cooperations – mainly in existing business segments – we want to expand our market positions. Synergies with existing businesses should be used to the maximum possible extent in this regard.

The consistent pursuit of the existing Group and business segment strategies, as well as their regular review and further development, is ensured in conjunction with the Board of Executive Directors and business segment heads.

Efficient quality assurance systems and certification contribute to creating a positive impression through customer-orientated quality and to consolidating our position on the markets. If necessary, business processes are also examined and enhanced with the assistance of external advisors. We continue to respond to changes in framework conditions with technical, organisational as well as personnel and collective bargaining measures in order to cut costs further and create flexibility. Thus, our remuneration system contains a relatively high, variable remuneration component which still has the potential to be increased. The variable component rises with managerial responsibility. We are in the process of also introducing this approach within the international companies of the K+S Group to a greater extent.

The introduction of new technologies plays a secondary role for the markets in which we are active. We are improving the efficiency and environmental friendliness of our production facilities' technology through development partnerships with colleges.

### ***Investments and acquisitions***

Across the Group, we make high demands related to returns in every investment and acquisition decision. We already prepare focussed market, competition and potential analyses in advance. Company valuations incorporating the findings of due diligence reports and the aforementioned analyses are of central importance in the case of acquisitions. Furthermore, we analyse personnel, technical, legal and tax questions. In addition, further checks are carried out in the case of important investment and acquisition projects.

Factors tending to have a negative influence on the profitability of our acquisitions could have negative effects on our net assets, financial position and results of operations and could therefore limit us in regaining the full value of the capital employed. The acquisition of companies basically contains risks involving the integration of employees, processes, technologies and products. Through the early analysis of opportunities and risks by experienced specialist departments, with the support of external advisors where necessary, we seek to limit the risks in this regard.

### **Economic performance risk - Procurement**

#### ***Loss of suppliers and supply bottlenecks***

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

#### ***Freight costs***

In the case of the overseas business, the reduced availability of freight capacity (high global cargo volume) in the past resulted in higher costs for transportation by large vessels. By means of the long-term securing of freight capacity with a high fixed-price component as well as switching over to the use of containers, we were able to largely counteract the effects of this development; in addition, hedging transactions are also

employed to limit the effects of price fluctuations. The situation on the freight market clearly eased in the wake of the financial crisis at the end of the year. We consider appropriate new adverse effects to be possible in the long term, but we regard the effect in relation to the expected results as moderate.

### ***Raw material procurement of ammonia and phosphate***

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. Ammonia prices have continued to increase substantially over the past few years, but it has then largely been possible to pass on the price increases via prices. If the competitive environment becomes more difficult, fertiva and COMPO might not always be able to do so in full. However, because of the contractual arrangements with BASF, the resulting risk is classified as moderate for K+S. Market conditions on the raw material markets have also led to a temporary scarcity and increase in the price of phosphate. With such a market environment, there might at times not be enough quality phosphate available for the production of complex fertilizers. As the market environment has stabilised and processing techniques have made it possible to use phosphate from alternative areas of origin, we consider adverse effects in the COMPO and fertiva business segments to be improbable at the moment, and we assess their impact in relation to the expected results as moderate.

## **Economic performance risk – Sale and distribution**

### ***Reduction in anti-dumping protection***

After updated regulations came into force in 2006 on anti-dumping protection against unfair competition with potash fertilizers from Russia and Belarus for the European market, increasing competition was discernible in the EU. As a result of the high demand for potash on the global market and the substantial price increases that have occurred in the meantime, the effects were, however, limited so far. In the event of a change in the market situation, another rise in competitive pressure cannot be ruled out in Europe. This could result in us having to market a greater proportion of our products overseas. The loss potential arising from the weakened anti-dumping measures depends on the success of sales overseas and the respective cost and price situation and can, against the backdrop of the price levels prevailing on overseas

markets at the present time, be classified as moderate. The occurrence of a loss is therefore currently classified as unlikely.

### ***Impact of weather conditions***

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

## **Economic performance risk – Production and the environment**

### ***Production risks***

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

***More stringent environmental law***

Public and political debate about future, higher requirements of environmental friendliness of the production processes employed by us may impact on the issuing and retaining of operating licences and planning decisions approving public works as well as water permits. In the Potash and Magnesium Products business segment, among others, liquid residues (saline water) arise both from current production and through rainfall on the tailings piles. Waste management is effected through discharge into rivers in accordance with water law permits or through injection into subterranean rock layers. Over and above the legal requirements, official limits and conditions must be respected in the process. Realizing a significant reduction in the injection area capacity anticipated up to now, or the premature complete utilization of approved injection areas, as well as proving that injection might have an impact on drinking water or usable ground water resources, could entail a partial or even entire withdrawal of injection approvals for the waste management of liquid residues, and would lead to considerable additional costs or, in an extreme case, to a significant cutback of production at the sites affected. For example, the Neuhof-Ellers potash plant had to stop injecting saline water into the plate dolomite layer after the injection area was fully utilised. In order to ensure the due waste management of a tailings pile, saline water is transported by train and lorry to the nearest site in accordance with valid approvals until the completion of the saline water pipeline which was already requested in July 2007. Also, in the Werra potash plant at the Unterbreizbach site, there is a clear risk that injection will not be able to be resumed. Some production waste water containing magnesium chloride was injected up to October 2007 under a test operation. K+S has applied in a timely manner for a new injection approval. Granting an approval depends on monitoring drills which enable predictions to be made regarding hydrogeological relations and which should at the same time specify whether a danger to drinking water, caused by injecting saline water, can be excluded. A monitoring drill completed in October 2008 did not produce any reliable results in this respect. Until this question is resolved, the saline water must be discharged into an approved storage space underground or channelled into the Werra in accordance with the approved limits. Furthermore, K+S will, in the short term, review the technical and legal requirements for discharging liquid residues from the Hattorf location of the Werra plant and submit appropriate applications for approval without delay.

From today's perspective, an unchanged long-term continuation of the injection and discharge approvals after the currently valid permits expire cannot be expected. K+S has therefore presented a package of water protection measures containing a sustainable and also long-term waste management concept capable of being approved. It anticipates investments of up to € 360 million until 2015 and would involve additional expenses. The package of measures is designed to halve the saline water volume in the Hesse and Thuringia potash district and to significantly improve the water quality of the Werra and the Weser as of 2011. The agreement subject to public law of 4 February 2009 signed by the Hesse and Thuringia state governments as well as by K+S KALI GmbH is designed to create the binding framework for the implementation of the K+S package of measures and to give the Company investment security for the long term. The reduction of solid and liquid production residues from potash production will continue to be among the focal points of our research and development. All conceivable concepts relating to disposal are checked with the participation of independent experts. It is possible that concepts resulting from this, which are intended to ensure sustainably safe disposal at the same time as maximally protecting the environment, may also lead to considerable additional costs beyond the period under examination.

### ***Carbon dioxide pockets in deposits***

Carbon dioxide pockets in certain deposits constitute a latent potential danger. To keep any impact on people, machinery and deposits as low as possible, extraction operations underground are always conducted in compliance with the special safety guidelines applicable to CO<sub>2</sub> leaks. We regard the possible loss potential as moderate.

***Saline solution access***

Hydrogeological risks generally occur with an underground mine, which, if uncontrollably, could cause significant damage. To secure mines, extensive exploration is undertaken by means of seismology, drilling and ground-penetrating radar. The maintenance of protective layers against water-bearing rock and the size of the safety pillars ensure the greatest possible safety in a mine. Constant scheduled maintenance activities 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 a flood of the century occurs. On the basis of our extensive precautionary measures we consider that risk improbable.

***Workplace limits***

The EU initiative on setting indicative workplace limits for nitrogen monoxide (NO), nitrogen dioxide (NO<sub>2</sub>) and carbon monoxide (CO), which hardly meet the actual conditions on site and are not feasible scientifically, could pose a risk to our mining activities. It should be possible to achieve realistic limits meaningful over the long term through intensive cooperation between the EU Commission and national governments as well as the companies concerned and their pressure groups. Concrete statements about the measures necessary to reduce the concentration of NO, NO<sub>2</sub> and CO in the underground workplace and the resulting additional costs depend on the final limits. In the medium term, adverse effects are possible, but we currently consider them to be moderate.

**Economic performance risk – Research and development**

We do not see any serious risks in the research and development field as the relevant markets for K+S are only subject to limited technological change. We have intensified our own development activities through research cooperation with industrial partners as well as colleges. Technical possibilities for optimising production processes are therefore being examined on an ongoing basis. The reduction of solid and liquid production residues in potash production, as well as opportunities to cut costs, stand at the forefront. The risk of developing products that are not accepted by our clients can be deemed to be slight because of our good customer contacts. In

addition, we provide our agricultural customers with intensive application advice, which enables us to identify future needs early on.

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

## **Personnel risks**

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

We are currently preparing a new direction for our business with nitrogenous fertilizers from 1 July 2009. The further development of the business model for the COMPO and fertiva business segments is intended to open up new options for growth to the K+S Group. The new COMPO set-up will continue the business with considerably leaner structures and higher efficiency. This also necessitates staffing adjustments. Agreements on reconciling interests and a social plan have been signed and provisions recognised.

In the Salt business segment too, staffing adjustments are necessary to increase efficiency. Redundancies involving employees from the work areas concerned are to be largely ruled out through re-employment within the Group where staff is required.

## **IT risks**

### ***Data security***

The increasing networking of IT systems and the necessity of their permanent availability impose high demands on the information technology used. We respond to possible risks by using modern hardware and software that meet current security standards. Our IT systems are constantly being reviewed and, if necessary, modified to ensure the secure execution of business processes. We apply a largely uniform IT infrastructure throughout the Group. The compatibility and security of the IT systems and of stored data is guaranteed along with the requisite efficiency. These measures are permanently controlled by the data protection representative and by our automatic security systems. We consider serious dangers connected with information security or risks from the information technology used, particularly as a result of a longer failure of our networks and the forging or destruction of data due to service and programme errors or external influences, to be improbable.

### ***Failure of computer centre***

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

## **Financial risks**

### ***Liquidity risks***

Liquidity is monitored on an ongoing basis and managed optimally by means of central cash pooling. The aim of investment is to optimise the income earned from liquid funds at low risk. In the case of all forms of investments, there are certain set creditworthiness requirements in relation to issuers that have to be met. Delivering solid financial figures strengthens the financial position of the K+S Group. A syndicated loan was taken out on attractive terms for the acquisition of Chilean SPL in 2006. A further syndicated loan, which extends the financial leeway for short-term financing undertakings or general business purposes, was agreed in 2008. Beyond that, bilateral framework credit agreements which have not been taken up are also available. There is no particular dependency on any individual lenders. At the present time, we consider any liquidity or financing risk for the K+S Group to be unlikely.

### ***Company rating***

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

### ***Foreign currency risks***

The K+S Group faces particular challenges in the field of foreign currency management because of the international orientation of its business operations. Transactions denominated in foreign currencies generally account for between 20 and 30 % of Group revenues. Exchange rate fluctuations, especially in relation to the US dollar, can play an important role for the Potash and Magnesium Products business segment and the American business of the Salt business segment. We use derivative financial instruments to counter exchange rate risks (see "Risk management in relation to financial instruments").

In the aforementioned business segments, net positions, i. e. the payments resulting from revenues generated in foreign currencies less the costs (essentially freight

costs) to be paid in foreign currencies, are hedged against exchange rate fluctuations, with the help of derivatives, normally options and futures. Not only anticipated foreign currency payments based on revenues generated are hedged but also anticipated payments based on projected revenues. USD/EUR hedge transactions currently extend until the beginning of 2010 and have a volume of about USD 1,680 million and, in a worst-case scenario, fixed USD hedging rates of about 1.51 USD/EUR in 2009 and, currently, of about 1.50 USD/EUR in 2010. To a lesser extent, we are also hedging currency fluctuations of the Chilean peso against the US dollar in connection with the North America business of the Salt business segment. In relation to the current results and hedging strategy, we consider the possible risk arising from currency exchange rate fluctuations to be moderate.

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

#### ***Increase in general interest rate level***

As at 31 December 2008, about 6 % of the financial liabilities of the K+S Group are hedged against a rise in interest rates by means of fixed-rate financing or by interest rate hedges (interest caps). Rising interest rates would encumber the financial result, as the majority of financial liabilities have a short-term interest rate lock-down period and are, to that extent, subject to the risk of a change in interest rates. Interest rates are analysed regularly to manage this risk. Keeping everything else equal, an increase in the relevant reference interest rates by one percentage point in 2009 would influence the Group earnings before taxes by not more than 1 %. In our opinion, the effects of any possible fluctuations in the interest rate would be moderate.

***Default of payment***

Default risks relating to payments are largely covered by flat-rate export guarantees (foreign non-OECD area) or by Euler-Hermes credit insurance (domestic and foreign OECD area). The waiving of security for receivables is only possible after specific authorisation has been obtained and the long-term customer relationship has been reviewed critically. The financial crisis has led to a reduction in cover in the case of financially weak customers. Across the Group, however, more than 90 % of all insurable claims are hedged against failure. Significant negative effects of a default risk relating to payments, which could result in a moderate adverse effect on the financial position of the K+S Group, are thus unlikely.

**Other risks*****Legal and tax law risks***

In June 2007, the EU commission granted its approval with reference to the legal provisions relating to government aid for the continuation of tax shelters for especially energy-intensive companies until the end of 2009. This concerns the limitation of the net burden from ecology tax in the context of what it termed “tax capping”. Under this approval, tax capping can be continued until the end of 2012 under the prerequisite that the German economy achieves the goals it committed itself to in the climate agreement. If the approval is not granted beyond 2009, there is a danger that an additional energy tax burden could be incurred from that time on, but we consider the possibility of this to be moderate. There are no other significant legal or tax law risks that could have a significant influence on the Company’s net assets, financial position and results of operations.

***Organisational risks***

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

## **Risk transfer**

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

## **Assessment of overall risk situation**

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

## **Subsequent Events**

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

## Forecast Report

In view of the global financial and economic crisis we are experiencing, we assume that the hitherto positive performance of the K+S Group will suffer a setback this year. In the process, the development in the Potash and Magnesium Products business segment will be decisive for the extent to which the revenues and earnings of the K+S Aktiengesellschaft will grow: Thus, for 2009, in the light of the anticipated sharp decline in the sales volume of potash and magnesium products that we are expecting, we anticipate tangible decreases in revenues and considerable decreases in earnings.

In view of a indication of a probable worldwide decrease in the use of land this year, as well as a lower level of intensity of the application of fertilizers across all nutrients, together with problematic weather conditions in important agricultural countries such as China and Argentina, the future supply of cereals will probably fall tangibly below the demand for cereals, which is relatively stable even in times of crisis; a strong price impulse against the backdrop of an already short supply of agricultural products would be the logical consequence of this and should correspondingly boost demand for fertilizers. For 2010, we therefore expect a significant increase in sales volumes of the mineral fertilizers we offer, so that the revenues of the K+S Aktiengesellschaft should again increase tangibly in relation to 2009 and our operating earnings even significantly.

Our outlook for 2009 and 2010 is based chiefly on the following premises:

- the normalisation once more of demand for potash fertilizers worldwide starting from the second half of 2009,
- a USD exchange rate of about 1.30 USD/EUR in the years 2009 and 2010,
- stable oil and gas prices for 2009 as well as markedly rising oil and gas prices for 2010,
- an average level of de-icing salt business in the fourth quarter of 2009 as well as average sales of de-icing salt in 2010 in Europe and North America.

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

Kassel, 25 February 2009

**K+S Aktiengesellschaft**

The Board of Executive Directors

**K+S Aktiengesellschaft**  
**Balance sheet as of 31 December 2008**

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T€	31.12.2008	31.12.2007
Intangible fixed assets	249	130
Tangible fixed assets	16,627	16,298
Long-term financial assets	1,135,015	1,035,172
<b>Fixed assets</b>	<b>1,151,891</b>	<b>1,051,600</b>
Inventories	10,617	11,332
Receivables and other assets	1,326,114	514,375
Securities	42,147	32,373
Cash in hand, bank balances	116,338	1,937
<b>Current assets</b>	<b>1,495,216</b>	<b>560,017</b>
<b>Prepaid expenses</b>	<b>72</b>	<b>113</b>
<b>ASSETS</b>	<b>2,647,179</b>	<b>1,611,730</b>
<hr/>		
Subscribed capital	165,000	108,800
Capital reserve	39,140	39,140
Revenue reserves	282,980	109,180
Profit retained	399,394	82,500
<b>Equity</b>	<b>886,514</b>	<b>339,620</b>
Provisions for pensions and similar obligations	90,828	90,745
Provisions for taxes	8	372
Other provisions	138,808	131,407
<b>Provisions</b>	<b>229,644</b>	<b>222,524</b>
<b>Liabilities</b>	<b>1,531,021</b>	<b>1,049,586</b>
<b>EQUITY AND LIABILITIES</b>	<b>2,647,179</b>	<b>1,611,730</b>
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## Income Statement

1 January until 31 December 2008

T€	2008	2007
<b>Revenues</b>	<b>59,430</b>	<b>55,061</b>
Cost of sales	63,748	54,508
<b>Gross profit</b>	<b>-4,318</b>	<b>553</b>
Selling expenses	2,410	2,302
General and administrative expenses	24,319	18,328
Research costs	4,416	3,763
Other operating income	30,058	50,539
Other operating expenses	204,644	62,622
Income from investments, net	1,154,730	152,843
Write-downs of securities classified as current assets	27,349	399
Interest income, net	-41,481	-31,650
<b>Result from ordinary activities/ Earnings before income taxes</b>	<b>875,851</b>	<b>84,871</b>
Taxes on income	246,457	2,371
<b>Net income for theyear</b>	<b>629,394</b>	<b>82,500</b>
Allocation to revenue reserves	230,000	-
<b>Profit retained</b>	<b>399,394</b>	<b>82,500</b>

**Development of Fixed Assets  
as at 31 December 2008**

T€	Gross carrying amounts					Depreciation, amortisation and write-downs					Net carrying amounts	
	Balance as of 01.01.2008	Additions	Disposals	Reclassification	Balance as of 31.12.2008	Balance as of 01.01.2008	Additions	Disposals	Reclassification	Balance as of 31.12.2008	Balance as of 31.12.2008	Balance as of 31.12.2007
<b>Intangible fixed assets</b>												
Concessions, industrial and similar rights and assets, and licences in such rights and assets	6.027	167	26	41	6.209	5.897	105	26	-	5.976	233	130
Prepayments	-	16	-	-	16	-	-	-	-	-	16	-
	<b>6.027</b>	<b>183</b>	<b>26</b>	<b>41</b>	<b>6.225</b>	<b>5.897</b>	<b>105</b>	<b>26</b>	<b>-</b>	<b>5.976</b>	<b>249</b>	<b>130</b>
<b>Tangible fixed assets</b>												
Land, land rights and buildings including buildings on third-party land	57.332	161	364	322	57.451	46.681	615	296	-	47.000	10.451	10.651
Technical equipment and machinery	30.709	774	2.987	175	28.671	29.064	461	2.973	-	26.552	2.119	1.645
Other equipment, operating and office equipment	14.035	1.186	530	2	14.693	10.603	1.321	530	-	11.394	3.299	3.432
Prepayments and assets under construction	570	734	6	-540	758	-	-	-	-	-	758	570
	<b>102.646</b>	<b>2.855</b>	<b>3.887</b>	<b>-41</b>	<b>101.573</b>	<b>86.348</b>	<b>2.397</b>	<b>3.799</b>	<b>-</b>	<b>84.946</b>	<b>16.627</b>	<b>16.298</b>
<b>Long-term financial assets</b>												
Shares in affiliated companies	1.034.292	61.689	1.500	-	1.094.481	26.537	-	-	-	26.537	1.067.944	1.007.755
Loans to affiliated companies	27.000	39.667	674	-	65.993	-	-	-	-	-	65.993	27.000
Other long-term equity investments	66	-	-	-	66	-	-	-	-	-	66	66
Loans to other long-term equity investments	-	800	-	-	800	-	-	-	-	-	800	-
Other loans and other long-term financial assets	362	14	153	-	223	11	-	-	-	11	212	351
	<b>1.061.720</b>	<b>102.170</b>	<b>2.327</b>	<b>-</b>	<b>1.161.563</b>	<b>26.548</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26.548</b>	<b>1.135.015</b>	<b>1.035.172</b>
<b>Fixed assets</b>	<b>1.170.393</b>	<b>105.208</b>	<b>6.240</b>	<b>-</b>	<b>1.269.361</b>	<b>118.793</b>	<b>2.502</b>	<b>3.825</b>	<b>-</b>	<b>117.470</b>	<b>1.151.891</b>	<b>1.051.600</b>

## Notes to the Annual Financial Statements of K+S Aktiengesellschaft as of 31 December 2008

### Accounting and measurement principles

#### Intangible fixed assets

Intangible fixed assets acquired are recognised at cost and regularly amortised on a straight-line basis over their expected useful lives. Software is reported as a disposal, once it has been fully amortised. Special write-downs are recorded in the event of a probable permanent impairment in value.

#### Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. The cost of internally generated assets includes, in addition to the direct cost, a pro rata share of indirect costs including depreciation.

Moveable fixed assets are predominantly depreciated by using the declining balance method, while immovable fixed assets are depreciated by using the straight-line method. The 2008 corporate tax reform (as of 2008, moveable fixed assets are depreciated by using the straight-line method) has not had any significant impact. Use is made of the possibility of transferring from the declining balance to the straight-line method of depreciation as soon as this results in higher annual depreciation.

The depreciation rates are based on the customary useful lives. In the case of buildings, this is predominantly 14 to 33 years, for technical equipment and machinery 3 to 25 years, and for other equipment, operating and office equipment 3 to 10 years. Assets of low value are written off completely in the year acquired and reported as a disposal after five years.

Special write-downs are recorded in the event of a probable permanent impairment in value. If the reasons for a special write-down no longer apply, the values are reinstated. Write-downs permissible for German tax purposes are recorded. Gallery and excavation work is not capitalised.

### Financial assets

Shares in affiliated companies and other long-term equity investments are valued at acquisition cost or, in the event of an expected permanent impairment in value, at the lower fair value as of the balance sheet date.

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

### Inventories

Inventories are recorded at the lower of cost, taking into account lower of cost or market principle, and lower amount permissible in accordance with German tax law. Production costs include appropriate portions of the necessary material and manufacturing overheads and the depreciation of the asset.

### Receivables and other current assets

Receivables are stated at nominal or present value, depending on their maturities. Individual risks are reflected by write-downs and the general credit risk by a flat-rate valuation adjustment.

Other current assets are stated at the lower of cost and fair value.

### Offsetting of receivables/liabilities between associated companies

As of financial year 2008, the offsetting of receivables and liabilities between associated companies has been dispensed with.

### Securities

Securities are valued at the lower of cost and the stock exchange or market price. If the reasons for a write-down no longer apply, the values are reinstated.

### Provisions for pensions and similar obligations

Pension provisions are computed in accordance with actuarial principles applying the discount value method and a discount factor of 6 %. The values of provisions for pensions take into consideration the mortality tables 2005 G.

Sundry provisions

Provisions for taxes and other provisions are recorded at the amounts expected to be required. Provisions for mining obligations for the backfilling of mines and shafts are accumulated in instalments in accordance with the extraction period, and allocated in full when operations are closed down. The provisions for mining obligations also include restoration obligations. Provisions for mining damage risks are determined on the basis of damage that has occurred in the past in order to take account of actual risk. Provisions for long-service bonuses are calculated by the discount value method for the years of service to date.

Liabilities

Liabilities are recorded at the settlement amount.

**Tax effects on accounting**

These result from the depreciation permitted for tax purposes. The use of such tax options has the following impact on earnings:

	<u>T€</u>
• Net income 2008	629,394
• Tax effects	-472
<hr/>	
Adjusted net income 2008	<hr/> 628,922 <hr/>

For subsequent years, probable future tax charges totalling about €7 million result from the special tax valuation.

## Translation of foreign currency amounts

The acquisition costs of assets purchased in foreign currencies and revenues from sales in foreign currencies are recorded at the exchange rates prevailing as of the transaction date.

Foreign currency receivables are translated at the exchange rate as of the transaction date or the lower fair value as of the balance sheet date. Foreign currency liabilities are disclosed at the exchange rate as of the transaction date or the higher settlement amount as of the balance sheet date.

## Notes to the balance sheet

(Values in T€)

### Fixed assets

The development of the gross carrying amounts and depreciation on the individual fixed assets are shown separately.

### Long-term financial assets

The list of shareholdings pursuant to Art. 285 No. 11 German Commercial Code (HGB) is submitted to the electronic *Bundesanzeiger* for publication.

The following investments are held in large joint-stock companies, which exceed 5 % of the voting rights:

- Kali-Transport Gesellschaft mbH, Hamburg, Germany
- K+S KALI GmbH, Kassel, Germany

### Inventories

	<u>2008</u>	<u>2007</u>
• Raw materials, consumables and supplies	610	423
• Work in progress	10,007	10,909
	<u>10,617</u>	<u>11,332</u>

<u>Receivables and other current assets</u>	<u>2008</u>	<u>2007</u>
• Trade receivables	15,190	5,227
• Receivables from affiliated companies	1,266,147	275,505
• Other current assets	44,777	233,643
	<u>1,326,114</u>	<u>514,375</u>

Of the receivables from affiliated companies, receivables from intra-group payment transactions account for T€104,494 (previous year: T€ 50,062), those from profit and loss transfer for T€1,157,910 (previous year: T€ 141,840), and received income from investments for T€ 5 (previous year: T€ 71,829). Apart from that, they chiefly concern goods and services.

Trade receivables amounting to T€ 6,861 (previous year: T€ 1,017) and other current assets amounting to T€ 5,130 (previous year: T€ 117,753) have residual terms of more than one year.

#### Own shares

During financial year 2008, 40,000 own shares (= 0.02 % of the share capital) were purchased for the purpose of being issued to employees of the K+S Group; the average price was € 152.77 per share. Moreover, 60 shares were purchased at a price of €78.17 per share, which were issued to employees of the K+S Group in the form of bonus shares without any separate consideration being payable.

As of 31 December 2008, K+S Aktiengesellschaft held 24 shares of its own. Own shares are disclosed in the amount of T€2 as at 31 December 2008 under short-term securities.

#### Securities / bank balances

Securities totalling T€ 41,777 have been included in a contractual trust arrangement (CTA) in order to safeguard pension obligations. Moreover, securities totalling T€368 and term deposits included in other current assets totalling T€1,855 have been included in a CTA in order to safeguard semi-retirement obligations.

### Subscribed capital

The subscribed capital of K+S Aktiengesellschaft amounts to € 165 million and is divided into 165 million no-par value bearer shares. In financial year 2008, the share capital was increased by €56.2 million by way of a conditional capital increase from corporate funds, without issuing new shares.

The Board of Executive Directors is authorised, with the approval of the Supervisory Board, to increase the share capital of K+S Aktiengesellschaft on one or more occasions until 9 May 2011 against cash or in-kind contributions and by up to no more than € 82.5 million in the aggregate through the issuance of no more than 82.5 million new no-par value bearer shares (authorised capital). Existing shareholders essentially hold subscription rights in respect of such increases.

The Board of Executive Directors may, with the approval of the Supervisory Board, exclude the statutory subscription rights of shareholders in the following cases and in respect of an amount corresponding to € 41.25 million of the share capital (the equivalent of 41.25 million no-par value shares):

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

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

<u>Reserve for own shares</u>	<u>2008</u>	<u>2007</u>
• Reserve for own shares	2	0

<u>Other revenue reserves</u>	<u>2008</u>	<u>2007</u>
• Balance as of 1 January	109,180	109,180
• Withdrawal for capital increase in connection with share split	56,200	0
• Allocation from net income	230,000	0
• Reserve for own shares	-2	0
Balance as of 31 December	<u>282,978</u>	<u>109,180</u>

<u>Profit retained</u>	<u>2008</u>	<u>2007</u>
• Balance as of 1 January	82,500	82,500
• Dividend payment	-82,500	-82,500
• Net income	629,394	82,500
• Allocations to other revenue reserves from net income	230,000	0
Balance as of 31 December	<u>399,394</u>	<u>82,500</u>

### Provisions

In the case of provisions for pensions and similar obligations, there are no shortfalls. The values of provisions for pensions take into consideration the mortality tables 2005G.

The other provisions take adequate account of all foreseeable risks. The mainly arise from mining obligations. Additionally, there are chiefly provisions for personnel obligations.

<u>Liabilities</u>	<u>2008</u>	<u>2007</u>
• Liabilities to banks	113,704	568,549
• Payments received on account of orders	0	850
• Trade payables	6,744	5,193
• Liabilities to affiliated companies	1,408,883	460,219
• Other liabilities	1,690	14,775
	<u>1,531,021</u>	<u>1,049,586</u>

Of the liabilities to affiliated companies, T€ 1,354,307 (previous year: T€ 351,501) are attributable to liabilities from intra group payment transactions.

The liabilities with a remaining maturity of up to one year concern:

	<u>2008</u>	<u>2007</u>
• Liabilities to banks	37,107	233,988
• Payments received on account of orders	0	850
• Accounts payable – trade	6,744	5,193
• Liabilities to affiliated companies	1,371,883	423,219
• Other liabilities	1,460	1,127
	<u>1,417,194</u>	<u>664,377</u>

Liabilities to banks of T€ 76,597 (previous year:: T€ 334,561) have a remaining maturity of more than one year.

Liabilities to affiliated companies of T€ 37,000 (previous year: T€ 37,000) and other liabilities of T€ 230 (previous year: T€ 230) have a remaining maturity of more than five years.

The other liabilities include:

	<u>2008</u>	<u>2007</u>
• Taxes	1,150	462
• Liabilities relating to social security	1	11
<u>Contingent liabilities</u>	<u>2008</u>	<u>2007</u>
• Letter of comfort	767	767
<u>Other financial commitments</u>	<u>2008</u>	<u>2007</u>
• Commitments from uncompleted capital expenditure projects	967	915
• Commitments from long-term rental, leasing and service contracts		
- due in following year	4,853	4,819
of which to affiliated companies	(4,311)	(4,265)
- due in years 2-5	17,873	17,566
of which to affiliated companies	<u>(17,242)</u>	<u>(17,060)</u>
	<u>23,693</u>	<u>23,300</u>

## Notes to the income statement

(Values in T€)

### Revenues

Revenues by product area	<u>2008</u>	<u>2007</u>
• Animal hygiene products	31,594	28,622
• Miscellaneous	27,836	26,439
	<u>59,430</u>	<u>55,061</u>

<u>Revenues by region</u>	<u>2008</u>	<u>2007</u>
• Germany	59,149	54,907
• Rest of Europe	281	154
	<u>59,430</u>	<u>55,061</u>

<u>Other operating income</u>	<u>2008</u>	<u>2007</u>
• Income from passed-on taxes	0	10,133
• Income from the reversal of provisions	4,147	711
• Income from the reversal of the special tax-allowable reserve (Art. 6b of the German Income Tax Act)	0	12,371
• Income from letting and leasing	2,860	2,875
• Income from disposals of tangible fixed assets	328	628
• Income from internal charging of services to group companies	1,068	593
• Income from the sale of securities and subscription rights	357	20,301
• Income from the reimbursement of taxes from previous years	20	35
• Exchange rate gains	10,828	11
• Sundry income	10,450	2,881
	<u>30,058</u>	<u>50,539</u>

Income of T€4,747 (previous year: T€14,234) is attributable to other financial years and results primarily from the reversal of provisions.

Income from hedging primarily concerns incoming payments from the utilisation of the currency options from the subsidiaries K+S KALI GmbH, K+S Salz GmbH and COMPO GmbH & Co KG, taken over in 2007.

<u>Other operating expenses</u>	<u>2008</u>	<u>2007</u>
• Expenses from the impairment of foreign currency options	0	41,652
• Pension expenses	5,961	4,067
• Expenses for managing properties	1,771	1,297
• Expenses for closed plants	13,122	5,471
• Tax-related accelerated depreciation on assets in accordance with Art. 6b of the German Income Tax Act	321	2,736
• Exchange rate losses	157,342	0
• Miscellaneous	26,127	7,399
	<u>204,644</u>	<u>62,622</u>

The hedging costs of T€147,237 disclosed under exchange rate losses stem primarily from the derecognition of the option premiums paid for the no longer operationally used derivatives taken over in 2007 from the subsidiaries K+S KALI GmbH, K+S Salz GmbH and COMPO GmbH & Co KG.

Expenses of T€66 (previous year: T€670) are attributable to other financial years.

<u>Income from investments, net</u>	<u>2008</u>	<u>2007</u>
• Income from transfer of profits	1,157,910	141,840
• Income from investments	5	71,829
- of which from affiliated companies	(3)	(71,827)
• Expenses from transfer of losses	3,185	60,826
- of which from affiliated companies	(3,185)	(60,826)
	<u>1,154,730</u>	<u>152,843</u>

The income from the transfer of profits mainly consists of the profit and loss transfer of Kali GmbH, fertiva GmbH Kali-Transport Gesellschaft m.b.H.

The expenses from the transfer of losses concern the net income for the year of K+S Beteiligungs GmbH.

<u>Interest income, net</u>	<u>2008</u>	<u>2007</u>
• Other interest and similar income	7,246	7,239
- of which from affiliated companies	(2,879)	(4,129)
• Income from other securities, lending and other financial assets	2,283	611
- of which from affiliated companies	(2,269)	(567)
• Interest expenses in allocations to pension provisions	-5,003	-5,069
• Sundry interest and similar expenses	-46,007	-34,431
- of which to affiliated companies	(-27,095)	(-19,094)
	<u>-41,481</u>	<u>-31,650</u>

<u>Taxes</u>	<u>2008</u>	<u>2007</u>
• Taxes on income	246,457	2,371
• Other taxes	368	397
	<u>246,825</u>	<u>2,768</u>

The income taxes concern an amount of T€ 1,613 (previous year: T€ 2,368) for previous years.

The other taxes are allocated to the operating functional areas.

<u>Cost of materials</u>	<u>2008</u>	<u>2007</u>
• Cost of raw materials, consumables and supplies, and of purchased merchandise	19,240	16,738
• Cost of purchased services	23,296	22,130
	<u>42,536</u>	<u>38,868</u>

<u>Personnel expenses</u>	<u>2008</u>	<u>2007</u>
• Wages and salaries	46,051	37,318
• Social security	5,633	5,756
• Post-employment expenses	5,972	4,171

• Other employee benefit costs	25	19
	57,681	47,264

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

<u>Employees (average number)</u>	<u>2008</u>	<u>2007</u>
• Wage earners	113	97
• Salaried employees	381	365
• Trainees	12	12
	506	474

## Other information

### Derivative financial instruments

Some of the securities held at the balance sheet date included so-called embedded derivatives. In addition to the relevant market interest rate, the interest rate for these securities also depends on how other underlying values evolve. Examples of such underlying values are share indices, certain baskets of shares or yield curves. Embedded derivatives affected the following items as of 31 December 2008:

(T€)	Acquisition costs	Fair value	Carrying amount
Other securities	1,125	1,044	1,040

The fair values were computed on the basis of the market prices that applied on 31 December 2008.

Interest rate cap

To hedge interest rate risks, there is an interest rate cap with a nominal value of €15 million. The residual term is nine months, with the nominal value declining in line with the relevant financial liabilities. Due to the steep decline in interest rate levels, there was almost no market value as of 31 December 2008.

Other securities

The other securities were written down by T€27,349 to their lower fair value as of 31 December 2008.

Auditors' fees

In 2008, fees for auditing totalling T€205 were recorded as an expense.

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

	<u>2008</u>
• Total remuneration of the Supervisory Board	1,900
• Total remuneration of the Board of Executive Directors	8,077
• Total remuneration of former members of the Board of Executive Directors and their surviving dependents	2,498
• Pension provisions for former members of the Board of Executive Directors and their surviving dependents	9,924

An itemisation of the remuneration of the Board of Executive Directors is published in the Remuneration Report.

Declaration on conformity concerning the German Corporate Governance Code

In the financial year 2008, the Company submitted a declaration on conformity pursuant to Art. 161 of the German Stock Corporation Act concerning the recommendations made by the "Government Commission for the German Corporate Governance Code" and published it on the K+S homepage on the Internet ([www.k-plus-s.com](http://www.k-plus-s.com)).

## Members of the Supervisory Board

(on 31 December 2008)

- Dr. Ralf Bethke, Deidesheim, Chairman  
Shareholder representative  
Former chairman of the Board of Executive Directors of K+S Aktiengesellschaft  
  
Further Supervisory Board appointments:  
Benteler AG  
Südzucker AG  
Süddeutsche Zuckerrübenverwertungs-Genossenschaft eG  
  
Other appointments to supervisory bodies:  
Dr. Jens Ehrhardt Kapital AG (chairman)
  
- Gerhard R. Wolf, Worms (until 14 May 2008)  
Shareholder representative  
Former member of the Board of Executive Directors of BASF SE  
Further Supervisory Board appointments:  
Hornbach Baumarkt AG (chairman until 10 July 2008)  
Hornbach Holding AG (chairman until 11 July 2008 )
  
- Michael Vassiliadis, Hanover, Vice Chairman  
Employee representative  
Member of the Managing Board of the Mining, Chemicals and Energy Trade Union  
  
Further Supervisory Board appointments:  
BASF SE  
Evonik Steag GmbH (vice chairman)  
Henkel KGaA

- Jella S. Benner-Heinacher, Meerbusch  
Shareholder representative  
Federal Manager of the Deutsche Schutzvereinigung für Wertpapierbesitz e.V.  
  
Further Supervisory Board appointments:  
A.S. Création AG  
TUI AG
  
- Dr. Uwe-Ernst Bufe, Königstein im Taunus (since 14 May 2008)  
Shareholder representative  
Former chairman of the Board of Executive Directors of Degussa/Hüls AG  
  
Further Supervisory Board appointments:  
UBS Deutschland AG (vice chairman)  
Air Liquide GmbH (until end of April 2008)  
Cognis GmbH  
  
Other appointments to supervisory bodies:  
Akzo Nobel  
Solvay SA  
SunPower, San Jose (since August 2008)  
Umicore SA
  
- Karl-Heinz Georgi, Haltern (until 14 May 2008)  
Employee representative  
Principal of the Haltern am See Education Centre of the Mining, Chemicals and Energy Trade Union
  
- Dr. Rainer Gerling, Heringen/Werra (since 14 May 2008)  
Employee representative  
Manager of the Werra Plant of K+S KALI GmbH

- Rainer Grohe, Otterstadt  
Shareholder representative  
Instructor at the Bundeswehr University, Munich

Further Supervisory Board appointments:

Graphit Kropfmühl AG (since 6 May 2008)

Norddeutsche Affinerie AG

PFW Aerospace AG

- Dr. Karl Heidenreich, Mannheim  
Shareholder representative  
  
Former member of the Board of Managing Directors of Landesbank Baden-Württemberg

Further Supervisory Board appointments:

MVV Energie AG (until 14 March 2008)

Other appointments to supervisory bodies:

Stiftung Orthopädische Universitätsklinik Heidelberg

- Rüdiger Kienitz, Geisa  
Employee representative  
Member of the Works Council of the Werra Plant of K+S KALI GmbH
  
- Klaus Krüger, Wolmirstedt  
Employee representative  
Chairman of the Group Works Council of the K+S Group

- Dieter Kuhn, Peißen  
Employee representative  
Vice Chairman of the Group Works Council of the K+S Group
  
- Heinz-Gerd Kunaschewski, Philippsthal  
Employee representative  
Chairman of the Works Council of K+S KALI GmbH's Werra plant
  
- Dr. Bernd Malmström, Berlin  
Shareholder representative  
Lawyer

Further Supervisory Board appointments:

HHLA Intermodal GmbH & Co. KG

IFCO-Systems B.V. (chairman)

Lehnkering GmbH (chairman)

SBB Schweizer Bundesbahnen AG, Administrative Board

Stinnes Corporation (chairman)

VTG AG

Other appointments to supervisory bodies:

DAL - Deutsche-Afrika-Linien GmbH & Co. KG

time: matters GmbH (chairman)

- Dr. Rudolf Müller, Ochsenfurt  
Shareholder representative  
Former member of the Executive Board of Südzucker AG

Other appointments to supervisory bodies:

AGRANA BETEILIGUNGS-AG (vice chairman)

AGRANA Zucker, Stärke und Frucht Holding AG, Austria (chairman)

Bayerische Landesanstalt für Landwirtschaft  
Fachhochschulrat Fachhochschule Weihenstephan  
Universitätsrat der Universität Hohenheim  
Z&S Zucker und Stärke Holding AG (vice chairman)

- Friedrich Nothhelfer, Kassel (since 14. May 2008)  
Employee representative  
District manager of the Mining, Chemicals and Energy Trade Union

Further Supervisory Board appointments:  
EON-Avacon, Helmstedt

- Renato De Salvo, Auhagen  
Employee representative  
Vice Chairman of the Works Council of the Sigmundshall Plant of K+S KALI GmbH
- Dr. Eckart Sünner, Neustadt a.d.W.  
Shareholder representative  
Chief Compliance Officer of BASF SE

Further Supervisory Board appointments:  
Infineon Technologies AG

- Dr. Helmut Zentgraf, Burghaun (until 14 May 2008)  
Employee representative  
Former manager of the Werra Plant of K+S KALI GmbH

Members of the Board of Executive Directors

- Norbert Steiner, Baunatal, Chairman  
Finance and Accounting  
Corporate Development and Controlling  
Legal Affairs, Insurance, Compliance  
Taxes  
Audit  
Investor Relations  
Communications  
Salt Business Segment

Further Supervisory Board appointments:

K+S KALI GmbH

EON Mitte AG

- Joachim Felker, Birkenheide  
Potash and Magnesium Products Business Segment  
COMPO Business Segment  
fertiva Business Segment

Further Supervisory Board appointments:

K+S KALI GmbH

Kali-Importen A/S, copenhagen, Denmark

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

Further Supervisory Board appointments:

K+S KALI GmbH

- Dr. Thomas Nöcker, Kassel, Personnel Director  
Personnel  
IT Services  
Purchasing, Materials Management and Warehousing  
Property Management  
Knowledge Management  
Logistics (KTG)  
Trading Business (CFK)

Appointments to supervisory bodies:

RAG Bildung GmbH

### Investment in the Company

The Bank of N.T. Butterfield and Son Limited, Bermuda, through MCC Holding Limited, Cyprus, and the OJSC MCC “EuroChem”, Moscow, to be attributed to MMC Holding Limited, hold 15.001 % of K+S shares. MCC manages the industrial shareholdings of Andrei Melnichenko on a fiduciary basis. Furthermore, with a 10.3 % share in the capital of K+S Aktiengesellschaft, BASF SE, Ludwigshafen, exceeds the 10 % threshold. In addition, The Bank of New York Mellon Corporation informed us that, through its subsidiary MBC Investments Corporation, on 9 February 2009, it had exceeded the 3 % reporting threshold and holds 3.03 % of the shares of K+S.

### Proposal on the appropriation of profits

The Board of Executive Directors intends to propose the payment of a dividend of €2.40 per no-par value share and that the remaining amount of T€ 3,394 be carried forward.

Kassel, 25 February 2009

**K+S Aktiengesellschaft**

**The Board of Executive Directors**

## Remuneration Report

### Remuneration of the Board of Executive Directors

#### Remuneration structure

At regular intervals, the personnel committee discusses the structure of the remuneration system for the Board of Executive Directors and formulates draft resolutions for the Supervisory Board plenum. The personnel committee is responsible for the determination of the individual remuneration of the Board of Executive Directors. The criteria for the appropriateness of the remuneration include especially the responsibilities of each member of the Board of Executive Directors, his individual performance, the performance of the Board of Executive Directors as a whole and the economic position as well as the success and future prospects of the Company taking into consideration its comparative environment.

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

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

The fixed remuneration as fixed basic remuneration is paid monthly as a salary. 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.

In order to optimally harmonise the interests of shareholders with those of the Board of Executive Directors, a part of the bonuses is determined on the basis of the return on 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.

In addition, it is possible for income to be obtained by exercising stock options as a variable component of remuneration with a long-term incentive and risk character. As part of a virtual stock option programme, whose structure is identical to that for the remaining stock option programme participants, members of the Board of Executive Directors can use 30 % of their performance-related remuneration for own investments in K+S shares.

By acquiring such basic shares, the participants receive virtual options that trigger a cash payment when exercised. The amount of the cash payment depends on the performance of the K+S share in relation a benchmark index and is capped at 25 % of excess performance. As a consequence of the inclusion of K+S AG in the DAX<sup>®</sup>, since the 22 September 2008, this has been used as the benchmark on a pro rata basis, instead of the MDAX<sup>®</sup>. The basic price of the K+S share decisive for the calculation of performance corresponds to the average share price during the 100 trading days until the respective base reference date (the third from last Friday before the Annual General Meeting). A subsequent change of the success targets or comparison parameters is impossible.

The options expire after a period of five years, after which the unexercised options expire without compensation. After 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.

The application of the existing remuneration structure would have resulted in a substantially higher increase in bonuses than stated for 2008. The members of the Board of Executive Directors have therefore voluntarily foregone bonuses totalling € 1 million, because, against the background of a significant increase in the level of earnings, they do not regard as reasonable a form of variable remuneration, which develops purely in a straight-line manner and on which there is no upper limit. In keeping with the proposal made by the personnel committee, the remuneration structure of the Board of Executive Directors was also reorganised for 2009 with the introduction of absolute maximum amounts for bonuses and an increase in the fixed element. The new structure provides for a fixed remuneration of 40 % in a normal year as well as 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. Remuneration of 100 % is reached if, on the one hand, the return on total investment achieved reaches the minimum return of 115 % of the respective cost of capital rate and, on the other hand, personal performance was assessed as being 100 %. Remuneration on the basis of return on total investment is capped at a value of 21 percentage points above the minimum return. The ranges for achieving the targets of the two variable remuneration components are between 0 % and about 150 %. The amount of the remuneration on the basis of a normal year will be reviewed annually.

A sample calculation of this new remuneration model is presented below:

in €	Achievement of target 100% *	Achievement of target 0% **	Maximum achievement of target ***
Fixed remuneration: 40%	300,000	300,000	300,000
Bonus: 60%	450,000	0	685,800
- of which performance of the company: 80%	360,000	0	550,800
- of which personal achievement of target: 20%	90,000	0	135,000
<b>Total remuneration</b>	<b>750,000</b>	<b>300,000</b>	<b>985,800</b>

\* Return on total investment = minimum return; personal achievement of target = 100 %

\*\* Return on total investment = 0%; personal achievement of target = 0%

\*\*\* Return on total investment ≥ minimum return + 21 percentage points; personal achievement of target = 150 %

### Amount of remuneration

Details of the remuneration of the Board of Executive Directors for the financial year 2008 are provided in individualised form in the table below. The respective figures for the previous year are stated in italics:

### Remuneration of the Board of Executive Directors

in T€	Fixed remuneration	Annual income		Options granted		Total
		Benefits	Bonus	Number	Value *	
Norbert Steiner	380.0	22.2	1,725.2	64,400	654.4	2,781.8
	<i>350.0</i>	<i>22.0</i>	<i>499.1</i>	<i>126,560</i>	<i>524.3</i>	<i>1,395.4</i>
Joachim Felker	300.0	19.9	963.0	47,120	478.8	1,761.7
	<i>300.0</i>	<i>19.7</i>	<i>365.0</i>	<i>116,000</i>	<i>480.5</i>	<i>1,165.2</i>
Gerd Grimmig	300.0	25.7	964.0	47,200	479.6	1,769.3
	<i>300.0</i>	<i>25.6</i>	<i>366.0</i>	<i>116,320</i>	<i>481.9</i>	<i>1,173.5</i>
Dr. Thomas Nöcker	300.0	21.6	963.0	47,120	479.8	1,764.4
	<i>300.0</i>	<i>21.4</i>	<i>365.0</i>	<i>116,000</i>	<i>480.5</i>	<i>1,166.9</i>
Dr. Ralf Bethke **	–	–	–	–	–	–
	<i>215.0</i>	<i>12.2</i>	<i>392.4</i>	<i>250,080</i>	<i>1,036.0</i>	<i>1,655.6</i>
<b>Total</b>	<b>1,280.0</b>	<b>89.4</b>	<b>4,615.2</b>	<b>205,840</b>	<b>2,092.6</b>	<b>8,077.2</b>
	<i>1,465.0</i>	<i>100.9</i>	<i>1,987.5</i>	<i>724,960</i>	<i>3,003.2</i>	<i>6,556.6</i>

\* at the date of grant; exercise of the option rights is possible no earlier than two years after they have been granted

\*\* until 30 June 2007

The total remuneration of the Board of Executive Directors refers to four board members in the year under review. In the previous year, in addition to the four current members of the Board of Executive Directors, who were in office for twelve months, Dr. Ralf Bethke was chairman of the Board of Executive Directors until 30 June. The increase in bonuses in comparison to the previous year is in particular the result of the significantly higher return on total investment in 2008.

The application of the originally existing remuneration structure for 2008 would have resulted in a substantially higher increase in bonuses than stated. The members of the Board of Executive Directors have therefore foregone bonuses totalling € 1 million since, against the backdrop of the significantly higher level of earnings, they do not regard as reasonable a form of variable remuneration, which develops purely in a straight-line manner and on which there is no upper limit.

For each member of the Board of Executive Directors, the total expenditure resulting from variable remuneration with a long-term incentive character, which relates both to

the virtual option programme granted in 2008 and to the programmes that still existed from previous years, was (figures for the previous year in brackets): Mr Steiner T€ 541.3 (T€ 539.5), Mr Felker T€ 478.5 (T€ 528.4), Mr Grimmig T€ 482.5 (T€ 523.7) and Dr. Nöcker T€ 478.5 (T€ 510.1).

The payments for the virtual stock options of the option programme 2006 that were fully exercised by members of the Board of Executive Directors in 2008 were, for the individual board members (figures for the previous year in brackets): Mr Steiner T€ 476.4 (T€ 358.6), Mr Felker T€ 459.7 (T€ 418.8), Mr Grimmig T€ 476.4 (T€ 358.6) and Dr. Nöcker T€ 459.4 (T€ 342.2).

The values of the virtual stock options acquired but not yet exercised in the framework of the options programmes 2007 and 2008 are shown in the following table (value had they been exercised on 31 December 2008). The figures for the previous year are stated in italics:

#### Share-based remuneration with long-term incentive character

in T€	Option programme 2007		Option programme 2008	
	Number of options *	Value on 31.12.	Number of options	Value on 31.12.
Norbert Steiner	126,560 <i>126,560</i>	640.8 <i>585.3</i>	64,400 –	352.7 –
Joachim Felker	116,000 <i>116,000</i>	587.3 <i>536.5</i>	47,120 –	258.0 –
Gerd Grimmig	116,320 <i>116,320</i>	589.0 <i>538.0</i>	47,200 –	258.5 –
Dr. Thomas Nöcker	116,000 <i>116,000</i>	587.3 <i>536.5</i>	47,120 –	258.0 –
<b>Total</b>	<b>474,880</b> <b><i>474,880</i></b>	<b>2,404.4</b> <b><i>2,196.3</i></b>	<b>205,840</b> –	<b>1,127.2</b> –

\* previous year adjusted by share split in the ratio 1:4

The total remuneration of the previous members of the Board of Executive Directors and their surviving dependents came to T€ 2,463 (previous year: T€ 989) during the year under review. The increase is attributable in particular to the bonus for the active service of the former chairman of the Board of Executive Directors in financial year 2007 as well as to the exercise of his stock options, acquired under the option programme for 2006.

### Pension commitments

The pensions of the active members of the Board of Executive Directors are based on a modular system, i. e. for each year of service in such capacity, a pension module is created. The basis for determining the pension entitlement (pension module) for the respective financial year is 15 % of the “pensionable income” (without options and benefits), which consists of the short-term remuneration, i. e. the fixed remuneration and the bonus for the respective financial year. The resulting amount is computed in accordance with actuarial principles and put aside for retirement; the factors for the creation of the modules for 2008 for the board members are between 10.5 % and 13.5 %, 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 case of death. In the case of occupational or general disability of a member of the Board of Executive Directors before pensionable age has been reached, that member receives 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 half-orphan 15 % and each orphan 30 % of the benefit. The maximum amount for the benefit for surviving dependents must not exceed 100 % of the benefit. If this amount is reached, the benefit is reduced proportionately. If a member of the Board of Executive Directors departs before completing his 60th year of life, this is regarded as insured event within the meaning of the benefit commitment. For members of the Board of Executive Directors, the following amounts (T€) were allocated to the pension provisions in 2008; the respective figures for the previous year are stated in italics:

## Pensions

in T€	Age	Allocations
Norbert Steiner	54	1,213.9 <i>139.0</i>
Joachim Felker	56	406.5 <i>69.1</i>
Gerd Grimmig	55	664.2 <i>153.1</i>
Dr. Thomas Nöcker	50	553.6 <i>85.3</i>
<b>Total</b>		<b>2,838.2</b> <b><i>446.5</i></b>

The increase in allocations to the pension provisions can be attributed to the very good corporate earnings and the consequently higher pensionable income.

### Early termination of Board of Executive Directors' contracts

For ongoing contracts, and therefore for 2008, with the exception of a change of control, no compensation agreements exist. Three of the ongoing contracts have been concluded until 2010, and one until 2011. The Supervisory Board has resolved, starting from 2009, to introduce a maximum amount for compensation payments equivalent to 1.5 times the annual fixed remuneration in the case of new contracts.

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

### Miscellaneous

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

## Remuneration of the Supervisory Board

### Remuneration structure and level for financial year 2008

The remuneration of the Supervisory Board is regulated in Article 12 of the Articles of Association. Accordingly, the members of the Supervisory Board are, in addition to the reimbursement of expenses and an attendance allowance of € 200 each, which is also paid for attendance at committee meetings, paid fixed remuneration of € 10,000 per year together with variable remuneration, which is based on the level of the dividend payment. A member of the Supervisory Board receives € 1,000 for each cent by which the dividend exceeds the amount of € 0.05. The chairman of the Supervisory Board receives twice this amount and the vice chairman receives one and a half times the amount of such remuneration. The five members of the audit committee each receive additional annual remuneration of € 5,000 with the committee chairman again receiving twice that amount.

Such rules had been developed in the past against a significantly lower level of projected earnings and dividends; in the opinion of all the members of the Supervisory Board, including those who stepped down in 2008, the application of the current rules, without any amendments thereto, would have meant that a reasonable level of remuneration would have been exceeded to an excessive degree. Thus, for 2008, all the members of the Supervisory Board – in anticipation of the proposed new Supervisory Board remuneration – have foregone that part of the Supervisory Board remuneration that exceeds a total of € 100,000, with attendance allowances and remuneration for committee meetings excepted. The chairman and deputy chairman forego that part of the Supervisory Board remuneration that exceeds twice or one-and-a-half times this € 100,000. Those members that have stepped down during the course of the year or who are new members have foregone their claims on a pro rata basis, depending on their length of membership and function. In total, the members of the Supervisory Board are foregoing € 2.5 million.

Details of the remuneration of the Supervisory Board for the financial year 2008 are provided in individualised form in the following table. The variable remuneration is subject to the reservation that the Annual General Meeting on 13 May 2009 resolves the dividend of € 2.40 per share proposed by the Board of Executive Directors and the Supervisory Board.

The respective figures for the previous year are stated in italics:

### Remuneration of the Supervisory Board <sup>1)</sup>

in €	Fixed remuneration	Variable remuneration	Audit committee	Attendance allowances	Total
Dr. Ralf Bethke <sup>2)</sup>	16,339 <i>5,000</i>	147,049 <i>22,500</i>	3,169	2,600 <i>600</i>	169,157 <i>28,100</i>
Gerhard R. Wolf (until 14 May 2008)	7,322 <i>20,000</i>	65,902 <i>90,000</i>	1,831 <i>5,000</i>	1,400 <i>2,000</i>	76,455 <i>117,000</i>
Michael Vassiliadis	15,000 <i>15,000</i>	135,000 <i>67,500</i>	5,000 <i>5,000</i>	3,000 <i>2,000</i>	158,000 <i>89,500</i>
Jella S. Benner-Heinacher	10,000 <i>10,000</i>	90,000 <i>45,000</i>		1,800 <i>1,000</i>	101,800 <i>56,000</i>
Dr. Uwe-Ernst Buße (since 14 May 2008)	6,339 –	57,049 –		600 –	63,988 –
Karl-Heinz Georgi (until 14 May 2008)	3,661 <i>10,000</i>	32,951 <i>45,000</i>		1,000 <i>1,400</i>	37,612 <i>56,400</i>
Dr. Rainer Gerling (since 14 May 2008)	6,339 –	57,049 –		800 –	64,188 –
Rainer Grohe	10,000 <i>10,000</i>	90,000 <i>45,000</i>		2,200 <i>1,400</i>	102,200 <i>56,400</i>
Dr. Karl Heidenreich	10,000 <i>10,000</i>	90,000 <i>45,000</i>	5,000 <i>5,000</i>	2,200 <i>1,600</i>	107,200 <i>61,600</i>
Rüdiger Kienitz	10,000 <i>10,000</i>	90,000 <i>45,000</i>		1,400 <i>1,000</i>	101,400 <i>56,000</i>
Klaus Krüger	10,000 <i>10,000</i>	90,000 <i>45,000</i>	5,000 <i>5,000</i>	2,800 <i>1,400</i>	107,800 <i>61,400</i>
Dieter Kuhn	10,000 <i>10,000</i>	90,000 <i>45,000</i>		1,600 <i>1,000</i>	101,600 <i>56,000</i>
Heinz-Gerd Kunaschewski	10,000 <i>10,000</i>	90,000 <i>45,000</i>		1,400 <i>1,000</i>	101,400 <i>56,000</i>
Dr. Bernd Malmström	10,000 <i>10,000</i>	90,000 <i>45,000</i>		1,200 <i>800</i>	101,200 <i>55,800</i>
Helmut Mamsch (until 30 July 2007)	– <i>5,000</i>	– <i>22,500</i>		– <i>400</i>	– <i>27,900</i>
Dr. Rudolf Müller	10,000 <i>10,000</i>	90,000 <i>45,000</i>		1,400 <i>800</i>	101,400 <i>55,800</i>
Friedrich Nothhelfer (since 14 May 2008)	6,339 –	57,049 –		800 –	64,188 –
Renato De Salvo	10,000 <i>10,000</i>	90,000 <i>45,000</i>		1,600 <i>1,000</i>	101,600 <i>56,000</i>
Dr. Eckart Sünner	10,000 <i>10,000</i>	90,000 <i>45,000</i>	10,000 <i>10,000</i>	2,200 <i>1,600</i>	112,200 <i>66,600</i>
Dr. Helmut Zentgraf (until 14 May 2008)	3,661 <i>10,000</i>	32,951 <i>45,000</i>		600 <i>1,000</i>	37,212 <i>56,000</i>
<b>Total</b>	<b>175,000</b> <b><i>175,000</i></b>	<b>1,575,000</b> <b><i>787,500</i></b>	<b>30,000</b> <b><i>30,000</i></b>	<b>30,600</b> <b><i>20,000</i></b>	<b>1,810,600</b> <b><i>1,012,500</i></b>

<sup>1)</sup> Without the reimbursement of expenses for the VAT paid by the members of the Supervisory Board as a result of their activities.

<sup>2)</sup> With effect from 1 July 2007, Dr. Bethke was elected to the Supervisory Board by the Annual General Meeting of 2007, and on 14 May 2008, he was elected chairman of the Supervisory Board.

In addition to this, members of the Supervisory Board were reimbursed expenses totaling € 28,207 in 2008 (previous year: € 17,047).

The remuneration (including attendance allowances) received by the following members for their activity on the Supervisory Board of the subsidiary K+S KALI GmbH was as follows (previous year's figures in brackets): Dr. Bethke € 23,100 (-), Mr Vassiliadis € 22,900 (€ 23,300) and Mr Wolf € 15,200 (€ 30,800). No benefits for personally performed services, in particular consultancy or brokerage services, were granted to the members of the Supervisory Board.

#### Proposed new structure of Supervisory Board remuneration

On 13 May 2009, the following proposal will be submitted to the Annual General Meeting: Article 12 of the Articles of Association is to be revised; higher fixed remuneration is to be introduced and a maximum amount for remuneration, similarly to the remuneration structure of the Board of Executive Directors:

“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 total return on investment achieved by the K+S Group in the respective financial year and determined on the basis of the certified consolidated financial statements: The prerequisite for the claim to payment of variable remuneration is the achievement of a minimum return; this corresponds to 115 % of the percentage of capital costs before taxes of the K+S Group in the financial year concerned as applied in the consolidated financial statements; on the achievement of the minimum return, a member of the Supervisory Board receives remuneration of € 15,000; for each percentage point by which the return on total investment exceeds the minimum return, a member of the Supervisory Board receives further variable remuneration of € 1,500 each time. The variable remuneration is limited to maximum € 45,000 per year.

The chairman of the Supervisory Board receives twice this amount and the deputy chairman receives one and a half times the remuneration defined in Para. 1.

For his activity on the audit committee of the Supervisory Board, each member receives further remuneration of € 7,500 per year. The chairman of the committee will receive

twice this amount and the deputy chairman will receive one and a half times the amount of such additional remuneration.

The Company shall pay an attendance fee of € 500 to each member of the Supervisory Board for attending meetings 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 VAT to be paid as a consequence of their activities in the capacity of Supervisory Board members.“

List of shareholdings in accordance with Section 285 No. 11 of the German Commercial Code (HGB)  
(as of 31 December 2008)

Name and registered office	Share in capital (in percent)	Equity (in 1,000 of national currency)	Net income/ net loss for the year
1. K+S Verwaltungs GmbH, Kassel, Germany	100.00	EUR 27	EUR 0
1. K+S Verwaltungs GmbH & Co. Erwerbs KG, Kassel, Germany	100.00	EUR 3	EUR 0
Beienrode Bergwerks-GmbH, Kassel, Germany	94.93	EUR 1.159	EUR 34
Chemische Fabrik Kalk GmbH, Cologne, Germany	100.00	EUR 8.864	EUR 548
K+S IT Services GmbH, Kassel, Germany	100.00	EUR 5.050	EUR 143 <sup>1)</sup>
K+S Finance Belgium BVBA, Brussels, Belgium	100.00	USD 35	USD 0
K+S Beteiligungs GmbH, Kassel, Germany	100.00	EUR 210.511	EUR (3,186) <sup>1)</sup>
K+S Mining Argentina SA, Buenos Aires, Argentina	100.00	ARS 10.057	ARS (943)
COMPO Agricoltura S.p.A., Cesano Maderno, Italy	100.00	EUR 18.176	EUR 2.837
COMPO Agricoltura S.L., Barcelona, Spain	100.00	EUR 10.092	EUR 3.658
Saleable - Importação e Exportação Ltda., Lisbon, Portugal	100.00	EUR 359	EUR 144 <sup>3)</sup>
Fertilizantes COMPO Agro Chile Ltda., Santiago de Chile, Chile	100.00	CLP 2.673.979	CLP 503.218
COMPO Austria GmbH, Vienna, Austria	100.00	EUR 291	EUR 227
COMPO Benelux N.V., Deinze, Belgium	100.00	EUR 5.492	EUR (1,043)
COMPO do Brasil S.A., Guaratingueta, Brazil	100.00	BRL 3.076	BRL (24,546)
COMPO Hellas S.A., Marousi, Greece	100.00	EUR 12.013	EUR 1.866
COMPO Horticulture et Jardin S.A.S., Roche-lez-Beaupré, France	100.00	EUR 43.756	EUR 2.901
fertiva France SAS, Levallois-Perret, France	100.00	EUR 499	EUR 1.902
COMPO France S.A.S., Roche-lez-Beaupré, France	100.00	EUR 30.455	EUR 1.792
Algoflash Kabushiki Kaisha, Tokyo, Japan	100.00	JPY 5.069	JPY 1.006
Florentaise S.A., Saint Mars du Désert, France	32.82	EUR 4.376	EUR 414 <sup>6)</sup>
COMPO Jardin AG, Allschwil, Switzerland	100.00	CHF 2.699	CHF 585
COMPO Fertilizantes de Mexico S.A. de C.V., Mexico City, Mexico	100.00	MXN 25.136	MXN 8.687
K+S Argentina S.R.L., Buenos Aires, Argentina	100.00	ARS 5.716	ARS 2.398
SIA Livanu Kudras Fabrika, Livani, Latvia	30.00	LVL 587	LVL 1.280 <sup>3)</sup>
K+S Consulting GmbH, Kassel, Germany	100.00	EUR 810	EUR 63 <sup>1)</sup>

List of shareholdings in accordance with Section 285 No. 11 of the German Commercial Code (HGB)  
(as of 31 December 2008)

Name and registered office	Share in capital (in percent)	Equity (in 1,000 of national currency)	Net income/ net loss for the year	
K+S Entsorgung GmbH, Kassel, Germany	100.00	EUR 7.506	EUR 6.974	1)
K+S Baustoffrecycling GmbH, Sehnde, Germany	100.00	EUR 60	EUR 1.113	4)
K+S Entsorgung (Schweiz) AG, Delémont, Switzerland	100.00	CHF 488	CHF (98)	3)
K+S Investments Ltd., St. Julians, Malta	100.00	EUR 451.211	EUR 23.684	
K+S Finance Ltd., St. Julians, Malta	100.00	EUR 426.097	EUR 16.133	
K+S KALI GmbH, Kassel, Germany	100.00	EUR 433.761	EUR 1.144.354	1)
3. K+S Verwaltungs GmbH, Kassel, Germany	100.00	EUR 27	EUR 0	
3. K+S Verwaltungs GmbH & Co. Erwerbs KG, Kassel, Germany	100.00	EUR 3	EUR 0	
Shenzhen K+S Trading Co. Ltd., Shenzhen, China	100.00	CNY 500	CNY 0	14)
Kali-Union Verwaltungsgesellschaft mbH, Kassel, Germany	100.00	EUR 10.689	EUR 1.784	5)
K+S Asia Pacific Pte. Ltd., Singapore	100.00	SGD 915	SGD 467	3)
K+S Benelux B.V., Breda, The Netherlands	100.00	EUR 571	EUR 372	3)
K+S CZ a.s., Prague, Czech Republic	100.00	CSK 26.701	CSK 2.432	3)
K+S KALI France S.A.S., Reims, France	100.00	EUR 7.336	EUR 1.697	
K+S KALI Wittenheim S.A.S., Wittenheim, France	100.00	EUR 1.359	EUR 233	
K+S KALI Du Roure S.A.S., Le Teil, France	100.00	EUR 3.441	EUR 2.577	
K+S KALI Atlantique S.A.S., Pré-en-Pail, France	100.00	EUR 1.153	EUR 13	
K+S KALI Rodez S.A.S., Onet le Château, France	97.45	EUR 2.312	EUR 87	
Société des Engrais de Berry au Bac S.A., Reims, France	34.00	EUR 2.382	EUR 88	6)
K+S Polska Sp. z o.o., Poznan, Poland	100.00	PLN 1.262	PLN 273	3)
Kali AG, Frauenkappelen, Switzerland	100.00	CHF 850	CHF 400	3)
Kali-Importen A/S, Copenhagen, Denmark	100.00	DKK 1.296	DKK 796	3)
K+S North America Corporation, New York, USA	100.00	USD 6.422	USD 1.066	
K+S UK & Eire Ltd., Hertford, Great Britain	100.00	GBP 255	GBP 30	3)
Kali (U.K.) Ltd., Hertford, Great Britain	100.00	GBP -	GBP -	7)

List of shareholdings in accordance with Section 285 No. 11 of the German Commercial Code (HGB)  
(as of 31 December 2008)

Name and registered office	Share in capital (in percent)	Equity (in 1,000 of national currency)		Net income/ net loss for the year		
Potash S.A. (Pty) Ltd., Johannesburg, South Africa	100.00	ZAR	117	ZAR	(7)	8)
K+S Brasileira Fertilizantes e Produtos Industriais Ltda., São Paulo, Brazil	100.00	BRL	1.666	BRL	55	3)
K+S Italia S. r. L., Verona, Italy	100.00	EUR	848	EUR	375	2)
Verlagsgesellschaft für Ackerbau mbH, Kassel, Germany	100.00	EUR	26	EUR	(6)	9)
K+S Projekt GmbH, Kassel, Germany	100.00	EUR	167.557	EUR	177	1)
fertiva GmbH, Mannheim, Germany	100.00	EUR	1.500	EUR	42.479	1)
Algoflash GmbH Düngemittel, Kassel, Germany	100.00	EUR	309	EUR	8	
COMPO Verwaltungsgesellschaft mbH, Münster, Germany	100.00	EUR	57	EUR	6	
COMPO Gesellschaft mbH & Co. KG, Münster, Germany	100.00	EUR	13.343	EUR	57.007	
park GmbH, Recklinghausen, Germany	100.00	EUR	45	EUR	1.029	10)
Torf- und Humuswerk Gnarrenburg, Gnarrenburg, Germany	100.00	EUR	5.622	EUR	172	10)
Torf- und Humuswerke Uchte GmbH, Uchte, Germany	100.00	EUR	1.585	EUR	200	10)
Serveis de Mexico S.A. de C.V., Mexico City, Mexico	100.00	MXN	150	MXN	228	3)
K+S Salz GmbH, Hanover, Germany	100.00	EUR	316.679	EUR	470	1)
esco Verwaltungs GmbH, Hanover, Germany	100.00	EUR	38	EUR	2	
esco - european salt company GmbH & Co. KG, Hanover, Germany	100.00	EUR	118.295	EUR	8.238	
Deutscher Straßen-Dienst GmbH, Hanover, Germany	100.00	EUR	60	EUR	626	11)
esco international GmbH, Hanover, Germany	100.00	EUR	41	EUR	(173)	11)
esco benelux N.V., Brussels, Belgium	100.00	EUR	10.049	EUR	520	
esco Holding France S. A. S.	100.00	EUR	11.595	EUR	(22)	
Salines Cérébos et de Bayonne S.A.S., Levallois-Perret, France	100.00	EUR	7.824	EUR	(307)	
esco france S.A.S., Levallois-Perret, France	100.00	EUR	13.885	EUR	864	
esco Nordic AB, Göteborg, Sweden	100.00	SEK	3.367	SEK	1.701	3)
esco Spain S.L., Barcelona, Spain	100.00	EUR	3.431	EUR	(101)	
Frisia Zout B.V., Harlingen, The Netherlands	100.00	EUR	13.213	EUR	(5,284)	

List of shareholdings in accordance with Section 285 No. 11 of the German Commercial Code (HGB)  
(as of 31 December 2008)

Name and registered office	Share in capital (in percent)	Equity (in 1,000 of national currency)	Net income/ net loss for the year
VATEL Companhia de Produtos Alimentares S.A., Alverca, Portugal	100.00	EUR 1.446	EUR (34)
Ickenroth GmbH, Staudt, Germany	100.00	EUR 1.790	EUR 266
K+S Salt of the Americas Holding B.V., Harlingen, The Netherlands	100.00	EUR 167.886	EUR 12.862
Inversiones K+S Sal de Chile Ltda., Santiago de Chile, Chile	100.00	CLP 83.091.264	CLP (358,008)
Inversiones y Prospecciones Mineras Tarapacá Ltda., Santiago de Chile, Chile	100.00	CLP (81,790)	CLP (53,503)
Sociedad Punta de Lobos S.A., Santiago de Chile, Chile	99.70	USD 226.499	USD 14.409
Compania Minera Punta de Lobos S.A., Santiago de Chile, Chile	99.70	USD 10.107	USD 3.803
Empresa de Servicios Ltda., Santiago de Chile, Chile	99.70	CLP 524.351	CLP 80.817
Servicios Maritimos Patillos S.A., Santiago de Chile, Chile	49.85	CLP 699.296	CLP 606.869
Servicios Portuarios Patillos S.A., Santiago de Chile, Chile	99.69	USD 41.637	USD 3.486
Inversiones Columbus Ltda., Santiago de Chile, Chile	2.00	CLP (1,565,761)	CLP (1,166,862)
Inversiones Empreemar Ltda., Santiago de Chile, Chile	48.89	CLP 9.460.523	CLP 315.293
Empresa Maritima S.A., Santiago de Chile, Chile	48.62	USD 26.680	USD 16.128
Transporte por Containers S.A., Valparaiso, Chile	47.99	CLP 1.838.775	CLP 209.332
K+S Sal do Brasil Participacoes e Investimentos Ltda., São Paulo, Brazil	100.00	BRL 8.837	BRL (3,735)
SPL Brasil Empreendimentos e Participacoes Ltda., São Paulo, Brazil	100.00	BRL (317)	BRL (1,373)
Salina Diamante Branco Ltda., Natal, Brazil	100.00	BRL 683	BRL (1,879)
Salsul Ltda., Rio Grande, Brazil	100.00	BRL 276	BRL (105)
SPL USA Inc., Clarks Summit, USA	100.00	USD 13.131	USD 1.823
International Salt Company LLC., Clarks Summit, USA	100.00	USD 15.120	USD 3.370
K+S Versicherungsvermittlungs GmbH, Kassel, Germany	100.00	EUR 25	EUR 357

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11)

List of shareholdings in accordance with Section 285 No. 11 of the German Commercial Code (HGB)  
(as of 31 December 2008)

Name and registered office	Share in capital (in percent)	Equity (in 1,000 of national currency)	Net income/ net loss for the year
Kali-Transport Gesellschaft mbH, Hamburg, Germany	100.00	EUR 2.521	EUR 12.743 <sup>1)</sup>
Börde Container Feeder GmbH, Haldensleben, Germany	33.33	EUR 249	EUR 21 <sup>3)</sup>
German Bulk Chartering GmbH, Hamburg, Germany	100.00	EUR 60	EUR 2.195 <sup>12)</sup>
UBT See- und Hafen-Spedition GmbH Rostock, Rostock, Germany	100.00	EUR 803	EUR 1.257 <sup>12)</sup>
OOO K+S Rus, Moscow, Russian Federation	100.00	RUR 10.000	RUR - <sup>13)</sup>
MSW-Chemie GmbH, Langelsheim, Germany	68.48	EUR 721	EUR 54
Potash Company of Canada (1998) Ltd., Toronto, Canada	100.00	CAD 0	CAD 0
Wohnbau Salzdetfurth GmbH, Bad Salzdetfurth, Germany	100.00	EUR 1.820	EUR 149 <sup>1)</sup>

**Notes:**

- <sup>1)</sup> Profit and loss transfer agreement with K+S Aktiengesellschaft (net income/loss before profit and loss transfer)
- <sup>2)</sup> Annual financial statements as of 31 December 2005
- <sup>3)</sup> Annual financial statements as of 31 December 2007
- <sup>4)</sup> Profit and loss transfer agreement with K+S Entsorgung GmbH (net income/loss before profit and loss transfer)
- <sup>5)</sup> Profit and loss transfer agreement with K+S Kali GmbH (net income/loss before profit and loss transfer)
- <sup>6)</sup> Financial year from 1 July to 30 June - Annual financial statements as of 30 June 2007
- <sup>7)</sup> Kali (U.K.) Ltd. as a non-operating company is exempted from annual financial statements
- <sup>8)</sup> Annual financial statements as of 31 December 2006
- <sup>9)</sup> Profit and loss transfer agreement with Kali-Union Verwaltungsgesellschaft mbH (net income/loss before profit and loss transfer)
- <sup>10)</sup> Profit and loss transfer agreement with COMPO GmbH & Co. KG (net income/loss before profit and loss transfer)
- <sup>11)</sup> Profit and loss transfer agreement with esco GmbH & Co. KG (net income/loss before profit and loss transfer)
- <sup>12)</sup> Profit and loss transfer agreement with Kali-Transport Gesellschaft mbH (net income/loss before profit and loss transfer)
- <sup>13)</sup> Company in the process of being established
- <sup>14)</sup> Establishment in 2008

## **Auditors' Report**

We have audited the annual financial statements – consisting of the balance sheet, income statement and notes – including the accounting and the management report of K+S Aktiengesellschaft, Kassel, for the financial year from 1 January to 31 December 2008. The accounting as well as the preparation of the annual financial statements and the management report in accordance with German commercial law are the responsibility of the Company's Board of Executive Directors. Our responsibility is to express an opinion of the annual financial statements, including the accounting, and the management report, on the basis of our audit.

We conducted our audit of the annual financial statements in accordance with Section 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 Public Auditors (Institut der Wirtschaftsprüfer). Those standards require that we plan and perform the audit in such manner that material misstatements affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with the German Accepted Accounting Principles and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company as well as evaluations of possible misstatements are taken into account in the determination of the audit procedures. The effectiveness of the system of internal accounting control relating to the accounting system and the evidence supporting the disclosures in the accounting, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Board of Executive Directors, as well as evaluating the overall presentation of the annual financial statements and the 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 annual financial statements of K+S Aktiengesellschaft, Kassel, comply with legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with the German Accepted Accounting Principles. The management report is consistent with the annual financial statements, provides a suitable understanding of the position of the Company and suitably presents the opportunities and risks of future development.

Hanover, 25 February 2009

Deloitte & Touche GmbH  
Wirtschaftsprüfungsgesellschaft

Dr. Beine  
Auditor

Römgens  
Auditor